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# CONFIDENTIAL

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

| | |
|---|---|
| In Re: Petition to approve transaction for accelerated decommissioning services at CR3 facility, transfer of title to spent fuel and associated assets, and assumption of operations of CR3 facility pursuant to the NRC license, and request for waiver from future application of Rule 25-6.04365, F.A.C. for nuclear decommissioning study, by Duke Energy Florida, LLC. | Docket No. 20190140-EI<br><br>FILED: May 28, 2020 |

# (CONFIDENTIAL VERSION)

# DIRECT TESTIMONY

# OF

# RICHARD A. POLICH, P.E. (STATE OF MICHIGAN)

## ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL


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# EXHIBITS

# I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

A. My name is Richard A. Polich. I am a Managing Director at GDS Associates, Inc. ("GDS"). My business address is 1850 Parkway Place, Suite 800, Marietta, Georgia, 30067.

**Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AT GDS ASSOCIATES?**

A. My primary duties are within GDS's Power Supply Planning Department. While employed by GDS, I have provided consulting services for areas such as:

- Generation Asset Management,
- Engineering analysis of generation projects,
- Engineering evaluation of waste to energy projects,
- Energy management consulting services,
- Nuclear decommissioning cost evaluation,
- Modular nuclear project cost evaluation,
- Renewable energy project cost assessment and economic evaluation,
- Testimony on rate of return, cost of service, regulatory disallowances, determination of prudence, revenue requirements and plant in service, and
- Review of generation project design and construction.

**Q. MR. POLICH, PLEASE SUMMARIZE YOUR FORMAL EDUCATION.**

A. I graduated from the University of Michigan - Ann Arbor in August 1979 with a Bachelor of Science Engineering Degree in Nuclear Engineering and a Bachelor of Science Engineering Degree in Mechanical Engineering.

**Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

A. I have over 40 years of work experience in the energy sector, performing duties and services for a myriad of companies and organizations, and representing the interests of private and public constituencies throughout the country.

In May 1978, I joined Commonwealth Associates, Inc., located in Jackson, Michigan, as a Graduate Engineer and worked on several plant modification and new plant construction projects.

In May 1979, I joined Consumers Power Inc., (now called Consumers Energy), located in Jackson, Michigan, as an Associate Engineer in the Plant Engineering Services Department.

In April 1980, I transferred to the Midland Nuclear Project and progressed through various job classifications to Senior Engineer. I was also part of a small team that evaluated the potential to repower the nuclear steam turbine with combustion turbines. One of my responsibilities was to provide the initial thermal design for the combined cycle project, utilizing one of the two existing nuclear steam turbines while still providing process steam for Dow Chemical Company. This project is now known as the Midland Cogeneration Venture, a 12-combustion turbine and steam turbine project capable of providing 1,633 MW of capacity.

In July 1987, I transferred to the Market Services Department as a Senior Engineer and reached the level of Senior Market Representative. While in this department, I analyzed the economic and engineering feasibility of customer cogeneration projects.

In July 1992, I transferred to the Rates and Regulatory Affairs Department of Consumers Energy as a Principal Rate Analyst. In that capacity, I performed studies relating to all facets of development and design of Consumers Energy's gas, retail, electric and electric wholesale rates. During this period, I was heavily involved in the development of Consumers Energy's Direct Access program and in the development of Consumers Energy's Retail Open Access program. I also participated in the development of Consumers Energy's revenue forecast.

In March 1998, I joined Nordic Energy, LLC ("Nordic"), located in Ann Arbor, Michigan, as Vice President in charge of marketing and sales. My responsibilities included all aspects of obtaining new customers and enabling Nordic to supply electricity to those customers. In May 2000, my responsibilities shifted to Operations and Regulatory Affairs and my responsibilities included management of supply purchases, transmission services, and development of new power projects. My Regulatory Affairs responsibilities also included overseeing regulatory and legislation issues for the company.

In March 2003, I formed Energy Options & Solutions, based in Ann Arbor, Michigan, as a consulting concern focusing on providing engineering services and regulatory support. Through my work with Energy Options & Solutions, I gained extensive experience consulting in the areas of project development and economic analysis with renewable energy companies across the country, including: Noble Environmental Power located in Centerbrook, Connecticut; Third Planet Windpower, LLC located in Palm Beach Gardens, Florida; TradeWind Energy, LLC located in Lenexa, Kansas; Windlab Developments USA located in

Canberra, Australian Capital Territory, Australia; and Matinee Energy Inc. located in Tucson, Arizona, among others.

Other examples of my consulting work include evaluation of the Arkansas Weatherization Assistance Program for the Arkansas Energy Office and providing the West Michigan Business Alliance with an evaluation of the business opportunities for Western Michigan businesses in the renewable energy business sector.

In 2007, I served as primary author of a report on the economic impacts of renewable portfolio standards and energy efficiency programs for the Department of Environmental Quality – State of Michigan.

In 2011, I joined KEMA, Inc. ("KEMA") located in Burlington, Massachusetts, as a Service Line Leader responsible for developing its renewable energy consulting business. While at KEMA, I performed multiple renewable energy studies for the Electric Power Research Institute, including a renewable energy options study for the country of Saint Maarten (a constituent country of the Kingdom of the Netherlands). I also assisted Lake Erie Energy Development Corporation in its successful application to the U.S. Department of Energy for a multi-million dollar grant to develop an offshore wind project in Lake Erie.

In 2013, I joined CLEAResult, located in Little Rock, Arkansas, as Director of Operations. My primary responsibility involved supporting program operations in assisting the company's Arkansas unit to successfully meet a 400% increase in energy efficiency goals that it managed for Entergy. I was also responsible for managing the company's natural gas energy efficiency programs in the State of Oklahoma.

In 2015, I joined the Georgia office of GDS Associates, Inc., a consulting group focusing on utility engineering and consulting services, as Managing Director.

I have been a registered Professional Engineer since 1983 and I am licensed in the State of Michigan.

My resume is included as Exhibit No. RAP-1.

**Q. HAVE YOU TESTIFIED IN OTHER REGULATORY PROCEEDINGS?**

A. Yes, Exhibit No. RAP-2 contains a list of regulatory proceedings in which I have provided testimony.

**Q. WHAT IS THE NATURE OF YOUR BUSINESS?**

A. GDS Associates, Inc. ("GDS") is an engineering and consulting firm with offices in Marietta, Georgia; Austin, Texas; Corpus Christi, Texas; Manchester, New Hampshire; Madison, Wisconsin, Manchester, Maine; and Auburn, Alabama. GDS provides a variety of services to the electric utility industry including power supply planning, generation support services, rates and regulatory consulting, financial analysis, load forecasting and statistical services. Generation support services provided by GDS include fossil and nuclear plant monitoring, plant ownership feasibility studies, plant management audits, production cost modeling and expert testimony on matters relating to plant management, construction, licensing and performance issues in technical litigation and regulatory proceedings.

**Q. WHOM DO YOU REPRESENT IN THIS PROCEEDING?**

A. I am representing the Florida Office of Public Counsel ("OPC").

**Q. WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?**

A. I was asked by the OPC to conduct a review and evaluation of the Decommissioning Services Agreement between Duke Energy Florida, LLC, and ADP CR3 and ADP SF1, LLC ("DSA") and to recommend whether additional customer protections were needed.

**Q. DID OTHER GDS PERSONNEL ASSIST YOU IN THE ANALYSIS AND DEVELOPMENT OF YOUR TESTIMONY IN THIS MATTER?**

A. Yes, Dr. William Jacobs provided assistance.

**Q. ARE YOU SPONSORING ANY EXHIBITS?**

A. Yes, I am sponsoring the following exhibits:

1. Exhibit No. RAP-1 Richard A. Polich, P.E. Resume
2. Exhibit No. RAP-2) Richard Polich Regulatory Testimony List
3. Exhibit No. RAP-3 ADP organization Structure
4. Exhibit No. RAP-4 DEF Response to Citizens Interrogatory 5.a.
5. Exhibit No. RAP-5 DEF Response to Citizens Interrogatory 5.e.

6. Exhibit No. RAP-6 NorthStar Group Holdings, LLC and NorthStar Group Services, Inc. financial Statements
7. Exhibit No. RAP-7 NorthStar Financial Hardship Accessible Capital
8. Exhibit No. RAP-8 DEF Response to Citizens Interrogatory 16.
9. Exhibit No. RAP-9 Contractor Provisional Trust Funding Levels

## II. TESTIMONY SUMMARY

**Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

A. First, Duke Energy Florida, LLC's ("DEF") decision to change the Crystal River 3 nuclear power plant's ("CR3") decommissioning status from SAFSTOR to active decommissioning and demolition ("DECON") and the negotiation of the DSA is commendable. Second, the potential for excess Nuclear Decommissioning Trust Funds ("NDF") of over $100 million to be potentially returned to DEF ratepayers when the CR3 DECON process is complete, is also commendable. Third, the recommended customer protections in the form of enhancements contained in my testimony are intended to mitigate potential risk and enhance the probability of a successful CR3 decommissioning under the deal DEF has negotiated. None of the recommended enhancements should cause detriment to the finances of this project or the entities involved. The customer protection enhancements are generally consistent with accounting principles that recognize contractual financial commitments. The recommended enhancements proposed in this testimony are as follows:

1. Amend the Parental Support Agreement to include the State of Florida as a beneficiary and with the same rights as the NRC,

2. Require the parent companies of ADP to maintain a minimum cash or cash equivalent asset in the amount of at least $105 million to support the Parental Support Agreement,
3. Modify the Contractor's Provisional Trust contributions from monthly payments to NorthStar to increase it from 6% to 10% of payments,
4. Amend the ADP CR3 reporting requirements contained in Attachment 9, Section B from Quarterly to Monthly and enhance the information to provide timely insight into conditions that could impair ADP's ability to complete the job. This includes establishing reporting requirements to the Florida Public Service Commission ("Commission"), and
5. Establish an Independent Monitor to oversee the CR3 decommissioning activities and ADPCR3's financial status.

## III. <u>CRYSTAL RIVER 3 DECOMMISSIONING OVERVIEW</u>

**Q. PLEASE DESCRIBE IN GENERAL TERMS WHAT IS THE NUCLEAR DECOMMISSIONING TRUST FUND (NDF) AND HOW IT IS FUNDED.**

**A.** The NDF for CR3 was required by federal law for the purpose of providing reasonable financial assurance that funds will be available for the future cost of safe decommissioning of a nuclear plant when it reaches the end of its useful life. While the requirement to establish the fund was a creature of federal law, the authorization to fund it was the responsibility of the Commission. The Commission approved an annual accrual based on periodic decommissioning studies performed by DEF and its predecessors. The cost recovery of this NDF-specific accrual for the NDF was incorporated into the revenue requirement and rate design imposed on DEF's customers beginning in 1989 and continued as periodically modified by Commission orders in rate cases until 2002. Through a series of decisions, the overall cost of decommissioning has been effectively provisioned through approved accruals and establishment of rates since commercial operation in 1977. The recoveries of these accumulated costs in the form of customer provided cash were all ultimately included in the funded balance of the NDF. In 2002, DEF asked the Commission to discontinue the accrual since the NDF was deemed to be fully funded to meet the projected costs of decommissioning and dismantling the plant. At all times, the funding was provided by DEF's customers. Approximately 90% of the NDF funding was provided by the retail customers within the rate setting jurisdiction of the Commission. Wholesale customers (joint owners) provided funding on a proportional basis under other arrangements. In any event, all funding was provided by customers of DEF who received electricity produced by CR3.

**Q. ARE THE CUSTOMERS WHO PROVIDED THE FUNDING FOR THE NDF AND RECEIVED THE ELECTRICITY GENERATED BY CR3 MORE LIKELY OR INCREASINGLY LESS LIKELY TO BE THE ONES WHO WOULD BE CALLED UPON TO COVER THE COST OF FAILURE IN THE CURRENT PROPOSAL PRESENTED IN THIS DOCKET?**

**A.** There are increasingly significant intergenerational equity issues related to the proposal before the Commission in this docket. I believe that the Commission should keep this in mind when considering whether customer protections are needed. As I discussed earlier, as far back as 1977 DEF customers began to cover future decommissioning costs through the payment of rates and had these payments deposited into the NDF. This was part of the cost of the electricity they consumed. This monthly deposit of funds by these customers continued up until 2002, when the explicit deposit was discontinued by the Commission. However, in order to preserve the intended purchasing power of the fund, the money that these customers had deposited over the years as a part of paying for the electricity they consumed still continued to build the fund through the investment earnings on their money that was deposited and set aside to dismantle the plant. In 2009, CR3 was damaged and stopped generating electricity, through no fault of the customers. From that period forward, the DEF retail customer base has become increasingly different from the customer base who paid for the NDF that is now going to be used to dismantle the plant that has not generated electricity for 11 years and counting. It has now been 18 years since any customer deposits were made into the fund. By the time the DECON is supposed to be substantially complete in 2038, it will have been almost 30 years since any electricity was generated by CR3 and will have been almost 37 years since any funds (other than investment earnings) were deposited into the NDF. These periods represent a significant overall generational gap between the beneficiaries of CR3's electrical generation and the potential cost imposition that could occur if the DECON is ultimately not successful and a return to SAFSTOR is made but the NDF is insufficient to complete SAFETOR decommissioning and dismantlement. In that event, a whole new generation of customers would be required to contribute to the NDF to meet legal requirements for safe decommissioning and dismantlement and site restoration. It should also be kept in mind that the current general body of DEF customers have already begun paying for future dismantlement of the generating units, such as the Citrus Combined Cycle generating facility and the Solar generating facilities, that were built to replace the approximately 1,000 MW of generation that was lost when CR3 was irreparably damaged and prematurely retired.

**Q. PLEASE DESCRIBE THE STATUS OF CRYSTAL RIVER 3 NUCLEAR POWER PLANT OWNED BY DUKE ENERGY FLORIDA, LLC.**

A. CR3 is a single unit pressurized light water reactor supplied by Babcock and Wilcox, capable of producing 860 MW, which entered service in March 1977. The plant ceased generating in September 2009 during a planned maintenance and refueling outage and thereafter due to a construction accident, and was placed in extended shutdown on May 28, 2011 and retired in February 2013.

**Q. WHAT IS THE CURRENT STATUS OF CR3 DECOMMISSIONING?**

A. CR3 is in the decommissioning mode SAFSTOR for 60 years as defined in Nuclear Regulatory Commission ("NRC") rules and regulations. Under SAFSTOR, the plant is first placed in a safe and stable condition, with the intent to complete decommissioning and site restoration activities by the end of 2074. DEF placed the plant in this form of decommissioning because, at the time CR3 was retired, DEF's analysis of decommissioning costs determined the costs of decommissioning at that time would exceed the funds contained in CR3's NDF. DEF intended to keep CR3 in the SAFSTOR mode until the NDF funds were sufficient to complete decommissioning.

**Q. WHAT IS DEF'S REVISED DECOMMISSIONING STRATEGY?**

A. As explained in DEF's witness Terry Hobbs' testimony, page 8, lines 18 – 22, DEF changed the CR3 decommissioning strategy from SAFSTOR to accelerated decontamination and dismantlement ("DECON") in May 2019. The change in CR3 decommissioning strategy was the result of a reassessment of decommissioning costs which found the costs to have significantly dropped due to recent methods used in the process and that they could be covered by the amount of funds in the NDF.

**Q. HOW DID DEF CONFIRM THE DECON STRATEGY COULD BE ACCOMPLISHED WITHIN THE CURRENT NDF FUNDING LEVELS?**

A. DEF conducted a competitive bidding process, resulting in four (4) proposals. Ultimately, DEF selected one vendor team to proceed with contract negotiations with Accelerated Decommissioning Partners, LLC ("ADP").

**Q. WHAT WAS THE RESULT OF NEGOTIATIONS WITH ADP?**

A. DEF entered into a Decommissioning Services Agreement ("DSA") with ADP subsidiaries ADP CR3, LLC ("ADPCR3") and ADP SF1, LLC ("ADPSF1"). Under the structure of the DSA:

1. DEF will own the plant property and equipment,
2. DEF will continue to own and control withdrawals from the NDF,
3. The Independent Spent Fuel Storage Installation ("ISFSI") will be owned by ADPSF1 and responsible for spent fuel management,
4. CR3's Operating license will be transferred to ADPCR3, and
5. ADPC3 will be responsible for performing the DECON of CR3 by 2027.

**Q. HAS THE NRC APPROVED THE OPERATING AND ISFSI LICENSE TRANSFER?**

A. Yes, the NRC approved the transfer of the ISFSI license to ADPSF1 and CR3's operating license to ADPCR3 on April 1, 2020, subject to all regulatory approvals being completed within one year of the NRC's order.

## IV. <u>ADP ORGANIZATIONAL STRUCTURE</u>

**Q. DESCRIBE THE ADP ORGANIZATIONAL STRUCTURE ASSOCIATED WITH CR3 DECON.**

A. The ADP organizational structure associated with performing the CR3 DECON is shown in Exhibit No. ___(RAP-3). ADP is 75% owned by NorthStar Group Services, Inc. ("NorthStar") and 25% owned by Orano

Decommissioning Holdings, LLC ("Orano"). NorthStar is owned by LVI Parent Corporation which is ultimately owned by an equity fund of JFL-NGS Holdings. ADP owns the ADPCR3 and ADPSF1 which will perform the DECON work and manage the ISFSI facilities at CR3. Orano is owned by Orano USA LLC which is owned by Orano SA, a nuclear conglomerate majority owned by the French government.

**Q. WHAT IS NORTHSTAR'S ROLE IN THE CR3 DECON PROCESS?**

A. Based on information contained in the DSA, NRC filings, testimony and other documents provided in discovery, NorthStar will perform project management, arrange for subcontracting as needed and perform a large majority of the DECON work.

**Q. WHAT IS ORANO'S ROLE IN THE CR3 DECON PROCESS?**

A. Orano's primary task is the segmentation of the nuclear reactor pressure vessel and vessel internals. As discussed in the testimony of ADP's witness (and CEO), Scott E. State, on page 9, lines 1-3, Orano will also support management of the ISFSI facility and the transfer of the fuel to DOE.

## V. DSA OVERVIEW

**Q. WHAT IS YOUR ASSESSMENT OF THE DSA?**

A. The structure of the CR3 DECON and the DSA negotiated by DEF has the potential to be a benefit to DEF's ratepayers; the biggest benefit being moving the decommissioning date of CR3 up over 40 years, not including final spent fuel disposal. The key portions of the proposed CR3 DECON include the following:

1. DEF maintains control over the NDF,
2. ADP has agreed to, what I refer to as, a semi-fixed contract of $540 million to perform all DECON work except final spent fuel disposal,
3. Contractor's Provisional Trust ("CPT") that starts at $20 million and will grow to $50 million through earnings on the trust and contributions of 6% of each monthly milestone payment,
4. Parent Guaranty of $140 million by NorthStar (75% or $105 million) and Orano (25% or $35 million),
5. Letter of Credit in the amount of $20 million to be issued by ADP in the event Milestone One (Milestone One is defined in the DSA[1]) is not reached by January 2029,
6. Payment structure based upon predetermined completion of specific tasks or portions of those tasks,
7. ADPCR3 subcontractors required to post performance bonds.

Although the DSA contains several terms designed to mitigate potential financial risk, risk still exists because of the financial structure of NorthStar and its obligation on other nuclear decommissioning projects. The question is whether it is an acceptable level of risk.

[1] "Milestone One" means that (a) Contractor has submitted Partial License Termination Application to the NRC; and (b) the ISFSI-Only Interim End-State Conditions have been satisfied. This essentially means all decommissioning activities of CR3 are virtually complete except for maintenance of the ISFSI.

**Q. IS YOUR CONCERN WITH ADP'S FINANCES STRICTLY FOCUSED ON NORTHSTAR?**

A. Yes. Orano is backed by a large corporation and, ultimately, the French government. This, combined with Orano's limited scope of work, significantly reduces the financial concern for Orano.

## VI. ASSESSMENT OF NORTHSTAR FINANCIAL CONDITION

**Q. DID DEF HAVE CONCERNS REGARDING NORTHSTAR'S FINANCIAL CONDITION?**

A. Yes. In response to Citizens of the State of Florida's ("Citizens") Interrogatory 5.a. (Exhibit No. ___(RAP-4), DEF stated its evaluation of NorthStar to be below investment grade. In addition, in response to Citizens' Interrogatory 5.e. (Exhibit No. ___(RAP-5), DEF identified the large scale of NorthStar's projects (other than the pending CR3 project), in relationship to NorthStar's size, to be a risk factor.

**Q. WHAT NORTHSTAR FINANCIAL DOCUMENTS HAVE BEEN PROVIDED FOR YOUR REVIEW?**

A. In response to Citizens' first request for Production of Documents ("POD"), DEF provided the following confidential financial statements (See Exhibit No. ___(RAP-6):

1. North Star Group Services, Inc.

a. Consolidated Financial Statements Years Ended December 31, 2015 and 2014

b. Consolidated Financial Statements and Supplemental Schedule as of December 31, 2019 and 2018

2. NorthStar Group Holdings, LLC

a. Consolidated Financial Statements as of December 31, 2017 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017,

b. Consolidated Financial Statements and Supplemental Schedule as of December 31, 2018 and 2017 and Year Ended December 31, 2018 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017,

c. Consolidated Financial Statements and Supplemental Schedule as of December 31, 2019 and 2018.

Neither NorthStar's nor NorthStar Group Holdings, LLC's financial records for 2016 were provided.

**Q. WHAT CHANGE IN NORTHSTAR GROUP HOLDINGS, LLC. OWNERSHIP OCCURRED IN 2017?**

A. NorthStar Group Holdings, LLC., the parent organization of NorthStar, was merged into JFL-NGS Partners, LLC on June 12, 2017. JFL-NGS Partners is controlled by JFLNGS Holdings, LLC, which is controlled by JFL GP Investors IV, LLC. Ultimately, control is exercised by four U.S. citizens, John F. Lehman, Louis N. Mintz, Stephen L. Brooks, and C. Alexander Harman, who are the managing members of JFL GP Investors IV, LLC. Based on documents filed with the NRC in Docket Nos. 50-271 & 72-59, in regard to the license transfer of Vermont Yankee Nuclear Power Station from Entergy to NorthStar Decommissioning Company, LLC, the purpose of the merger transaction, as to the surviving entity, was stated as: "...recapitalized, including both the investment of new capital and the conversion of certain debt to equity, in a transaction that improved the company's liquidity and financial condition." This ownership change resulted in the NorthStar portion of the organizational structure shown in Exhibit No. ___(RAP-3).

**Q. WHAT ACQUISITION OCCURRED IN 2018 THAT HAS THE POTENTIAL TO AFFECT NORTHSTAR'S NUCLEAR DECOMMISSIONING WORK?**

A. On January 26, 2018, J.F Lehman & Company, the ultimate parent of NorthStar, acquired Waste Control Specialists LLC. ("WCS"). WCS operates the most comprehensive set of low-level radioactive waste treatment, storage and disposal facilities to service the needs of the U.S. nuclear industry. Mr. Scott E. State is also the Chief Executive Officer of WCS. WCS' waste facility in Andrews County, Texas, is one of the few commercial facilities in the United States licensed to dispose of Class A, B and C Low-level Radioactive Waste (LLRW). WCS, in partnership with

Orano USA, has also formed a partnership, called Interim Storage Partners, and has filed with the NRC for a license to construct a consolidated interim storage facility (CISF) for used nuclear fuel at the existing WCS disposal site in Andrews County, Texas.

**Q. WHAT CHANGE IN NORTHSTAR OCCURRED IN 2019 THAT SIGNIFICANTLY IMPACTED NORTHSTAR'S FINANCIAL STATEMENTS?**

A. On January 11, 2019, NorthStar acquired 100% ownership of Vermont Yankee Nuclear Power Station ("VYNP") through its subsidiary NorthStar Decommissioning Holdings, LLC. This acquisition significantly impacted NorthStar's balance sheet by increasing its assets and liabilities by 233%.

**Q. BASED ON YOUR REVIEW OF NORTHSTAR AND NORTHSTAR GROUP HOLDINGS, LLC FINANCIAL RECORDS, ARE THERE ANY DISCERNABLE DIFFERENCES IN THE TWO COMPANIES' FINANCES?**

A. No. Financial records were provided for both NorthStar and NorthStar Group Holdings, LLC only for years 2018 and 2019. Comparisons of the balance sheets and income statements finds less than 0.1% difference in the account balances of the two companies' financial records. This indicates that NorthStar's owner, LVI Parent Corporation ("LVI"), a subsidiary of NorthStar Group Holdings, LLC, has virtually no impact on NorthStar

Group Holdings, LLC financial statements and NorthStar is the main asset of NorthStar Group Holdings, LLC. Several of the footnotes in the financial statements are identical for both companies. In fact, the footnote on the acquisition of Vermont Yankee Nuclear Power Station is identical in both statements, including ownership interest. For this reason, my review of NorthStar's financial situation will treat NorthStar and NorthStar Groups Holdings, LLC as the same entity.

**Q. IN PERFORMING YOUR ASSESSMENT OF NORTHSTAR'S FINANCIAL SITUATION, WHAT ADJUSTMENTS WERE MADE TO ITS BALANCE SHEET ASSETS?**

A. My assessment of NorthStar focused on its ability to weather financial loss, unexpected loss on other decommissioning projects (such as VYNP decommissioning, or unfavorable economic conditions. These conditions of will cause "financial hardship," a condition in which a company may be required to utilize available assets to meet immediate its financial needs. NorthStar's recent acquisition of VYNP was a significant purchase and includes significant liabilities, causing NorthStar's balance sheet to more than triple in size. The size and scope of the VYNP decommissioning project carries real risks and could create financial hardship for NorthStar.

There are items in NorthStar's balance sheet which in times of financial stress are not useful and cannot be used to help liquidity. For example, companies can often sell receivables to generate cash. On the other hand, Goodwill is an intangible asset that is the left over portion from an acquisition in which the purchase price is higher than the fair market value of the purchase. Typically, Goodwill is amortized over some period as the value of the acquired asset is realized. In the case of NorthStar, the Goodwill on its balance sheet has actually increased since 2014 and was not written off when it was acquired by JFL-NGS Partners, LLC in 2017. The items in NorthStar's Balance sheet which would likely not be usable in the event of financial stress are as follows:

1. Accounts Receivable: These are amounts owed by clients and are a tangible asset; however, the full amount of these funds may not be accessible in time of financial stress. Based on NorthStar's 2019 Consolidated Financial Statements, Footnote 2, the company has included recognition of doubtful collection on accounts receivable in the amounts contained in the statements. In times of financial stress, the ability to collect accounts receivable in support of operations cannot be done in a timely manner due to contractual commitments. In addition, accounts receivable is a function of work being performed and, unless NorthStar was to stop work on existing projects, accounts receivable will continue at the same level. Thus, the use of accounts receivable to fund operations in times of financial stress is not fully feasible. It is for this reason I have only valued accounts receivable at 60% of the full amount for purposes of financial hardship.

2. Costs and estimated earnings in excess of billings on uncompleted contracts. These are forecasted earnings which may never materialize. Value is treated as zero for purposes of financial hardship.
3. Inventories: This asset represents the cost of materials and tools used to provide services to clients. The value of these assets in the event of financial stress is usually much lower than the booked asset value. Some of the materials may be linked to credit purchases and are not marketable. Value is treated as 20% for purposes of financial hardship.
4. Property and Equipment: This asset could potentially be collateralized in times of financial hardship, but not likely at full value. Review of financial statement footnote 5 finds over 97% of this asset category is in equipment and vehicles. It is unlikely these assets will have significant value if needed for raising capital in the event of financial stress. Value is treated as 20% for purposes of financial hardship.
5. Goodwill: Intangible asset. Value is treated as zero for purposes of financial hardship.
6. Intangible assets – net: Described as assets recognized in connection with the acquisition of a business in NorthStar financial statements. Value is treated as zero for purposes of financial hardship.
7. Restricted Cash: This is an escrow balance required under the terms of the VYNP acquisition which may not be accessible unless certain milestones are met. Value is treated as zero for purposes of financial hardship.

8. Decommissioning Trust Fund: This is the VYNP Nuclear Decommissioning Trust Fund. Although this is a cash asset, it is not liquid because of NRC restrictions on its use and the time process required to transfer the asset value to another entity. Value is treated as zero for purposes of financial hardship.
9. Reimbursements due from U.S. Department of Energy: As part of the acquisition of VYNP, NorthStar was provided the rights to obtain reimbursement for spent fuel storage and management from the U.S. Department of Energy ("DOE"). To obtain these funds, NorthStar must sue the DOE and go through the courts to obtain the funds. Value is treated as zero for purposes of financial hardship.
10. Deferred Income Tax: This can only be utilized in the form of delayed filing of current income taxes that will ultimately be paid to the United States Treasury. Value is treated as zero for purposes of financial hardship.

**Q. IN PERFORMING YOUR ASSESSMENT OF NORTHSTAR'S FINANCIAL SITUATION, WHAT ADJUSTMENTS WERE MADE TO ITS BALANCE SHEET LIABILITIES?**

A. Regarding NorthStar's balance sheet liabilities, the major concern would be current liabilities because these are likely to be called on in the event of financial hardship. The only real long-term liability that presents a concern would be the potential for covenants within long-term financing obligations, requiring early payment in the event of triggering financial conditions. Based on the balance sheet notes, NorthStar's current "Credit Facility" has a security interest in substantially all of NorthStar's assets and those of its subsidiaries. Since this is the same footnote and the amount is the same in the financial statements of both NorthStar and NorthStar Group Holdings, LLC, it is unclear which entity entered into the credit agreement. What is clear is that the Credit Facility will encumber NorthStar's ability to use assets to raise cash in the event of financial hardship. I did not make any adjustments in NorthStar's current liabilities and assigned 50% of its long-term finance obligations as a current asset to recognize its encumbrance on assets.

**Q. WHAT IS YOUR OPINION OF NORTHSTAR'S FINANCIAL SITUATION BASED ON YOUR EXPERIENCE AND EXPERTISE?**

A. A review of NorthStar's financial condition finds it is a thinly capitalized company with minimal tangible assets, significant liabilities and lower than expected net income as compared to the level of revenue. NorthStar's financial situation has changed substantially since 2014. The financial statements in 2014 and 2015 show NorthStar with negative net income and shareholder equity. If the nearly $139 million of Goodwill and over $42 million of Intangible Assets are properly ignored, NorthStar's shareholder's equity is approximately a negative $300 million. The financial statements from 2017 are intended to reflect the financial conditions after the acquisition by JFL-NGS Partners, LLC. If intangible assets and Goodwill are removed from NorthStar Group Holdings, LLC's balance sheet, then Member's 2017 equity is a negative $88.4 million. Of NorthStar Group Holdings, LLC's 2018 total assets, only about 9.4% would be considered liquid assets. In addition, current liabilities are 3.4 times larger than liquid assets. NorthStar's 2018 income statement shows its net income was only approximately 1.28% of $503.8 million in revenues.

In 2019, NorthStar's financials did reflect a substantial increase in net income of over ten times the 2018 net income. Net income in 2019 was 10.4% of approximately $640 million of revenues. This resulted in NorthStar reflecting over $69 million in Cash & Cash Equivalents (or a doubling of its previous Cash & Cash Equivalents) on its 2019 financials. Nevertheless, when compared to its projected nuclear decommissioning work on two pioneering projects totaling over $1 billion, NorthStar appears to be thinly capitalized.

Based upon the adjustments to NorthStar's balance sheet shown in Exhibit No. ___(RAP-7) and given the scope and potential risks of the DECON work required over the next few years, NorthStar is inadequately capitalized, especially in relationship to its project sizes. My review shows current liabilities exceed available capital in the event of financial hardship for all years of NorthStar's financials. Under financial hardship, my analysis of NorthStar's 2019 financials indicate cash or cash equivalent available to cover costs in an emergency is negative by more than $52 million (Exhibit No. ___(RAP-7), page 1). Even if I change my assumptions and allow 100% of accounts receivable to be available, NorthStar's 2019 financials indicate cash or cash equivalent available to cover costs in an emergency is just over $7 million (Exhibit No. ___(RAP-7), page 2). This does not include the restrictions on assets associated with NorthStar's Credit Facility and raises a concern regarding NorthStar's ability to continue funding decommissioning work at CR3 in the event of financial hardship.

**Q. DO YOU HAVE OTHER CONCERNS REGARDING NORTHSTAR'S FINANCIAL SITUATION, ESPECIALLY IN REGARD TO THE DSA?**

A. Yes. The DSA does not place any restrictions on the balance sheet of NorthStar even though the DSA is relying on Parental Guarantees in the amount of $140 million to support ADPCR3 DECON. If called upon today, NorthStar would not be able to meet the obligations of its Parental Guarantee because its balance sheet lacks sufficient current net assets (current assets minus current liabilities). Without a covenant in the DSA which requires NorthStar to maintain a certain level of net current or liquid assets, NorthStar could dividend the equivalent of substantially all of its cash and cash equivalent assets (except restricted cash) to its parent company and neither DEF, ADPCR3, nor the NRC, would not have access to any the Parental Guarantee funds or work resources.

**Q. DO YOU HAVE AN EXAMPLE OF NORTHSTAR MOVING FUNDS TO ITS PARENT?**

A. Yes. Review of NorthStar's 2019 Consolidated Statement of Cash Flows shows NorthStar distributed $50 million to its members.

## VII. <u>RECOMMENDED CUSTOMER PROTECTIONS TO DSA</u>

**Q. BASED UPON YOUR REVIEW OF NORTHSTAR'S FINANCIAL SITUATION AND THE DSA, WHAT PROVISIONS WOULD YOU RECOMMEND TO PROVIDE ADDITIONAL RATEPAYER PROTECTION?**

A. The following recommendations are based upon NorthStar's financial situation and intended to provide reasonable measures of protection for ratepayers and enhance the probability of success of CR3 decommissioning:

1. Amend the Parental Support Agreement to include the State of Florida as a beneficiary and with the same rights as the NRC.
2. Require the parent companies of ADP to maintain a minimum cash or cash equivalent asset in the amount of at least $105 million to support the Parental Support Agreement.
3. Modify the Contractor's Provisional Trust contributions from monthly payments to NorthStar to increase it from 6% to 10% of payments.
4. Amend the ADP CR3 reporting requirements contained in Attachment 9, Section B from Quarterly to Monthly and enhance the information to

provide timely insight into conditions that could impair ADP's ability to complete the contract. This includes establishing monthly and annual reporting requirements to the Commission.

5. Establish an Independent Monitor to oversee the CR3 decommissioning activities and ADPCR3's financial status.

**Q. PLEASE EXPLAIN THE PURPOSE OF INCLUDING THE STATE OF FLORIDA AS A BENEFICIARY AND WITH THE SAME RIGHTS AS THE NRC IN THE PARENTAL SUPPORT AGREEMENT.**

A. The Parental Support Agreement contained in Exhibit H-1 and H-2 of the DSA explicitly states there is no guarantee to third parties other than the NRC of payment of decommissioning costs for CR3. The funding for CR3's decommissioning was provided solely by DEF ratepayer contributions to CR3's NDF. NRC regulations establish requirements of the license holder to fund decommissioning; however, the Commission established the charges to DEF ratepayers to fund the NDF. Since the Commission, as a representative of the State of Florida, is responsible for setting up the funding of the NDF and ultimately the funding of CR3 decommissioning, the State of Florida should have equal treatment in the Parental Support Agreements with that of the NRC. Adding the State of Florida should not cause any additional financial burden on NorthStar or Orano nor should it increase the cost of the Parental Support Agreements. Additional reasons for The State of Florida to be a beneficiary in the Parental Guarantee Agreement are as follows:

1. The State of Florida has a vested interest in CR3 being properly decommissioned because of the potential environmental impact and impact on public health and safety.
2. If the decommissioning of CR3 by ADP and its affiliates is not performed as projected, resulting in depletion of the NDF and the need for additional funding from DEF's ratepayers, any request by DEF for additional funding by its ratepayers will have to be approved by the Commission.
3. State of Florida regulatory agencies, specifically the Commission, are in a better position to monitor the status of CR3 decommissioning on a more frequent basis than the NRC. We are recommending the Commission receive quarterly and annual reports from ADP that include decommissioning status, status of NDF funds and financial condition of ADP, its subsidiaries and its parent organizations. The recommended reporting would provide the State of Florida more timely information than is provided to the NRC since the NRC only requires an annual report.
4. DEF has placed itself in the position of overseeing ADP's decommissioning of CR3. The State of Florida's regulation of DEF provides it the ability to obtain information on a regular basis.

5. This provision would allow the State of Florida to require ADP to provide decommissioning funding of up to $140 million through the two Parental Support Agreements.

The State of Vermont required an amendment to the Parental Support Agreement approved by the NRC for VYNP, prior to approving the transfer of ownership to NorthStar, and NorthStar agreed to this amendment.

**Q. WHAT WOULD BE THE BENEFIT TO DEF'S RATEPAYERS OF REQUIRING THE PARENT COMPANIES OF ADP TO MAINTAIN A MINIMUM CASH OR CASH EQUIVALENT BALANCE SHEET ASSET IN THE COMBINED AMOUNT OF APPROXIMATELY $140 MILLION TO SUPPORT THE PARENTAL SUPPORT AGREEMENT?**

A. The Parental Support Agreement is only worth the value of ADP's parent companies. If ADP's parent companies are without assets, then the $140 million of decommissioning funding is unavailable and worthless. There is nothing in the DSA nor is there any legal requirement for ADP's parent companies to maintain a minimum level of cash or accessible assets to support the Parental Support Agreement. As discussed earlier, DEF ratepayers in general, and specifically a generation of ratepayers completely different from those who received the electricity from CR3, could be placed in the position of providing additional funding (essentially paying twice) to complete CR3's decommissioning if the ADP companies fail to complete

CR3 decommissioning. At a minimum, the Parental Support Agreements should contain a trigger requiring NorthStar and Orano to notify the State of Florida and the NRC if cash or cash equivalent assets fall below a predetermined level needed to provide the amounts obligated in the Parental Support Agreements to be used for CR3 decommissioning.

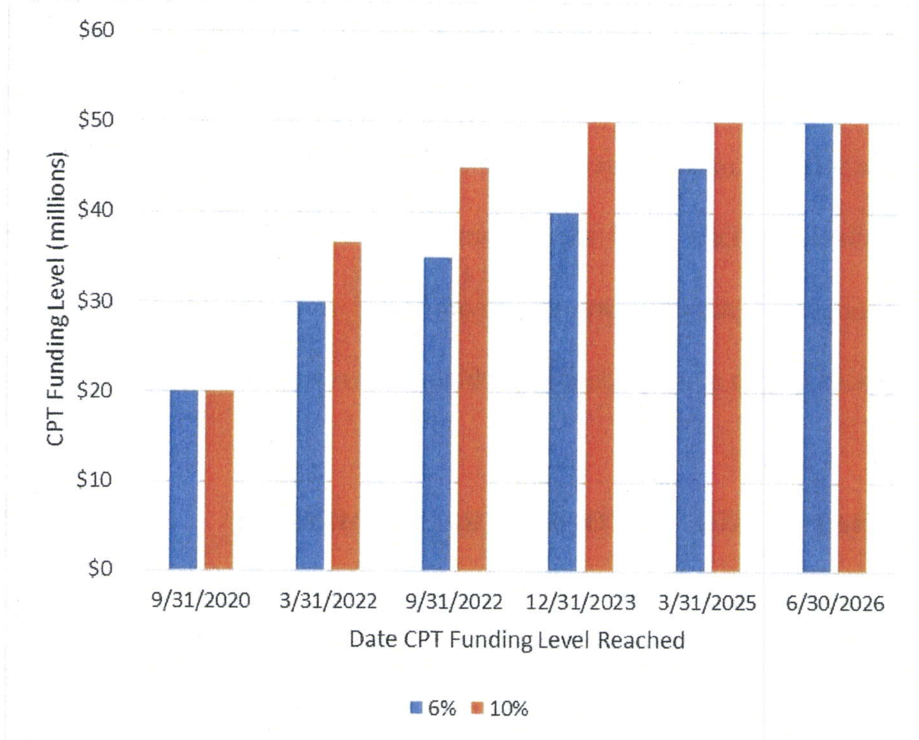
Q. **WOULD A REQUIREMENT FOR ADP'S PARENT ORGANIZATIONS TO MAINTAIN MINIMUM CASH OR CASH EQUIVALENT BALANCE SHEET ASSETS IN THE COMBINED AMOUNT OF APPROXIMATELY $140 MILLION CAUSE FINANCIAL HARDSHIP FOR THE PARENT ORGANIZATIONS?**

A. No. A Parental Support Agreement is a contractual obligation which also creates a financial liability and should be recognized in the company's financial statements as a liability. If a balance sheet contains a liability, there needs to be an offsetting asset for the company to balance its books. By requiring ADP's parent companies to maintain a minimum cash or cash equivalent asset in the combined amount of approximately $140 million should already be incorporated into their balance sheets. It would be prudent for the ADP parent companies to maintain some form of liquid asset because ADP could call upon the Parental Support Agreements at any time.

Q. **WHAT IS THE PURPOSE OF MODIFYING ADPCR3'S 6% CONTRIBUTIONS FROM MONTHLY PAYMENTS TO THE**

**CONTRACTOR'S PROVISIONAL TRUST TO 10% OF PAYMENTS?**

A. DEF has identified the $50 million Contractor's Provisional Trust ("CPT") as one of the key elements of risk mitigation in the proposed transaction with the ADP companies. Initially, the CPT will only contain the original deposit of $20 million. Based on response to Citizens' Interrogatory 16 (see Exhibit No. RAP-8), the CPT will not reach $50 million until after ADPCR3 has been paid approximately $500 million, sometime in the second quarter of 2026. Increasing the CPT percent contribution of ADPCR3 invoice amounts from 6% to 10% would result in the CPT being fully funded by sometime in the 4th quarter of 2023, approximately two years earlier than forecasted with the 6% contribution of ADPCR3 invoice amounts. A comparison of the CPT funding is provided in Exhibit No. RAP-9 and the following chart shows a comparison of the timing of the CPT funding between 6% and 10% of ADPCR3 invoice contribution levels.




Since the CPT is a major component of DEF's risk mitigation, funding the CPT sooner increases its value as a risk mitigation tool. The 10% contribution of invoiced amounts was agreed to by NorthStar as part of the settlement in the acquisition of VYNP.

**Q. WHAT IS THE BENEFIT OF CHANGING ADPCR3'S REPORTING REQUIREMENTS CONTAINED IN ATTACHMENT 9, SECTION B FROM QUARTERLY TO MONTHLY?**

A. GDS' experience in monitoring the construction progress at Georgia Power's Plant Vogtle Units 3 and 4 is that frequent reporting is essential to the monitoring of a project's progress. Assuming ADPCR3 completes decommissioning and site restoration by the end of 2027, this is an aggressive schedule in which changes in site conditions, expenditures and financial issues will occur quickly. Quarterly reporting is insufficient to track a project progressing this quickly because, if the project conditions deteriorate, it may be three months before that information would be made available to DEF (and the Commission). Increasing the frequency of reporting to monthly would provide DEF (and the Commission) the opportunity to quickly identify problems and react accordingly.

**Q. WHAT ARE YOUR RECOMMENDED REPORTING REQUIREMENTS TO THE COMMISSION?**

A. I recommend the Commission be supplied reports on the progress of CR3 decommissioning, status of funding, and financial condition of ADP and its parent organizations. Reporting to the Commission supports the Commission's regulatory efforts in regard to CR3, DEF and the CR3 decommissioning. It will provide the Commission critical information on the progress of CR3 decommissioning, and will prevent any surprises. I recommend the following elements be contained in the Commission reporting:

1. Monthly reporting requirements except as noted below,
2. Project status, activities completed and projection of next quarter activities,
3. Identification of any project delays and causes,
4. Payments from the NDF and projections for next monthly payments,

5. Status of the CPT,
6. Financial reports of ADP, ADP companies and ADP parents (Quarterly Statements), and
7. Identification of critical issues and performance of ADP.

**Q. WHAT IS THE BENEFIT OF ESTABLISHING AN INDEPENDENT MONITOR TO OVERSEE THE CR3 DECOMMISSIONING AND ADPCR3 FINANCIAL STATUS.**

A. As the Georgia Public Service Commission discovered with respect to Georgia Power's Plant Vogtle Units 3 and 4, use of an independent monitor would provide the Commission and other State of Florida agencies an independent assessment of CR3's decommissioning progress. The independent monitor would provide an unbiased but experienced review of the CR3 decommissioning effort. Although DEF will be monitoring the project, the independent monitor is often able to perform assessments and projections of project outcomes that the owner of the facility cannot without the pressure of management or shareholder expectations. The primary purpose of the independent monitor would be as follows:

- Providing an early warning of technical or regulatory problems.
- Estimating actual project expenditures relative to project revenue to provide an early warning of financial difficulty.

- Ensuring that tasks are planned in accordance with the overall project schedule and not selected for the purpose of increasing revenue to ADPCR3.
- Tracking project expenditures and schedules.
- Reporting cost overruns.
- Reporting schedule slippage.
- Tracking, assessment, and reporting on ADP, NorthStar & Orano financials.
- Tracking expenditures for Independent Spent Fuel Storage Installation ("ISFSI") and recovery from DOE.

**Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.

GDS Associates, Inc
ENGINEERS & CONSULTANTS

# Richard A. Polich, P.E.

## Managing Director – Power Supply Services

## EDUCATION

Master of Business Administration, University of Michigan, 1990
Bachelor of Science, Mechanical Engineering, University of Michigan, 1979
Bachelor of Science, Nuclear Engineering, University of Michigan, 1979

## ENGINEERING REGISTRATION

Professional Engineer in the State of Michigan

## PROFESSIONAL MEMBERSHIP

National Society of Professional Engineers
American Nuclear Society
American Society of Mechanical Engineers

## PROFESSIONAL EXPERIENCE

Mr. Polich has more than 30 years' experience as an energy industry engineer, manager, and leader, combining his business and technical expertise in the management of governmental, industrial and utility projects. He has worked extensively in nuclear, coal, IGCC, natural gas, green/renewable generation. Mr. Polich has developed generation projects in wind, solar, and biomass in Australia, Canada, Caribbean, South American and United States. His generation experience includes engineering of systems and providing engineering support of plant operations. Notable projects include the Midland Nuclear Project and its conversion to natural gas combined cycle, start-up testing support for Consumers' coal-fired Campbell 3, Palisades nuclear steam generator replacement support, Covert Generating Station feasibility evaluation, and a Lake Erie offshore wind project. He also has extensive experience in utility rates and regulation, having managed Consumers Energy's rates group for a number of years. In that function his responsibilities included load and revenue forecasting, overseeing the design of gas and electric rates and testifying in regulatory proceedings. Mr. Polich has testified in over thirty regulatory and legislative proceedings.

Mr. Polich has been involved in the nuclear industry since 1978. While at GDS, Mr. Polich has provided Utah Associated Municipal Power System project cost analysis for a small modular nuclear power project. Last year, he provided advisory services to the Vermont Public Utility Commission on the ownership transfer, nuclear decommissioning trust fund adequacy and decommissioning methodology of Vermont Yankee. Mr. Polich has supported GDS oversight efforts of the construction of the Vogel Nuclear Plant units 2&3 for the Georgia Public Service Commission. He has also provided decommissioning assessment analysis on St. Lucie Nuclear, and Grand Gulf Nuclear projects. Mr. Polich was part of the design engineering team for the Erie Nuclear Plant by the design engineering firm, Gilbert Commonwealth. Key responsibilities were the design of systems and component specifications associated with the nuclear steam supply systems (NSSS) and steam turbine thermal cycle. Worked directly with Babcock and Wilcox on NSSS design and ancillary system specifications. Mr. Polich was also senior engineer on the Midland Nuclear project, responsible for oversight of Bechtel design engineering and interfacing with NSSS vendor Babcock & Wilcox on ancillary systems. His responsibilities also included negotiation with the Nuclear Regulatory Commission on new regulation requirements. Mr. Polich's role evolved into onsite engineering during construction of the Midland Nuclear Plant and as a project trouble shooter at the Palisades Nuclear Plant.

## SPECIFIC PROJECT EXPERIENCE

### NUCLEAR PROJECT EXPERIENCE

**Vermont Yankee –** Provided the Vermont Public Utility Commission advisory services on the asset transfer of Vermont Yankee from Entergy Nuclear Operations, Inc. to NorthStar Group Holdings, LLC. This effort has included assessment of financial strength of new company, adequacy of Nuclear Decommissioning Trust Fund to fund decommissioning efforts, evaluation of decommissioning methodology and State of Vermont Risk.

**Vogel Nuclear Plant Units 3 & 4** – Mr. Polich has provided advisory services to the team performing the oversight of the construction of the Vogel Plant Units 3 & 4 as part of GDS project oversight responsibilities for the Georgia Public Service Commission.

**St. Lucie Nuclear Plant –** Provided a risk assessment, decommissioning funding study and ownership evaluation for City of Vero Beach. This included review of project maintenance history, steam generator replacement project, analysis of decommissioning needs and funding and assessing current value of Vero Beach's ownership share.

**Grand Gulf Nuclear Project** – Assessed the adequacy of decommissioning funding and funding level for the grand Gulf Nuclear plant for Cooperative Energy. Project purpose was to assess changes in decommissioning funding rates and to determine if sufficient funds would be available for plant decommissioning.

**Consumers Energy Midland Nuclear Plant** – Responsible for overseeing EPC contractor design and construction of primary and secondary nuclear systems. Included review of systems for compliance with Nuclear Regulatory Commission regulations. Key projects included:

- Leading team to analyze plant and determine best methods for compliance with new CFR Appendix R Fire Protection rules
- Design of primary cooling system pump oil collection and disposal systems.
- Oversight of redesign of component cooling water systems.
- Analysis of diesel generator capability to meet emergency shutdown power requirements.
- Primary interface with Dow Chemical for steam supply contract.

**Ohio Edison Company Erie Nuclear Project** – Design engineer responsible for the design, equipment specifications, bid evaluations and regulatory licensing for nuclear steam supply system and ancillary systems. Key projects included:

- Project Thermal Analysis
- Development of NSS valve specifications
- Major equipment bid Proposal Evaluation and recommendations

Interface with Babcock & Wilcox on NSSS Design

### RATES & REGULATORY

<u>**GDS associates, Inc. – Managing Director**</u>

**North Dakota Public Service Commission Staff** – Case No. PU-16-666 MDU Generatl Rate Case

Provided testimony on behalf of the North Dakota Public Service Commission Staff regarding return on equity, cost of capital, revenue requirement, and generation resource costs.

**North Dakota Public Service Commission Staff** – Case No. PU-15-96 NSP Determination of Prudence

Provided testimony on behalf of the North Dakota Public Service Commission Staff regarding analysis and recommendation concerning Northern States Power's ("NSP") need for additional generation resources.

**Consumers Energy - Supervisor of Pricing and Forecasting**

Managed the group responsible for setting and obtaining regulatory approval for the company's electric and gas rates. Developed new approaches to electric and natural gas competitive pricing, redesigned electric rates to simplify rates and eliminate losses and defined new strategies for customer energy pricing. Negotiated new electric supply contracts with key industrial electric customers resulting in over $800M in annual revenue. Testified in multiple regulatory proceedings.

**EOS Energy Options & Solutions – Consulting Company**

Provided testimony for multiple clients in both Detroit Edison and Consumers Energy in over 30 regulatory proceedings. Testimony topics included rates, public policy and deregulation. Also testified in several legislative proceedings in both Michigan and Ohio, addressing energy policy. Provided expert witness testimony in Massachusetts regarding wind energy projects.

## NATURAL GAS COMBINED CYCLE EXPERIENCE

**Consumers Energy** – 1,560 MW Midland Cogeneration Venture
Member of a small team selected to investigate the feasibility of converting the mothballed Midland Nuclear Plant into a fossil fueled power plant. Established new plant configuration that repowered the existing nuclear steam turbine with natural gas fired combustion turbines and heat recovery steam generators. Developed the new thermal cycle and heat rate, determined how to supply steam to Dow chemical for cogeneration, developed models for projecting plant performance, defined which portions of the nuclear plant were useful in the new combined cycle plant and forecasted project economics.

**Nordic Energy – Vice President**

Project Manager for the development of two 1,150 MW IGCC projects proposed to Georgia Power and Xcel Energy in response to RFPs. Responsibilities included establishing thermal cycles, equipment selection, site selection, supervising engineering, developing project proforma and proposals.

Project Manager for 230 MW power barge to be located on the Columbia River near Portland Oregon. Lead the project development team responsible for securing equipment, designing the power plant, design of barges, assessing site feasibility, developing project economics and interconnection applications.

## RENEWABLE ENERGY EXPERIENCE

**Matinee Energy** – Utility Scale Solar Developer

Engineering design and project development consultant for utility scale solar photovoltaic projects. Development activities include site selection, equipment specifications, financial analysis and preparation of proposals. Also responsible for engineering and securing electrical interconnection.

**Windlab Developments USA** – Wind Power Developer

Responsible for greenfield development of the US platform for wind energy projects east of the Mississippi. Developed the company's engineering protocol for wind project design and construction, responsible for managing engineering design and construction of projects, and established six wind power projects (750 MW). Responsible for negation of Power Purchase Agreements, electrical interconnection studies, interface with Midwest ISO and submitting Generation Interconnection Application.

**TradeWind Energy** - Wind Power Project Developer

Project developer for 800 MW of wind power projects in Michigan and Indiana. Introduced new project management methods to the development process which resulted in savings of over $200,000 annually on each project.

**Third Planet Windpower** – Wind Power Project Developer

Engineering and project management consultant to support the startup of new wind power company. Established engineering standards used for selection of wind project equipment and project construction, analysis tools for evaluating projecting wind project power production, and performed project economic modeling.

**Noble Environmental Power** – Wind Power Project Developer

Electric transmission system consultant on the development of several wind power projects. Supported Noble's decisions on transmission gird interconnect and negotiate interconnection agreements.

## ENERGY EFFICIENCY EXPERIENCE

**Arkansas Energy Office** – Weatherization Assistance Program Evaluation

Evaluated the performance and operations of Arkansas's Weatherization Assistance Program. This included review of program effectiveness, program operations, energy efficiencies attained, adequacy of energy efficiency measures and subcontractor performance.

**CLEAResult** – Arkansas Energy Efficiency Programs

Energy efficiency operations and program support for 400% increase in Arkansas energy efficiency programs. Developed processes for data collection, field staff deployment and job assignments.

## ECONOMIC IMPACT ASSESSMENT

**Michigan Department of Environmental Quality** - Economic Impacts of a Renewable Portfolio Standard and Energy Efficiency Program for Michigan

Project Manager for this report which focused on the economic impact of renewable portfolio standard and energy efficiency programs on the State of Michigan. The evaluation sued in this report encompassed using integrated resource planning models, econometric modeling and electric pricing models for the entire State of Michigan.

**West Michigan Business Alliance** - Alternative and Renewable Energy Cluster Analysis

Prepared the report provided a road map for Western Michigan businesses to establish new business in the renewable energy industry.

## POWER PROJECT EXPERIENCE:

**Detroit Edison St Clair Power Station** – Performed coal combustion analysis associated with conversion Powder River Basin coal. Work included pulverizer mill performance testing, boiler combustion analysis on new coal, and unit performance analysis.

**Consumers Energy Campbell 3** - Supported start-up efforts of this 800 MW pulverized coal power plant. Part of team that performed analysis of boiler data and determined the cause of superheater failure. Also part of team to analyze performance test data for warranty evaluation.

**Consumers Energy Weadock Plant** – Design oversight and specified various plant upgrades during major maintenance outage. Included replacement of high-pressure superheater, design of new steam supply pipes, valve specifications and supported plant restart.

## PAPERS & PUBLICATIONS

*Engineering and Economic Evaluation of Offshore Wind Plant Performance and Cost Data*, 2011, Produced for the Electric Power Research Institute, KEMA, Inc.

*FERC's 15% Fast Track Screening Criterion*, 2012, Paper reviewing the FERC 15% screening criteria for electrical interconnection, KEMA, Inc.

*Island of Saint Maarten Sustainable Energy Study*, 2012, Produced for the Cabinet of Ministry VROMI, KEMA Inc.

*A Study of Economic Impacts from the Implementation of a Renewable Portfolio Standard and an Energy Efficiency Program in Michigan*, 2007, Produced for the Michigan Department of Environmental Quality

*Alternative and Renewable Energy Cluster Analysis*, 2007, Produced for the West Michigan Strategic Alliance and The Right Place

## COURSES & SEMINARS

Association of Energy Engineers – Certified Energy Manager
Green Building Council – Associated LEED Certification Training
CLEAResult Leadership Academy

## COMMUNITY SERVICE AND ACTIVITIES

Bicycling, hiking and cross-country skiing
Instrument-Rated Private Pilot
Habitat for Humanity
Scoutmaster
Soccer coach and referee
Volunteer work for disaster relief and building homes in Mexico

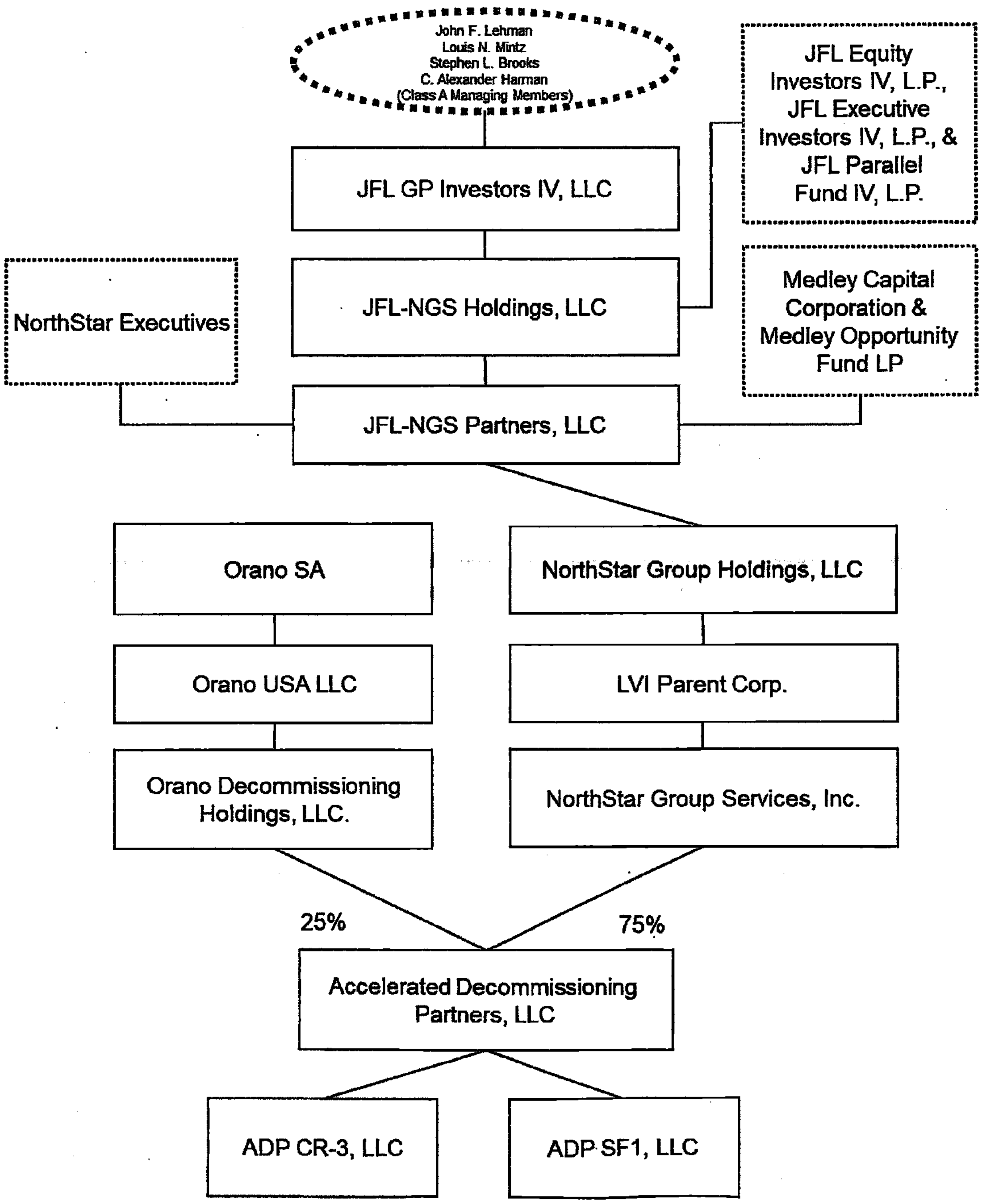
# PREVIOUS TESTIMONY OF RICHARD A. POLICH

| COMMISSION | CASE | ON BEHALF | TITLE |
|---|---|---|---|
| Florida | 20190001-E1 | Florida OPC | Fuel and Purchase Power Cost Recovery Clause |
| FERC | ER17-1821-002 | Joint Customers | Revenue Requirement for Reactive Power Production Capability of the Panda Stonewall Generating Facility |
| North Carolina | E-2 Sub1142 | North Carolina AG | Duke Energy Progress General Rate Case |
| Indiana | 38707 FAC111-S1 | Nucor Steel | Duke Energy Indiana, LLC for Fuel Cost Adjustment Clause |
| North Dakota | PU-16-166 | ND PSC Staff | Montana-Dakota Utilities 2016 Electric Rate Increase Application |
| Hawaii | 2015-0022 | Sun Edison | Regarding the Hawaiian Electric Company, Inc. and NextEra Merger |
| North Dakota | PU-15-96 | ND PSC Staff | Northern States Power Determination of Prudence |
| Michigan | U-10143 | Consumers Energy | Consumers Energy Approval of an Experimental Retail Wheeling Case |
| Michigan | U-10335 | Consumers Energy | General Rate Case |
| Michigan | U-10625 | Consumers Energy | Proposal for Market-Based Rates Under Rate-K |
| Michigan | U-10685 | Consumers Energy | 1996 General Rate Case |
| Michigan | U-11915 | Energy Michigan | Supplier Licensing |
| Michigan | U-11955 | Energy Michigan | Consumers Energy Stranded & Implementation Cost Recovery |
| Michigan | U-11956 | Energy Michigan | Detroit Edison Stranded & Implementation Cost Recovery |
| Michigan | U-12478 | Energy Michigan | Detroit Edison Asset Securitization Case |
| Michigan | U-12488 | Energy Michigan | Consumers Energy Retail Open Access Tariff |
| Michigan | U-12489 | Energy Michigan | Detroit Edison Retail Open Access Tariffs |
| Michigan | U-12505 | Energy Michigan | Consumers Energy Asset Securitization Cases |
| Michigan | U-12639 | Energy Michigan | Stranded Cost Methodology Case |
| Michigan | U-13380 | Energy Michigan | Consumers Energy 2000, 2001 & 2002 Stranded Cost Case |
| Michigan | U-13350 | Energy Michigan | Detroit Edison 2000 & 2001 Stranded Cost Case |
| Michigan | U-13715 | Energy Michigan | Consumers Energy Securitization of Qualified Costs |
| Michigan | U-13720 | Energy Michigan | Consumers Energy 2002 Stranded Costs |
| Michigan | U-13808 | Energy Michigan | Detroit Edison General Rate Case |
| Michigan | U-13808-R | Energy Michigan | Detroit Edison 2004 Stranded Cost & |
| Michigan | U-14474 | Energy Michigan | Detroit Edison 2004 PSCR Reconciliation Case |

## PREVIOUS TESTIMONY OF RICHARD A. POLICH

| COMMISSION | CASE | ON BEHALF | TITLE |
|---|---|---|---|
| Michigan | U-13933 | Energy Michigan | Detroit Edison Low-Income Energy Assistance Credit for Residential Electric Customers |
| Michigan | U-13917-R | Energy Michigan | Consumers Energy 2004 PSCR Reconciliation Case |
| Michigan | U-13989 | Energy Michigan | Consumers Energy Request for Special Contract Approval |
| Michigan | U-14098 | Energy Michigan | Consumers Energy 2003 Stranded Costs |
| Michigan | U-14148 | Energy Michigan | Consumers Energy MCL 460.10d(4) Case |
| Michigan | U-14347 | Energy Michigan | Consumers Energy General Rate Case |
| Michigan | U-14274-R | Energy Michigan | Consumers Energy 2005 PSCR Reconciliation Case |
| Michigan | U-14275-R | Energy Michigan | Detroit Edison Company 2005 PSCR Reconciliation Case |
| Michigan | U-14399 | Energy Michigan | Detroit Edison Company Application for Unbundling of Rate |
| Michigan | U-14992 | Energy Michigan | Power Purchase Agreement and for Other Relief in Connection with the sale of the Palisades Nuclear Power Plant and Other Assets |

# Figure 2: SIMPLIFIED ORGANIZATION CHART



# Exhibit RAP-4

5. With respect to your determination of NorthStar's creditworthiness:

   a. Did your assessment of NorthStar determine NorthStar to be a "Creditworthy" entity?

**<u>RESPONSE:</u>**

**DEF objects to this interrogatory to the extent it seeks information reflecting DEF's internal assessment, analysis and calculation of the financial condition and creditworthiness of the ADP entities because such documents are not relevant to the issues in this proceeding, namely the actual financial condition and creditworthiness of the ADP entities, and are not reasonably calculated to lead to the discovery of admissible evidence. Without waiving this objection, DEF responds to this interrogatory as follows:**

**We evaluated NorthStar to be below investment grade which is the generally accepted standard for being considered "creditworthy." However, we did not determine NorthStar's creditworthiness to be significantly weaker than its peers.**

   b. How did you assess NorthStar's creditworthiness?

# Exhibit RAP-5

5. With respect to your determination of NorthStar's creditworthiness:

   e. Did you perform an analysis of NorthStar's ability to sustain financial loss or unfavorable economic conditions and potential for bankruptcy, as these analyses would be used in what it commonly considered to be a financial stress test and if so, what were the results of that analysis?

**RESPONSE:**

**DEF objects to this interrogatory to the extent it seeks information reflecting DEF's internal assessment, analysis and calculation of the financial condition and creditworthiness of the ADP entities because such documents are not relevant to the issues in this proceeding, namely the actual financial condition and creditworthiness of the ADP entities, and are not reasonably calculated to lead to the discovery of admissible evidence. Without waiving this objection, DEF responds to this interrogatory as follows:**

**We do not perform formal stress tests such as those required for banks by Dodd Frank. However, we do consider an entity's ability to withstand a negative credit event or economic downturn. The large-scale nature of NorthStar's projects in relation to the company's size was identified as a risk factor in our evaluation.**

Consolidated Financial Statements

# NORTHSTAR GROUP SERVICES, INC.

Years ended December 31, 2015 and 2014

# NORTHSTAR GROUP SERVICES, INC.

## TABLE OF CONTENTS

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Balance Sheets
**December 31, 2015 and 2014**
**(in thousands, except share data)**

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Accounts receivable - net | $ 155,378 | $ 140,448 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 18,466 | 22,092 |
| Inventories - net | 4,695 | 5,760 |
| Income tax receivable | - | 403 |
| Prepaid expenses and other current assets | 6,939 | 3,941 |
| Total current assets | 185,478 | 172,644 |
| Property and equipment - net | 26,061 | 23,640 |
| OTHER ASSETS | | |
| Goodwill | 138,917 | 138,917 |
| Other intangible assets - net | 42,360 | 56,669 |
| Restricted cash | 166 | 166 |
| Deferred financing costs - net | 7,953 | 7,581 |
| Deferred income taxes | - | 2,964 |
| Other noncurrent assets | 955 | 1,043 |
| Total assets | $ 401,890 | $ 403,624 |

*The accompanying notes are an integral part of these statements.*

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Balance Sheets
**December 31, 2015 and 2014**
**(in thousands, except share data)**

| | 2015 | 2014 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| CURRENT LIABILITIES | | |
| Checks in transit | $ 301 | $ 4,044 |
| Current maturities of long-term obligations | 19,967 | 17,834 |
| Accounts payable and accrued contract costs | 83,049 | 81,810 |
| Accrued expenses and other current liabilities | 36,735 | 27,220 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 7,027 | 12,086 |
| Income taxes payable | 7 | - |
| Deferred income taxes | - | 13,953 |
| Total current liabilities | 147,086 | 156,947 |
| NONCURRENT LIABILITIES | | |
| Long-term obligations | 223,023 | 219,415 |
| Income tax liability | 664 | 4,257 |
| Due to parent | 1,179 | 1,010 |
| Deferred income taxes | 8,159 | - |
| Total liabilities | 380,111 | 381,629 |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| STOCKHOLDER'S EQUITY | | |
| Common stock ($1 par value; authorized, issued and outstanding shares; December 31, 2015 and 2014, respectively) | 100 | 100 |
| Additional paid-in capital | 141,413 | 141,413 |
| Accumulated deficit | (119,734) | (119,518) |
| Total stockholder's equity | 21,779 | 21,995 |
| Total | $ 401,890 | $ 403,624 |

*The accompanying notes are an integral part of these statements.*

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Statements of Operations and Comprehensive Income
**Years ended December 31, 2015 and 2014**
**(in thousands, except share data)**

| | 2015 | 2014 |
|---|---|---|
| Revenues | $ 652,326 | $ 473,240 |
| Cost of revenues | 548,960 | 407,452 |
| Gross profit | 103,366 | 65,788 |
| Selling, general, and administrative expenses | 73,720 | 68,271 |
| Operating income (loss) | 29,646 | (2,483) |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (19,434) | (13,423) |
| Amortization expense | (15,531) | (9,355) |
| Management charge to related party | (343) | (1,513) |
| Early termination fee on extinguished debt | - | (5,050) |
| Gain on bargain purchase | - | 5,476 |
| Other - net | (348) | 989 |
| Total other income (expense) | (35,656) | (22,876) |
| Loss before income taxes | (6,010) | (25,359) |
| Income tax benefit | (5,794) | (12,721) |
| Net loss | $ (216) | $ (12,638) |

*The accompanying notes are an integral part of these statements.*

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Statements of Changes in Stockholder's Equity
**Years ended December 31, 2015 and 2014**
**(in thousands, except share data)**

| | Common Stock | | Additional | | Total |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Paid-in Capital | (Accumulated Deficit) | Stockholder's Equity |
| **Balance - December 31, 2013** | 100,000 | $ 100 | $ 116,702 | $ (106,880) | $ 9,922 |
| Distributions to parent | - | - | (5,184) | - | (5,184) |
| Contribution from parent | - | - | 29,895 | - | 29,895 |
| Net loss | - | - | - | (12,638) | (12,638) |
| **Balance - December 31, 2014** | 100,000 | 100 | 141,413 | (119,518) | 21,995 |
| Net loss | - | - | - | (216) | (216) |
| **Balance - December 31, 2015** | 100,000 | $ 100 | $ 141,413 | $ (119,734) | $ 21,779 |

*The accompanying notes are an integral part of these statements.*

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Statements of Cash Flows
### Years ended December 31, 2015 and 2014
### (in thousands, except share data)

| | 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (216) | $ (12,638) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 26,215 | 17,918 |
| Gain on sale of fixed assets | (117) | (435) |
| Accrued interest expense - non-cash | 3,017 | 141 |
| Gain on bargain purchase | - | (5,476) |
| Gain on extinguishment of debt | - | (1,108) |
| Deferred income taxes | (2,830) | (10,307) |
| Changes in operating assets and liabilities | | |
| Accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts | (11,304) | (3,721) |
| Inventories | 1,065 | 53 |
| Prepaid expenses and other current assets | (2,998) | 1,019 |
| Other noncurrent assets | 88 | (155) |
| Accounts payable and billings in excess of costs and estimated earnings on uncompleted contracts | (3,820) | 1,904 |
| Accrued expenses and other current liabilities | 5,772 | 4,017 |
| Income taxes | (3,183) | (2,824) |
| Net cash (used in) provided by operating activities | 11,689 | (11,612) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments associated with purchase agreements, net of cash acquired | - | (4,374) |
| Restricted cash | - | 1,530 |
| Capital expenditures | (4,828) | (3,839) |
| Purchase of intangible asset | - | (50) |
| Proceeds from sale of fixed assets | 756 | 654 |
| Net cash used in investing activities | (4,072) | (6,079) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from line of credit | 121,100 | 171,600 |
| Repayments of line of credit | (111,600) | (159,100) |
| Principal payments on long-term obligations | (15,692) | (145,728) |
| Deferred financing costs paid | (1,594) | (6,344) |
| Proceeds from issuance of long-term debt | - | 150,044 |
| Contributions and advances from parent - net | 169 | 1,590 |
| Net cash provided by (used in) financing activities | (7,617) | 12,062 |
| Net decrease in cash and cash equivalents | - | (5,629) |
| Cash and cash equivalents - beginning of year | - | 5,629 |
| Cash and cash equivalents - end of year | $ - | $ - |

*The accompanying notes are an integral part of these statements.*

# NORTHSTAR GROUP SERVICES, INC.

## Consolidated Statements of Cash Flows

### Years ended December 31, 2015 and 2014
### (in thousands, except share data)

| | 2015 | 2014 |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW | | |
| Information - cash paid during the year for | | |
| Interest | $ 17,064 | $ 16,255 |
| Income taxes | $ 290 | $ 440 |
| NONCASH TRANSACTIONS | | |
| Assets acquired pursuant to capital leases | $ 9,899 | $ 4,309 |

*The accompanying notes are an integral part of these statements.*

# NORTHSTAR GROUP SERVICES, INC.
## Notes to Consolidated Financial Statements
**December 31, 2015 and 2014**
**(in thousands, except share data)**

### 1. ORGANIZATION AND BUSINESS

NorthStar Group Services, Inc. (formerly LVI Services Inc., the "Company") is a wholly owned subsidiary of NorthStar Group Holdings, LLC. The Company provides a number of building facility services including asbestos abatement, lead abatement, mold remediation, emergency disaster response, interior and structural demolition, salvage and recycling of related materials, fireproofing, design-build, repair, remodeling, and new construction services, and other specialty contracting services to a broad range of commercial, industrial, and institutional clients located throughout the United States. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc., NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, REnu Recycling Services, Environmental Waste Resources, Nuprecon Acquisition, LP, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), LVI Environmental Services Inc., TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), LVI Facility Services Inc., LVI Services of North Carolina Inc., and LVI Environmental Services of New Orleans, Inc.

**Contribution Agreement - NCM**

On April 23, 2014, the owners of the Company entered into a contribution agreement with the former owners of the NCM Subsidiaries (the "Contribution Agreement"). The NCM Subsidiaries are demolition contractors specializing in interior demolition, full building demolition, saw cutting, core drilling, asbestos abatement services, lead paint abatement services, mold remediation, disaster response and recycling container rental services throughout the United States. Per the terms of the Contribution Agreement, the former owners of the NCM Subsidiaries agreed to contribute 100% of the NCM Subsidiaries to the Company in exchange for ownership Units in NorthStar Group Holdings, LLC representing 37.5% ownership of the consolidated group (the "NCM Acquisition").

The purchase consideration was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition.

The purchase price was allocated in the following manner:

| | | |
|---|---|---|
| Property and equipment | $ | 10,304 |
| Net working capital | | 8,605 |
| Goodwill | | 81,263 |
| Trademark | | 2,400 |
| Customer list | | 31,200 |
| Acquired contracts | | 2,400 |
| Other assumed assets | | 1,544 |
| Net assets acquired | $ | 137,716 |

The Company determined that the trademark has a useful economic life of five years, the customer list has a useful economic life of five years and the acquired contracts have a useful economic life of twelve months.

**(in thousands, except share data)**

Accordingly, the Company is amortizing the trademark, the customer list and the acquired contracts over five years, five years and twelve months, respectively, on a straight-line basis with no residual value. The goodwill acquired with the NCM Acquisition represents the residual fair value of the ownership Units issued to the former owners of the NCM Subsidiaries over the fair value of the acquired tangible and identifiable intangible assets. The goodwill associated with the acquisition is not expected to be deductible for tax purposes.

Subsequent to the NCM Acquisition, the parties to the Contribution Agreement filed lawsuits against each other, the resolution of which may affect the final purchase price and income taxes related to the NCM Acquisition. Currently the Company is unable to estimate the outcome of these pending matters, and has recorded the fair values of the assets acquired using the best available information. Once the final outcome becomes determinable, the Company may need to adjust the acquisition values of the acquired assets including the related tax implications through current earnings.

**Asset Purchase Agreement - WRS**

WRS Infrastructure & Environment, Inc. ("WRS") is a provider of environmental, remediation and civil construction services throughout the United States. On July 25, 2014, WRS filed voluntary petitions for relief under the United States Bankruptcy Code, and began actively to market and solicit bids for the sale of the company. On August 27, 2014, the Company entered into an Asset Purchase Agreement (the "APA") with WRS to acquire the equipment, trademarks, workforce and certain contracts of WRS (the "WRS Acquisition"). The APA specifically excluded all working capital including cash that would exist as of the closing date. The WRS Acquisition was completed on October 31, 2014, for consideration of $5,117, of which $5,000 was paid to the sellers and $117 was paid to certain of the sellers' creditors. The acquisition was financed through the issuance of ownership Units to the Company's Members in exchange for an equity contribution of $6,000 cash.

The purchase consideration was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of the acquisition. The Company had an appraisal performed for the equipment acquired and recorded these assets at the estimated fair values.

The purchase price was allocated in the following manner:

| | |
|---|---|
| Property and equipment | $ 3,093 |
| Trademark | 500 |
| Customer list | 5,800 |
| Acquired contracts | 1,200 |
| Net assets acquired | $ 10,593 |

The Company determined that the trademark has a useful economic life of five years, the customer list has a useful economic life of five years and the acquired contracts have a useful economic life of one year. Accordingly, the Company is amortizing the trademark, the customer list and the acquired contracts over five years, five years and one year, respectively, on a straight-line basis with no residual value.

After assessing the fair value of the identifiable assets acquired, the consideration paid was below fair value and accordingly, the Company recognized a gain on bargain purchase of $5,476 which is included in net income for the period.

**Stock Purchase Agreement - Randolph Construction Services, Inc.**

On March 16, 2012, the Company entered into a Stock Purchase Agreement (the "Agreement") to acquire 100% of the shares of capital stock of Randolph Construction Services, Inc. (Randolph), a design-build, repair and remodeling company located in the state of Washington. The aggregate purchase price was $9,053 including post-closing working capital adjustments. At closing, $250 was paid in cash, and the Company issued a promissory note for the remaining amount of $8,803 (the "Promissory Note," see Note 9).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America ("U.S. GAAP"). References to U.S. GAAP are to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC"). Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

**Principles of Consolidation**

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, as well as revenues and expenses at the date of the consolidated financial statements and accompanying notes. Significant estimates made relate to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts and the valuation of consideration transferred in business combinations. Actual results could differ materially from those estimates.

**Cash and Cash Equivalents**

For financial reporting purposes, the Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents. As of December 31, 2015 and 2014, cash consisted of cash on deposit.

**Restricted Cash**

Restricted cash relates primarily to cash pledged to fund paid losses within the deductible limits of the Company's workers' compensation insurance program.

**Inventories**

Inventories are stated at the lower of cost or market using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in the business. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

### Construction-Type Contracts

In accounting for long-term construction-type contracts, including salvage revenues, the Company follows the provisions of ASC Topic 605-35 Revenue Recognition - Construction-Type and Production. Depending on the commercial terms of the contract, we recognize revenues either when costs are incurred, or using the percentage of completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion, and for the years ended December 31, 2015 and 2014, the Company recorded \$254 and \$3,071 for loss contracts, respectively. We also recognize as revenue costs associated with claims and unapproved change orders to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated. Revenues are recorded net of sales tax. Contract revenues include revenues from salvage proceeds for the years ended December 31, 2015 and 2014 totaling \$20,084 and \$41,746, respectively. The asset Costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability Billings in excess of costs and estimated earnings on uncompleted contracts represents amounts billed in excess of revenues recognized.

### Revenue Recognition of Claims

Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to both scope and price. Such amounts are accrued as additional revenue when recovery is probable and the amount can be reasonably estimated, however, only to the extent that costs relating to the claim have been incurred. Claims receivable are presented in either unbilled accounts receivable, if the project is complete, or Costs and estimated earnings in excess of billings on uncompleted contracts, if the project is still in progress. Revenue subject to claims as of December 31, 2015 and 2014 was \$13,194 and \$10,480, respectively.

### Accounts Receivable

Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable including retained and unbilled accounts receivable are expected to be collected within one year. The Company estimates an allowance for doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay, and current economic trends. The Company writes off accounts receivable against the allowance when management determines the balance is uncollectible and the Company ceases collection efforts. Management believes that the allowance recorded is adequate to provide for anticipated credit losses.

### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years.

### Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill and certain indefinite-lived trademarks in accordance with ASC Topic 350 Intangibles - Goodwill and Other. Intangible assets that are not subject to amortization, such as goodwill and indefinite-lived trademarks, are subject to periodic testing for impairment under ASC Topic 350. The Company performs an annual impairment analysis at December 31 or instead may perform a qualitative assessment to determine whether it is more likely than not that the fair value if its reporting unit is greater than its carrying amount. The more likely than not threshold is defined as having a likelihood of more than 50%. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing the first step of its two-step annual impairment analysis at December 31, 2015 and 2014, the Company has concluded that there has been no impairment of goodwill.

Intangible assets determined to have definite lives are amortized over their useful lives. Other intangible assets include customer lists and acquired contracts. Customer Lists are amortized on a straight-line basis over a period of between three to five years. Acquired contracts are amortized on a straight-line basis over one year, representing the approximate contract performance period.

### Recoverability of Assets

In accordance with ASC Topic 360, Property, Plant and Equipment, the Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company determined that there was no impairment of long-lived assets during the years ended December 31, 2014 and 2013.

### Deferred Financing Costs

The Company amortizes deferred financing costs over the life of the related debt using the straight-line method, which approximates the effective interest rate method.

### Fair Value of Financial Instruments

The guidance in ASC Topic 825, Financial Instruments paragraphs 10-50-16 through 50-19, requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, Fair Value Measurements and Disclosures. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 – defined as quoted prices in active markets for identical instruments; Level 2 – defined as inputs other than quoted prices in active markets; and Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying value and estimated fair value of long-term obligations at December 31, 2015 was $242,989 and $237,872, respectively. The carrying value and estimated fair value of long-term obligations at December 31, 2014 was $237,429 and $220,262, respectively. There are no quoted prices in active markets or other inputs that are either directly or indirectly observable for the long-term obligations, and therefore the Company measured the fair value of the long-term debt obligation by comparing the movements in the risk-free rate and the spread of the Baa corporate bond rate from the date of the inception of the debt (Level 3). Because of the short maturities, the carrying amounts of the other financial instruments approximate fair value.

### Income Taxes

The Company accounts for income taxes under the provisions of ASC Topic 740, Income Taxes. Under ASC Topic 740, a current or deferred tax liability or benefit is recognized for current or deferred tax effects of all events recognized in the consolidated financial statements. Those effects are measured based on provisions of current tax law to determine the amount of taxes payable or refundable currently or in future years. The tax effects of earning income or incurring expenses in future years or the future enactment of a change in tax laws or rates are not anticipated in determining deferred tax benefits or liabilities.

The Company follows the guidance with respect to accounting for uncertainty in income taxes. This guidance, located in ASC Topic 740, paragraph 10-65, clarifies the accounting for uncertainty in income taxes recognized in the consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The guidance in ASC Topic 740 states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest as income tax expense.

### Recent Accounting Pronouncements

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes.* This ASU requires entities to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent. ASU 2015-17 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company elected to early adopt this new standard beginning December 31, 2015 and prospectively applied ASU 2015-17, and therefore deferred tax balances presented for periods prior to December 31, 2015 have not been recast in connection with the implementation of this standard. The adoption of this standard only affects the classification of deferred tax amounts and has no impact on the Company's results of operations.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments.* This ASU provides guidance to simplify the accounting for adjustments made to provisional amounts recognized in a business combination. Under the new guidance, an acquirer in a business combination must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This is a change from the previous requirement that the adjustments be recorded retrospectively. ASU 2015-16 is effective for interim and annual reporting periods beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date. Management does not expect the adoption of ASU 2015-16 to have a material impact on the company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This ASU changes the presentation of debt issuance costs on the balance sheet by requiring entities to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015. The guidance requires retrospective application and represents a change in accounting principle. The Company does not expect the guidance to have a material impact on its consolidated financial statements, as the application of this guidance affects classification only.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis.* This ASU amends the consolidation guidance for variable interest entities (VIEs) and general partners' investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently assessing the impact of the adoption that the amended guidance will have on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* Under this ASU, an entity will no longer be allowed to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is unusual in nature and occurs infrequently. ASU 2015-01 is effective for interim and annual reporting periods beginning after December 31, 2015 with early adoption permitted. Upon adoption, the Company may elect prospective or retrospective application. Management does not expect the adoption of ASU 2015-01 to have a material impact on the Company's financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and subsequent interim reporting periods. The adoption of ASU 2014-15 will not have any impact on the Company's financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period.* This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015. Management does not expect the adoption of ASU 2014-12 to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and require separate accounting, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018 and can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact of adopting ASU 2014-09 on the Company's financial position, results of operations and cash flows.

**(in thousands, except share data)**

In 2015, the Company adopted ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date - a consensus of the Emerging Issues Task Force* (ASC 405, *Liabilities*). The Update provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This ASU is an update to the FASB ASC Topic 405, "Liabilities." The adoption of ASU 2013-04 did not have a material impact on the Company's financial position, results of operations or cash flows.

## 3. ACCOUNTS RECEIVABLE - NET

The balances in accounts receivable - net as of December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Billed | $ 115,677 | $ 107,169 |
| Retained | 24,675 | 24,012 |
| Unbilled | 16,862 | 12,406 |
| Total accounts receivable | 157,214 | 143,587 |
| Less allowance for doubtful accounts | (1,836) | (3,139) |
| Accounts receivable - net | $ 155,378 | $ 140,448 |

**(in thousands, except share data)**

## 4. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings on uncompleted contracts as of December 31, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 241,625 | $ 217,403 |
| Estimated earnings | 43,428 | 29,891 |
| | 285,053 | 247,294 |
| Less billings to date | 273,614 | 237,288 |
| | $ 11,439 | $ 10,006 |
| The above amounts are included in the consolidated balance sheets under the following captions | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 18,466 | $ 22,092 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (7,027) | (12,086) |
| | $ 11,439 | $ 10,006 |

## 5. PROPERTY AND EQUIPMENT - NET

Property and equipment - net as of December 31, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Furniture and fixtures | $ 953 | $ 896 |
| Computer equipment | 4,512 | 4,202 |
| Leasehold improvements | 1,604 | 1,469 |
| Equipment | 66,468 | 54,946 |
| Vehicles | 13,437 | 13,674 |
| Land and buildings | 1,550 | 1,550 |
| | 88,524 | 76,737 |
| Less accumulated depreciation | (62,463) | (53,097) |
| Property and equipment - net | $ 26,061 | $ 23,640 |

(in thousands, except share data)

Depreciation expense for the years ended December 31, 2015 and 2014 was $10,684 and $8,563, respectively, which includes the depreciation of assets under capital lease.

The gross amount of assets acquired pursuant to capital leases total $15,266 and $10,938, offset by accumulated depreciation of $5,333 and $3,288 as of December 31, 2015 and 2014, respectively, and are included in the table above.

## 6. DEFERRED FINANCING COSTS - NET

Deferred financing costs - net as of December 31, 2015 and 2014 consists of the following:

| | 2015 | 2014 |
|---|---|---|
| Deferred financing costs | $ 11,337 | $ 9,834 |
| Less accumulated amortization | (3,384) | (2,253) |
| Deferred financing costs - net | $ 7,953 | $ 7,581 |

Amortization of deferred financing costs for the years ended December 31, 2015 and 2014 was approximately $1,469 and $1,759, respectively, and classified as Amortization expense in the Statement of Operations.

## 7. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets determined to have definite lives are amortized over their useful lives.

The Company's goodwill relates to acquisitions made in 2005, 2007, 2009, 2012 and 2014. As of December 31, 2015 and 2014, goodwill consisted of the following:

| | 2015 | 2014 |
|---|---|---|
| **At the beginning of the year** | $ 138,917 | $ 57,429 |
| Current-year acquisitions | - | 81,488 |
| **At the end of the year** | $ 138,917 | $ 138,917 |

# NORTHSTAR GROUP SERVICES, INC.

## Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**
**(in thousands, except share data)**

As of December 31, 2015 and 2014, the Company's intangible assets and related accumulated amortization consisted of the following:

| December 31, 2015 | Weighted-Average Useful Life | Cost | Accumulated Amortization | Impairment | Net |
|---|---|---|---|---|---|
| Finite life - customer related | 3.4 years | $ 44,175 | $ 18,864 | $ - | $ 25,311 |
| Finite life - trademarks | 4.3 years | 21,744 | 4,695 | - | 17,049 |
| Total intangible assets | | $ 65,919 | $ 23,559 | $ - | $ 42,360 |

| December 31, 2014 | Weighted-Average Useful Life | Cost | Accumulated Amortization | Impairment | Net |
|---|---|---|---|---|---|
| Finite life - customer related | 4.1 years | $ 44,175 | $ 8,817 | $ - | $ 35,358 |
| Finite life - trademarks | 5.2 years | 21,744 | 433 | - | 21,311 |
| Total intangible assets | | $ 65,919 | $ 9,250 | $ - | $ 56,669 |

Amortization expense related to intangible assets for the years ended December 31, 2015 and 2014 was $14,309 and $7,596, respectively.

As a result of its annual assessment in 2014, the Company determined that one of the trade names that previously had been deemed to have an indefinite life had a remaining estimated useful life of five years. No impairment charges related to goodwill or other intangible assets were recognized in 2015 or 2014 in connection with the annual goodwill impairment or qualitative assessment at December 31.

Amortization expense through 2020 and thereafter, respectively, for intangible assets subject to amortization is as follows:

| | |
|---|---|
| 2016 | $ 11,849 |
| 2017 | 11,662 |
| 2018 | 11,662 |
| 2019 | 6,836 |
| 2020 | 29 |
| Thereafter | 322 |
| Total | $ 42,360 |

**(in thousands, except share data)**

## 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The balances in accrued expenses and other current liabilities as of December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Payroll and other compensation accruals | $ 9,138 | $ 6,102 |
| Workers compensation and other liability insurance | 9,242 | 8,011 |
| Sales tax | 1,749 | 1,144 |
| Other | 16,374 | 11,963 |
| Accrued expenses and other current liabilities | $ 36,503 | $ 27,220 |

## 9. LONG-TERM OBLIGATIONS

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Current portion of long-term obligations | | |
| Senior Secured Credit Facility | | |
| First Lien Loan [(a)] | $ 13,125 | $ 12,031 |
| Lease obligations [(c)] | 3,942 | 2,414 |
| Promissory Note [(d)] | 2,900 | 3,389 |
| Short-term obligations | $ 19,967 | $ 17,834 |
| Noncurrent portion of long-term obligations | | |
| Senior Secured Credit Facility | | |
| Revolver [(a)] | $ 29,500 | $ 20,000 |
| First Lien Loan [(a)] | 142,792 | 155,406 |
| Mezzanine Term Loan [(b)] | 42,596 | 40,100 |
| Lease obligations [(c)] | 8,135 | 3,909 |
| Long-term obligations | $ 223,023 | $ 219,415 |

### (a) Senior Secured Credit Facility and Revolving Credit Facility

On September 7, 2012, the Company entered into a Senior Secured Credit Facility (the "Credit Facility") with various lenders, consisting of a First Lien Term Loan of $70,000 (the "First Lien

Loan"), a $40,000 revolving credit facility (the "Revolver") and a Second Lien Term Loan of $20,000 (the "Second Lien Loan"). The two lenders under the Second Lien Loan were equity investors in the Company's stock. The capital stock of the Company and its subsidiaries is pledged as collateral and the lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. The First Lien Loan had an original maturity of September 6, 2017, whereupon the balance outstanding on the First Lien Loan and Revolver was to be payable in full. Principal payments on the First Lien Loan are due quarterly in amounts as described in the Credit Facility. The Second Lien Loan was to mature on March 6, 2018, whereupon the balance outstanding on the Second Lien Loan would be payable in full.

On April 23, 2014, the Company completed the NCM Acquisition. As of that date, the NCM Subsidiaries were party to several debt agreements with various lenders (the "Old NCM Debt"), and therefore the Old NCM Debt was also acquired by the Company. On April 24, 2014, the Company entered into the Amended and Restated Credit and Guaranty Agreement (the "Amended Credit Agreement") with various lenders (the "Lenders"). Per the Amended Credit Agreement, the First Lien Loan was amended and restated to:

- Borrow an additional term loan in the aggregate principal amount of $97,625 from the Lenders (the "Additional Borrowing")
- Increase the borrowing capacity under the Revolver to $60,000
- Extend the maturity date of the First Lien Loan and Revolver from September 6, 2017 to April 24, 2019

Simultaneous with the Amended Credit Agreement, the Company entered into the Senior Subordinated Note Purchase and Guaranty Agreement with another lender for $40,000 (the "Mezzanine Term Loan"). The proceeds from the Additional Borrowing and the Mezzanine Term Loan were used to repay and cancel the Second Lien Loan and the Old NCM Debt, and to pay transaction costs incurred in relation to the Contribution Agreement and the Amended Credit Agreement.

Interest is charged on both the Revolver and the First Lien Loan at an applicable margin percentage above either the prime lending rate of Manufacturers and Traders Trust Company ("M&T") or above the London InterBank Offered Rate, at the Company's option. The applicable margin is on a sliding scale based upon the Company's total debt leverage ratio as defined in the Amended Credit Agreement, measured quarterly and payable in cash and kind. The effective rate on the First Lien Loan at December 31, 2015 and 2014 was an annual rate of 5.7% and 4.16% payable in cash plus 0.8% and 0% payable in kind, respectively. In addition, the Revolver has a fee on the unused portion of the facility that ranges from 0.25% to 0.5% per annum, based on the applicable margin as specified in the Amended Credit Agreement. Interest on outstanding borrowings and the fee are payable monthly.

As of December 31, 2015, the Company had outstanding letters of credit in the amount of $17,437 and had drawn $29,500, which reduced the borrowing availability under the Revolver to $13,063.

As of December 31, 2015, the Company was in compliance with all financial covenants contained in the First Lien Loan. The Company failed to comply with certain of the covenants contained in the

First Lien Loan as of December 31, 2014. In August 2015, the Lenders agreed to amend certain portions of the First Lien Loan and to waive certain events of default that had occurred and were occurring thereunder (collectively, the "Debt Amendments and Waivers"). Per the Debt Amendments and Waivers, all events of default that had occurred or were occurring under the First Lien Loan as of December 31, 2014 and thereafter were waived. In addition, certain of the financial covenant ratios contained in the First Lien Loan were modified.

### (b) Mezzanine Term Loan

In connection with the NCM Acquisition, the Company entered into the Mezzanine Term Loan on April 24, 2014 with a lender (the "Mezzanine Lender"), and received proceeds of $40,000. The proceeds from the Mezzanine Term Loan were used to repay and cancel the Second Lien Loan and to pay transaction costs incurred in relation to the Contribution Agreement and the Amended Credit Agreement. The Mezzanine Term Loan is subordinate to the First Lien Loan, and will mature on October 24, 2019, whereupon the balance outstanding will be payable in full. Interest is charged on the Mezzanine Term Loan at a combined rate payable in cash and in kind. The amounts payable in cash and kind are determined based on a sliding scale determined by the Company's senior leverage ratio as defined in the Mezzanine Term Loan documents, measured quarterly. The effective rate on the Mezzanine Term Loan at December 31, 2015 and 2014 was an annual rate of 6.0% and 11.0% payable in cash, plus 12.0% and 1.5% payable in kind, respectively.

As of December 31, 2015, the Company was in compliance with all financial covenants contained in the Mezzanine Term Loan. The Company failed to comply with certain of the covenants contained in the Mezzanine Term Loan as of December 31, 2014. In August 2015 pursuant to the Debt Amendments and Waivers, the Mezzanine Lender agreed to amend certain portions of the Mezzanine Term Loan and to waive certain events of default that had occurred and were occurring thereunder. In additiona, all events of default that had occurred or were occurring under the Mezzanine Term Loan as of December 31,2014 and thereafter were waived, and certain of the financial covenant ratios contained in the Mezzanine Term Loan were modified.

### (c) Lease Obligations

The Company has leased equipment under capital lease agreements with various vendors for equipment utilized in the performance of its work. The terms of the leases vary from 36 to 60 months and carry interest rates ranging from 7.40% to 8.35%.

In addition to the capital lease agreements discussed above, the Company entered into a $3,440 Master Lease Agreement (the "M&T Lease") with M&T Credit Services, LLC on June 15, 2007. The M&T Lease bears interest at 9.28% per annum and matured in 2014.

### (d) Second Promissory Note

On March 16, 2012, in connection with the Randolph Agreement, the Company issued the Promissory Note for $8,803 relating to the estimated remaining consideration payable to the sellers. Per the Agreement, the Company was to pay the sellers additional purchase consideration, the amount of which was estimated by the Company as of the date of the Agreement. On March 14, 2013, the Company agreed to modify certain terms of the Promissory Note to set the full amount of the additional purchase consideration at $9,000 and eliminate the requirement to make annual true-up payments based on Randolph's financial performance, and to modify the amount of the required quarterly installment payments to $500, with payment of the remaining amounts owed on May 15, 2015. The Company recorded the value of the Promissory Note at its fair value as determined on the date of the Agreement, and recognizes accretion to the Note as interest expense using the effective interest method. For the years ended December 31, 2015 and 2014, the Company recorded interest expense of $11 and $41, respectively, for the accretion of the Promissory Note. Pending the outcome of ongoing negotiations with the sellers of Randolph, the Company did not make the final payment that was due on May 15, 2015 as specified in the amended Agreement. The Company paid the sellers the remaining balance due of $2,900 in February and March 2016.

**(in thousands, except share data)**

At December 31, 2015, the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Capital Lease Obligations | Total Long-Term Obligations |
|---|---|---|---|
| 2016 | $ 16,025 | $ 4,621 | $ 20,646 |
| 2017 | 16,406 | 3,992 | 20,398 |
| 2018 | 20,781 | 2,435 | 23,216 |
| 2019 | 177,701 | 1,621 | 179,322 |
| 2020 | - | 1,129 | 1,129 |
| Thereafter | - | 12 | 12 |
| Total payments | 230,913 | 13,810 | 244,723 |
| Less amount representing interest | - | 1,733 | 1,733 |
| | $ 230,913 | $ 12,077 | $ 242,990 |

## 10. INCOME TAXES

The provision for income tax expense for the years ended December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| Current | $ (2,964) | $ (2,415) |
| Deferred | (2,830) | (10,306) |
| Income tax benefit | $ (5,794) | $ (12,721) |

The Company's effective tax rate for 2015 and 2014 differs from the federal statutory rate mainly as a result of the state taxes, permanent differences, derecognition of uncertain tax benefits, and true-ups of long-lived assets.

**(in thousands, except share data)**

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for bad debts | $ 435 | $ 568 |
| Compensation accruals | 2,528 | 874 |
| State deductions | 99 | 1,156 |
| Insurance reserves | 3,788 | 3,687 |
| Net operating loss | 18,294 | 17,133 |
| Other | 541 | 245 |
| | 25,685 | 23,663 |
| Less: valuation allowances | (1,151) | (1,114) |
| Net deferred tax assets | 24,534 | 22,549 |
| Deferred tax liabilities | | |
| Depreciation and amortization | (10,674) | (12,644) |
| Tax attribute reduction | (4,441) | (4,748) |
| Investment in partnerships | (4,124) | - |
| Accrual versus percentage of completion | (13,454) | (16,146) |
| Total deferred tax liabilities | (32,693) | (33,538) |
| Net deferred tax liabilities | $ (8,159) | $ (10,989) |

As of December 31, 2015 and 2014, the Company has federal net operating loss carryforwards of approximately $40,984 and $43,348, respectively, and state net operating loss carryforwards of approximately $66,000 and $83,000, respectively. These federal and state net operating losses expire at various dates through 2033. The Company has $3,040 of federal net operating losses for which the tax-effected benefit would be recorded to additional paid-in capital when such losses have been utilized to reduce income taxes payable. The Company has deferred tax assets for net operating losses that could become limited under Internal Revenue Code Section 382 should a greater than 50% ownership change occur during a three year testing period.

The Company has recorded a valuation allowance as of December 31, 2015 and 2014 of $1,151 and $1,114, respectively for state net deferred tax assets based on the Company's belief that it is not more likely than not that these net deferred tax assets will be recognized. The tax provision includes expense of $37 and $530 for the years ended December 31, 2015 and 2014, respectively, for the change in the valuation allowance.

For the years ended December 31, 2015 and 2014, the Company recorded a reversal of $1,364 and expense of $59, respectively for interest and penalties related to unrecognized tax benefits. The Company had approximately $26 and $1,390 for the payment of interest and penalties accrued in noncurrent income tax reserve at December 31, 2015 and 2014, respectively. The Company reduced its reserve for uncertain tax positions by approximately $3,345 as a result of the lapse of the statute of limitations. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits for both years would affect the Company's effective tax rate upon recognition.

**(in thousands, except share data)**

The Company's tax years 2012-2014 remain open for federal purposes and for 2011 forward for most major state jurisdictions.

## 11. COMMITMENTS AND CONTINGENCIES

### Operating Leases

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for occupied rental space is calculated on a straight-line basis, and aggregated $5,364 and $5,083 for the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| **Fiscal Years** | | |
|---|---|---|
| 2016 | $ | 4,734 |
| 2017 | | 4,541 |
| 2018 | | 3,406 |
| 2019 | | 2,857 |
| 2020 | | 2,296 |
| Thereafter | | 2,512 |
| Total | $ | 20,346 |

### Insurance Policies

The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the accrual is adequate to cover losses incurred to date; however, this accrual is based on an estimate and the ultimate liability may be more or less than the amount recognized.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 11.8% and 7.8% of consolidated total accounts receivable as of December 31, 2015 and 2014, respectively. In addition, the Company holds cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2015 and 2014, the Company had approximately $257 and $35 in excess of FDIC insured limits, respectively.

### Risks and Uncertainties

The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

### Surety Bonds

As is customary in the construction business, the Company is required to provide surety bonds to secure its performance under certain construction contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards, which may change from time to time. The Company's inability to obtain surety bonds in the future would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

### Letters of Credit

As of December 31, 2015 and 2014, the Company had outstanding letters of credit of $17,437 and $15,858, respectively, for the benefit of the Company's surety bonding and deductibles under insurance policies. Outstanding letters of credit reduce the amount of borrowings available under the Credit Facility. The letters of credit are automatically renewable unless participating parties notify the other party 30 days prior to cancellation.

### Litigation

The Company is involved in various litigations that arise in the ordinary course of its business activities. In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

### Certain Fees Payable to Advisors; Management Agreement - Related Parties of the Company

Prior to the completion of the Contribution Agreement on April 23, 2014, the Company was party to a management services agreement with certain of the Company's investors (the "Advisors") pursuant to which the Advisors were paid $400 per year for certain management, business and organizational strategy, and merchant and investment banking services rendered to the Company (the "Old Management Agreement"). Such fees were negotiated by representatives of the Advisors and the Company. The Old Management Agreement had an initial term of 10 years.

In connection with the Contribution Agreement, the Old Management Agreement was terminated and the Company entered into a new management services agreement pursuant to which the Advisors will be paid $750 per year for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company (the "Management Agreement"). Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has an initial term of 10 years. The amount payable to the Advisors as of December 31, 2015 and 2014 was $931 and $188, respectively.

## 12. RELATED-PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, the Company paid rent expense of $250 and $304, respectively, to entities in which certain Company employees have an equity interest. The Company incurred expense of $750 and $563 in the years ended December 31, 2015 and 2014, respectively relating to the Management Agreement, and expense of $104 in the year ended December 31, 2014 relating to the Old Management Agreement.

As described in Note 9, the Company entered into the Second Lien Loan of $20,000 on September 7, 2012. The two Lenders under the Second Lien Loan own an equity interest in the Company.

## 13. DEFINED CONTRIBUTION SAVINGS PLAN

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 15% of their compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The Company matching contributions vest over a five-year period, as defined in the plan documents. Total Company matching contributions to the plan for the years ended December 31, 2015 and 2014 was approximately $550 and $203, respectively.

## 14. CAPITAL STRUCTURE

At December 31, 2015 and 2014, the Company has authorized, issued, and outstanding 100,000 shares of common stock, par value $1 per share.

## 15. SUBSEQUENT EVENTS

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date. The Company has evaluated subsequent events through April 29, 2016, the date that these consolidated financial statements were available to be issued. In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Company's results as of and for the years ended December 31, 2015 and 2014.

# NorthStar Group Holdings, LLC

**(A limited liability company)**
**Consolidated Financial Statements**
**As of December 31, 2017 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017**

# NorthStar Group Holdings, LLC
## (A limited liability company)
## Index
## December 31, 2017

**Page(s)**

pwc

## Report of Independent Auditors

To the Board of Directors and Management of
NorthStar Group Holdings, LLC

We have audited the accompanying consolidated financial statements of NorthStar Group Holdings, LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statement of operations, of changes in member's equity and of cash flows for the period from June 12, 2017 (date of acquisition) to December 31, 2017.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Group Holdings, LLC and its subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the period from June 12, 2017 (date of acquisition) to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 29, 2018

*PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017*
*T: (646) 471 3000, F: (813) 286 6000*, www.pwc.com/us

# NorthStar Group Holdings, LLC
## (A limited liability company)
## Consolidated Balance Sheet
## December 31, 2017

| *(amounts in thousands)* | 2017 |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 6,562 |
| Accounts receivable - net | 152,325 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 4,817 |
| Inventories - net | 4,078 |
| Prepaid expenses and other current assets | 11,945 |
| Total current assets | 179,727 |
| Property and equipment - net | 39,614 |
| Goodwill | 100,430 |
| Intangible assets - net | 81,834 |
| Other noncurrent assets | 565 |
| Total assets | $ 402,170 |
| **Liabilities and Member's Equity** | |
| Current liabilities | |
| Current maturities of long-term obligations | $ 3,183 |
| Accounts payable | 46,542 |
| Accrued contract costs | 33,894 |
| Accrued expenses and other current liabilities | 32,699 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 17,567 |
| Income taxes payable | 266 |
| Total current liabilities | 134,151 |
| Long-term obligations | 150,881 |
| Insurance obligations | 20,614 |
| Deferred income taxes | 1,461 |
| Other long-term obligations | 1,198 |
| Total liabilities | 308,305 |
| Commitments and contingencies (Note 10) | |
| Member's equity | 93,865 |
| Total liabilities and member's equity | $ 402,170 |

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

# NorthStar Group Holdings, LLC
## (A limited liability company)
## Consolidated Statement of Operations
## For the period from June 12, 2017 (date of acquisition) to December 31, 2017

| *(amounts in thousands)* | **2017** |
|---|---|
| Revenues | $ 306,166 |
| Cost of revenues | 252,764 |
| Gross profit | 53,402 |
| Selling, general, and administrative expenses | 37,911 |
| Operating income before depreciation and amortization | 15,491 |
| Depreciation and amortization | 9,277 |
| Operating income | 6,214 |
| Other income (expense) | |
| Interest expense | (5,605) |
| Other - net | 163 |
| Total other expense | (5,442) |
| Income before income tax benefit | 772 |
| Income tax benefit | (3,081) |
| Net income | $ 3,853 |

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

# NorthStar Group Holdings, LLC
## (A limited liability company)
## Consolidated Statement of Changes in Member's Equity
## For the period from June 12, 2017 (date of acquisition) to December 31, 2017

| *(amounts in thousands, except unit data)* | Ownership Units | Member's Equity |
|---|---|---|
| **Balances at June 12, 2017** | - | $ - |
| Contributions from member | 1 | 90,012 |
| Net income | - | 3,853 |
| **Balances at December 31, 2017** | 1 | $ 93,865 |

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

## NorthStar Group Holdings, LLC
## (A limited liability company)
## Consolidated Statement of Cash Flows
## For the period from June 12, 2017 (date of acquisition) to December 31, 2017

| *(amounts in thousands)* | | **2017** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ | 3,853 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | | 14,276 |
| Provision for allowance for doubtful accounts | | 798 |
| Interest expense - financing costs | | 133 |
| Gain on sale of fixed assets | | (37) |
| Deferred income taxes | | (3,804) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | | (64,956) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | | 4,354 |
| Inventories | | 413 |
| Prepaid expenses and other current assets | | (2,468) |
| Other noncurrent assets | | (73) |
| Accounts payable and accrued contract costs | | 29,762 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | | 7,468 |
| Accrued expenses and other current liabilities | | 7,067 |
| Other long-term obligations | | 671 |
| Income taxes payable | | 691 |
| Net cash used in operating activities | | (1,852) |
| **Cash flows from investing activities** | | |
| Acquisition of business, net of cash acquired of $3,976 | | (59,476) |
| Restricted cash | | 97 |
| Capital expenditures | | (8,171) |
| Proceeds from sale of fixed assets | | 354 |
| Net cash used in investing activities | | (67,196) |
| **Cash flows from financing activities** | | |
| Proceeds from line of credit | | 29,775 |
| Repayments of line of credit | | (23,275) |
| Principal payments on long-term obligations | | (2,170) |
| Deferred financing costs paid | | (975) |
| Contributions from member | | 70,000 |
| Proceeds from issuance of long-term debt | | 2,255 |
| Net cash provided by financing activities | | 75,610 |
| Net increase in cash and cash equivalents | | 6,562 |
| **Cash and cash equivalents** | | |
| Beginning of period | | - |
| End of period | $ | 6,562 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the year for | | |
| Interest | $ | 4,887 |
| Income taxes | $ | 59 |
| **Noncash transactions** | | |
| Assets acquired pursuant to capital lease | $ | 403 |
| Acquisition consideration funded through noncash equity contribution | $ | 20,012 |

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

*(amounts in thousands)*

## 1. Organization and Business

NorthStar Group Holdings, LLC, a Delaware limited liability company (the "Company") commenced its operations on April 23, 2014. On June 12, 2017, following the completion of a merger agreement, 100% of the ownership of the Company was transferred to an unrelated investment group, resulting in a change in ownership. The Company provides facility, technical, and environmental services to a broad range of commercial, industrial, institutional, and government clients located throughout the United States and is a market leader in its core decommissioning, demolition and remediation service lines. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Group Services, Inc. (also doing business as LVI Services Inc.), NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc. (also doing business as LVI Environmental Services, Inc.), NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, Renu Recycling Services, Environmental Waste Resources, Nuprecon Acquisition, LP, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), NorthStar Environmental Services of New Orleans, Inc., NorthStar I&E, Inc. (also doing business as NorthStar Infrastructure & Environmental, Inc.), NorthStar Decommissioning Holdings, LLC, NorthStar Nuclear Decommissioning Company, LLC, NorthStar Facility and Site Services, Inc., and NorthStar Services UK, Ltd.

**Acquisition of NorthStar**
On June 12, 2017, the former owners of the Company entered into an Agreement and Plan of Merger (the "Merger") with JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Per the terms of the Merger, the Company was merged into a wholly-owned subsidiary of the Investor, with the Company as the sole surviving entity. Prior to the Merger, one of the Investor's members was the holder of the predecessor Company's subordinated mezzanine debt. In connection with the Merger, the mezzanine debt holder agreed to exchange their debt position for an ownership interest in the Investor. The exchange resulted in net non-cash consideration transferred of $20,012. Simultaneously, the Investor contributed $83,464 to the Company, which was funded by a portion of the value contributed to the Investor by its members, including cash. As a result of the Merger, 100% ownership and control of the Company was transferred to the Investor, and the former owners were relieved of all rights and obligations related to their previous ownership interest in the Company. Subsequent to the date of the transaction, the Investor contributed an additional $6,548 to the Company for working capital needs, bringing the total contribution invested in the Company to $90,012.

In connection with the Merger transaction, the Company has elected to use the push-down basis of accounting to establish a new accounting and reporting basis for the Company in its consolidated financial statements based on the Investor's basis in the net assets acquired determined in accordance with the acquisition method under the Business Combinations (Topic 805) of the Accounting Standards Codification ("ASC"). Under this guidance, the assets acquired and liabilities assumed are generally recognized at their fair value at the date of the acquisition.

*(amounts in thousands)*

The related purchase price was allocated as follows:

| | |
|---|---|
| Current assets | $ 115,708 |
| Goodwill | 100,430 |
| Property and equipment | 38,137 |
| Customer relationships | 72,900 |
| Trademark | 8,000 |
| Backlog | 8,500 |
| Other assets | 589 |
| Term loan debt | (140,000) |
| Equipment financing obligations | (7,983) |
| Liabilities assumed | (107,552) |
| Deferred taxes | (5,265) |
| Total purchase price | 83,464 |
| Less: Acquired cash | (3,976) |
| Purchase price paid, net of cash acquired | $ 79,488 |

The excess of the purchase price over the estimated fair values of the net assets acquired has been recorded as goodwill. The goodwill associated with the Merger is not expected to be deductible for tax purposes and consists largely of the processes, procedures, and knowledge of the work force in place.

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty method and the multi-period excess earnings method. Both valuation methods rely on management's judgments, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital, and royalty rates, as well as other factors. The valuation of tangible assets was derived using the cost approach. Significant judgments used in valuing tangible assets include estimated replacement cost and useful lives of assets.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*(amounts in thousands)*

**Use of Estimates**
The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in recording account balances and transactions related to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts, the recoverability of long-lived assets and goodwill, the fair value of net assets acquired in business combinations, accrued contract costs, and self-insurance reserves. Actual results could differ materially from those estimates.

**Cash and Cash Equivalents**
The Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents.

**Restricted Cash**
Restricted cash relates primarily to cash pledged as collateral against paid losses within the deductible limits of the Company's workers' compensation and general liability insurance program. Restricted cash is included within other noncurrent assets on the balance sheet and presented in investing activities on the statement of cash flows.

**Accounts Receivable**
Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable, including retained and unbilled accounts receivable, are expected to be collected within one year.
The Company estimates an allowance for doubtful accounts based on the aging of the individual amounts receivable beginning with a 10% allowance for balances that are 180 days past due. An incremental 15% additional allowance is recognized after 270 days of delinquency, and another 25% at 360 days. After one year, the allowance is increased by an incremental 10% of the original balance per quarter, until the original receivable is fully reserved, or collected. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable and is determined based on historical write-off experience. The Company also considers factors related to specific customers' ability to pay and current economic trends and will record an additional allowance for doubtful accounts as needed. The Company writes off accounts receivable against the allowance when management determines the balance is uncollectible and the Company ceases collection efforts.

**Inventories**
Inventories are stated at the lower of cost or net realizable value using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in the business. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

*(amounts in thousands)*

**Construction-Type Contracts**
In accounting for long-term construction-type contracts, including salvage revenues, the Company follows the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 605-35 *Revenue Recognition -Construction-Type and Production*. Depending on the commercial terms of the contract, revenues are recognized either when costs are incurred, or using the percentage of completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion. For the period from June 12, 2017 to December 31, 2017, the Company recorded $247 for loss contracts. Revenues are recorded net of sales tax. For the period from June 12, 2017 to December 31, 2017, contract revenues include revenues from salvage proceeds totaling $6,134. The asset costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability billings in excess of costs and estimated earnings on uncompleted contracts represents amounts billed in excess of revenues recognized.

**Accrued Contract Costs**
Accrued contract costs represent the Company's estimate of amounts payable to its subcontracts and other third party vendors for its long-term construction-type contracts. Accrued contract costs are recognized on an accrual basis for each reporting period based on the percentage of completion method of accounting by relating contract costs incurred to date for each project to the total estimated costs at completion for that project.

**Revenue Recognition of Claims**
Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to both scope and price. Such amounts are accrued as additional revenue when the amounts have been received or awarded. Claims receivable are presented either in unbilled accounts receivable for projects that are complete, or in costs and estimated earnings in excess of billings on uncompleted contracts for projects still in progress. Accrued revenue subject to claims as of December 31, 2017 was $0.

**Property and Equipment**
Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the life of the asset. The cost of maintenance and repairs is charged to expense as incurred and significant improvements and betterments are capitalized. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss, if any, is recognized in the consolidated statements of operations.

*(amounts in thousands)*

**Goodwill**

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company performs an annual impairment analysis at December 31 or instead may perform a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. The more likely than not threshold is defined as having a likelihood of more than 50%. Testing for impairment is performed at least annually, or more frequently if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing its annual impairment analysis at December 31, 2017, the Company has concluded that there has been no impairment of goodwill.

**Intangible Assets – net**

Intangible assets recognized in connection with an acquisition of a business include customer relationships, backlog, and trademarks. These assets were recorded at their estimated fair values at the date of acquisition, assigned an estimated useful life, and are amortized primarily on a straight line basis over their respective useful lives.

**Recoverability of Long-Lived Assets**

The Company reviews long-lived assets, including property and equipment and finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company determined that there was no impairment of long-lived assets during the period ended December 31, 2017.

**Deferred Financing Costs**

The Company amortizes deferred financing costs over the life of the related debt using the straight-line method, which approximates the effective interest rate method.

**Fair Value of Financial Instruments**

The Company's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt. The carrying values of the Company's financial assets and liabilities approximate their fair value. The guidance in ASC Topic 825, *Financial Instruments* paragraphs 10-50-16 through 50-19, requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as quoted

*(amounts in thousands)*

prices in active markets for identical instruments; Level 2 - defined as observable inputs other than quoted prices in active markets; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying value and estimated fair value of the Company's long-term debt obligations at December 31, 2017 was approximately $151,000. There are no quoted prices in active markets or other inputs that are either directly or indirectly observable for the long-term obligations, and therefore the Company measured the fair value of the long-term debt obligation by comparing the movements in the risk-free rate and the spread of the Baa corporate bond rate from the date of the inception of the debt (Level 3).

**Income Taxes**
NorthStar Group Holdings, LLC has elected to be treated as a taxable entity for income tax reporting purposes and files its income tax returns on the accrual basis as a corporation for federal and state income tax purposes. The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Under ASC Topic 740, current and deferred taxes are recognized for the tax effects of differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances on deferred tax assets are provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities are classified as noncurrent on the balance sheet in accordance with ASU 2015-17, *Balance Sheet Classification of Deferred Taxes.*

ASC Topic 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The guidance in ASC Topic 740 states that an “enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination.” “More likely than not” is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest in income tax expense.

**Recent Accounting Pronouncements**
In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment*. The amendments in this update simplify the subsequent measurement of goodwill by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of Step 2 of the goodwill impairment test. The amendments in this update should be applied prospectively and will be effective for the Company's fiscal year beginning January 1, 2022. Early adoption is permitted for the year beginning in 2017. The Company early adopted this new standard for its 2017 annual goodwill impairment test.

In August 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (a consensus of the Emerging Issues Task Force*. The amendment requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash equivalents. The amendments in this update are effective for the Company's fiscal year beginning January 1, 2018. Management does not expect the new guidance to have a significant impact on the Company's consolidated financial statements.

*(amounts in thousands)*

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendment provides updated guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims and corporate-owned life insurance, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing guidance on accounting for leases. The ASU requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The amendments in this update will be effective for the Company's fiscal year beginning January 1, 2020. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and require separate accounting, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018 and can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact of adopting ASU 2014-09 on the Company's financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes. The Company has elected to early adopt this standard, whereby the cumulative-effect adjustment of excess tax benefits that were not previously recognized have been recorded on the opening balance sheet.

**NorthStar Group Holdings, LLC**
**(A limited liability company)**
**Notes to Consolidated Financial Statements**
**December 31, 2017**

*(amounts in thousands)*

## 3. Accounts Receivable - Net

Accounts receivable - net as of December 31, 2017 consists of the following:

| | |
|---|---|
| Billed | $ 117,100 |
| Retained | 18,133 |
| Unbilled | 17,890 |
| Total accounts receivable | 153,123 |
| Less: Allowance for doubtful accounts | (798) |
| Accounts receivable - net | $ 152,325 |

## 4. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts as of December 31, 2017 consists of the following:

| | |
|---|---|
| Costs incurred on uncompleted contracts | $ 148,437 |
| Estimated earnings | 32,042 |
| | 180,479 |
| Less: Billings to date | (193,229) |
| | $ (12,750) |
| The above amounts are included in the consolidated balance sheets under the following captions | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 4,817 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (17,567) |
| | $ (12,750) |

*(amounts in thousands)*

## 5. Property and Equipment - Net

Property and equipment - net as of December 31, 2017 consists of the following:

| Category | Useful life in years | Value |
|---|---|---|
| Land and buildings | 40 | $ 1,630 |
| Furniture and fixtures | 5 | 173 |
| Computer equipment | 3 | 1,552 |
| Leasehold improvements | *Shorter of useful life or life of lease* | 1,351 |
| Equipment | 7 - 10 | 33,798 |
| Vehicles | 7 | 7,820 |
| | | 46,324 |
| Less: Accumulated depreciation and amortization | | (6,710) |
| Property and equipment - net | | $ 39,614 |

Depreciation and amortization expense for the period ended December 31, 2017 was $6,710, which includes the depreciation of assets under capital lease.

The gross amount of assets acquired pursuant to capital leases total $15,130, offset by accumulated depreciation of $1,948 as of December 31, 2017, and are included in the table above.

## 6. Goodwill and Intangible Assets and Liabilities

Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets and liabilities determined to have definite lives are amortized over their useful lives.

As of December 31, 2017, the Company's intangible assets and related accumulated amortization consists of the following:

| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| Customer relationships | 10 years | $ 72,900 | $ 4,009 | $ 68,891 |
| Backlog | 1.5 years | 8,500 | 3,117 | 5,383 |
| Trademark | 9.5 years | 8,000 | 440 | 7,560 |
| Total intangible assets | | $ 89,400 | $ 7,566 | $ 81,834 |

Amortization expense related to intangible assets for the period ended December 31, 2017 was $7,566.

*(amounts in thousands)*

Amortization expense for each of the next five years for intangible assets subject to amortization is as follows:

| | | |
|---|---|---|
| 2018 | $ | 13,473 |
| 2019 | $ | 8,090 |
| 2020 | $ | 8,090 |
| 2021 | $ | 8,090 |
| 2022 | $ | 8,090 |

## 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2017 consists of the following:

| | | |
|---|---|---|
| Workers compensation and other liability insurance | $ | 7,499 |
| Payroll and other compensation accruals | | 15,283 |
| Sales tax | | 4,287 |
| Interest | | 717 |
| Other | | 4,913 |
| Accrued expenses and other current liabilities | $ | 32,699 |

## 8. Long-Term Obligations

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2017 are as follows:

| | | |
|---|---|---|
| **Current portion of long-term obligations** | | |
| Senior Secured Credit Facility | | |
| Term Loan [(a)] | $ | - |
| Capital lease obligations [(b)] | | 3,183 |
| Short-term obligations | $ | 3,183 |
| **Noncurrent portion of long-term obligations** | | |
| Senior Secured Credit Facility | | |
| Revolver [(a)] | $ | 6,500 |
| Term Loan [(a)] | | 140,000 |
| Capital lease obligations [(b)] | | 5,223 |
| Less: Deferred financing costs | | (842) |
| Long-term obligations | $ | 150,881 |

(a) Amended and Restated Credit and Guaranty Agreement and Revolving Credit Facility

In connection with the Merger, on June 12, 2017, the Company entered into the Second Amended and Restated Credit and Guaranty agreement (the "Credit Facility") with various lenders, consisting of a Term Loan of $140,000 (the "Term Loan") and a $55,000 revolving credit facility (the "Revolver"). The lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. The Credit Facility matures on May 31, 2021,

*(amounts in thousands)*

whereupon the balance outstanding on the Term Loan and Revolver will be payable in full. Principal payments on the Term Loan are due quarterly beginning on December 31, 2019 in amounts as described within the Credit Facility agreement.

Interest is charged on both the Revolver and the Term Loan at an applicable margin percentage above either the prime lending rate of Manufacturers and Traders Trust Company ("M&T") or above the London InterBank Offered Rate, at the Company's option. The applicable margin is on a sliding scale based upon the Company's total debt leverage ratio as defined in the Amended Credit Agreement, measured quarterly and payable in cash. The effective rate on the Term Loan at December 31, 2017 was an annual rate of 6.0%. In addition, the Revolver has a rate per annum equal to the greatest of (i) the Prime Rate in effect on such day, (ii) the Federal Funds Effective Rate in effect on such day plus ½ of 1% and (iii) the LIBOR Rate calculated as of such day in respect of a proposed LIBOR Rate Loan with a one-month Interest Period, plus 1.0%. The effective rate on the Revolver at December 31, 2017 was an annual rate of 11% and 8% for the swing rate loan and the base rate loan, respectively. The Revolver also.has a fee of 0.5% per annum on the unused portion of the facility. Interest on outstanding borrowings and the fee are payable monthly.

Amortization of deferred financing costs for the period ended December 31, 2017 was approximately $133 and is classified as interest expense in the consolidated statement of operations.

As of December 31, 2017, the Company had outstanding letters of credit in the amount of $20,337 for the benefit of its surety bonding (Note 10) and deductibles under insurance policies, and had drawn $6,500 on the Revolver, which reduced the borrowing availability under the Revolver to $28,163. The letters of credit are automatically renewable unless notice is provided 30 days prior to cancellation.

(b) Equipment Finance Obligations

The Company has financed equipment under capital lease agreements and equipment finance notes with various vendors for equipment utilized in the performance of its work. The terms of the leases and notes vary from 36 to 60 months and carry interest rates ranging from 0.00% to 8.95%.

*(amounts in thousands)*

At December 31, 2017, the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Capital Lease Obligations | Total Long-Term Obligations |
|---|---|---|---|
| 2018 | $ - | $ 3,566 | $ 3,566 |
| 2019 | 700 | 2,758 | 3,458 |
| 2020 | 3,850 | 2,267 | 6,117 |
| 2021 | 7,000 | 491 | 7,491 |
| 2022 | 7,000 | - | 7,000 |
| Thereafter | 127,950 | - | 127,950 |
| Total future payments | 146,500 | 9,082 | 155,582 |
| Less: Amount representing interest | - | (677) | (677) |
| | $ 146,500 | $ 8,405 | $ 154,905 |

## 9. Income Taxes

The provision for income taxes for the period ended December 31, 2017 is as follows:

| | |
|---|---|
| Current expense: | |
| Federal | $ - |
| State | 723 |
| Total current expense | 723 |
| Deferred benefit: | |
| Federal | $ (3,023) |
| State | (781) |
| Total deferred benefit | (3,804) |
| Total income tax benefit | $ (3,081) |

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted into law. The new legislation contains several key tax provisions including the reduction of the corporate income tax rate to 21% effective January 1, 2018 as well as a variety of other changes including limitation of the tax deductibility of interest expense. As of December 31, 2017, the Company has remeasured its deferred tax assets and liabilities for the reduced federal tax rate and has recognized the resulting deferred tax expense through the income tax provision. The impact to the Company's deferred tax assets and liabilities due to the newly enacted federal tax rate at December 31, 2017 was a net benefit of $3,349.

The Company's effective tax rate for 2017 differs from the federal statutory rate mainly as a result of the impact of the newly enacted federal tax rate, state taxes, and permanent differences.

*(amounts in thousands)*

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2017 are as follows:

| | |
|---|---|
| Deferred tax assets | |
| Allowance for bad debts | $ 119 |
| Compensation accruals | 1,923 |
| Insurance reserves | 7,611 |
| Net operating loss | 17,048 |
| Investment in partnerships | 1,434 |
| Other | 2,023 |
| Total deferred tax assets | 30,158 |
| Deferred tax liabilities | |
| Depreciation and amortization | (23,291) |
| Accrual versus percentage of completion | (8,328) |
| Total deferred tax liabilities | (31,619) |
| Net deferred tax liabilities | $ (1,461) |

As of December 31, 2017, the Company has combined federal and state net operating loss carryforwards of $50,182 and separate state net operating loss carryforwards of approximately $46,372. These federal and state net operating losses expire at various dates beginning in 2032. In general, under Section 382 of the United States Internal Revenue Code of 1986 ("IRC"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses to offset future taxable income. An analysis was conducted as a result of the Merger which indicated that because of the ownership change as of June 12, 2017, federal and state net operating losses were limited pursuant to IRC 382. This limitation has been considered in calculating the available net operating loss carryforwards.

The Company had approximately $50 for the payment of interest and penalties and $476 of unrecognized tax benefits accrued in other long-term obligations at December 31, 2017. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits would affect the Company's effective tax rate upon recognition.

The Company's tax years 2014-2016 remain open for federal purposes and for 2013 forward for most state jurisdictions.

## 10. Commitments and Contingencies

### Operating Leases

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for real property is calculated on a straight-line basis, and was $2,319 for the period ended December 31, 2017. The Company received sublease income of $260 for the period ended December 31, 2017.

*(amounts in thousands)*

As of December 31, 2017, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| **Year Ending December 31,** | |
|---|---|
| 2018 | $ 4,233 |
| 2019 | 3,595 |
| 2020 | 2,765 |
| 2021 | 1,574 |
| 2022 | 962 |
| Thereafter | 338 |
| | $ 13,467 |

**Insurance Policies**
The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions that were developed with the assistance of specialists. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the accrual is adequate to cover losses incurred to date; however, this accrual is based on an estimate and the ultimate liability may be more or less than the amount recognized.

**Concentration of Credit Risk**
Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 21.8% of consolidated total accounts receivable as of December 31, 2017. In addition, the Company holds cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2017, the Company had approximately $11,011 in excess of FDIC insured limits.

**Risks and Uncertainties**
The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

*(amounts in thousands)*

**Surety Bonds**

As is customary in the contracting business, the Company is required to provide surety bonds to secure its performance under certain contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards, which may change from time to time. The Company's inability to obtain surety bonds in the future would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

**Litigation**

The Company is involved in various litigations that arise in the ordinary course of its business activities. In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

## 11. Related-Party Transactions

During the period from June 12, 2017 to December 31, 2017, the Company paid rent expense of $102 to an entity in which a Company employee has an equity interest.

On June 12, 2017, in connection with the Merger, the Company entered into a management services agreement pursuant to which certain of the members of the Investor (the "Advisors") will be paid $750 per year plus out-of-pocket expenses for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company (the "Management Agreement"). Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has no stated term and will remain effective until terminated. The management fee is payable to the Advisors quarterly in advance. The Company incurred expense of $412 in the period from June 12, 2017 to December 31, 2017 relating to the Management Agreement, and had prepaid the Advisors $188 as of December 31, 2017.

## 12. Defined Contribution Savings Plan

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 100% of their compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The Company matching contributions vest over a five-year period, as defined in the plan documents. Total Company matching contributions to the plan for the period ended December 31, 2017 was $471.

*(amounts in thousands)*

## 13. Subsequent Events

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its consolidated financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date. The Company has evaluated subsequent events through April 29, 2018, the date that these consolidated financial statements were available to be issued. No other events were identified that require recognition or disclosure.

# NorthStar Group Holdings, LLC

**(A limited liability company)**

## Consolidated Financial Statements and Supplemental Schedule

## As of December 31, 2018 and 2017 and Year Ended December 31, 2018 and the Period From June 12, 2017 (date of acquisition) to December 31, 2017

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Index
## December 31, 2018 and 2017

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## Report of Independent Auditors

To the Board of Directors and Management of
NorthStar Group Holdings, LLC

We have audited the accompanying consolidated financial statements of NorthStar Group Holdings, LLC and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, of changes in member's equity and of cash flows for the year ended December 31, 2018 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Group Holdings, LLC and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the year ended December 31, 2018 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

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***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The unaudited supplemental schedule – pro forma balance sheet listed in the accompanying index and appearing on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

April 15, 2019

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Consolidated Balance Sheets
## December 31, 2018 and 2017

| *(amounts in thousands)* | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 35,854 | $ 6,562 |
| Accounts receivable - net | 119,819 | 152,325 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 7,183 | 4,817 |
| Inventories - net | 3,537 | 4,078 |
| Insurance deposits and other prepaid expenses | 12,857 | 11,945 |
| Total current assets | 179,250 | 179,727 |
| Property and equipment - net | 34,406 | 39,614 |
| Goodwill | 100,430 | 100,430 |
| Intangible assets - net | 68,360 | 81,834 |
| Other noncurrent assets | 393 | 565 |
| Total assets | $ 382,839 | $ 402,170 |
| **Liabilities and Member's Equity** | | |
| Current liabilities | | |
| Current maturities of long-term obligations | $ 22,695 | $ 3,183 |
| Accounts payable | 38,164 | 46,542 |
| Accrued contract costs | 32,024 | 33,894 |
| Accrued expenses and other current liabilities | 32,342 | 32,699 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 8,079 | 17,567 |
| Income taxes payable | - | 266 |
| Total current liabilities | 133,304 | 134,151 |
| Long-term obligations | 123,596 | 150,881 |
| Insurance obligations | 19,409 | 20,614 |
| Deferred income taxes | 6,063 | 1,461 |
| Other long-term obligations | 175 | 1,198 |
| Total liabilities | 282,547 | 308,305 |
| Commitments and contingencies (Note 10) | | |
| Member's equity | 100,292 | 93,865 |
| Total liabilities and member's equity | $ 382,839 | $ 402,170 |

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

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Consolidated Statements of Operations
## Year Ended December 31, 2018 and the Period From June 12, 2017 (date of acquisition) to December 31, 2017

| *(amounts in thousands)* | 2018 | 2017 |
|---|---|---|
| Revenues | $ 503,755 | $ 306,166 |
| Cost of revenues | 397,104 | 252,764 |
| Gross profit | 106,651 | 53,402 |
| Selling, general, and administrative expenses | 65,146 | 37,911 |
| Operating income before depreciation and amortization | 41,505 | 15,491 |
| Depreciation and amortization | 16,471 | 9,277 |
| Operating income | 25,034 | 6,214 |
| Other income (expense) | | |
| Interest expense | (12,381) | (5,605) |
| Other - net | (778) | 163 |
| Total other expense | (13,159) | (5,442) |
| Income before income tax expense (benefit) | 11,875 | 772 |
| Income tax expense (benefit) | 5,448 | (3,081) |
| Net income | $ 6,427 | $ 3,853 |

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

# NorthStar Group Holdings, LLC

**(A limited liability company)**

## Consolidated Statements of Changes in Member's Equity
## Year Ended December 31, 2018 and the Period From June 12, 2017 (date of acquisition) to December 31, 2017

| *(amounts in thousands, except unit data)* | **Ownership Units** | **Member's Equity** |
|---|---|---|
| **Balances at June 12, 2017** | - | $ - |
| Contributions from member | 1 | 90,012 |
| Net income | - | 3,853 |
| **Balances at December 31, 2017** | 1 | 93,865 |
| Net income | - | 6,427 |
| **Balances at December 31, 2018** | 1 | $ 100,292 |

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

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Consolidated Statements of Cash Flows
## Year Ended December 31, 2018 and the Period From June 12, 2017 (date of acquisition) to December 31, 2017

| *(amounts in thousands)* | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 6,427 | $ 3,853 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 25,163 | 14,276 |
| Provision for allowance for doubtful accounts | 2,533 | 798 |
| Interest expense - financing costs | 247 | 133 |
| Loss (gain) on sale of fixed assets | 879 | (37) |
| Deferred income taxes | 4,602 | (3,804) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 29,973 | (64,956) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (2,366) | 4,354 |
| Inventories | 541 | 413 |
| Insurance deposits and other prepaid expenses | (912) | (2,468) |
| Other noncurrent assets | 172 | (73) |
| Accounts payable and accrued contract costs | (10,248) | 29,762 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (9,488) | 7,468 |
| Accrued expenses and other current liabilities, and insurance obligations | (1,562) | 7,067 |
| Other long-term obligations | (1,023) | 671 |
| Income taxes payable | (266) | 691 |
| Net cash provided by (used in) operating activities | 44,672 | (1,852) |
| **Cash flows from investing activities** | | |
| Acquisition of business, net of cash acquired | - | (59,279) |
| Capital expenditures | (8,287) | (8,171) |
| Proceeds from sale of fixed assets | 926 | 354 |
| Net cash used in investing activities | (7,361) | (67,096) |
| **Cash flows from financing activities** | | |
| Proceeds from line of credit | 19,150 | 29,775 |
| Repayments of line of credit | (25,650) | (23,275) |
| Principal payments on long-term obligations | (3,487) | (2,170) |
| Proceeds from issuance of long-term debt | 1,968 | 2,255 |
| Deferred financing costs paid | - | (975) |
| Contributions from member | - | 70,000 |
| Net cash (used in) provided by financing activities | (8,019) | 75,610 |
| Net increase in cash, cash equivalents and restricted cash | 29,292 | 6,662 |
| **Cash, cash equivalents and restricted cash** | | |
| Beginning of period | 6,662 | - |
| End of period | $ 35,954 | $ 6,662 |
| Cash and cash equivalents | $ 35,854 | $ 6,562 |
| Restricted cash included in other noncurrent assets | 100 | 100 |
| Cash, cash equivalents and restricted cash at end of period | $ 35,954 | $ 6,662 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the period for | | |
| Interest | $ 9,471 | $ 4,887 |
| Income taxes | 1,521 | 59 |
| **Noncash transactions** | | |
| Assets acquired pursuant to capital lease | $ - | $ 403 |
| Acquisition consideration funded through noncash equity contribution | - | 20,012 |

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

## NorthStar Group Holdings, LLC
**(A limited liability company)**
**Notes to Consolidated Financial Statements**
**Year Ended December 31, 2018 and the Period From June 12, 2017 (date of acquisition) to December 31, 2017**

*(amounts in thousands)*

### 1. Organization and Business

NorthStar Group Holdings, LLC, a Delaware limited liability company (the "Company") commenced its operations on April 23, 2014. On June 12, 2017, following the completion of a merger agreement, 100% of the ownership of the Company was transferred to an unrelated investment group, resulting in a change in ownership. The Company provides facility, technical, and environmental services to a broad range of commercial, industrial, institutional, and government clients located throughout the United States and is a market leader in its core decommissioning, demolition and remediation service lines. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Group Services, Inc. (also doing business as LVI Services Inc.), NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc. (also doing business as LVI Environmental Services, Inc.), NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, Renu Recycling Services, Environmental Waste Resources, Nuprecon Acquisition, LP, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), NorthStar Environmental Services of New Orleans, Inc., NorthStar I&E, Inc. (also doing business as NorthStar Infrastructure & Environmental, Inc.), NorthStar Decommissioning Holdings, LLC, NorthStar Nuclear Decommissioning Company, LLC, NorthStar Vermont Yankee, LLC, NorthStar Facility and Site Services, Inc., and NorthStar Services UK, Ltd.

**Acquisition of NorthStar**
On June 12, 2017, the former owners of the Company entered into an Agreement and Plan of Merger (the "Merger") with JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Per the terms of the Merger, the Company was merged into a wholly owned subsidiary of the Investor, with the Company as the sole surviving entity. Prior to the Merger, one of the Investor's members was the holder of the predecessor Company's subordinated mezzanine debt. In connection with the Merger, the mezzanine debt holder agreed to exchange its debt position for an ownership interest in the Investor. The exchange resulted in net noncash consideration transferred of $20,012. Simultaneously, the Investor contributed $83,464 to the Company, which was funded by a portion of the value contributed to the Investor by its members, including cash. As a result of the Merger, 100% ownership and control of the Company was transferred to the Investor, and the former owners were relieved of all rights and obligations related to their previous ownership interest in the Company. Subsequent to the date of the transaction, the Investor contributed an additional $6,548 to the Company for working capital needs, bringing the total contribution invested in the Company to $90,012.

In connection with the Merger transaction, the Company has elected to use the push-down basis of accounting to establish a new accounting and reporting basis for the Company in its consolidated financial statements based on the Investor's basis in the net assets acquired determined in accordance with the acquisition method under the Business Combinations (Topic 805) of the Accounting Standards Codification ("ASC"). Under this guidance, the assets acquired and liabilities assumed are generally recognized at their fair value at the date of the acquisition.

*(amounts in thousands)*

The related purchase price was allocated as follows:

| | | **2017** |
|---|---|---|
| Current assets | $ | 115,708 |
| Goodwill | | 100,430 |
| Property and equipment | | 38,137 |
| Customer relationships | | 72,900 |
| Trademark | | 8,000 |
| Backlog | | 8,500 |
| Other assets | | 589 |
| Term loan debt | | (140,000) |
| Equipment financing obligations | | (7,983) |
| Liabilities assumed | | (107,552) |
| Deferred taxes | | (5,265) |
| Total purchase price | | 83,464 |
| Less: Acquired cash | | (3,976) |
| Purchase price paid, net of cash acquired | $ | 79,488 |

The excess of the purchase price over the estimated fair values of the net assets acquired has been recorded as goodwill. The goodwill associated with the Merger is not expected to be deductible for tax purposes and consists largely of the processes, procedures, and knowledge of the workforce in place.

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty method and the multi-period excess earnings method. Both valuation methods rely on management's judgments, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital, and royalty rates, as well as other factors. The valuation of tangible assets was derived using the cost approach. Significant judgments used in valuing tangible assets include estimated replacement cost and useful lives of assets.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*(amounts in thousands)*

**Use of Estimates**
The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in recording account balances and transactions related to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts, the recoverability of long-lived assets and goodwill, the fair value of net assets acquired in business combinations, accrued contract costs, and insurance obligations. Actual results could differ materially from those estimates.

**Cash and Cash Equivalents**
The Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents.

**Restricted Cash**
Restricted cash, classified within other noncurrent assets, relates primarily to cash pledged as collateral against paid losses within the deductible limits of the Company's workers' compensation and general liability insurance program.

**Accounts Receivable**
Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable, including retained and unbilled accounts receivable, are expected to be collected within one year.
The Company estimates an allowance for doubtful accounts based on the aging of the individual amounts receivable beginning with a 10% allowance for balances that are 180 days past due. An incremental 15% additional allowance is recognized after 270 days of delinquency, and another 25% at 360 days. After one year, the allowance is increased by an incremental 10% of the original balance per quarter, until the original receivable is fully reserved, or collected. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable gross balance and is determined based on historical write-off experience. The Company also considers factors related to specific customers' ability to pay and current economic trends and will record an additional allowance for doubtful accounts as needed. The Company writes off accounts receivable against the allowance for doubtful accounts when management determines the balance is uncollectible and the Company ceases collection efforts.

**Inventories**
Inventories are stated at the lower of cost or net realizable value using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in services provided to clients. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

**Insurance deposits and other prepaid expenses**
The Company provides cash deposits to certain insurance carriers, which the carriers hold as collateral against future insurance claims. The insurance deposit requirements are reviewed and

*(amounts in thousands)*

adjusted annually when the related polices are renewed. Prepaid expenses represent advance payments made to various services providers for services to be received within one year.

**Construction-Type Contracts**
In accounting for long-term construction-type contracts, including salvage revenues, the Company follows the provisions of the Financial Accounting Standards Board (FASB) ASC Topic 605-35 *Revenue Recognition -Construction-Type and Production.* Depending on the commercial terms of the contract, revenues are recognized either when costs are incurred, or using the percentage of completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion. For the year ended December 31, 2018 and for the period ended December 31, 2017, the Company recorded $212 and $247 for loss contracts, respectively. Revenues are recorded net of sales tax. For the year ended December 31, 2018 and the period ended December 31, 2017, contract revenues include revenues from salvage proceeds totaling $19,988 and $6,134, respectively. The asset costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability billings in excess of costs and estimated earnings on uncompleted contracts represents amounts billed in excess of revenues recognized.

**Accrued Contract Costs**
Accrued contract costs represent the Company's estimate of amounts payable to its subcontracts and other third party vendors for its long-term construction-type contracts. Accrued contract costs are recognized on an accrual basis for each reporting period based on the percentage of completion method of accounting by relating contract costs incurred to date for each project to the total estimated costs at completion for that project.

**Insurance Policies**
The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions that were developed with the assistance of specialists. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the expenses accrued are adequate to cover losses incurred to date; however, the accrued expenses are based on an estimate and the ultimate liability may be more or less than the amount recognized.

**Revenue Recognition of Claims**
Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to scope and/or price. Such amounts are accrued as additional revenue when the amounts have been received or awarded. Claims receivable are presented either in unbilled

*(amounts in thousands)*

accounts receivable for projects that are complete, or in costs and estimated earnings in excess of billings on uncompleted contracts for projects still in progress. There was no accrued revenue subject to claims at either December 2018 or 2017.

**Property and Equipment**
Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the shorter of the lease term or the life of the asset. The cost of maintenance and repairs is charged to expense as incurred and significant improvements and betterments are capitalized. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss, if any, is recognized in the consolidated statements of operations.

**Goodwill**
Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company performs an annual impairment analysis at December 31. The Company has elected the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. If the Company determines that this is the case, it is required to perform the currently prescribed impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recorded for the reporting unit. If, after considering the totality of events and circumstances, the Company determines that it is more likely that not that the goodwill intangible asset is not impaired, further quantitative assessment is unnecessary. The more likely than not threshold is defined as having a likelihood of more than 50%. Testing for impairment is performed at least annually, or more frequently if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing its annual impairment analysis at December 31, 2018 and 2017, the Company has concluded that no factors existed that indicated that it is more likely than not that the fair value of its reporting unit was less than its carrying amount.

**Intangible Assets – Net**
Intangible assets recognized in connection with an acquisition of a business include customer relationships, backlog, and a trademark. These assets were recorded at their estimated fair values at the date of acquisition, assigned estimated useful lives, and are amortized primarily on a straight line basis over their respective useful lives.

**Recoverability of Long-Lived Assets**
The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset or asset group to the estimated undiscounted future cash flows expected to result from use of the asset or asset group and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset or asset group. The Company determined that there

*(amounts in thousands)*

was no impairment of long-lived assets during the year ended December 31, 2018 and the period ended December 31, 2017.

**Deferred Financing Costs**
The Company amortizes deferred financing costs over the life of the related debt using the straight-line method, which approximates the effective interest rate method.

**Fair Value of Financial Instruments**
The Company's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt. The carrying values of the Company's financial assets and liabilities approximate their fair value. The guidance in ASC Topic 825, *Financial Instruments* paragraphs 10-50-16 through 50-19, requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as quoted prices in active markets for identical instruments; Level 2 - defined as observable inputs other than quoted prices in active markets; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying amount of the Company's Term Loan Facility approximates its fair value due to the recent issuance and the reset of its variable interest rate. For the years ended December 31, 2018 and 2017, the carrying value and estimated fair value of the Company's noncurrent long-term debt obligations was approximately $124,000 and $151,000, respectively. There are no quoted prices in active markets or other inputs that are either directly or indirectly observable for the long-term obligations, and therefore the Company measured the fair value of the long-term debt obligation by comparing the movements in the risk-free rate and the spread of the Baa corporate bond rate from the date of the inception of the debt (Level 3).

**Income Taxes**
NorthStar Group Holdings, LLC has elected to be treated as a taxable entity for income tax reporting purposes and files its income tax returns on the accrual basis as a corporation for federal and state income tax purposes. The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Under ASC Topic 740, current and deferred taxes are recognized for the tax effects of differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances on deferred tax assets are provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities are classified as noncurrent on the balance sheet in accordance with Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes.*

ASC Topic 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax

*(amounts in thousands)*

return. The guidance in ASC Topic 740 states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" for this purpose is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest in income tax expense.

**Recent Accounting Pronouncements**

***Standards Adopted***

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment.* The amendments in this update simplify the subsequent measurement of goodwill by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of Step 2 of the goodwill impairment test. A goodwill impairment loss will instead be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The Company early adopted this new standard as of June 12, 2017.

In August 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (a consensus of the Emerging Issues Task Force).* The amendment requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents. The Company early adopted this standard on January 1, 2018 and the prior period has been recast. The adoption of this standard did not have a material impact on the Company's financial statements. The prior year investing cash flows were adjusted by $100 from $67,196 to $67,096.

***Standards Not Yet Adopted***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and require separate accounting, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018 and can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU amends ASC 820 to add, remove and modify certain disclosure requirements for fair value measurements. The guidance is effective for the Company's fiscal year beginning January 1, 2020. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

*(amounts in thousands)*

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendment provides updated guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims and corporate-owned life insurance, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing guidance on accounting for leases. The ASU requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The amendments in this update will be effective for the Company's fiscal year beginning January 1, 2020. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"). ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the noncancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. ASU 2018-15 is effective for the Company on January 1, 2021. Early adoption of ASU 2018-15 is permitted, including adoption in any interim period. ASU 2018-15 can be adopted either using the prospective or retrospective transition approach. Management is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

## 3. Accounts Receivable - Net

Accounts receivable - net as of December 31, 2018 and 2017 consists of the following:

| | 2018 | 2017 |
|---|---|---|
| Billed | $ 105,706 | $ 117,100 |
| Retained | 14,400 | 18,133 |
| Unbilled | 7,238 | 17,890 |
| Total accounts receivable | 127,344 | 153,123 |
| Less: Allowance for doubtful accounts | (7,525) | (798) |
| Accounts receivable - net | $ 119,819 | $ 152,325 |

*(amounts in thousands)*

During the year ended December 31, 2018, the Company wrote down receivables against the allowance of $1,113, and recovered $4,002 for receivables that had been previously written off.

## 4. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts as of December 31, 2018 and 2017 consists of the following:

| | 2018 | 2017 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 98,285 | $ 148,437 |
| Estimated earnings | 22,265 | 32,042 |
| | 120,550 | 180,479 |
| Less: Billings to date | (121,446) | (193,229) |
| | $ (896) | $ (12,750) |
| The above amounts are included in the consolidated balance sheets under the following captions | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 7,183 | $ 4,817 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (8,079) | (17,567) |
| | $ (896) | $ (12,750) |

## 5. Property and Equipment - Net

Property and equipment - net as of December 31, 2018 and 2017 consist of the following:

| Category | Useful life *(in years)* | 2018 Value | 2017 Value |
|---|---|---|---|
| Land and buildings | 40 | $ 1,630 | $ 1,630 |
| Furniture and fixtures | 5 | 166 | 173 |
| Computer equipment | 3 | 1,683 | 1,552 |
| Leasehold improvements | Shorter of useful life or life of lease | 1,424 | 1,351 |
| Equipment | 7 - 10 | 36,073 | 33,798 |
| Vehicles | 7 | 9,335 | 7,820 |
| | | 50,311 | 46,324 |
| Less: Accumulated depreciation and amortization | | (15,905) | (6,710) |
| Property and equipment - net | | $ 34,406 | $ 39,614 |

Depreciation expense for the year ended December 31, 2018 and for the period ended December 31, 2017 was $11,689 and $6,710, respectively, which includes the depreciation of assets under capital lease.

*(amounts in thousands)*

The gross amount of assets acquired pursuant to capital leases total $13,497 and $15,130, offset by accumulated depreciation of $3,558 and $1,948 as of December 31, 2018 and 2017, respectively, and are included in the table above.

## 6. Goodwill and Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets and liabilities determined to have definite lives are amortized over their useful lives.

The Company's goodwill of $100,430 relates to the Merger in 2017. No impairment charges related to goodwill were recognized in the year ended December 31, 2018 or in the period ended December 31, 2017 in connection with the annual goodwill impairment or qualitative assessment at December 31.

As of December 31, 2018 and 2017, the Company's intangible assets and related accumulated amortization consist of the following:

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Estimated Useful Life** | | **Cost** | | **Accumulated Amortization** | | **Net** |
| Customer relationships | 10 years | $ | 72,900 | $ | 11,300 | $ | 61,600 |
| Backlog | 1.5 years | | 8,500 | | 8,500 | | - |
| Trademark | 10 years | | 8,000 | | 1,240 | | 6,760 |
| Total intangible assets | | $ | 89,400 | $ | 21,040 | $ | 68,360 |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Estimated Useful Life** | | **Cost** | | **Accumulated Amortization** | | **Net** |
| Customer relationships | 10 years | $ | 72,900 | $ | 4,009 | $ | 68,891 |
| Backlog | 1.5 years | | 8,500 | | 3,117 | | 5,383 |
| Trademark | 10 years | | 8,000 | | 440 | | 7,560 |
| Total intangible assets | | $ | 89,400 | $ | 7,566 | $ | 81,834 |

The weighted average useful life of the Company's intangible assets when acquired was 9.2 years. Amortization expense related to intangible assets for the year ended December 31, 2018 and for the period ended December 31, 2017 was $13,474 and $7,566, respectively. Amortization expense for each of the next five years for intangible assets subject to amortization is $8,090.

*(amounts in thousands)*

## 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2018 and 2017 consists of the following:

| | 2018 | 2017 |
|---|---|---|
| Workers compensation and other liability insurance | $ 7,562 | $ 7,499 |
| Payroll and other compensation accruals | 16,130 | 15,283 |
| Sales tax | 697 | 4,287 |
| Interest | 3,699 | 717 |
| Other | 4,254 | 4,913 |
| Accrued expenses and other current liabilities | $ 32,342 | $ 32,699 |

## 8. Long-Term Obligations

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Current portion of long-term obligations** | | |
| Senior Secured Credit Facility Term Loan [(a)] | $ 19,839 | $ - |
| Equipment finance obligations [(b)] | 2,856 | 3,183 |
| Short-term obligations | $ 22,695 | $ 3,183 |
| **Noncurrent portion of long-term obligations** | | |
| Senior Secured Credit Facility | | |
| Revolver [(a)] | $ - | $ 6,500 |
| Term Loan [(a)] | 120,161 | 140,000 |
| Equipment finance obligations [(b)] | 4,030 | 5,223 |
| Less: Deferred financing costs | (595) | (842) |
| Long-term obligations | $ 123,596 | $ 150,881 |

a. Amended and Restated Credit and Guaranty Agreement and Revolving Credit Facility

In connection with the Merger, on June 12, 2017, the Company entered into the Second Amended and Restated Credit and Guaranty agreement (the "Credit Facility") with various lenders, consisting of a Term Loan of $140,000 (the "Term Loan") and a $55,000 revolving credit facility (the "Revolver"). The lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. The Credit Facility matures on May 31, 2021, whereupon the balance outstanding on the Term Loan and Revolver will be payable in full. Principal payments on the Term Loan are due quarterly beginning on December 31, 2019 in amounts as described within the Credit Facility agreement. When certain annual financial performance thresholds have been exceeded, the Credit Facility requires that the Company

*(amounts in thousands)*

prepay a portion of the Term Loan by June 30 of the immediately following year. The Company met such thresholds during 2018, and has reclassified $19,139 of the Term Loan as a current liability.

Interest is charged on both the Revolver and the Term Loan at an applicable margin percentage above either the prime lending rate of Manufacturers and Traders Trust Company ("M&T") or above the London InterBank Offered Rate, at the Company's option. The applicable margin is on a sliding scale based upon the Company's total debt leverage ratio as defined in the Amended Credit Agreement, measured quarterly and payable in cash. The effective rate on the Term Loan at December 31, 2018 and 2017 was an annual rate of 6.9% and 6.0%, respectively. In addition, the Revolver has a rate per annum equal to the greatest of (i) the Prime Rate in effect on such day, (ii) the Federal Funds Effective Rate in effect on such day plus ½ of 1% and (iii) the LIBOR Rate calculated as of such day in respect of a proposed LIBOR Rate Loan with a one-month Interest Period, plus 1.0%. The effective rate on the Revolver at December 31, 2018 was an annual rate of 11.4% and 9.0% for swing line loans and base rate loans, respectively. The effective rate on the Revolver at December 31, 2017 was an annual rate of 11% and 8% for swing line loans and base rate loans, respectively. The Revolver also has a fee of 0.5% per annum on the unused portion of the facility. Interest on outstanding borrowings and the fee are payable monthly.

Amortization of deferred financing costs for the year ended December 31, 2018 and for the period ended December 31, 2017 was approximately $247 and $133, respectively, and is classified as interest expense in the consolidated statement of operations.

As of December 31, 2018 and 2017, the Company had outstanding letters of credit in the amount of $9,567 and $20,337 for the benefit of its surety bonding (Note 10) and deductibles under insurance policies, and had drawn $0 and $6,500 on the Revolver, which reduced the borrowing availability under the Revolver to $45,433 and $28,163, respectively. The letters of credit are automatically renewable unless notice is provided 30 days prior to cancellation.

b. Equipment Finance Obligations

The Company has financed equipment under capital lease agreements and equipment finance notes with various vendors for equipment utilized in the performance of its work. The terms of the leases and notes vary from 36 to 60 months and carry interest rates ranging from 0.00% to 8.95%.

*(amounts in thousands)*

At December 31, 2018 the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Equipment Finance Obligations | Total Long-Term Obligations |
|---|---|---|---|
| 2019 | $ 19,839 | $ 3,083 | $ 22,922 |
| 2020 | 3,850 | 2,640 | 6,490 |
| 2021 | 7,000 | 911 | 7,911 |
| 2022 | 7,000 | 372 | 7,372 |
| 2023 | 7,000 | 241 | 7,241 |
| Thereafter | 95,311 | - | 95,311 |
| Total future payments | 140,000 | 7,247 | 147,247 |
| Less: Amount representing interest | - | (361) | (361) |
| | $ 140,000 | $ 6,886 | $ 146,886 |

## 9. Income Taxes

The provision for income taxes for the year ended December 31, 2018 and for the period ended December 31, 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Current (benefit) expense** | | |
| State and local | $ 846 | $ 723 |
| Total current expense | 846 | 723 |
| **Deferred expense (benefit)** | | |
| Federal | 2,296 | (3,023) |
| State and local | 2,306 | (781) |
| Total deferred expense (benefit) | 4,602 | (3,804) |
| Total income tax expense (benefit) | $ 5,448 | $ (3,081) |

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted into law. The legislation contains several key tax provisions including the reduction of the corporate income tax rate to 21% effective January 1, 2018 as well as a variety of other changes including limitation of the tax deductibility of interest expense. As of December 31, 2017, the Company has remeasured its deferred tax assets and liabilities for the reduced federal tax rate and has recognized the resulting deferred tax benefit through the income tax provision. The impact to the Company's deferred tax assets and liabilities due to the newly enacted federal tax rate at December 31, 2017 was a net benefit of $3,349.

*(amounts in thousands)*

The Company's effective tax rate for 2018 differs from the federal statutory rate mainly as a result of state taxes and permanent differences. The Company's effective tax rate for 2017 differs from the federal statutory rate mainly as a result of the impact of the newly enacted federal tax rate, in addition to state taxes and permanent differences.

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for bad debts | $ 1,217 | $ 119 |
| Compensation accruals | 2,258 | 1,923 |
| Insurance reserves | 6,170 | 7,611 |
| Net operating loss | 10,340 | 17,048 |
| Investment in partnerships | - | 1,434 |
| Other | 1,676 | 2,023 |
| Total deferred tax assets | 21,661 | 30,158 |
| **Deferred tax liabilities** | | |
| Depreciation and amortization | (20,696) | (23,291) |
| Investment in partnerships | (1,659) | - |
| Accrual versus percentage of completion | (5,369) | (8,328) |
| Total deferred tax liabilities | (27,724) | (31,619) |
| Net deferred tax liabilities | $ (6,063) | $ (1,461) |

As of December 31, 2018 and 2017, the Company has combined federal and state net operating loss carryforwards of $44,609 and $50,182 and separate state net operating loss carryforwards of approximately $33,956 and $46,372, respectively. These federal and state net operating losses expire at various dates beginning in 2032. In general, under Section 382 of the United States Internal Revenue Code of 1986 ("IRC"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses to offset future taxable income. An analysis was conducted as a result of the Merger which indicated that because of the ownership change as of June 12, 2017, federal and state net operating losses were limited pursuant to IRC 382. This limitation has been considered in calculating the available net operating loss carryforwards.

The Company had approximately $58 and $50 for the payment of interest and penalties and $116 and $476 of unrecognized tax benefits accrued in other long-term obligations at December 31, 2018 and 2017, respectively. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits would affect the Company's effective tax rate upon recognition.

The Company's tax years 2015-2017 remain open to examination for federal purposes and for 2014 forward for most state jurisdictions.

*(amounts in thousands)*

## 10. Commitments and Contingencies

**Operating Leases**

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for real property is calculated on a straight-line basis, and was $4,673 and $2,319 for the year ended December 31, 2018 and for the period ended December 31, 2017, respectively. The Company received sublease income of $551 and $260 for the year ended December 31, 2018 and for the period ended December 31, 2017, respectively.

As of December 31, 2018, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| Year Ending December 31, | | |
|---|---|---|
| 2019 | $ | 4,276 |
| 2020 | | 3,477 |
| 2021 | | 2,113 |
| 2022 | | 1,178 |
| 2023 | | 420 |
| Thereafter | | - |
| | $ | 11,464 |

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 21.6% and 21.8% of consolidated total accounts receivable as of December 31, 2018 and 2017, respectively. In addition, the Company holds cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2018 and 2017, the Company had approximately $37,495 and $11,011 in excess of FDIC insured limits, respectively.

**Risks and Uncertainties**

The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

**Surety Bonds**

As is customary in the contracting business, the Company is required to provide surety bonds to secure its performance under certain contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards,

*(amounts in thousands)*

which may change from time to time. The Company's inability to obtain surety bonds in the future would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

**Litigation**
The Company is involved in various litigations that arise in the ordinary course of its business activities. In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

## 11. Related-Party Transactions

During the year ended December 31, 2018 and for the period ended December 31, 2017, the Company paid rent expense of $354 and $102, respectively, to an entity in which a Company employee has an equity interest.

On June 12, 2017, in connection with the Merger, the Company entered into a management services agreement (the "Management Agreement") pursuant to which certain of the members of the Investor (the "Advisors") will be paid $750 per year plus out-of-pocket expenses for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company. Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has no stated term and will remain effective until terminated. The management fee is payable to the Advisors quarterly in advance. The Company incurred expense relating to the Management Agreement of $1,003 and $412 in the year ended December 31, 2018 and for the period ended December 31, 2017, respectively. The amount payable to the Advisors as of December 31, 2018 was $162. As of December 31, 2017, the Company had prepaid the Advisors $188.

## 12. Defined Contribution Savings Plan

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 100% of their eligible compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The Company matching contributions vest over a five-year period, as defined in the plan documents. Total Company matching contributions to the plan for the year ended December 31, 2018 and for the period ended December 31, 2017 was $811 and $471, respectively.

## 13. Subsequent Events

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its consolidated financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date.

*(amounts in thousands)*

The Company has evaluated subsequent events through April 15, 2019, the date that these consolidated financial statements were available to be issued.

On January 11, 2019, the Company completed the Membership Interest Purchase and Sale Agreement (MIPA), under which the Company acquired 100% of the membership interest of a legal entity owning a nuclear power plant that had been closed permanently in 2014. The plant was transferred to the Company from its former owner for the purpose of expedited decommissioning. Under the terms of the MIPA, the Company is responsible for the decommissioning of the plant, spent fuel management and eventual site restoration. As of the date of the MIPA, the Company recorded a liability for the present value of the future asset retirement obligations, which represents costs for demolition and decommissioning and for the management of the spent nuclear fuel storage, along with related deferred income taxes and credits. The Company also acquired existing decommissioning and site restoration trust funds to fund the required work, and recorded a receivable for expected future recovery of spent fuel management costs from the U.S. Department of Energy. As a regulatory condition of the transaction, $10,000 from the Company was deposited into a long-term escrow account, with additional cash from the former owner also transferred to this account at closing.

No other events were identified that require recognition or disclosure.

# Supplemental Schedule

# NorthStar Group Holdings, LLC

**(A limited liability company)**

## Unaudited Supplemental Schedule – Pro Forma Balance Sheet
## December 31, 2018

*(amounts in thousands)*

| | As of December 31, 2018 | Pro Forma Adjustments | Total Pro Forma |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 35,854 | $ (9,251) | $ 26,603 |
| Other current assets | 143,396 | 1,500 | 144,896 |
| Total current assets | 179,250 | (7,751) | 171,499 |
| Property and equipment – net | 34,406 | - | 34,406 |
| Goodwill and intangible assets | 168,790 | - | 168,790 |
| Decommissioning trust funds | - | 546,484 | 546,484 |
| DOE reimbursement | - | 105,000 | 105,000 |
| Deferred income taxes | - | 196,304 | 196,304 |
| Restricted cash | 100 | 30,000 | 30,100 |
| Other noncurrent assets | 293 | - | 293 |
| Total assets | $ 382,839 | $ 870,037 | $ 1,252,876 |
| **Liabilities and Member's Equity** | | | |
| Current liabilities | | | |
| Current maturities of long-term obligations | $ 22,695 | $ - | $ 22,695 |
| Accounts payable and accrued expenses | 102,530 | 2,249 | 104,779 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 8,079 | - | 8,079 |
| Total current liabilities | 133,304 | 2,249 | 135,553 |
| Long-term debt obligations | 123,596 | - | 123,596 |
| Insurance obligations | 19,409 | - | 19,409 |
| Asset retirement obligations | - | 672,412 | 672,412 |
| Deferred income taxes | 6,063 | (6,063) | - |
| Deferred tax credit | - | 201,439 | 201,439 |
| Other long-term obligations | 175 | - | 175 |
| Total liabilities | 282,547 | 870,037 | 1,152,584 |
| Member's equity | 100,292 | - | 100,292 |
| Total liabilities and member's equity | $ 382,839 | $ 870,037 | $ 1,252,876 |

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Notes to Unaudited Supplemental Schedule
## December 31, 2018

*(amounts in thousands)*

### 1. Basis of Presentation

The pro forma balance sheet has been prepared to give effect to the MIPA as if it had transpired on December 31, 2018. Based on preliminary purchase accounting performed by the Company, the transaction is being treated as an asset acquisition. As of the date of the MIPA, the Company recorded a liability for future asset retirement obligations in the amount $672,412, which represents $567,412 for demolition and decommissioning and $105,000 for the management of the spent nuclear fuel storage. The Company recorded a receivable from the U.S. Department of Energy (DOE) for $105,000 for the anticipated recovery of the costs of managing the spent nuclear fuel storage. Simultaneous with the close of the MIPA, the Company received investment trust funds and cash with a combined value of $566,484 that will be used to fund the required work. As a regulatory condition of the transaction, $20,000 of the cash received plus an additional $10,000 from the Company was deposited in a long-term escrow account. The difference between the cost basis and the tax basis of the acquired assets resulted in the recognition of a deferred tax asset of $202,367 and a long-term tax credit of $201,439.

# Confidential and Proprietary – Subject to Non-Disclosure Agreement

# NorthStar Group Holdings, LLC

**(A limited liability company)**

**Consolidated Financial Statements and Supplemental Information**

**As of December 31, 2019 and 2018**

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Index
## December 31, 2019 and 2018

**Page(s)**

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## Report of Independent Auditors

To the Board of Directors and Management of
NorthStar Group Holdings, LLC

We have audited the accompanying consolidated financial statements of NorthStar Group Holdings, LLC and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, of changes in member's equity and of cash flows for the years then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Group Holdings, LLC and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The unaudited supplemental information – disbursements from trust funds in 2019, listed in the accompanying index and appearing on pages 27-29 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

March 31, 2020

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Consolidated Balance Sheets
## December 31, 2019 and 2018

| *(amounts in thousands)* | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 69,055 | $ 35,854 |
| Accounts receivable - net | 149,126 | 119,819 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 6,679 | 7,183 |
| Inventories - net | 3,211 | 3,537 |
| Income tax receivable | 695 | 41 |
| Insurance deposits and other prepaid expenses | 13,023 | 13,109 |
| Total current assets | 241,789 | 179,543 |
| Property and equipment - net | 34,148 | 34,406 |
| Goodwill | 100,430 | 100,430 |
| Intangible assets - net | 60,270 | 68,360 |
| Restricted cash | 30,657 | 100 |
| Decommissioning trust funds | 490,568 | - |
| Reimbursements due from U.S. Department of Energy | 102,877 | - |
| Deferred income tax | 196,666 | - |
| Total assets | $ 1,257,405 | $ 382,839 |
| **Liabilities and Member's Equity** | | |
| Current liabilities | | |
| Current maturities of long-term financing obligations | $ 4,540 | $ 22,449 |
| Accounts payable | 39,806 | 38,164 |
| Accrued contract costs | 58,253 | 32,024 |
| Accrued expenses and other current liabilities | 31,841 | 32,342 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 17,677 | 8,079 |
| Total current liabilities | 152,117 | 133,058 |
| Long-term financing obligations | 160,393 | 123,842 |
| Asset retirement obligations | 541,733 | - |
| Unearned revenue - site restoration | 54,223 | - |
| Deferred income taxes | - | 6,063 |
| Deferred tax credit | 201,207 | - |
| Insurance and other long-term obligations | 18,757 | 19,584 |
| Total liabilities | 1,128,430 | 282,547 |
| Commitments and contingencies (Note 11) | | |
| Member's equity | 128,983 | 100,292 |
| Noncontrolling interests | (8) | - |
| Total equity | 128,975 | 100,292 |
| Total liabilities and member's equity | $ 1,257,405 | $ 382,839 |

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

# NorthStar Group Holdings, LLC

**(A limited liability company)**

## Consolidated Statements of Income and Comprehensive Income
## Years Ended December 31, 2019 and 2018

| *(amounts in thousands)* | 2019 | 2018 |
|---|---|---|
| Revenues | $ 640,111 | $ 503,755 |
| Cost of revenues | 512,305 | 397,104 |
| Gross profit | 127,806 | 106,651 |
| Selling, general, and administrative expenses | 55,265 | 65,146 |
| Operating income before depreciation and amortization | 72,541 | 41,505 |
| Depreciation and amortization | 11,564 | 16,471 |
| Operating income | 60,977 | 25,034 |
| Other income (expense) | | |
| Interest expense | (13,084) | (12,381) |
| Interest income | 14,734 | 214 |
| Other - net | (132) | (992) |
| Total other expense, net | 1,518 | (13,159) |
| Income before income tax expense | 62,495 | 11,875 |
| Income tax (benefit) expense | (3,910) | 5,448 |
| Net income | 66,405 | 6,427 |
| Less: net loss attributable to noncontrolling interests | (206) | - |
| Net income attributable to NorthStar Group Holdings, LLC | $ 66,611 | $ 6,427 |
| Other comprehensive income, net of taxes: | | |
| Unrealized gains on debt securities | 12,080 | - |
| Comprehensive income attributable to NorthStar Group Holdings, LLC | $ 78,691 | $ 6,427 |

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

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Consolidated Statements of Changes in Member's Equity
## Years Ended December 31, 2019 and 2018

| *(amounts in thousands, except unit data)* | Ownership Units | Accumulated Other Comprehensive Income | Member's Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|
| **Balances at December 31, 2017** | 1 | $ - | $ 93,865 | $ - | $ 93,865 |
| Net income | - | - | 6,427 | - | 6,427 |
| **Balances at December 31, 2018** | 1 | - | 100,292 | - | 100,292 |
| Net income (loss) | - | - | 66,611 | (206) | 66,405 |
| Unrealized gains on debt securities, net of tax of $4,188 | - | 12,080 | 12,080 | - | 12,080 |
| Distributions to Member | - | - | (50,000) | - | (50,000) |
| Capital contributions by noncontrolling interests | - | - | - | 198 | 198 |
| **Balances at December 31, 2019** | 1 | $ 12,080 | $ 128,983 | $ (8) | $ 128,975 |

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

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Consolidated Statements of Cash Flows
## Years Ended December 31, 2019 and 2018

| *(amounts in thousands)* | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 66,405 | $ 6,427 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 20,621 | 25,163 |
| Accretion of asset retirement obligations | 27,371 | - |
| Accretion of reimbursements due from U.S. Department of Energy | (4,877) | - |
| Write-off of debt issuance costs | 431 | - |
| Provision for allowance for doubtful accounts | (4,170) | 2,533 |
| Recognition of unearned revenue - site restoration trust fund | (496) | - |
| Interest expense - Amortization of financing costs | 355 | - |
| Interest expense - Amortization of original issue discount | 159 | 247 |
| (Gain) Loss on sale of fixed assets | (27) | 879 |
| Realized gains on decommissioning trust funds | (699) | - |
| Interest earnings on decommissioning trust funds | (8,932) | - |
| Deferred income taxes | (4,782) | 4,602 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (24,324) | 29,973 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 504 | (2,366) |
| Inventories | 326 | 541 |
| Insurance deposits and other prepaid expenses | 249 | (740) |
| Accounts payable and accrued contract costs | 27,871 | (10,248) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 9,598 | (9,488) |
| Accrued expenses and other current liabilities | (1,502) | (356) |
| Payments made to settle asset retirement obligations | (14,516) | - |
| Insurance and other long-term obligations | (827) | (2,229) |
| Income taxes receivable | (654) | (266) |
| Net cash provided by operating activities | 88,084 | 44,672 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (12,542) | (8,287) |
| Proceeds from sale of fixed assets | 296 | 926 |
| Restricted cash received for transfer of asset retirement obligations | 20,025 | - |
| Net cash provided by (used in) investing activities | 7,779 | (7,361) |
| **Cash flows from financing activities** | | |
| Principal payments on long-term obligations | (143,741) | (3,487) |
| Proceeds from issuance of long-term debt | 165,150 | 1,968 |
| Deferred financing costs paid and original issue discount | (3,712) | - |
| Distributions to member | (50,000) | - |
| Capital contributions by noncontrolling interests | 198 | - |
| Proceeds from line of credit | - | 19,150 |
| Repayments of line of credit | - | (25,650) |
| Net cash used in financing activities | (32,105) | (8,019) |
| Net increase in cash, cash equivalents and restricted cash | 63,758 | 29,292 |
| **Cash, cash equivalents and restricted cash** | | |
| Beginning of year | 35,954 | 6,662 |
| End of year | $ 99,712 | $ 35,954 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the year for | | |
| Interest | $ 15,475 | $ 9,471 |
| Income taxes | 1,155 | 1,521 |

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

*(amounts in thousands)*

## 1. Organization and Business

NorthStar Group Holdings, LLC, a Delaware limited liability company (the "Company") commenced its operations on April 23, 2014. On June 12, 2017, following the completion of a merger agreement, 100% of the ownership of the Company was transferred to an unrelated investment group, resulting in a change in ownership. The Company provides facility, technical, and environmental services to a broad range of commercial, industrial, institutional, and government clients located throughout the United States and is a market leader in its core decommissioning, demolition and remediation service lines. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Group Services, Inc. (also doing business as LVI Services Inc.), NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc. (also doing business as LVI Environmental Services, Inc.), NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, Renu Recycling Services, Environmental Waste Resources, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), NorthStar Environmental Services of New Orleans, Inc., NorthStar I&E, Inc. (also doing business as NorthStar Infrastructure & Environmental, Inc.), NorthStar Decommissioning Holdings, LLC, NorthStar Nuclear Decommissioning Company, LLC, NorthStar Vermont Yankee, LLC, NorthStar Facility and Site Services, Inc., Accelerated Decommissioning Partners, LLC, ADP CR3, LLC, ADP SF1, LLC, and NorthStar Services UK, Ltd.

### Acquisition of Vermont Yankee Nuclear Power Station

On January 11, 2019, the Company completed the Membership Interest Purchase and Sale Agreement (MIPA), under which the Company acquired 100% of the membership interest of a legal entity owning the Vermont Yankee Nuclear Power Station, a nuclear power plant that had been permanently closed in 2014. The plant was transferred to the Company from its former owner for the purpose of expedited decommissioning. Under the terms of the MIPA, the Company is responsible for the decommissioning of the plant, spent fuel management and eventual site restoration.

As of the date of the MIPA, the Company recorded a liability for the present value of the estimated future cash outflows for demolition, decommissioning, and site restoration costs, and for costs related to the management of the spent nuclear fuel storage. At closing, the former owners transferred to the Company the existing decommissioning and site restoration trust investment portfolios to fund the required work (the "NDT" and the "SRT," respectively, and collectively the "trust funds"), plus $20,000 cash that was deposited into a long-term escrow account as a regulatory condition of the transaction. In accordance with the agreement, the Company deposited an additional $10,000 into the escrow account. The Company recorded a receivable for expected future recovery of spent fuel management costs from the U.S. Department of Energy.

*(amounts in thousands)*

The Company recorded the following amounts at the closing of the MIPA:

| | | |
|---|---|---|
| Nuclear decommissioning trust | $ | 487,627 |
| Site restoration trust | | 59,991 |
| Restricted cash | | 20,000 |
| Reimbursements due from U.S. Department of Energy | | 98,000 |
| Deferred tax asset | | 225,650 |
| | $ | 891,268 |
| Asset retirement obligations | $ | 611,827 |
| Unearned revenue - site restoration | | 54,720 |
| Deferred credit | | 224,721 |
| | $ | 891,268 |

The value of the NDT fund portfolio at closing, plus the forecast earnings thereon, included funding that was anticipated to be approximately equal to the estimated fair value of the anticipated future cash flows required to complete the decommissioning and spent fuel management activities. The value of the SRT fund portfolio at closing exceeded the estimated fair value of the anticipated future cash flows for site restoration by $34,720, and the Company recorded an unearned revenue liability for this estimated excess plus the $20,000 cash escrow received from the former owner, for a total $54,720. The Company recognized a deferred tax asset of $225,650 for the tax effect of the total difference between the book and tax basis of the acquired assets and liabilities. The excess of the amounts assigned to the acquired assets were allocated pro rata to reduce the assigned values to zero, with the remainder recorded as a deferred tax credit of $224,721. The amount of the anticipated reimbursements from the U.S. Department of Energy is classified as a long-term asset, as there is significant uncertainty as to the timing of when these amounts will be recovered.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. Certain prior year amounts have been reclassified to conform to the current year presentation. All significant intercompany accounts and transactions have been eliminated in consolidation.

*(amounts in thousands)*

**Use of Estimates**
The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in recording account balances and transactions related to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts, the recoverability of long-lived assets and goodwill, the fair value of asset retirement obligations acquired in asset acquisitions, accrued contract costs, and insurance obligations. Actual results could differ materially from those estimates.

**Cash and Cash Equivalents**
The Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents.

**Restricted Cash**
Restricted cash relates primarily to an escrow balance required by the terms of an asset acquisition completed in 2019 (see Note 1), which the Company may not access until certain milestones specified in the MIPA have been completed.

**Accounts Receivable**
Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable, including retained and unbilled accounts receivable, are amounts receivable from customers that are expected to be collected within one year. The Company estimates an allowance for doubtful accounts based on the aging of the individual amounts receivable beginning with a 10% allowance for balances that are 180 days past due. An incremental 15% additional allowance is recognized after 270 days of delinquency, and another 25% at 360 days. After one year, the allowance is increased by an incremental 10% of the original balance per quarter, until the original receivable is fully reserved, or collected. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable gross balance and is determined based on historical write-off experience. The Company also considers factors related to specific customers' ability to pay and current economic trends and will record an additional allowance for doubtful accounts as needed. The Company writes off accounts receivable against the allowance for doubtful accounts when management determines the balance is uncollectible and the Company ceases collection efforts.

**Inventories**
Inventories are stated at the lower of cost or net realizable value using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in services provided to clients. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

**Insurance Deposits and Other Prepaid Expenses**
The Company provides cash deposits to certain insurance carriers, which the carriers hold as collateral against future insurance claims. The insurance deposit requirements are reviewed and

*(amounts in thousands)*

adjusted annually when the related polices are renewed. Prepaid expenses represent advance payments made to various services providers for services to be received within one year.

**Decommissioning Trust Funds**

The Company records the decommissioning trust funds on the balance sheet at their fair value. The investments included in these portfolios consist of available-for-sale government debt securities and cash. Unrealized gains recorded on the available-for-sale debt securities in the trust funds are recognized in the accumulated other comprehensive income component of member's equity. See Note 10 for details on the decommissioning trust funds.

**Reimbursements Due from U.S. Department of Energy**

In connection with the 2019 acquisition discussed in Note 1, the Company recorded an asset that was transferred by the former owner for the expected future recovery of spent fuel management costs from the U.S. Department of Energy. The asset was recorded at fair value, estimated by using a discounted cash flow forecast of the amounts anticipated to be recovered as determined by an independent third-party valuation. Interest is accreted on the balance each year to reflect the time value of money for this present value asset. There is uncertainty as to the timing of when the amounts will be recovered, and therefore the Company has classified this asset as long term on the consolidated balance sheets.

**Asset Retirement Obligations**

The Company recorded a liability for the asset retirement obligations related to the 2019 acquisition discussed in Note 1. The asset retirement obligation was recorded at its fair value, which was measured by using the present value of the estimated future cash outflows for demolition, decommissioning, and site restoration costs, and for costs related to the management of spent nuclear fuel storage. The asset retirement obligation is accreted each year through a charge to cost of revenues, to reflect the time value of money for this present value obligation. Additionally, changes in cash flow assumptions impacting the asset retirement obligations are assessed at each balance sheet date with an offset through cost of revenues.

**Unearned Revenue – Site Restoration**

The Company acquired unearned revenue in connection with the 2019 acquisition discussed in Note 1. Along with the related asset retirement obligation for the eventual restoration of the site for future unrestricted use, the Company acquired ownership of a site restoration trust investment portfolio plus $20,000 restricted cash. The fair value of the site restoration trust investment portfolio exceeded the estimated fair value of the anticipated future cash flows for site restoration by $34,720, and the Company recorded a liability for the estimated value of such excess plus the restricted cash received. The unearned revenue will be recognized in earnings over time as the Company performs its obligations for the site restoration, in a manner consistent with the related contract. In accordance with the terms of the MIPA, the Company does not have the right to draw upon the excess cash in the site restoration investment portfolio or the $20,000 restricted cash until certain milestones specified in the MIPA have been completed, and therefore the unearned revenue is classified as a long-term liability.

*(amounts in thousands)*

**Revenue Recognition**
On January 1, 2019, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) ASC Topic 606 *Revenue for Contracts with Customers* using the modified retrospective transition method. There was no impact on the Company's financial statements from the adoption of this standard. Revenue recognized on contracts that has not been billed to clients is classified as a current asset, costs and estimated earnings in excess of billings on uncompleted contracts. Amounts billed to clients in excess of revenue recognized on contracts to date are classified as a current liability, billings in excess of costs and estimated earnings on uncompleted contract.

*Construction-type contracts*
The Company recognizes revenue for its construction-type contracts over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Depending on the commercial terms, contracts may be accounted for as a single unit of account (a single performance obligation), or may be segmented between types of services when there are multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using an estimate of the stand-alone selling price of each distinct service in the contract. Project mobilization costs are generally charged to project costs as incurred when they are an integrated part of the performance obligation being transferred to the client. Depending on the contract terms, the Company recognizes revenue over time, based on either (a) contract costs incurred to date compared to the total estimated costs at completion (an input method), or on (b) the achievement of contractual performance criteria (an output method), with output-based methodology generally reserved for larger multi-year projects with well-defined regulatory or contractual criteria to establish progress. The over time method is the most faithful depiction of the Company's performance because it directly measures the value of the services transferred to the customer. This method also generally aligns timing of typical customer payments with satisfaction of performance obligations, with differences resulting in a contract asset or liability, as included in Note 4. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion. For the years ended December 31, 2019 and 2018, the Company recorded $1,873 and $212 for loss contracts, respectively. Revenues are recorded net of sales tax. For the years ended December 31, 2019 and 2018, contract revenues include revenues from salvage proceeds totaling $12,203 and $19,988, respectively.

*Service contracts*
For service contracts in which the Company has the right to consideration from the customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date, revenue is recognized when services are performed and contractually billable. Service contracts that include multiple performance obligations are segmented between types of services. For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using an estimate of the stand-alone selling price of each distinct service in the contract.

*(amounts in thousands)*

*Variable consideration*
The nature of the Company's contracts gives rise to several types of variable consideration, such as award and incentive fees. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount.

**Revenue Recognition of Claims**
Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to scope and/or price. Such amounts are considered variable consideration and are recorded when likely to be received or awarded. Claims receivable are presented either in unbilled accounts receivable for projects that are complete, or in costs and estimated earnings in excess of billings on uncompleted contracts for projects still in progress. There was no accrued revenue subject to claims at either December 31, 2019 or 2018.

**Accrued Contract Costs**
Accrued contract costs represent costs incurred and payable by the Company at the balance sheet date to its subcontractors and other third party vendors for its long-term construction-type contracts.

**Insurance Policies**
The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions that were developed with the assistance of specialists. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the expenses accrued are adequate to cover losses incurred to date; however, the accrued expenses are based on an estimate and the ultimate liability may be more or less than the amount recognized.

**Property and Equipment**
Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the shorter of the lease term or the life of the asset. The cost of maintenance and repairs is charged to expense as incurred and significant improvements and betterments are capitalized. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss, if any, is recognized in the consolidated statements of operations.

*(amounts in thousands)*

**Goodwill**
Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company performs an annual impairment analysis at December 31. The Company has elected the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. If the Company determines that this is the case, it is required to perform the currently prescribed impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recorded for the reporting unit. If, after considering the totality of events and circumstances, the Company determines that it is more likely than not that the goodwill intangible asset is not impaired, further quantitative assessment is unnecessary. The more likely than not threshold is defined as having a likelihood of more than 50%. Testing for impairment is performed at least annually, or more frequently if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing its annual impairment analysis at December 31, 2019 and 2018, the Company has concluded that no qualitative factors existed that indicated that it is more likely than not that the fair value of its reporting unit was less than its carrying amount.

**Intangible Assets – Net**
Intangible assets recognized in connection with an acquisition of a business include customer relationships, backlog, and a trademark. These assets were recorded at their estimated fair values at the date of acquisition, assigned estimated useful lives, and are amortized primarily on a straight line basis, which approximates the pattern of economic benefit, over their respective useful lives.

**Recoverability of Long-Lived Assets**
The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset or asset group to the estimated undiscounted future cash flows expected to result from use of the asset or asset group and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset or asset group. The Company determined that there was no impairment of long-lived assets during the years ended December 31, 2019 and 2018

**Deferred Financing Costs**
The Company amortizes deferred financing costs over the life of the related debt using the effective interest rate method.

**Fair Value of Financial Instruments**
The Company's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt. The carrying values of the Company's financial assets and liabilities approximate their fair value. The Company early adopted ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* effective January 1, 2019, with no impact on the Company's financial statements. The guidance in ASC Topic 825, Financial Instruments paragraphs 10-50-16 through 50-19 (as amended), requires disclosure of fair value information about financial instruments,

*(amounts in thousands)*

whether or not recognized on the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, Fair Value Measurements and Disclosures. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as quoted prices in active markets for identical instruments; Level 2 - defined as observable inputs other than quoted prices in active markets; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

**Income Taxes**

NorthStar Group Holdings, LLC has elected to be treated as a taxable entity for income tax reporting purposes and files its income tax returns on the accrual basis as a corporation for federal and state income tax purposes. The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Under ASC Topic 740, current and deferred taxes are recognized for the tax effects of differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances on deferred tax assets are provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities are classified as noncurrent on the balance sheet in accordance with Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes.*

ASC Topic 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The guidance in ASC Topic 740 states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" for this purpose is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest in income tax expense.

**Deferred tax credit**

The tax basis of the assets acquired in connection with the 2019 transaction discussed in Note 1 exceeded the fair value book basis, resulting in the recognition of a deferred tax asset. The excess of the amounts assigned to the acquired assets were allocated pro rata to reduce the assigned values to zero, with the remainder recorded as a deferred tax credit. The deferred tax credit will be reversed to tax expense in proportion to the reversal of the related deferred tax asset as the tax and book basis differences decrease over time.

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing guidance on accounting for leases. The ASU requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be

*(amounts in thousands)*

adopted using a modified retrospective transition approach and provides for certain practical expedients. The amendments in this update will be effective for the Company's fiscal year beginning January 1, 2021. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The amendments in ASU 2012-12, among other things, remove certain exceptions to the general principles in ASC 740 and seek more consistent application by clarifying and amending the existing guidance. ASU 2019-12 is effective for the Company on January 1, 2022. Early adoption is permitted, including adoption in any interim period. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

## 3. Accounts Receivable - Net

Accounts receivable - net as of December 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Billed | $ 115,294 | $ 105,706 |
| Retained | 29,457 | 14,400 |
| Unbilled | 8,213 | 7,238 |
| Total accounts receivable | 152,964 | 127,344 |
| Less: Allowance for doubtful accounts | (3,838) | (7,525) |
| Accounts receivable - net | $ 149,126 | $ 119,819 |

During the year ended December 31, 2019, the Company wrote down receivables against the allowance of $2,940, and recovered $1,400 for receivables that had been previously written off.

*(amounts in thousands)*

## 4. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts as of December 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 348,225 | $ 98,285 |
| Estimated earnings | 70,386 | 22,265 |
| | 418,611 | 120,550 |
| Less: Billings to date | (429,609) | (121,446) |
| | $ (10,998) | $ (896) |
| The above amounts are included in the consolidated balance sheets under the following captions | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 6,679 | $ 7,183 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (17,677) | (8,079) |
| | $ (10,998) | $ (896) |

## 5. Property and Equipment - Net

Property and equipment - net as of December 31, 2019 and 2018 consist of the following:

| Category | Useful life *(in years)* | 2019 Value | 2018 Value |
|---|---|---|---|
| Land | | $ 830 | $ 830 |
| Buildings | 40 | 800 | 800 |
| Furniture and fixtures | 5 | 166 | 166 |
| Computer equipment | 3 | 1,733 | 1,683 |
| Leasehold improvements | Shorter of useful life or life of lease | 1,799 | 1,424 |
| Equipment | 7 - 10 | 43,719 | 36,073 |
| Vehicles | 7 | 12,141 | 9,335 |
| | | 61,188 | 50,311 |
| Less: Accumulated depreciation and amortization | | (27,040) | (15,905) |
| Property and equipment - net | | $ 34,148 | $ 34,406 |

Depreciation expense for the years ended December 31, 2019 and 2018 was $12,531 and $11,689, respectively, which includes the depreciation of assets under capital lease.

The gross amount of assets acquired pursuant to capital leases total $12,704 and $13,497, offset by accumulated depreciation of $5,160 and $3,558 as of December 31, 2019 and 2018, respectively, and are included in the table above.

*(amounts in thousands)*

## 6. Goodwill and Intangible Assets

The Company's goodwill of $100,430 relates to a business combination completed in 2017. No impairment charges related to goodwill were recognized in the years ended December 31, 2019 and 2018 in connection with the annual goodwill impairment or qualitative assessment at December 31.

As of December 31, 2019 and 2018, the Company's intangible assets and related accumulated amortization consist of the following:

| | 2019 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
| Customer relationships | 10 years | $ 72,900 | $ 18,590 | $ 54,310 |
| Trademark | 10 years | 8,000 | 2,040 | 5,960 |
| Total intangible assets | | $ 80,900 | $ 20,630 | $ 60,270 |

| | 2018 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
| Customer relationships | 10 years | $ 72,900 | $ 11,300 | $ 61,600 |
| Backlog | 1.5 years | 8,500 | 8,500 | - |
| Trademark | 10 years | 8,000 | 1,240 | 6,760 |
| Total intangible assets | | $ 89,400 | $ 21,040 | $ 68,360 |

The weighted average useful life of the Company's intangible assets when acquired was 9.2 years. Amortization expense related to intangible assets for the years ended December 31, 2019 and 2018 was $8,090 and $13,474, respectively. Amortization expense for each of the next five years for intangible assets subject to amortization is $8,090.

*(amounts in thousands)*

## 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Workers compensation and other liability insurance | $ 11,317 | $ 7,562 |
| Payroll and other compensation accruals | 16,354 | 16,130 |
| Sales tax | 549 | 697 |
| Interest | 360 | 3,699 |
| Other | 3,261 | 4,254 |
| Accrued expenses and other current liabilities | $ 31,841 | $ 32,342 |

## 8. Long-Term Financing Obligations

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Current portion of long-term financing obligations** | | |
| Senior Secured Credit Facilities [(a)] | | |
| Former Term Loan [(a)] | $ - | $ 19,593 |
| Term Loan A [(a)] | 1,375 | - |
| Term Loan B [(a)] | 371 | - |
| Equipment finance obligations [(b)] | 2,794 | 2,856 |
| Short-term financing obligations | $ 4,540 | $ 22,449 |
| **Noncurrent portion of long-term financing obligations** | | |
| Senior Secured Credit Facilities | | |
| Former Term Loan [(a)] | $ - | $ 119,812 |
| Term Loan A [(a)] | 75,066 | - |
| Term Loan B [(a)] | 83,507 | - |
| Equipment finance obligations [(b)] | 1,820 | 4,030 |
| Long-term financing obligations | $ 160,393 | $ 123,842 |

a. Amended and Restated Credit and Guaranty Agreement and Revolving Credit Facility

The Company entered into the Second Amended and Restated Credit and Guaranty agreement on June 12, 2017 (the "Former Credit Facility") with various lenders, consisting of a term loan of $140,000 (the "Former Term Loan") and a $55,000 revolving credit facility. The lenders had a security interest in substantially all of the assets of the Company and its subsidiaries. The Former Credit Facility was scheduled to mature on May 31, 2021, whereupon the balance outstanding on the Former Term Loan and revolver would be payable

*(amounts in thousands)*

in full. Principal payments on the Former Term Loan were due quarterly beginning on December 31, 2019 in amounts as described within the agreement. When certain annual financial performance thresholds have been exceeded, the Former Credit Facility required that the Company prepay a portion of the Former Term Loan by June 30 of the immediately following year. The Company met such thresholds during 2018, and reclassified $20,000 of the Former Term Loan as a current liability, which was paid in June 2019.

On September 6, 2019, the Company entered into the Credit and Guaranty Agreement (the "Credit Facility") with various lenders, for an aggregate amount of $217,500, consisting of Term Loan A for $80,000, Term Loan B for $87,500, and a $50,000 revolving credit facility (the "Revolver"). The proceeds from the Credit Facility were used to repay the Former Term Loan including accrued interest, and cancel the Former Credit Facility, whereupon the Company wrote off $431 of the related deferred issuance costs to interest expense. The lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. Term Loan A and the Revolver mature on September 6, 2024, whereupon the balance of Term Loan A and the Revolver will be payable in full. The Credit Facility matures on September 6, 2025, whereupon the balance outstanding on Term Loan B will be payable in full.

Interest is charged on the Revolver, Term Loan A and Term Loan B at an applicable margin percentage above either the Base Rate or above the Adjusted Eurodollar Rate, at the Company's option. The Base Rate is defined in the Credit Facility as the greatest of (i) the Prime Rate; (ii) the Federal Funds Effective Rate plus 0.5%; and (iii) the Adjusted Eurodollar Rate plus 1%. The Adjusted Eurodollar Rate is defined in the Credit Facility as the greater of (i) the London InterBank Offered Rate and (ii) 1%. The applicable margin is on a sliding scale based upon the Company's total net leverage ratio as defined in the Credit Facility, measured quarterly and payable in cash. The effective rate on Term Loan A and Term Loan B at December 31, 2019 was an annual rate of 6.1% and 6.9%, respectively The effective rate on the Old Term Loan at December 31, 2018 was an annual rate of 6.9%. The Revolver also has a fee of 0.375% per annum on the unused portion of the facility. Interest on outstanding borrowings and the fee are payable monthly.

The Term Loan A and Term Loan B were issued at discounts of $1,481 and $1,619, respectively. The amortization of the discounts on these loans for the year ended December 31, 2019 was a combined $159, and is classified as interest expense in the consolidated statement of operations. Amortization of deferred financing costs for the years ended December 31, 2019 and 2018 was approximately $786 and $247 respectively, and is classified as interest expense in the consolidated statement of operations.

As of December 31, 2019 and 2018, the Company had outstanding letters of credit in the amount of $7,087 and $9,567 for the benefit of its surety bonding (Note 11) and deductibles under insurance policies, and had drawn $0 on the Revolver, which reduced the borrowing availability under the Revolver to $42,913 and $45,433, respectively. The letters of credit are automatically renewable unless notice is provided 30 days prior to cancellation.

*(amounts in thousands)*

b. Equipment Finance Obligations

The Company has financed equipment under capital lease agreements and equipment finance notes with various vendors for equipment utilized in the performance of its work. The terms of the leases and notes vary from 36 to 60 months and carry interest rates ranging from 0.00% to 8.95%.

At December 31, 2019 the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Equipment Finance Obligations | Total Long-Term Financing Obligations |
|---|---|---|---|
| 2020 | $ 2,875 | $ 2,890 | $ 5,765 |
| 2021 | 3,875 | 1,161 | 5,036 |
| 2022 | 4,875 | 455 | 5,330 |
| 2023 | 4,875 | 241 | 5,116 |
| 2024 | 67,375 | - | 67,375 |
| Thereafter | 82,906 | - | 82,906 |
| Total future payments | 166,781 | 4,747 | 171,528 |
| Less: Amount representing interest | (6,462) | (133) | (6,595) |
| | $ 160,319 | $ 4,614 | $ 164,933 |

## 9. Income Taxes

The provision for income taxes for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Current (benefit) expense** | | |
| Federal | $ - | $ - |
| State and local | 872 | 846 |
| Total current expense | 872 | 846 |
| **Deferred (benefit) expense** | | |
| Federal | (5,895) | 2,296 |
| State and local | 1,113 | 2,306 |
| Total deferred (benefit) expense | (4,782) | 4,602 |
| Total income tax (benefit) expense | $ (3,910) | $ 5,448 |

The Company's effective tax rate for 2019 differs from the federal statutory rate mainly as a result of the deferred credit as well as state taxes and other permanent differences. The Company's

*(amounts in thousands)*

effective tax rate for 2018 differs from the federal statutory rate mainly as a result of state taxes and permanent differences.

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for bad debts | $ 860 | $ 1,217 |
| Compensation accruals | 2,350 | 2,258 |
| Insurance reserves | 7,708 | 6,170 |
| Net operating loss | 11,101 | 10,340 |
| Decommissioning trust funds | 1,643 | - |
| Reimbursements due from US Department of Energy | 50,997 | - |
| Asset Retirement Obligations | 139,442 | - |
| Unearned Revenue - Site Restoration | 13,957 | - |
| Other | 1,389 | 1,676 |
| Total deferred tax assets | 229,447 | 21,661 |
| **Deferred tax liabilities** | | |
| Depreciation and amortization | (20,747) | (20,696) |
| Investment in partnerships | (3,423) | (1,659) |
| Unrealized gain on debt securities | (4,188) | - |
| Deferred Revenue | (4,423) | (5,369) |
| Total deferred tax liabilities | (32,781) | (27,724) |
| Net deferred tax assets (liabilities) | $ 196,666 | $ (6,063) |

As of December 31, 2019 and 2018, the Company has federal and combined state net operating loss carryforwards of $63,097 and $44,609 and separate state net operating loss carryforwards of approximately $10,017 and $33,965, respectively. Federal net operating loss carryforwards that were generated from 2018 onward do not have expiration dates, whereas the state and pre-2018 federal net operating loss carryforwards expire at various dates beginning in 2032. In general, under Section 382 of the United States Internal Revenue Code of 1986 ("IRC"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses to offset future taxable income. In 2017, an analysis was conducted as a result of a change in the Company's ownership. The results of the analysis indicated that federal and state net operating losses were limited pursuant to IRC 382. This limitation has been considered in calculating the available net operating loss carryforwards.

The Company had approximately $16 and $58, for the years ended December 31, 2019 and 2018, for the payment of interest and penalties and $118 and $116 of unrecognized tax benefits accrued in other long-term obligations at December 31, 2019 and 2018, respectively. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits would affect the Company's effective tax rate upon recognition.

*(amounts in thousands)*

The Company's tax years 2016-2018 remain open to examination for federal purposes and for 2015 forward for most state jurisdictions.

## 10. Asset Retirement Obligations and Decommissioning Trust Funds

The Company recorded the asset retirement obligations and the trust funds in connection with the 2019 transaction discussed in Note 1. The terms of the underlying agreements legally restrict the Company's ability to make withdrawals from the trust funds, which are limited to the value of completed nuclear decommissioning, spent fuel management and site restoration work as specified in the pay item schedule included within the MIPA.

2019 activity associated with the asset retirement obligation liability was as follows:

| | |
|---|---|
| Liabilities as of January 11, 2019 | $ 611,827 |
| Accretion | 20,602 |
| Change in cash flow estimate | 6,769 |
| Spending | (97,465) |
| Liabilities as of December 31, 2019 | $ 541,733 |

The cumulative activity for the NDT and SRT funds in 2019 was as follows:

| | SRT | NDT | TOTAL |
|---|---|---|---|
| Assets as of January 11, 2019 | $ 59,991 | $ 487,627 | $ 547,618 |
| Interest earnings | 1,333 | 7,599 | 8,932 |
| Realized gains | 46 | 653 | 699 |
| Withdrawals per pay item schedule | (1,669) | (80,601) | (82,270) |
| Payments to custodian and fund manager | (80) | (599) | (679) |
| Unrealized gains | 2,717 | 13,551 | 16,268 |
| Fair value as of December 31, 2019 | $ 62,338 | $ 428,230 | $ 490,568 |

The Company records the trust funds on the balance sheet at their fair value. As of December 31, 2019, the trust funds' holdings consist of $27,590 in cash and cash equivalents and $462,618 in U.S. Treasury securities that are classified as available-for-sale. The fair value of the available-for-sale debt securities is determined by quoted market prices (a Level 2 input). Unrealized gains on the available-for-sale debt securities are recognized in the accumulated other comprehensive income component of member's equity. Unrealized losses (where cost exceeds fair market value) on the available-for-sale debt securities in the trust funds are also recorded in the accumulated other comprehensive income component of member's equity unless the unrealized loss is other than temporary and therefore recorded in earnings. Generally, the Company records gains and losses on its debt securities using the specific identification method to determine the cost basis of its securities.

The amortized cost of the trust funds' available-for-sale debt securities was $448,151 as of December 31, 2019. As of December 31, 2019, the available-for-sale debt securities have a weighted-average maturity of approximately 3.2 years.

*(amounts in thousands)*

## 11. Commitments and Contingencies

### Operating Leases

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for real property is calculated on a straight-line basis, and was $4,203 and $4,673 for the years ended December 31, 2019 and 2018, respectively. The Company received sublease income of $565 and $551 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| **Year Ending December 31,** | | |
|---|---|---|
| 2020 | $ | 4,069 |
| 2021 | | 2,949 |
| 2022 | | 1,833 |
| 2023 | | 667 |
| 2024 | | 252 |
| Thereafter | | 328 |
| | $ | 10,098 |

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 30.2% and 21.6% of consolidated total accounts receivable as of December 31, 2019 and 2018, respectively. In addition, the Company holds cash, cash equivalents, and restricted cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2019 and 2018, the Company had approximately $103,036 and $37,495 in excess of FDIC insured limits, respectively.

### Risks and Uncertainties

The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

### Surety Bonds

As is customary in the contracting business, the Company is required to provide surety bonds to secure its performance under certain contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards, which may change from time to time. The Company's inability to obtain surety bonds in the future

*(amounts in thousands)*

would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

**Litigation**
The Company is involved in various litigations that arise in the ordinary course of its business activities. In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

## 12. Related-Party Transactions

Pursuant to a change of the Company's ownership completed on June 12, 2017, the Company became a wholly owned subsidiary of JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Certain members of the Company's senior management act in senior management roles at another entity that is also a wholly owned subsidiary of the Investor. During the year ended December 31, 2019, the Company recognized revenue of $401 and incurred expense of $4,794 with that entity.

During the years ended December 31, 2019 and 2018, the Company paid rent expense of $317 and $354, respectively, to an entity in which a Company employee has an equity interest.

On June 12, 2017, the Company entered into a management services agreement (the "Management Agreement") pursuant to which certain of the members of the Investor (the "Advisors") are paid $750 per year plus out-of-pocket expenses for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company. Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has no stated term and will remain effective until terminated. The management fee is payable to the Advisors quarterly in advance. The Company incurred expense relating to the Management Agreement of $972 and $1,003 in the years ended December 31, 2019 and 2018, respectively. The amounts payable to the Advisors as of December 31, 2019 and 2018 were $0 and $162, respectively.

In connection with entering into the Credit Facility as described in Note 8, the Company paid the Advisors $975 on September 6, 2019. This payment was capitalized as deferred financing costs.

## 13. Retirement Plans

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 100% of their eligible compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The Company matching contributions vest over a five-year period, as defined in the plan documents. Total Company matching contributions to the plan for the years ended December 31, 2019 and 2018 was $826 and $811, respectively.

During the year ended December 31, 2019 and 2018, the Company participated in several multiemployer pension plans ("MEPPs") that provide retirement benefits to certain union employees in accordance with various collective bargaining agreements ("CBAs") in the United States. The

*(amounts in thousands)*

risks of participating in multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and if a participating employer chooses to stop participating in an employer plan it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Contributions to a particular MEPP are established by the applicable CBAs; however, the Company's required contributions may increase based on the funded status of an MEPP and legal requirements of the Pension Protection Act of 2006 ("PPA").

The Company could also be obligated to make payments to MEPPs if the Company either ceases to have an obligation to contribute to the MEPP or significantly reduces its contributions to the MEPP because of a reduced number of employees who are covered by the relevant MEPP for various reasons, including, but not limited to layoffs or closure of a subsidiary assuming the MEPP has unfunded vested benefits. The amount of such payments (known as a complete or partial withdrawal liability) would equal the Company's proportionate share of the MEPPs unfunded vested benefits. The Company believes that certain of the MEPPs in which the Company participates may have unfunded vested benefits. Due to uncertainty regarding future factors that could trigger withdrawal liability, as well as the absence of specific information regarding the MEPPs current financial situation, the Company is unable to determine the amount and timing of any future withdrawal liability, if any. The Company does not believe that its participation in these MEPPs will have a material adverse impact on its financial condition.

The PPA zone status for each plan has been evaluated based on the information that the Company received from the MEPPs and is certified by the MEPPs actuaries. The Company does not have any material obligations to the MEPPs, and the contributions for the year ended December 31, 2019 approximate the ongoing minimum contribution expense. There are no plan contributions made by the Company that exceed 5% of the total plan contributions for a respective plan.

## 14. Subsequent Events

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its consolidated financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date. The Company has evaluated subsequent events through March 31, 2020, the date that these consolidated financial statements were available to be issued.

*(amounts in thousands)*

In March 2020, the World Health Organization (WHO) announced that the worldwide outbreak of COVID-19 had become a global pandemic. This is a rapidly evolving global issue and management has taken multiple steps to manage the situation, including restricting on site access, promoting remote work for relevant roles, and compliance with and communication of CDC and other relevant government guidelines. Management continues to assess the potential business impacts and will take additional steps as the latest facts dictate.

On March 18, 2020, the Company paid a dividend of $75,975 to the Investor. No other events were identified that require recognition or disclosure.

## Supplemental Information

## NorthStar Group Services, Inc.
### Unaudited Supplemental Information – Disbursements from Trust Funds in 2019
### December 31, 2019

*(amounts in thousands)*

| Cert # | Date | Payee | SRT | NDT |
|---|---|---|---|---|
| 1 | 3/11/2019 | NorthStar Vermont Yankee, LLC | $ - | $ (8,735) |
| MGF-1 | 4/1/2019 | FPCM | - | (57) |
| MGF-2 | 4/1/2019 | FPCM | (7) | - |
| 2 | 4/8/2019 | NorthStar Vermont Yankee, LLC | - | (7,357) |
| MGF-3 | 5/3/2019 | FPCM | - | (63) |
| MGF-4 | 5/3/2019 | FPCM | (8) | - |
| 3 | 5/6/2019 | NorthStar Vermont Yankee, LLC | - | (5,151) |
| 4 | 6/10/2019 | NorthStar Vermont Yankee, LLC | - | (4,018) |
| MGF-5 | 6/10/2019 | FPCM | - | (60) |
| MGF-6 | 6/10/2019 | FPCM | (8) | - |
| CUS-1 | 6/10/2019 | BNY-Mellon | - | (31) |
| CUS-2 | 6/10/2019 | BNY-Mellon | (4) | - |
| 5 | 6/24/2019 | NorthStar Vermont Yankee, LLC | (250) | - |
| MGF-7 | 7/5/2019 | FPCM | | (62) |
| MGF-8 | 7/5/2019 | FPCM | (8) | - |
| 6 | 7/8/2019 | NorthStar Vermont Yankee, LLC | - | (6,521) |
| SR-01 | 7/15/2019 | NorthStar Vermont Yankee, LLC | (337) | - |
| 7 | 7/17/2019 | NorthStar Vermont Yankee, LLC | - | (38) |
| 8 | 8/1/2019 | NorthStar Vermont Yankee, LLC | - | (7,583) |
| 9 | 8/1/2019 | FPCM | - | (60) |
| | 8/1/2019 | BNY-Mellon | - | (15) |
| SR-02 | 8/8/2019 | NorthStar Vermont Yankee, LLC | (250) | - |
| | 8/8/2019 | FPCM | (8) | - |
| | 8/8/2019 | BNY-Mellon | (2) | - |
| 10 | 9/3/2019 | NorthStar Vermont Yankee, LLC | - | (12,201) |
| 11 | 9/6/2019 | FPCM | - | (61) |
| SR-03 | 9/6/2019 | FPCM | (8) | - |
| 12 | 10/7/2019 | FPCM | - | (61) |
| SR-04 | 10/7/2019 | NorthStar Vermont Yankee, LLC | (444) | - |
| | 10/7/2019 | FPCM | (8) | - |
| 13 | 10/9/2019 | NorthStar Vermont Yankee, LLC | - | (11,229) |
| 14 | 11/7/2019 | NorthStar Vermont Yankee, LLC | - | (9,959) |
| 15 | 11/14/2019 | FPCM | - | (57) |
| | 11/14/2019 | BNY-Mellon | - | (14) |

CONFIDENTIAL

## NorthStar Group Services, Inc.
### Unaudited Supplemental Information – Disbursements from Trust Funds in 2019
### December 31, 2019

*(amounts in thousands)*

| Cert # | Date | Payee | SRT | NDT |
|---|---|---|---|---|
| SR-05 | 11/14/2019 | NorthStar Vermont Yankee, LLC | (194) | - |
| | 11/14/2019 | FPCM | (8) | - |
| | 11/14/2019 | BNY-Mellon | (3) | - |
| 16 | 12/9/2019 | NorthStar Vermont Yankee, LLC | - | (7,809) |
| | 12/9/2019 | FPCM | - | (58) |
| SR-06 | 12/6/2019 | NorthStar Vermont Yankee, LLC | (194) | - |
| SR-07 | 12/9/2019 | FPCM | (8) | - |
| **TOTAL 2019 DISBURSEMENTS** | | | **$ (1,749)** | **$ (81,200)** |

# NorthStar Group Holdings, LLC
**(A limited liability company)**
## Notes to Unaudited Supplemental Information
## December 31, 2019
*(amounts in thousands)*

**1. Basis of Presentation**

The accompanying Supplemental Schedule – Disbursements from Trust Funds in 2019, has been prepared to provide an accounting of all disbursements from the trust funds, as described in Note 2 and Note 10 of the Consolidated Financial Statements, during 2019. Total disbursements from the NDT and SRT trust funds during 2019 were $81,200 and $1,749, respectively. The first column, "Cert #" represents the "Decommissioning Certificate" identification number. The Decommissioning Certificate process is governed by the NorthStar Vermont Yankee, LLC Decommissioning Completion Trust Agreement for Vermont Yankee Nuclear Power Station, dated January 11, 2019 (the "Agreement"), and means a document properly completed and executed by an Authorized Representative of the Company and substantially in the form governed by the Agreement, as it may from time to time be amended. The second column, "Date" represents the payment receipt date in a format of Month/Day/Year. The third column, "Payee" represents the recipient to the disbursement. The fourth column and fifth column represent the source of the respective disbursements. "SRT" represents funds disbursed from the site restoration trust and "NDT" represents funds disbursed from the nuclear decommissioning trust, both as defined in Note 1. This schedule is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

**Counterparty Financial Analysis**

DUKE ENERGY.

| | |
|---|---|
| **Counterparty** | NorthStar Group Services, Inc. |
| **Review Date** | 8/15/18 |
| **Review By** | Matt Holstein |
| **Guarantor** | |
| **Ticker** | |

## Credit Ratings

| | S&P | | Moodys | | Moodys KMV | | Internal |
|---|---|---|---|---|---|---|---|
| | Rating | Date Issued | Rating | Date Issued | Rating | Date Issued | Rating |
| NorthStar Group Services, Inc. | NR | | NR | | | | 6 |
| NorthStar Group Holdings | NR | | NR | | | | 6 |

## Counterparty Overview

Northstar Group Services, Inc. is a provider of facility and environmental solutions. The facility services contractor offers asbestos abatement and a vast array of services to commercial, industrial, government and private sector customers. Other services include: Demolition, Emergency and Disaster Response, Nuclear Decommissioning, Commercial and Industrial Facility Deconstruction, Water Resource Management and Site Preparation services. In addition, it provides a full range of remediation contracting services including trench drilling, operation and maintenance services, and storage tank removal. On June 12, 2017, the former owners of the Company entered into an Agreement and Plan of Merger (the "Merger") with JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Per the terms of the Merger, the Company was merged into a wholly-owned subsidiary of the Investor, with the Company as the sole surviving entity. Prior to the Merger, one of the Investor's members was the holder of the predecessor Company's subordinated mezzanine debt. In connection with the Merger, the mezzanine debt holder agreed to exchange their debt position for an ownership interest in the Investor. The exchange resulted in net non-cash consideration transferred of $20,012. Simultaneously, the Investor contributed $83,464 to the Company, which was funded by a portion of the value contributed to the Investor by its members, including cash. As a result of the Merger, 100% ownership and control of the Company was transferred to the Investor, and the former owners were relieved of all rights and obligations related to their previous ownership interest in the Company. Subsequent to the date of the transaction, the Investor contributed an additional $6,548 to the Company for working capital needs, bringing the total contribution invested in the Company to $90,012.

## Group Structure

NorthStar Group Services, Inc. (formerly LVI Services Inc.) is wholly owned and the primary subsidiary of NorthStar Group Holdings, LLC. NorthStar Group Services, Inc has several wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc.; NorthStar Demolition and Remediation, LP; NorthStar Contracting Group, Inc.; NorthStar CG, LP; NorthStar Recovery Services, Inc.; NorthStar Federal Services, Inc.; LVI Environmental Services, Inc.; TEG/LVI Environemental Services Inc.; LVI Facility Services Inc.; LVI Services of North Carolina Inc.; and LVI Environmental Servies of New Orleans, Inc. The financials for NorthStar Group Holdings were used since NorthStar Group Services is the primary subsidiary and the Holdings financials were audited.

## Credit Measures for NorthStar Group Holdings

*($Thousands)*

| **Liquidity** | FY2017 | FY2016 |
|---|---|---|
| Current Ratio | 1.34 | 1.39 |
| Cash Ratio | 0.05 | 0.03 |
| CFO / Current Liab | (0.01) | 0.14 |
| **Balance Sheet ($Millions)** | FY2017 | FY2016 |
| Cash and Cash Equiv. | 7 | 3 |
| Total Assets | 402 | 367 |
| Total Debt | 154 | 242 |
| Total Equity | 94 | 11 |
| Tangible Net Worth | (88) | 11 |
| Total Debt / Total Cap | 62% | 96% |
| **Debt Ratios** | FY2017 | FY2016 |
| Total Debt / CFO | (81.11) | 15.78 |
| Total Debt / FFO | 13.88 | 19.02 |
| Total Debt / EBITDA | 9.82 | 9.94 |
| Market Cap - current | - | |

| **Interest Coverage** | FY2017 | FY2016 |
|---|---|---|
| EBIT / Interest Exp | 1.14 | 0.40 |
| EBITDA / Interest Exp | 2.80 | 1.03 |
| FFO Interest Coverage | 2.98 | 1.54 |
| **Earnings & Cash Flow ($Millions)** | FY2017 | FY2016 |
| Revenue | 306 | 573 |
| EBIT | 6 | 10 |
| EBITDA | 16 | 24 |
| Cash from Ops (CFO) | (2) | 15 |
| Funds from Ops (FFO) | 11 | 13 |
| Free Cash Flow (FCF) | (10) | 7 |
| **Profitability Measures** | FY2017 | FY2016 |
| Net Profit Margin | 1.3% | -2.1% |
| Return on Assets | 1.0% | -3.2% |
| Return on Capital | 1.6% | -4.7% |

Note: Income metrics are misleading as the 2017 FS are just under 6 months and not a full year

## Business Risk & Key Issues

**Liquidity**- NorthStar has limited liquidity as balance sheet cash is thin and its revolving credit facility is often moderate to heavily used. It had zero availability as of 12/31/16. Current ratio is good as it is in excess of 1.3.

**Leverage**- NorthStar is highly leveraged although the reorganization during 2017 both reduced debt and improved equity. The Debt to Capital ratio is 62%.

**Profitability**- Profit margin was thin in 2017 after a couple of years of net losses. The 2017 ratios are skewed by the fact that the income statement only records the period from 6/12/17 - 12/31/17.

**Trend**- Improvements in NorthStar's balance sheet and income statement during 2017 are a credit positive. The reorganization has produced a more profitable company with debt that is manageable if it can continue to remain profitable.

## Comments/Conclusion

Based upon the key risks drivers and current overall financial condition, NorthStar Group Holdings warrants an internal credit rating of 6. The same rating will be applied to subsidiary NorthStar Group Services due its status as the primary subsidairy of the holding company.

**Counterparty Financial Analysis**

NorthStar Group Services, Inc.

Note: Financials are NorthStar Group Holdings

**Summary Financials**

| ($Millions) | FY2017 (6/12/17-12/31/17) | FY2016 | FY2015 (thousands) |
|---|---|---|---|
| **Balance Sheet Items** | | | |
| Cash and Cash Equiv. | 7 | 3 | |
| Accounts Receivable | 152 | 126 | 155,378 |
| Current Assets | 180 | 154 | 185,478 |
| Total Assets | 402 | 367 | 401,890 |
| Current Liabilities | 134 | 111 | 147,086 |
| Short-term debt (excl. CM of LT Debt) | - | - | |
| Current Maturities of LT Debt | 3 | 4 | 19,967 |
| LT Debt (excl. current maturities) | 151 | 238 | 223,023 |
| Total Debt | 154 | 242 | 242,990 |
| Minority Interest Equity (if separate) | - | - | |
| Owner's Equity (excl. Minority Interest) | 94 | 11 | 21,779 |
| Total Equity | 94 | 11 | 21,779 |
| Total Capitalization | 248 | 253 | 264,769 |
| Goodwill | 100 | - | 138,917 |
| Other Intangible Assets | 82 | - | 42,360 |
| Total Intangible Assets | 182 | - | 181,277 |
| Tangible Net Worth | (88) | 11 | (159,498) |
| **Income Statement Items** | | | |
| Revenue | 306 | 573 | 652,326 |
| Operating Income | 6 | 25 | 29,646 |
| Net Income (Loss) | 4 | (12) | (216) |
| Interest Expense | 6 | 24 | 19,434 |
| Tax Expense (Benefit) | (3) | (2) | (5,794) |
| Depr & Amort Expense | 9 | 15 | 26,215 |
| EBIT | 6 | 10 | 13,424 |
| EBITDA | 16 | 24 | 39,639 |
| Market Cap - current | | - | |
| **Cash Flow Statement Items** | | | |
| Net cash from operations | (2) | 15 | 11,689 |
| Change in working capital | (13) | 3 | (14,468) |
| Funds from operations (FFO) | 11 | 13 | 26,157 |
| Capex & investments | 8 | 8 | 4,828 |
| Free Cash Flow (FCF) | (10) | 7 | 6,861 |
| **Changes in Working Capital** | **FY2017** | **FY2016** | **FY2015** |
| Accounts receivable | (65) | 19 | (11,304) |
| Inventory | 4 | 1 | 1,065 |
| Prepaid expense and other | 2 | 4 | (2,998) |
| Accounts payable | 30 | (15) | (3,820) |
| Accrued expenses and other | 15 | (5) | 5,772 |
| Income tax payable | 1 | (1) | (3,183) |
| Change in WC | (13) | 3 | (14,468) |

**Credit Analysis**

| | FY2017 | FY2016 | FY2015 |
|---|---|---|---|
| **Liquidity Measures** | | | |
| Current Ratio | 1.34 | 1.39 | 1.26 |
| Quick Ratio | 2.47 | 2.51 | 2.32 |
| Cash Ratio | 0.05 | 0.03 | - |
| Working Capital (millions$) | 45.5 | 43.0 | 38,392.0 |
| CFO / Current Liab | (0.0) | 0.1 | 0.1 |
| **Interest Coverage Ratios** | | | |
| EBIT / Interest Exp (times) | 1.14 | 0.40 | 0.69 |
| EBITDA / Interest Exp (times) | 2.80 | 1.03 | 2.04 |
| FFO Interest Coverage (times) | 2.98 | 1.54 | 2.35 |
| **Debt Ratios** | | | |
| Total Debt / CFO | (81.11) | 15.78 | 20.79 |
| Total Debt / FFO | 13.88 | 19.02 | 9.29 |
| Total Debt / EBITDA | 9.82 | 9.94 | 6.13 |
| Total Debt / Total Cap | 0.62 | 0.96 | 0.92 |
| **Profitability Measures** | | | |
| Net Profit Margin | 1.3% | -2.1% | 0.0% |
| Return on Avg Assets | 1.0% | -3.2% | -0.1% |
| Return on Avg Equity | 7.4% | -105.4% | -1.0% |
| Return on Avg Total Capital | 1.6% | -4.7% | -0.1% |

**Debt Maturities & Other Fixed Costs**

| | DEBT & CAP LEASES | OPERATING LEASES | | | |
|---|---|---|---|---|---|
| FY2016 | 4 | 4 | | | |
| FY2017 | 4 | 4 | | | |
| FY2018 | 6 | 3 | | | |
| FY2019 | 8 | 2 | | | |
| FY2020 | 7 | 1 | | | |
| Thereafter | 128 | 0 | | | |
| Total | 156 | 14 | - | - | - |

| Other Information | FY2017 | FY2016 | FY2015 |
|---|---|---|---|
| Revolving Credit Facility | 55 | 60 | |
| LC Usage | 20 | 16 | |
| Facility Draws | 7 | 44 | |



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**Counterparty Financial Analysis**

**Counterparty** NorthStar Group Services, Inc. (this one is NOT Quanta's Subsidiary)
**Review Date** 4/26/19
**Review By** Matt Holstein
**Guarantor**
**Ticker**

DUKE ENERGY.

## Credit Ratings

| | S&P | | Moodys | | Moodys KMV | | Internal |
|---|---|---|---|---|---|---|---|
| | Rating | Date Issued | Rating | Date Issued | Rating | Date Issued | Rating |
| NorthStar Group Services, Inc. | NR | | NR | | | | 6 |
| NorthStar Group Holdings | NR | | NR | | | | 6 |
| Accelerated Decommissioning Partners | NR | | NR | | | | NR |
| ADP CR3, LLC | NR | | NR | | | | NR |

## Counterparty Overview

Northstar Group Services, Inc. is a provider of facility and environmental solutions. The facility services contractor offers asbestos abatement and a vast array of services to commercial, industrial, government and private sector customers. Other services include: Demolition, Emergency and Disaster Response, Nuclear Decommissioning, Commercial and Industrial Facility Deconstruction, Water Resource Management and Site Preparation services. In addition, it provides a full range of remediation contracting services including trench drilling, operation and maintenance services, and storage tank removal.

## Group Structure

On June 12, 2017, the former owners of the Company entered into an Agreement and Plan of Merger (the "Merger") with JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Per the terms of the Merger, the Company was merged into a wholly-owned subsidiary of the Investor, with the Company as the sole surviving entity. Prior to the Merger, one of the Investor's members was the holder of the predecessor Company's subordinated mezzanine debt. In connection with the Merger, the mezzanine debt holder agreed to exchange their debt position for an ownership interest in the Investor. The exchange resulted in net non-cash consideration transferred of $20,012. Simultaneously, the Investor contributed $83,464 to the Company, which was funded by a portion of the value contributed to the Investor by its members, including cash. As a result of the Merger, 100% ownership and control of the Company was transferred to the Investor, and the former owners were relieved of all rights and obligations related to their previous ownership interest in the Company. Subsequent to the date of the transaction, the Investor contributed an additional $6,548 to the Company for working capital needs, bringing the total contribution invested in the Company to $90,012.NorthStar Group Services, Inc. (formerly LVI Services Inc.) is wholly owned and the primary subsidiary of NorthStar Group Holdings, LLC. NorthStar Group Services, Inc has several wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc.; NorthStar Demolition and Remediation, LP; NorthStar Contracting Group, Inc.; NorthStar CG, LP; NorthStar Recovery Services, Inc.; NorthStar Federal Services, Inc.; LVI Environmental Services, Inc.; TEG/LVI Environemental Services Inc.; LVI Facility Services Inc.; LVI Services of North Carolina Inc.; and LVI Environmental Servies of New Orleans, Inc. The financials for NorthStar Group Holdings were used since NorthStar Group Services is the primary subsidiary and the Holdings financials were audited.

ADP is a JV owned by NorthStar Group Services and Orano USA, LLC. ADP CR3, LLC is a project LLC set up for the purpose of decommissioning and demolishing Crystal River Unit

## Credit Measures for NorthStar Group Holdings

*($Thousands)*

| **Liquidity** | FY2018 | FY2017 |
|---|---|---|
| Current Ratio | 1.35 | 1.34 |
| Cash Ratio | 0.27 | 0.05 |
| CFO / Current Liab | 0.34 | (0.01) |
| **Balance Sheet ($Millions)** | FY2018 | FY2017 |
| Cash and Cash Equiv. | 36 | 7 |
| Total Assets | 383 | 402 |
| Total Debt | 146 | 154 |
| Total Equity | 100 | 94 |
| Tangible Net Worth | (69) | (88) |
| Total Debt / Total Cap | 59% | 62% |
| **Debt Ratios** | FY2018 | FY2017 |
| Total Debt / CFO | 3.27 | (81.11) |
| Total Debt / FFO | 3.67 | 13.88 |
| Total Debt / EBITDA | 3.59 | 9.82 |
| Market Cap - current | - | |

| **Interest Coverage** | FY2018 | FY2017 |
|---|---|---|
| EBIT / Interest Exp | 1.95 | 1.14 |
| EBITDA / Interest Exp | 3.28 | 2.80 |
| FFO Interest Coverage | 4.22 | 2.98 |
| **Earnings & Cash Flow ($Millions)** | FY2018 | FY2017 |
| Revenue | 504 | 306 |
| EBIT | 24 | 6 |
| EBITDA | 41 | 16 |
| Cash from Ops (CFO) | 45 | (2) |
| Funds from Ops (FFO) | 40 | 11 |
| Free Cash Flow (FCF) | 36 | (10) |
| **Profitability Measures** | FY2018 | FY2017 |
| Net Profit Margin | 1.3% | 1.3% |
| Return on Assets | 1.6% | 1.0% |
| Return on Capital | 2.6% | 1.6% |

Note: 2017 Income metrics are misleading as the 2017 FS are just under 6 months and not a full year

## Business Risk & Key Issues

**Liquidity**- NorthStar's liquidity position improved during 2018 although working capital remains constant. Higher AR collections have led to a good cash balance and less borrowing on the credit facility. NorthStar has access to a $55M line of credit that currently has $45M available due to LC usage.
**Leverage**- NorthStar is highly leveraged although the reorganization during 2017 both reduced debt and improved equity. The Debt to Capital ratio is around 60%.
**Profitability**- Profit margin remains thin but significant improvements were made in operating margin during 2018. Higher interest and tax expenses in 2018 reduced profit closer to 2017 levels. The increase in operating margin is a credit positive.
**Trend**- Improvements in NorthStar's balance sheet and income statement during 2017 and continuing in 2018 are a credit positive. The reorganization has produced a more profitable company with debt that is manageable if it can continue to remain profitable.
**Market**- NorthStar is reliant on large, high risk construction projects that will limit its potential to earn higher credit ratings. Demand for D&D work in the nuclear industry is likely to grow which could present NorthStar with opportunities to improve its financial position in the future.

## Comments/Conclusion

Based upon the key risks drivers and current overall financial condition, NorthStar Group Holdings warrants an internal credit rating of 6. The same rating will be applied to subsidiary NorthStar Group Services due its status as the primary subsidairy of the holding company.

**Counterparty Financial Analysis**

NorthStar Group Services, Inc. Note: Financials are NorthStar Group Holdings

**Summary Financials**

| *($Millions)* | FY2018 (6/12/17-12/31/17) | FY2017 | FY2016 |
|---|---|---|---|
| **Balance Sheet Items** | | | |
| Cash and Cash Equiv. | 36 | 7 | 3 |
| Accounts Receivable | 120 | 152 | 126 |
| Current Assets | 179 | 180 | 154 |
| Total Assets | 383 | 402 | 367 |
| Current Liabilities | 133 | 134 | 111 |
| Short-term debt (excl. CM of LT Debt) | - | - | - |
| Current Maturities of LT Debt | 23 | 3 | 4 |
| LT Debt (excl. current maturities) | 124 | 151 | 238 |
| Total Debt | 146 | 154 | 242 |
| Minority Interest Equity (if separate) | - | - | - |
| Owner's Equity (excl. Minority Interest) | 100 | 94 | 11 |
| Total Equity | 100 | 94 | 11 |
| Total Capitalization | 247 | 248 | 253 |
| Goodwill | 100 | 100 | - |
| Other Intangible Assets | 68 | 82 | - |
| Total Intangible Assets | 169 | 182 | - |
| Tangible Net Worth | (69) | (88) | 11 |
| **Income Statement Items** | | | |
| Revenue | 504 | 306 | 573 |
| Operating Income | 25 | 6 | 25 |
| Net Income (Loss) | 6 | 4 | (12) |
| Interest Expense | 12 | 6 | 24 |
| Tax Expense (Benefit) | 5 | (3) | (2) |
| Depr & Amort Expense | 17 | 9 | 15 |
| EBIT | 24 | 6 | 10 |
| EBITDA | 41 | 16 | 24 |
| Market Cap - current | | | - |
| **Cash Flow Statement Items** | | | |
| Net cash from operations | 45 | (2) | 15 |
| Change in working capital | 5 | (13) | 3 |
| Funds from operations (FFO) | 40 | 11 | 13 |
| Capex & investments | 8 | 8 | 8 |
| Free Cash Flow (FCF) | 36 | (10) | 7 |
| **Changes in Working Capital** | **FY2018** | **FY2017** | **FY2016** |
| Accounts receivable | 30 | (65) | 19 |
| Inventory | 1 | 4 | 1 |
| Prepaid expense and other | (3) | 2 | 4 |
| Accounts payable | (10) | 30 | (15) |
| Accrued expenses and other | (12) | 15 | (5) |
| Income tax payable | (0) | 1 | (1) |
| Change in WC | 5 | (13) | 3 |

## Credit Analysis

| | FY2018 | FY2017 | FY2016 |
|---|---|---|---|
| **Liquidity Measures** | | | |
| Current Ratio | 1.35 | 1.34 | 1.39 |
| Quick Ratio | 2.24 | 2.47 | 2.51 |
| Cash Ratio | 0.27 | 0.05 | 0.03 |
| Working Capital (millions$) | 46.0 | 45.5 | 43.0 |
| CFO / Current Liab | 0.3 | (0.0) | 0.1 |
| **Interest Coverage Ratios** | | | |
| EBIT / Interest Exp (times) | 1.95 | 1.14 | 0.40 |
| EBITDA / Interest Exp (times) | 3.28 | 2.80 | 1.03 |
| FFO Interest Coverage (times) | 4.22 | 2.98 | 1.54 |
| **Debt Ratios** | | | |
| Total Debt / CFO | 3.27 | (81.11) | 15.78 |
| Total Debt / FFO | 3.67 | 13.88 | 19.02 |
| Total Debt / EBITDA | 3.59 | 9.82 | 9.94 |
| Total Debt / Total Cap | 0.59 | 0.62 | 0.96 |
| **Profitability Measures** | | | |
| Net Profit Margin | 1.3% | 1.3% | -2.1% |
| Return on Avg Assets | 1.6% | 1.0% | -3.2% |
| Return on Avg Equity | 6.6% | 7.4% | -105.4% |
| Return on Avg Total Capital | 2.6% | 1.6% | -4.7% |

**Debt Maturities & Other Fixed Costs**

| | LT Debt | Op Leases | | | |
|---|---|---|---|---|---|
| FY2019 | 23 | 4 | | | |
| FY2020 | 7 | 4 | | | |
| FY2021 | 8 | 2 | | | |
| FY2022 | 7 | 1 | | | |
| FY2023 | 7 | 0 | | | |
| Thereafter | 95 | - | | | |
| Total | 147 | 12 | - | - | - |

| **Other Information** | FY2018 | FY2017 | FY2016 |
|---|---|---|---|
| Revolving Credit Facility | 55 | 55 | 60 |
| LC Usage | 10 | 20 | 16 |
| Facility Draws | - | 7 | 44 |

**Counterparty Financial Analysis**

**Counterparty** NorthStar Group Services, Inc. (this one is NOT Quanta's Subsidiary)
**Review Date** 4/27/20
**Review By** Matt Holstein
**Guarantor**
**Ticker**

## Credit Ratings

| | S&P | | Moodys | | Moodys KMV | | Internal |
|---|---|---|---|---|---|---|---|
| | Rating | Date Issued | Rating | Date Issued | Rating | Date Issued | Rating |
| NorthStar Group Services, Inc. | NR | | NR | | | | 6 |
| NorthStar Group Holdings | NR | | NR | | | | 6 |
| Accelerated Decommissioning Partners | NR | | NR | | | | NR |
| ADP CR3, LLC | NR | | NR | | | | NR |

## Counterparty Overview

Northstar Group Services, Inc. is a provider of facility and environmental solutions. The facility services contractor offers asbestos abatement and a vast array of services to commercial, industrial, government and private sector customers. Other services include: Demolition, Emergency and Disaster Response, Nuclear Decommissioning, Commercial and Industrial Facility Deconstruction, Water Resource Management and Site Preparation services. In addition, it provides a full range of remediation contracting services including trench drilling, operation and maintenance services, and storage tank removal.

## Group Structure

On June 12, 2017, the former owners of the Company entered into an Agreement and Plan of Merger (the "Merger") with JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Per the terms of the Merger, the Company was merged into a wholly-owned subsidiary of the Investor, with the Company as the sole surviving entity. Prior to the Merger, one of the Investor's members was the holder of the predecessor Company's subordinated mezzanine debt. In connection with the Merger, the mezzanine debt holder agreed to exchange their debt position for an ownership interest in the Investor. The exchange resulted in net non-cash consideration transferred of $20,012. Simultaneously, the Investor contributed $83,464 to the Company, which was funded by a portion of the value contributed to the Investor by its members, including cash. As a result of the Merger, 100% ownership and control of the Company was transferred to the Investor, and the former owners were relieved of all rights and obligations related to their previous ownership interest in the Company. Subsequent to the date of the transaction, the Investor contributed an additional $6,548 to the Company for working capital needs, bringing the total contribution invested in the Company to $90,012.NorthStar Group Services, Inc. (formerly LVI Services Inc.) is wholly owned and the primary subsidiary of NorthStar Group Holdings, LLC. NorthStar Group Services, Inc has several wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc.; NorthStar Demolition and Remediation, LP; NorthStar Contracting Group, Inc.; NorthStar CG, LP; NorthStar Recovery Services, Inc.; NorthStar Federal Services, Inc.; LVI Environmental Services, Inc.; TEG/LVI Environemental Services Inc.; LVI Facility Services Inc.; LVI Services of North Carolina Inc.; and LVI Environmental Servies of New Orleans, Inc. The financials for NorthStar Group Holdings were used since NorthStar Group Services is the primary subsidiary and the Holdings financials were audited.

ADP is a JV owned by NorthStar Group Services and Orano USA, LLC. ADP CR3, LLC is a project LLC set up for the purpose of decommissioning and demolishing Crystal River Unit

## Credit Measures for NorthStar Group Services, Inc.

*($ Thousands)*

| **Liquidity** | FY2019 | FY2018 | **Interest Coverage** | FY2019 | FY2018 |
|---|---|---|---|---|---|
| Current Ratio | 1.59 | 1.35 | EBIT / Interest Exp | 6.37 | 1.95 |
| Cash Ratio | 0.46 | 0.27 | EBITDA / Interest Exp | 7.25 | 3.28 |
| CFO / Current Liab | 0.58 | 0.34 | FFO Interest Coverage | 7.97 | 4.22 |
| **Balance Sheet ($Millions)** | FY2019 | FY2018 | **Earnings & Cash Flow ($Millions)** | FY2019 | FY2018 |
| Cash and Cash Equiv. | 69 | 36 | Revenue | 640 | 504 |
| Total Assets | 1,257 | 383 | EBIT | 83 | 24 |
| Total Debt | 165 | 146 | EBITDA | 95 | 41 |
| Total Equity | 129 | 100 | Cash from Ops (CFO) | 88 | 45 |
| Tangible Net Worth | (32) | (69) | Funds from Ops (FFO) | 91 | 40 |
| Total Debt / Total Cap | 56% | 59% | Free Cash Flow (FCF) | 76 | 36 |
| **Debt Ratios** | FY2019 | FY2018 | **Profitability Measures** | FY2019 | FY2018 |
| Total Debt / CFO | 1.87 | 3.27 | Net Profit Margin | 10.4% | 1.3% |
| Total Debt / FFO | 1.81 | 3.67 | Return on Assets | 8.1% | 1.6% |
| Total Debt / EBITDA | 1.74 | 3.59 | Return on Capital | 24.6% | 2.6% |
| Market Cap - current | - | | | | |

## Business Risk & Key Issues

**Liquidity**- NorthStar's liquidity is in good shape as cash grew in 2019 and is adquate for currently obligations. NorthStar has access to a $50M line of credit that currently has $43M available due to LC usage.
**Leverage**- NorthStar is highly leveraged but has very manageable debt loads until a balloon payment is due in 2024. The balloon payment is $67M which NorthStar should be able to cover with its current obligations should it not refinance. However, continued profitability and prudent cash management will be required.
**Profitability**- Profit at NorthStar Group Services was a strong 10.4% in 2019. The company continues to grow and is improving margins through its growth.
**Trend**- Continued improvements in NorthStar's balance sheet and strong improvments in the income statement over the past three years are a credit positive. The reorganization has produced a more profitable company with debt that is manageable if it can continue to remain profitable.
**Market**- NorthStar is reliant on large, high risk construction projects that will limit its potential to earn higher credit ratings. Demand for D&D work in the nuclear industry is likely to grow which could present NorthStar with opportunities to improve its financial position in the future. Decommissioning work has continued through the COVID-19 outbreak so and the large scale nature of these projects may insulate NorthStar from shorter-term impacts of COVID-19.
**Parent Relationship**- Services financials are nearly identical to Holdings with the differences being so small rounding in this sheet removes them. 100% of 2019 revenue for Holdings came through Services.

## Comments/Conclusion

Based upon the key risks drivers and current overall financial condition, NorthStar Group Holdings warrants an internal credit rating of 6. The same rating will be applied to subsidiary NorthStar Group Services due its status as the primary subsidairy of the holding company.

**Counterparty Financial Analysis**

NorthStar Group Services, Inc. Note: Financials are NorthStar Group Holdings

**Summary Financials**

| ($Millions) | FY2019 | FY2018 | FY2017 |
|---|---|---|---|
| | | | 6/12/17-12/31/17 |
| **Balance Sheet Items** | | | |
| Cash and Cash Equiv. | 69 | 36 | 7 |
| Accounts Receivable | 149 | 120 | 152 |
| Current Assets | 242 | 179 | 180 |
| Total Assets | 1,257 | 383 | 402 |
| Current Liabilities | 152 | 133 | 134 |
| Short-term debt (excl. CM of LT Debt) | - | - | - |
| Current Maturities of LT Debt | 5 | 23 | 3 |
| LT Debt (excl. current maturities) | 160 | 124 | 151 |
| Total Debt | 165 | 146 | 154 |
| Minority Interest Equity (if separate) | - | - | - |
| Owner's Equity (excl. Minority Interest) | 129 | 100 | 94 |
| Total Equity | 129 | 100 | 94 |
| Total Capitalization | 294 | 247 | 248 |
| Goodwill | 100 | 100 | 100 |
| Other Intangible Assets | 60 | 68 | 82 |
| Total Intangible Assets | 161 | 169 | 182 |
| Tangible Net Worth | (32) | (69) | (88) |
| **Income Statement Items** | | | |
| Revenue | 640 | 504 | 306 |
| Operating Income | 62 | 25 | 6 |
| Net Income (Loss) | 66 | 6 | 4 |
| Interest Expense | 13 | 12 | 6 |
| Tax Expense (Benefit) | 4 | 5 | (3) |
| Depr & Amort Expense | 12 | 17 | 9 |
| EBIT | 83 | 24 | 6 |
| EBITDA | 95 | 41 | 16 |
| Market Cap - current | | | |
| **Cash Flow Statement Items** | | | |
| Net cash from operations | 88 | 45 | (2) |
| Change in working capital | (3) | 5 | (13) |
| Funds from operations (FFO) | 91 | 40 | 11 |
| Capex & investments | 13 | 8 | 8 |
| Free Cash Flow (FCF) | 76 | 36 | (10) |
| **Changes in Working Capital** | FY2019 | FY2018 | FY2017 |
| Accounts receivable | (24) | 30 | (65) |
| CIE>B | 1 | 1 | 4 |
| Inventory | 0 | (3) | 2 |
| Insurance deposits and prepaids | 0 | (10) | 30 |
| AP | 28 | (12) | 15 |
| BIE>C | 10 | (0) | 1 |
| Accrued expenses | (2) | | |
| Payments made to settle ARO | (15) | | |
| Insurance and other LT obligations | (1) | | |
| Income taxes receivable | (1) | | |
| Change in WC | (3) | 5 | (13) |

## Credit Analysis

| | FY2019 | FY2018 | FY2017 |
|---|---|---|---|
| **Liquidity Measures** | | | |
| Current Ratio | 1.59 | 1.35 | 1.34 |
| Quick Ratio | 2.57 | 2.24 | 2.47 |
| Cash Ratio | 0.46 | 0.27 | 0.05 |
| Working Capital (millions$) | 89.7 | 46.0 | 45.5 |
| CFO / Current Liab | 0.6 | 0.3 | (0.0) |
| **Interest Coverage Ratios** | | | |
| EBIT / Interest Exp (times) | 6.37 | 1.95 | 1.14 |
| EBITDA / Interest Exp (times) | 7.25 | 3.28 | 2.80 |
| FFO Interest Coverage (times) | 7.97 | 4.22 | 2.98 |
| **Debt Ratios** | | | |
| Total Debt / CFO | 1.87 | 3.27 | (81.11) |
| Total Debt / FFO | 1.81 | 3.67 | 13.88 |
| Total Debt / EBITDA | 1.74 | 3.59 | 9.82 |
| Total Debt / Total Cap | 0.56 | 0.59 | 0.62 |
| **Profitability Measures** | | | |
| Net Profit Margin | 10.4% | 1.3% | 1.3% |
| Return on Avg Assets | 8.1% | 1.6% | 1.0% |
| Return on Avg Equity | 57.9% | 6.6% | 4.2% |
| Return on Avg Total Capital | 24.6% | 2.6% | 1.6% |

**Debt Maturities & Other Fixed Costs**

| | LT Debt | Op Leases | | | |
|---|---|---|---|---|---|
| FY2020 | 3 | 3 | | | |
| FY2021 | 4 | 1 | | | |
| FY2022 | 5 | 1 | | | |
| FY2023 | 5 | 0 | | | |
| FY2024 | 67 | - | | | |
| Thereafter | 83 | - | | | |
| Total | 167 | 5 | - | - | - |

| Other Information | FY2019 | FY2018 | FY2017 |
|---|---|---|---|
| Revolving Credit Facility | 50 | 55 | 60 |
| LC Usage | 7 | 10 | 20 |
| Facility Draws | - | - | 7 |



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# NORTHSTAR GROUP SERVICES, INC.
## COMPARATIVE BALANCE SHEETS
## IN THOUSANDS

| | JUNE 30, 2018 | DECEMBER 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 21,386 | $ 6,562 |
| Accounts receivable, net | 133,423 | 152,325 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 4,244 | 4,817 |
| Inventories | 3,439 | 4,078 |
| Prepaid expenses and other current assets | 12,080 | 11,625 |
| **Total current assets** | 174,572 | 179,407 |
| PROPERTY AND EQUIPMENT, NET | 36,097 | 39,614 |
| OTHER ASSETS: | | |
| Goodwill | 100,430 | 100,430 |
| Other intangible assets, net | 74,955 | 81,834 |
| Restricted cash | 100 | 100 |
| Other noncurrent assets | 423 | 465 |
| **Total assets** | $ 386,577 | $ 401,850 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| **CURRENT LIABILITIES:** | | |
| Current maturities of long term obligations | $ 2,723 | $ 3,183 |
| Accounts payable | 31,515 | 46,542 |
| Accrued contract costs | 35,900 | 33,894 |
| Accrued expenses and other current liabilities | 36,181 | 32,394 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 13,336 | 17,567 |
| Income taxes payable | 266 | 266 |
| **Total current liabilities** | 119,921 | 133,846 |
| **NONCURRENT LIABILITIES:** | | |
| Revolver | - | 6,500 |
| Long-term obligations | 143,367 | 144,381 |
| Insurance obligations | 17,534 | 20,614 |
| Deferred income taxes | 1,461 | 1,461 |
| Other long-term obligations | 526 | 1,198 |
| **Total liabilities** | 282,809 | 308,000 |
| **STOCKHOLDER'S EQUITY:** | | |
| **Total stockholder's equity** | 103,768 | 93,850 |
| **Total liabilities and stockholder's equity** | $ 386,577 | $ 401,850 |

# NORTHSTAR GROUP SERVICES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS
IN THOUSANDS
SIX MONTHS ENDED JUNE 30

| | 2018 |
|---|---|
| Revenue | 253,483 |
| Cost of revenues | 199,150 |
| **Gross profit from operations** | 54,333 |
| Selling, general and administrative expenses | 29,896 |
| Operating income before depreciation and amortization | 24,437 |
| Depreciation and amortization | 8,305 |
| **Operating income** | 16,132 |
| OTHER INCOME (EXPENSE): | |
| Interest expense | (5,234) |
| Management charge to related party | (284) |
| Other income (expense) | 67 |
| Total other income (expense) | (5,451) |
| **INCOME BEFORE INCOME TAXES** | 10,681 |
| INCOME TAX EXPENSE | 763 |
| **NET INCOME** | $ 9,918 |

*NOTE:* As described in the 2017 audited financial statements, the Company completed the Merger transaction on June 12, 2017. Following the Merger, the Company recorded its assets and liabilities at fair value, and refined certain accounting policies and practices As a result, the Company's financial results for periods prior to the date of the Merger are not comparable and are not presented.

**NORTHSTAR GROUP SERVICES, INC.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2018**
**(In Thousands)**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net Income | $ 9,918 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| Depreciation and amortization | 12,742 |
| Gain on sale of fixed assets | (123) |
| Accrued noncash interest | 123 |
| Changes in operating assets and liabilities: | |
| Accounts receivable and costs and estimated | 18,902 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 573 |
| Inventories | 639 |
| Prepaid expenses and other current assets | (455) |
| Other noncurrent assets | 42 |
| Accounts payable and accrued contract costs | (13,021) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (4,231) |
| Accrued expenses and other current liabilities | 3,787 |
| Other long-term obligations | (3,752) |
| Income taxes receivable/payable | - |
| Net cash provided by operating activities | 25,144 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Capital expenditures | (2,407) |
| Proceeds from sale of fixed assets | 184 |
| Net cash used in investing activities | (2,223) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Net proceeds from revolving credit facility | (6,500) |
| Principal payments on long-term obligations | (2,004) |
| Proceeds from issuance of long-term debt | 408 |
| Contributions and advances from parent - net | (1) |
| Net cash used in financing activities | (8,097) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 14,824 |
| CASH AND CASH EQUIVALENTS, Beginning of period | 6,562 |
| CASH AND CASH EQUIVALENTS, End of period | $ 21,386 |

*NOTE:* As described in the 2017 audited financial statements, the Company completed the Merger transaction on June 12, 2017. Following the Merger, the Company recorded its assets and liabilities at fair value, and refined certain accounting policies and practices As a result, the Company's financial results for periods prior to the date of the Merger are not comparable and are not presented.

# NorthStar Group Services, Inc.

## Consolidated Financial Statements and Supplemental Schedule

## December 31, 2018 and 2017 and Year Ended December 31, 2018 and Period From June 12, 2017 (Date of Acquisition) to December 31, 2017

# NorthStar Group Services, Inc.
## Index
## December 31, 2018 and 2017

**Page(s)**

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## Report of Independent Auditors

To the Board of Directors and Management of
NorthStar Group Services, Inc.

We have audited the accompanying consolidated financial statements of NorthStar Group Services, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, of changes in stockholder's equity and of cash flows for the year ended December 31, 2018 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Group Services, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the year ended December 31, 2018 and for the period from June 12, 2017 (date of acquisition) to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

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***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The unaudited supplemental schedule – pro forma balance sheet listed in the accompanying index and appearing on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

April 15, 2019

# NorthStar Group Services, Inc.
## Consolidated Balance Sheets
## December 31, 2018 and 2017

| *(amounts in thousands, except share data)* | **2018** | **2017** |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 35,853 | $ 6,562 |
| Accounts receivable - net | 119,819 | 152,325 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 7,183 | 4,817 |
| Inventories - net | 3,537 | 4,078 |
| Insurance deposits and other prepaid expenses | 12,574 | 11,625 |
| Total current assets | 178,966 | 179,407 |
| Property and equipment - net | 34,406 | 39,614 |
| Goodwill | 100,430 | 100,430 |
| Intangible assets - net | 68,360 | 81,834 |
| Other noncurrent assets | 393 | 565 |
| Total assets | 382,555 | 401,850 |
| **Liabilities and Stockholder's Equity** | | |
| Current liabilities | | |
| Current maturities of long-term obligations | $ 22,695 | $ 3,183 |
| Accounts payable | 38,164 | 46,542 |
| Accrued contract costs | 32,024 | 33,894 |
| Accrued expenses and other current liabilities | 32,030 | 32,394 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 8,079 | 17,567 |
| Income taxes payable | - | 266 |
| Total current liabilities | 132,992 | 133,846 |
| Long-term obligations | 123,596 | 150,881 |
| Insurance obligations | 19,409 | 20,614 |
| Deferred income taxes | 6,063 | 1,461 |
| Other long-term obligations | 175 | 1,198 |
| Total liabilities | 282,235 | 308,000 |
| Commitments and contingencies (Note 10) | | |
| Stockholder's equity | | |
| Common stock ($1 par value; authorized, issued and outstanding 100 shares) | 100 | 100 |
| Additional paid-in capital | 89,912 | 89,912 |
| Retained earnings | 10,308 | 3,838 |
| Total stockholder's equity | 100,320 | 93,850 |
| Total liabilities and stockholder's equity | $ 382,555 | $ 401,850 |

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

# NorthStar Group Services, Inc.
## Consolidated Statements of Operations
## Year Ended December 31, 2018 and Period From June 12, 2017 (Date of Acquisition) to December 31, 2017

| *(amounts in thousands)* | 2018 | 2017 |
|---|---|---|
| **Revenues** | $ 503,755 | $ 306,166 |
| Cost of revenues | 397,104 | 252,764 |
| Gross profit | 106,651 | 53,402 |
| Selling, general, and administrative expenses | 64,630 | 37,629 |
| Operating income before depreciation and amortization | 42,021 | 15,773 |
| Depreciation and amortization | 16,471 | 9,277 |
| Operating income | 25,550 | 6,496 |
| Other income (expense) | | |
| Interest expense | (12,381) | (5,605) |
| Management charge to related party | (543) | (297) |
| Other - net | (778) | 163 |
| Total other expense | (13,702) | (5,739) |
| Income before income tax expense (benefit) | 11,848 | 757 |
| Income tax expense (benefit) | 5,378 | (3,081) |
| Net income | $ 6,470 | $ 3,838 |

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

# NorthStar Group Services, Inc.
## Consolidated Statements of Changes in Stockholder's Equity
## Year Ended December 31, 2018 and Period From June 12, 2017 (Date of Acquisition) to December 31, 2017

| *(in thousands, except share data)* | Number of Shares | Amount | Additional Paid-in Capital | Retained Earnings | Total Stockholder's Equity |
|---|---|---|---|---|---|
| **Balances at June 12, 2017** | - | $ - | $ - | $ - | $ - |
| Contributions from stockholder | 100,000 | 100 | 89,912 | - | 90,012 |
| Net income | - | - | - | 3,838 | 3,838 |
| **Balances at December 31, 2017** | 100,000 | 100 | 89,912 | 3,838 | 93,850 |
| Net income | - | - | - | 6,470 | 6,470 |
| **Balances at December 31, 2018** | 100,000 | $ 100 | $ 89,912 | $ 10,308 | $ 100,320 |

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

# NorthStar Group Services, Inc.
## Consolidated Statements of Cash Flows
## Year Ended December 31, 2018 and Period From June 12, 2017 (Date of Acquisition) to December 31, 2017

| *(amounts in thousands)* | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 6,470 | $ 3,838 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 25,163 | 14,276 |
| Provision for allowance for doubtful accounts | 2,533 | 798 |
| Interest expense - financing costs | 247 | 133 |
| Loss (gain) on sale of fixed assets | 879 | (37) |
| Deferred income taxes | 4,602 | (3,804) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 29,973 | (64,956) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (2,366) | 4,354 |
| Inventories | 541 | 413 |
| Insurance deposits and other prepaid expenses | (949) | (2,148) |
| Other noncurrent assets | 172 | (73) |
| Accounts payable and accrued contract costs | (10,248) | 29,762 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (9,488) | 7,468 |
| Accrued expenses and other current liabilities, and insurance obligations | (1,569) | 6,762 |
| Other long-term obligations | (1,023) | 671 |
| Income taxes payable | (266) | 691 |
| Net cash provided by (used in) operating activities | 44,671 | (1,852) |
| **Cash flows from investing activities** | | |
| Acquisition of business, net of cash acquired | - | (59,279) |
| Capital expenditures | (8,287) | (8,171) |
| Proceeds from sale of fixed assets | 926 | 354 |
| Net cash used in investing activities | (7,361) | (67,096) |
| **Cash flows from financing activities** | | |
| Proceeds from line of credit | 19,150 | 29,775 |
| Repayments of line of credit | (25,650) | (23,275) |
| Principal payments on long-term obligations | (3,487) | (2,170) |
| Proceeds from issuance of long-term debt | 1,968 | 2,255 |
| Deferred financing costs paid | - | (975) |
| Contributions from stockholder | - | 70,000 |
| Net cash (used in) provided by financing activities | (8,019) | 75,610 |
| Net increase in cash, cash equivalents and restricted cash | 29,291 | 6,662 |
| **Cash, cash equivalents and restricted cash** | | |
| Beginning of period | 6,662 | - |
| End of period | $ 35,953 | $ 6,662 |
| Cash and cash equivalents | $ 35,853 | $ 6,562 |
| Restricted cash included in other noncurrent assets | 100 | 100 |
| Cash, cash equivalents and restricted cash at end of period | $ 35,953 | $ 6,662 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the period for | | |
| Interest | $ 9,471 | $ 4,887 |
| Income taxes | 1,521 | 59 |
| **Noncash transactions** | | |
| Assets acquired pursuant to capital lease | $ - | $ 403 |
| Acquisition consideration funded through noncash equity contribution | - | 20,012 |

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

*(amounts in thousands)*

## 1. Organization and Business

NorthStar Group Services, Inc. (the "Company") is a wholly owned subsidiary of NorthStar Group Holdings, LLC, a Delaware limited liability company ("Holdings"). The Company commenced its operations on April 23, 2014. On June 12, 2017, following the completion of a merger agreement, 100% of the ownership of Holdings was transferred to an unrelated investment group, resulting in a change in ownership. The Company provides facility, technical, and environmental services to a broad range of commercial, industrial, institutional, and government clients located throughout the United States and is a market leader in its core decommissioning, demolition and remediation service lines. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc. (also doing business as LVI Environmental Services, Inc.), NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, Renu Recycling Services, Environmental Waste Resources, Nuprecon Acquisition, LP, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), NorthStar Environmental Services of New Orleans, Inc., NorthStar I&E, Inc. (also doing business as NorthStar Infrastructure & Environmental, Inc.), NorthStar Decommissioning Holdings, LLC, NorthStar Nuclear Decommissioning Company, LLC, NorthStar Vermont Yankee, LLC, NorthStar Facility and Site Services, Inc., and NorthStar Services UK, Ltd.

**Acquisition of NorthStar**

On June 12, 2017, the former owners of Holdings entered into an Agreement and Plan of Merger (the "Merger") with an unrelated investment group (the "Investor"). Per the terms of the Merger, Holdings was merged into a wholly-owned subsidiary of the Investor, with Holdings as the sole surviving entity. Prior to the Merger, one of the Investor's members was the holder of the predecessor Company's subordinated mezzanine debt. In connection with the Merger, the mezzanine debt holder agreed to exchange its debt position for an ownership interest in the Investor. The exchange resulted in net noncash consideration transferred of $20,012. Simultaneously, the Investor contributed $83,464 to the Company, through Holdings, which was funded by a portion of the value contributed to the Investor by its members, including cash. As a result of the Merger, 100% ownership and control of Holdings was transferred to the Investor, and the former owners were relieved of all rights and obligations related to their previous ownership interest in Holdings, and in turn, the Company. Subsequent to the date of the transaction, the Investor contributed an additional $6,548 to the Company for working capital needs, bringing the total contribution invested in the Company to $90,012.

In connection with the Merger transaction, the Company has elected to use the push-down basis of accounting to establish a new accounting and reporting basis for the Company in its consolidated financial statements based on the Investor's basis in the net assets acquired determined in accordance with the acquisition method under the Business Combinations (Topic 805) of the Accounting Standards Codification ("ASC"). Under this guidance, the assets acquired and liabilities assumed are generally recognized at their fair value at the date of the acquisition.

*(amounts in thousands)*

The related purchase price was allocated as follows:

| | | |
|---|---|---|
| Current assets | $ | 115,708 |
| Goodwill | | 100,430 |
| Property and equipment | | 38,137 |
| Customer relationships | | 72,900 |
| Trademark | | 8,000 |
| Backlog | | 8,500 |
| Other assets | | 589 |
| Term loan debt | | (140,000) |
| Equipment financing obligations | | (7,983) |
| Liabilities assumed | | (107,552) |
| Deferred taxes | | (5,265) |
| Total purchase price | | 83,464 |
| Less: Acquired cash | | (3,976) |
| Purchase price paid, net of cash acquired | $ | 79,488 |

The excess of the purchase price over the estimated fair values of the net assets acquired has been recorded as goodwill. The goodwill associated with the Merger is not expected to be deductible for tax purposes and consists largely of the processes, procedures, and knowledge of the workforce in place.

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty method and the multi-period excess earnings method. Both valuation methods rely on management's judgments, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital, and royalty rates, as well as other factors. The valuation of tangible assets was derived using the cost approach. Significant judgments used in valuing tangible assets include estimated replacement cost and useful lives of assets.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*(amounts in thousands)*

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in recording account balances and transactions related to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts, the recoverability of long-lived assets and goodwill, the fair value of net assets acquired in business combinations, accrued contract costs, and insurance obligations. Actual results could differ materially from those estimates.

**Cash and Cash Equivalents**

The Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents.

**Restricted Cash**

Restricted cash, classified within other noncurrent assets, relates primarily to cash pledged as collateral against paid losses within the deductible limits of the Company's workers' compensation and general liability insurance program.

**Accounts Receivable**

Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable, including retained and unbilled accounts receivable, are expected to be collected within one year.
The Company estimates an allowance for doubtful accounts based on the aging of the individual amounts receivable beginning with a 10% allowance for balances that are 180 days past due. An incremental 15% additional allowance is recognized after 270 days of delinquency, and another 25% at 360 days. After one year, the allowance is increased by an incremental 10% of the original balance per quarter, until the original receivable is fully reserved, or collected. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable gross balance and is determined based on historical write-off experience. The Company also considers factors related to specific customers' ability to pay and current economic trends and will record an additional allowance for doubtful accounts as needed. The Company writes off accounts receivable against the allowance for doubtful accounts when management determines the balance is uncollectible and the Company ceases collection efforts.

**Inventories**

Inventories are stated at the lower of cost or net realizable value using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in services provided to clients. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

**Insurance deposits and other prepaid expenses**

The Company provides cash deposits to certain insurance carriers, which the carriers hold as collateral against future insurance claims. The insurance deposit requirements are reviewed and adjusted annually when the related polices are renewed. Prepaid expenses represent advance payments made to various services providers for services to be received within one year.

*(amounts in thousands)*

**Construction-Type Contracts**
In accounting for long-term construction-type contracts, including salvage revenues, the Company follows the provisions of the Financial Accounting Standards Board (FASB) ASC Topic 605-35 *Revenue Recognition -Construction-Type and Production.* Depending on the commercial terms of the contract, revenues are recognized either when costs are incurred, or using the percentage of completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion. For the year ended December 31, 2018 and for the period ended December 31, 2017, the Company recorded $212 and $247 for loss contracts, respectively. Revenues are recorded net of sales tax. For the year ended December 31, 2018 and the period ended December 31, 2017, contract revenues include revenues from salvage proceeds totaling $19,988 and $6,134, respectively. The asset costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability billings in excess of costs and estimated earnings on uncompleted contracts represents amounts billed in excess of revenues recognized.

**Accrued Contract Costs**
Accrued contract costs represent the Company's estimate of amounts payable to its subcontracts and other third party vendors for its long-term construction-type contracts. Accrued contract costs are recognized on an accrual basis for each reporting period based on the percentage of completion method of accounting by relating contract costs incurred to date for each project to the total estimated costs at completion for that project.

**Insurance Policies**
The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions that were developed with the assistance of specialists. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the expenses accrued are adequate to cover losses incurred to date; however, the accrued expenses are based on an estimate and the ultimate liability may be more or less than the amount recognized.

**Revenue Recognition of Claims**
Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to scope and/or price. Such amounts are accrued as additional revenue when the amounts have been received or awarded. Claims receivable are presented either in unbilled accounts receivable for projects that are complete, or in costs and estimated earnings in excess of billings on uncompleted contracts for projects still in progress. There was no accrued revenue subject to claims at either December 2018 or 2017.

*(amounts in thousands)*

**Property and Equipment**
Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the life of the asset. The cost of maintenance and repairs is charged to expense as incurred and significant improvements and betterments are capitalized. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss, if any, is recognized in the consolidated statements of operations.

**Goodwill**
Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company performs an annual impairment analysis at December 31. The Company has elected the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. If the Company determines that this is the case, it is required to perform the currently prescribed impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recorded for the reporting unit. If, after considering the totality of events and circumstances, the Company determines that it is more likely that not that the goodwill intangible asset is not impaired, further quantitative assessment is unnecessary. The more likely than not threshold is defined as having a likelihood of more than 50%.Testing for impairment is performed at least annually, or more frequently if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing its annual impairment analysis at December 31, 2018 and 2017, the Company has concluded that no factors existed that indicated that it is more likely than not that the fair value of its reporting unit was less than its carrying amount.

**Intangible Assets – Net**
Intangible assets recognized in connection with an acquisition of a business include customer relationships, backlog, and a trademark. These assets were recorded at their estimated fair values at the date of acquisition, assigned estimated useful lives, and are amortized primarily on a straight line basis over their respective useful lives.

**Recoverability of Long-Lived Assets**
The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset or asset group to the estimated undiscounted future cash flows expected to result from use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The Company determined that there was no impairment of long-lived assets during the year ended December 31, 2018 and the period ended December 31, 2017.

*(amounts in thousands)*

**Deferred Financing Costs**
The Company amortizes deferred financing costs over the life of the related debt using the straight-line method, which approximates the effective interest rate method.

**Fair Value of Financial Instruments**
The Company's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt. The carrying values of the Company's financial assets and liabilities approximate their fair value. The guidance in ASC Topic 825, *Financial Instruments* paragraphs 10-50-16 through 50-19, requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as quoted prices in active markets for identical instruments; Level 2 - defined as observable inputs other than quoted prices in active markets; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying amount of the Company's Term Loan Facility approximates its fair value due to the recent issuance and the reset of its variable interest rate. For the years ended December 31, 2018 and 2017, the carrying value and estimated fair value of the Company's noncurrent long-term debt obligations at December 31, 2018 was approximately $124,000 and 151,000, respectively. There are no quoted prices in active markets or other inputs that are either directly or indirectly observable for the long-term obligations, and therefore the Company measured the fair value of the long-term debt obligation by comparing the movements in the risk-free rate and the spread of the Baa corporate bond rate from the date of the inception of the debt (Level 3).

**Income Taxes**
Holdings files a consolidated Federal income tax return for each tax period that includes the operating results of the Company, which is part of the consolidated group. All Federal income tax liabilities are paid by Holdings. Holdings, LLC has elected to be treated as a taxable entity for income tax reporting purposes and files its income tax returns on the accrual basis as a corporation for federal and state income tax purposes. The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Under ASC Topic 740, current and deferred taxes are recognized for the tax effects of differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances on deferred tax assets are provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities are classified as noncurrent on the balance sheet in accordance with Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes.*

ASC Topic 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The guidance in ASC Topic 740 states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" for this purpose

*(amounts in thousands)*

is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest in income tax expense.

**Recent Accounting Pronouncements**

***Standards Adopted***

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment*. The amendments in this update simplify the subsequent measurement of goodwill by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of Step 2 of the goodwill impairment test. A goodwill impairment loss will instead be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The Company early adopted this new standard as of June 12, 2017.

In August 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (a consensus of the Emerging Issues Task Force)*. The amendment requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents. The Company early adopted this standard on January 1, 2018 and the prior period has been recast. The adoption of this standard did not have a material impact on the Company's financial statements. The prior year investing cash flows were adjusted by $100 from $67,196 to $67,096.

***Standards not Yet Adopted***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and require separate accounting, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018 and can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU amends ASC 820 to add, remove and modify certain disclosure requirements for fair value measurements. The guidance is effective for the Company's fiscal year beginning January 1, 2020. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

*(amounts in thousands)*

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*. The amendment provides updated guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims and corporate-owned life insurance, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing guidance on accounting for leases. The ASU requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The amendments in this update will be effective for the Company's fiscal year beginning January 1, 2020. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"). ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the noncancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. ASU 2018-15 is effective for the Company on January 1, 2021. Early adoption of ASU 2018-15 is permitted, including adoption in any interim period. ASU 2018-15 can be adopted either using the prospective or retrospective transition approach. Management is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

## 3. Accounts Receivable - Net

Accounts receivable - net as of December 31, 2018 and 2017 consists of the following:

| | **2018** | **2017** |
|---|---|---|
| Billed | $ 105,706 | $ 117,100 |
| Retained | 14,400 | 18,133 |
| Unbilled | 7,238 | 17,890 |
| Total accounts receivable | 127,344 | 153,123 |
| Less: Allowance for doubtful accounts | (7,525) | (798) |
| Accounts receivable - net | $ 119,819 | $ 152,325 |

During the year ended December 31, 2018, the Company wrote down receivables against the allowance of $1,113, and recovered $4,002 for receivables that had been previously written off.

*(amounts in thousands)*

## 4. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts as of December 31, 2018 and 2017 consists of the following:

| | 2018 | 2017 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 98,285 | $ 148,437 |
| Estimated earnings | 22,265 | 32,042 |
| | 120,550 | 180,479 |
| Less: Billings to date | (121,446) | (193,229) |
| | $ (896) | $ (12,750) |
| The above amounts are included in the consolidated balance sheets under the following captions | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 7,183 | $ 4,817 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (8,079) | (17,567) |
| | $ (896) | $ (12,750) |

## 5. Property and Equipment - Net

Property and equipment - net as of December 31, 2018 and 2017 consist of the following:

| Category | Useful Life *in Years* | 2018 Value | 2017 Value |
|---|---|---|---|
| Land and buildings | 40 | $ 1,630 | $ 1,630 |
| Furniture and fixtures | 5 | 166 | 173 |
| Computer equipment | 3 | 1,683 | 1,552 |
| Leasehold improvements | Shorter of useful life or life of lease | 1,424 | 1,351 |
| Equipment | 7-10 | 36,073 | 33,798 |
| Vehicles | 7 | 9,335 | 7,820 |
| | | 50,311 | 46,324 |
| Less: Accumulated depreciation and amortization | | (15,905) | (6,710) |
| Property and equipment - net | | $ 34,406 | $ 39,614 |

Depreciation expense for the year ended December 31, 2018 and for the period ended December 31, 2017 was $11,689 and $6,710, respectively, which includes the depreciation of assets under capital lease.

The gross amount of assets acquired pursuant to capital leases total $13,497 and $15,130, offset by accumulated depreciation of $3,558 and $1,948 as of December 31, 2018 and 2017, respectively, and are included in the table above.

*(amounts in thousands)*

## 6. Goodwill and Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets and liabilities determined to have definite lives are amortized over their useful lives.

The Company's goodwill of $100,430 relates to the Merger in 2017. No impairment charges related to goodwill were recognized in the year ended December 31, 2018 or in the period ended December 31, 2017 in connection with the annual goodwill impairment or qualitative assessment at December 31.

As of December 31, 2018 and 2017, the Company's intangible assets and related accumulated amortization consist of the following:

| | 2018 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
| Customer relationships | 10 years | $ 72,900 | $ 11,300 | $ 61,600 |
| Backlog | 1.5 years | 8,500 | 8,500 | - |
| Trademark | 10 years | 8,000 | 1,240 | 6,760 |
| Total intangible assets | | $ 89,400 | $ 21,040 | $ 68,360 |

| | 2017 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
| Customer relationships | 10 years | $ 72,900 | $ 4,009 | $ 68,891 |
| Backlog | 1.5 years | 8,500 | 3,117 | 5,383 |
| Trademark | 10 years | 8,000 | 440 | 7,560 |
| Total intangible assets | | $ 89,400 | $ 7,566 | $ 81,834 |

The weighted average useful life of the Company's intangible assets when acquired was 9.2 years. Amortization expense related to intangible assets for the year ended December 31, 2018 and for the period ended December 31, 2017 was $13,474 and $7,566, respectively. Amortization expense for each of the next five years for intangible assets subject to amortization is $8,090.

*(amounts in thousands)*

## 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2018 and 2017 consists of the following:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Workers compensation and other liability insurance | $ | 7,562 | $ | 7,499 |
| Payroll and other compensation accruals | | 16,130 | | 15,283 |
| Sales tax | | 697 | | 4,287 |
| Interest | | 3,699 | | 717 |
| Other | | 3,942 | | 4,608 |
| Accrued expenses and other current liabilities | $ | 32,030 | $ | 32,394 |

## 8. Long-Term Obligations

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Current portion of long-term obligations** | | | | |
| Senior Secured Credit Facility Term Loan [(a)] | $ | 19,839 | $ | - |
| Equipment finance obligations [(b)] | | 2,856 | | 3,183 |
| Short-term obligations | $ | 22,695 | $ | 3,183 |
| **Noncurrent portion of long-term obligations** | | | | |
| Senior Secured Credit Facility | | | | |
| Revolver [(a)] | $ | - | $ | 6,500 |
| Term Loan [(a)] | | 120,161 | | 140,000 |
| Equipment finance obligations [(b)] | | 4,030 | | 5,223 |
| Less: Deferred financing costs | | (595) | | (842) |
| Long-term obligations | $ | 123,596 | $ | 150,881 |

a. Amended and Restated Credit and Guaranty Agreement and Revolving Credit Facility

In connection with the Merger, on June 12, 2017, the Company entered into the Second Amended and Restated Credit and Guaranty agreement (the "Credit Facility") with various lenders, consisting of a Term Loan of $140,000 (the "Term Loan") and a $55,000 revolving credit facility (the "Revolver"). The lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. The Credit Facility matures on May 31, 2021, whereupon the balance outstanding on the Term Loan and Revolver will be payable in full. Principal payments on the Term Loan are due quarterly beginning on December 31, 2019 in amounts as described within the Credit Facility agreement. When certain annual financial performance thresholds have been exceeded, the Credit Facility requires that the Company prepay a portion of the Term Loan by June 30 of the immediately following year.

*(amounts in thousands)*

The Company met such thresholds during 2018, and has reclassified $19,139 of the Term Loan as a current liability.

Interest is charged on both the Revolver and the Term Loan at an applicable margin percentage above either the prime lending rate of Manufacturers and Traders Trust Company ("M&T") or above the London InterBank Offered Rate, at the Company's option. The applicable margin is on a sliding scale based upon the Company's total debt leverage ratio as defined in the Amended Credit Agreement, measured quarterly and payable in cash. The effective rate on the Term Loan at December 31, 2018 and 2017 was an annual rate of 6.9% and 6.0%, respectively. In addition, the Revolver has a rate per annum equal to the greatest of (i) the Prime Rate in effect on such day, (ii) the Federal Funds Effective Rate in effect on such day plus ½ of 1% and (iii) the LIBOR Rate calculated as of such day in respect of a proposed LIBOR Rate Loan with a one-month Interest Period, plus 1.0%. The effective rate on the Revolver at December 31, 2018 was an annual rate of 11.4% and 9.0% for swing line loans and base rate loans, respectively. The effective rate on the Revolver at December 31, 2017 was an annual rate of 11% and 8% for the swing line loans and base rate loans, respectively. The Revolver also has a fee of 0.5% per annum on the unused portion of the facility. Interest on outstanding borrowings and the fee are payable monthly.

Amortization of deferred financing costs for the year ended December 31, 2018 and for the period ended December 31, 2017 was approximately $247 and $133, respectively, and is classified as interest expense in the consolidated statement of operations.

As of December 31, 2018 and 2017, the Company had outstanding letters of credit in the amount of $9,567 and $20,337 for the benefit of its surety bonding (Note 10) and deductibles under insurance policies, and had drawn $0 and $6,500 on the Revolver, which reduced the borrowing availability under the Revolver to $45,433 and $28,163, respectively. The letters of credit are automatically renewable unless notice is provided 30 days prior to cancellation.

b. Equipment Finance Obligations

The Company has financed equipment under capital lease agreements and equipment finance notes with various vendors for equipment utilized in the performance of its work. The terms of the leases vary from 36 to 60 months and carry interest rates ranging from 0.00% to 8.95%.

*(amounts in thousands)*

At December 31, 2018 the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Capital Lease Obligations | Total Long-Term Obligations |
|---|---|---|---|
| 2019 | $ 19,839 | $ 3,083 | $ 22,922 |
| 2020 | 3,850 | 2,640 | 6,490 |
| 2021 | 7,000 | 911 | 7,911 |
| 2022 | 7,000 | 372 | 7,372 |
| 2023 | 7,000 | 241 | 7,241 |
| Thereafter | 95,311 | - | 95,311 |
| Total future payments | 140,000 | 7,247 | 147,247 |
| Less: Amount representing interest | - | (361) | (361) |
| | $ 140,000 | $ 6,886 | $ 146,886 |

## 9. Income Taxes

The provision for income taxes for the year ended December 31, 2018 and for the period ended December 31, 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Current (benefit) expense** | | |
| State and local | $ 776 | $ 723 |
| Total current expense | 776 | 723 |
| **Deferred expense (benefit)** | | |
| Federal | 2,296 | (3,023) |
| State and local | 2,306 | (781) |
| Total deferred expense (benefit) | 4,602 | (3,804) |
| Total income tax expense (benefit) | $ 5,378 | $ (3,081) |

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted into law. The legislation contains several key tax provisions including the reduction of the corporate income tax rate to 21% effective January 1, 2018 as well as a variety of other changes including limitation of the tax deductibility of interest expense. As of December 31, 2017, the Company has remeasured its deferred tax assets and liabilities for the reduced federal tax rate and has recognized the resulting deferred tax benefit through the income tax provision. The impact to the Company's deferred tax assets and liabilities due to the newly enacted federal tax rate at December 31, 2017 was a net benefit of $3,349.

The Company's effective tax rate for 2018 differs from the federal statutory rate mainly as a result of state taxes and permanent differences. The Company's effective tax rate for 2017 differs from

*(amounts in thousands)*

the federal statutory rate mainly as a result of the impact of the newly enacted federal tax rate, in addition to state taxes and permanent differences.

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for doubtful accounts | $ 1,217 | $ 119 |
| Compensation accruals | 2,258 | 1,923 |
| Insurance reserves | 6,170 | 7,611 |
| Net operating loss | 10,340 | 17,048 |
| Investment in partnerships | - | 1,434 |
| Other | 1,676 | 2,023 |
| Total deferred tax assets | 21,661 | 30,158 |
| **Deferred tax liabilities** | | |
| Depreciation and amortization | (20,696) | (23,291) |
| Investment in partnerships | (1,659) | - |
| Accrual versus percentage of completion | (5,369) | (8,328) |
| Total deferred tax liabilities | (27,724) | (31,619) |
| Net deferred tax liabilities | $ (6,063) | $ (1,461) |

As of December 31, 2018 and 2017, the Company has combined federal and state net operating loss carryforwards of $44,609 and $50,182 and separate state net operating loss carryforwards of approximately $33,956 and $46,372, respectively. These federal and state net operating losses expire at various dates beginning in 2032. In general, under Section 382 of the United States Internal Revenue Code of 1986 ("IRC"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses to offset future taxable income. An analysis was conducted as a result of the Merger which indicated that because of the ownership change as of June 12, 2017, federal and state net operating losses were limited pursuant to IRC 382. This limitation has been considered in calculating the available net operating loss carryforwards.

The Company had approximately $58 and $50 for the payment of interest and penalties and $116 and $476 of unrecognized tax benefits accrued in other long-term obligations at December 31, 2018 and 2017, respectively. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits would affect the Company's effective tax rate upon recognition.

The Company's tax years 2015-2017 remain open to examination for federal purposes and for 2014 forward for most state jurisdictions.

*(amounts in thousands)*

## 10. Commitments and Contingencies

### Operating Leases

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for real property is calculated on a straight-line basis, and was $4,673 and $2,319 for the year ended December 31, 2018 and for the period ended December 31, 2017, respectively. The Company received sublease income of $551 and $260 for the year ended December 31, 2018 and for the period ended December 31, 2017, respectively.

As of December 31, 2018, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| **Years Ending December 31,** | | |
|---|---|---|
| 2019 | $ | 4,276 |
| 2020 | | 3,477 |
| 2021 | | 2,113 |
| 2022 | | 1,178 |
| 2023 | | 420 |
| Thereafter | | - |
| | $ | 11,464 |

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 21.6% and 21.8% of consolidated total accounts receivable as of December 31, 2018 and 2017, respectively. In addition, the Company holds cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2018 and 2017, the Company had approximately $37,495 and $11,011 in excess of FDIC insured limits, respectively.

### Risks and Uncertainties

The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

*(amounts in thousands)*

**Surety Bonds**

As is customary in the contracting business, the Company is required to provide surety bonds to secure its performance under certain contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards, which may change from time to time. The Company's inability to obtain surety bonds in the future would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

**Litigation**

The Company is involved in various litigations that arise in the ordinary course of its business activities. In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

## 11. Related-Party Transactions

During the year ended December 31, 2018 and for the period ended December 31, 2017, the Company paid rent expense of $354 and $102, respectively, to an entity in which a Company employee has an equity interest.

On June 12, 2017, in connection with the Merger, the Company entered into a management services agreement (the "Management Agreement") pursuant to which certain of the members of the Investor (the "Advisors") will be paid $750 per year plus out-of-pocket expenses for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company. Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has no stated term and will remain effective until terminated. The management fee is payable to the Advisors quarterly in advance. The Company incurred expense relating to the Management Agreement of $1,003 and $412 in the year ended December 31, 2018 and for the period ended December 31, 2017, respectively. The amount payable to the Advisors as of December 31, 2018 was $162. As of December 31, 2017, the Company had prepaid the Advisors $188.

*(amounts in thousands)*

## 12. Defined Contribution Savings Plan

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 100% of their eligible compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The Company matching contributions vest over a five-year period, as defined in the plan documents. Total Company matching contributions to the plan for the year ended December 31, 2018 and for the period ended December 31, 2017 was $811 and $471, respectively.

## 13. Subsequent Events

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its consolidated financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date. The Company has evaluated subsequent events through April 15, 2019, the date that these consolidated financial statements were available to be issued.

On January 11, 2019, the Company and Holdings completed the Membership Interest Purchase and Sale Agreement (MIPA), under which the Company acquired 100% of the membership interest of a legal entity owning a nuclear power plant that had been closed permanently in 2014. The plant was transferred to the Company from its former owner for the purpose of expedited decommissioning. Under the terms of the MIPA, the Company is responsible for the decommissioning of the plant, spent fuel management and eventual site restoration. As of the date of the MIPA, the Company recorded a liability for the present value of the future asset retirement obligations, which represents costs for demolition and decommissioning and for the management of the spent nuclear fuel storage, along with related deferred income taxes and credits.
The Company also acquired existing decommissioning and site restoration trust funds to fund the required work, and recorded a receivable for expected future recovery of spent fuel management costs from the U.S. Department of Energy. As a regulatory condition of the transaction, $10,000 from the Company was deposited into a long-term escrow account, with additional cash from the former owner also transferred to this account at closing.

No other events were identified that require recognition or disclosure.

# Supplemental Schedule

# NorthStar Group Services, Inc.
## Unaudited Supplemental Schedule – Pro Forma Balance Sheet
## December 31, 2018

*(amounts in thousands)*

| | As of December 31, 2018 | Pro Forma Adjustments | Total Pro Forma |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 35,853 | $ (9,251) | $ 26,602 |
| Other current assets | 143,113 | 1,500 | 144,613 |
| Total current assets | 178,966 | (7,751) | 171,215 |
| Property and equipment – net | 34,406 | - | 34,406 |
| Goodwill and intangible assets | 168,790 | - | 168,790 |
| Decommissioning trust funds | - | 546,484 | 546,484 |
| DOE reimbursement | - | 105,000 | 105,000 |
| Deferred income taxes | - | 196,304 | 196,304 |
| Restricted cash | 100 | 30,000 | 30,100 |
| Other noncurrent assets | 293 | - | 293 |
| Total assets | $ 382,555 | $ 870,037 | $ 1,252,592 |
| **Liabilities and Stockholder's Equity** | | | |
| Current liabilities | | | |
| Current maturities of long-term obligations | $ 22,695 | $ - | $ 22,695 |
| Accounts payable and accrued expenses | 102,218 | 2,249 | 104,467 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 8,079 | | - 8,079 |
| Total current liabilities | 132,992 | 2,249 | 135,241 |
| Long-term debt obligations | 123,596 | - | 123,596 |
| Insurance obligations | 19,409 | - | 19,409 |
| Asset retirement obligations | - | 672,412 | 672,412 |
| Deferred income taxes | 6,063 | (6,063) | - |
| Deferred tax credit | - | 201,439 | 201,439 |
| Other long-term obligations | 175 | - | 175 |
| Total liabilities | 282,235 | 870,037 | 1,152,272 |
| Stockholder's equity | 100,320 | - | 100,320 |
| Total liabilities and stockholder's equity | $ 382,555 | $ 870,037 | $ 1,252,592 |

# NorthStar Group Services, Inc.
## Notes to Unaudited Supplemental Schedule
## December 31, 2018

*(amounts in thousands)*

### 1. Basis of Presentation

The pro forma balance sheet has been prepared to give effect to the MIPA as if it had transpired on December 31, 2018. Based on preliminary purchase accounting performed by the Company, the transaction is being treated as an asset acquisition. As of the date of the MIPA, the Company recorded a liability for future asset retirement obligations in the amount $672,412, which represents $567,412 for demolition and decommissioning and $105,000 for the management of the spent nuclear fuel storage. The Company recorded a receivable from the U.S. Department of Energy (DOE) for $105,000 for the anticipated recovery of the costs of managing the spent nuclear fuel storage. Simultaneous with the close of the MIPA, the Company received investment trust funds and cash with a combined value of $566,484 that will be used to fund the required work. As a regulatory condition of the transaction, $20,000 of the cash received plus an additional $10,000 from the Company was deposited in a long-term escrow account. The difference between the cost basis and the tax basis of the acquired assets resulted in the recognition of a deferred tax asset of $202,367 and a long-term tax credit of $201,439.

## Confidential and Proprietary – Subject to Non-Disclosure Agreement

# NorthStar Group Services, Inc.

**Consolidated Financial Statements and Supplemental Information**
**December 31, 2019 and 2018**

# NorthStar Group Services, Inc.
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## December 31, 2019 and 2018

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## Report of Independent Auditors

To the Board of Directors and Management of
NorthStar Group Services, Inc.

We have audited the accompanying consolidated financial statements of NorthStar Group Services, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, of changes in stockholder's equity and of cash flows for the years then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Group Services, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The unaudited supplemental information – disbursements from trust funds in 2019, listed in the accompanying index and appearing on pages 27-29 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

March 31, 2020

# NorthStar Group Services, Inc.
## Consolidated Balance Sheets
## December 31, 2019 and 2018

| *(amounts in thousands, except per share data)* | **2019** | **2018** |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 69,054 | $ 35,853 |
| Accounts receivable - net | 149,126 | 119,819 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 6,679 | 7,183 |
| Inventories - net | 3,211 | 3,537 |
| Income tax receivable | 695 | 41 |
| Insurance deposits and other prepaid expenses | 12,718 | 12,826 |
| Total current assets | 241,483 | 179,259 |
| Property and equipment - net | 34,148 | 34,406 |
| Goodwill | 100,430 | 100,430 |
| Intangible assets - net | 60,270 | 68,360 |
| Restricted cash | 30,657 | 100 |
| Decommissioning trust funds | 490,568 | - |
| Reimbursements due from U.S. Department of Energy | 102,877 | - |
| Deferred income tax | 196,666 | - |
| Total assets | $ 1,257,099 | $ 382,555 |
| **Liabilities and Stockholder's Equity** | | |
| Current liabilities | | |
| Current maturities of long-term financing obligations | $ 4,540 | $ 22,449 |
| Accounts payable | 39,806 | 38,164 |
| Accrued contract costs | 58,253 | 32,024 |
| Accrued expenses and other current liabilities | 31,537 | 32,030 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 17,677 | 8,079 |
| Total current liabilities | 151,813 | 132,746 |
| Long-term financing obligations | 160,393 | 123,842 |
| Asset retirement obligations | 541,733 | - |
| Unearned revenue - site restoration | 54,223 | - |
| Deferred income taxes | - | 6,063 |
| Deferred tax credit | 201,207 | - |
| Insurance and other long-term obligations | 18,757 | 19,584 |
| Total liabilities | 1,128,126 | 282,235 |
| Commitments and contingencies (Note 11) | | |
| Stockholder's equity | | |
| Common stock ($1 par value; authorized, issued and outstanding 100 shares) | 100 | 100 |
| Additional paid-in capital | 66,525 | 89,912 |
| Retained earnings | 50,276 | 10,308 |
| Accumulated other comprehensive income | 12,080 | - |
| Total stockholder's equity | 128,981 | 100,320 |
| Noncontrolling interests | (8) | - |
| Total equity | 128,973 | 100,320 |
| Total liabilities and stockholder's equity | $ 1,257,099 | $ 382,555 |

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

# NorthStar Group Services, Inc.
## Consolidated Statements of Income and Comprehensive Income
## Years Ended December 31, 2019 and 2018

| *(amounts in thousands)* | 2019 | 2018 |
|---|---|---|
| Revenues | $ 640,111 | $ 503,755 |
| Cost of revenues | 512,305 | 397,104 |
| Gross profit | 127,806 | 106,651 |
| Selling, general, and administrative expenses | 54,701 | 64,630 |
| Operating income before depreciation and amortization | 73,105 | 42,021 |
| Depreciation and amortization | 11,564 | 16,471 |
| Operating income | 61,541 | 25,550 |
| Other income (expense) | | |
| Interest expense | (13,084) | (12,381) |
| Interest income | 14,734 | 214 |
| Management charge to related party | (594) | (543) |
| Other - net | (132) | (992) |
| Total other expense, net | 924 | (13,702) |
| Income before income tax expense | 62,465 | 11,848 |
| Income tax (benefit) expense | (3,910) | 5,378 |
| Net income | 66,375 | 6,470 |
| Less: net loss attributable to noncontrolling interests | (206) | - |
| Net income attributable to NorthStar Group Services, Inc. | $ 66,581 | $ 6,470 |
| Other comprehensive income, net of taxes: | | |
| Unrealized gains on debt securities | 12,080 | - |
| Comprehensive income attributable to NorthStar Group Services, Inc. | $ 78,661 | $ 6,470 |

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

# NorthStar Group Services, Inc.
## Consolidated Statements of Changes in Stockholder's Equity
## Years Ended December 31, 2019 and 2018

| *(in thousands, except share data)* | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholder's Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balances at December 31, 2017** | 100,000 | $ 100 | $ 89,912 | $ - | $ 3,838 | $ 93,850 | $ - | $ 93,850 |
| Net income | - | - | - | - | 6,470 | 6,470 | - | 6,470 |
| **Balances at December 31, 2018** | 100,000 | 100 | 89,912 | - | 10,308 | 100,320 | - | 100,320 |
| Net income (loss) | - | - | - | - | 66,581 | 66,581 | (206) | 66,375 |
| Unrealized gains on debt securities, net of tax of $4,188 | - | - | - | 12,080 | - | 12,080 | - | 12,080 |
| Dividend | - | - | (23,387) | - | (26,613) | (50,000) | - | (50,000) |
| Capital contributions by noncontrolling interests | - | - | - | - | - | - | 198 | 198 |
| **Balances at December 31, 2019** | 100,000 | $ 100 | $ 66,525 | $ 12,080 | $ 50,276 | $ 128,981 | $ (8) | $ 128,973 |

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

# NorthStar Group Services, Inc.
## Consolidated Statements of Cash Flows
## Years Ended December 31, 2019 and 2018

| *(amounts in thousands)* | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 66,375 | $ 6,470 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 20,621 | 25,163 |
| Accretion of asset retirement obligations | 27,371 | - |
| Accretion of reimbursements due from U.S. Department of Energy | (4,877) | - |
| Write-off of debt issuance costs | 431 | - |
| Provision for allowance for doubtful accounts | (4,170) | 2,533 |
| Recognition of unearned revenue - site restoration trust fund | (496) | - |
| Interest expense - Amortization of financing costs | 355 | - |
| Interest expense - Amortization of original issue discount | 159 | 247 |
| (Gain) Loss on sale of fixed assets | (27) | 879 |
| Realized gains on decommissioning trust funds | (699) | - |
| Interest earnings on decommissioning trust funds | (8,932) | - |
| Deferred income taxes | (4,782) | 4,602 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (24,324) | 29,973 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 504 | (2,366) |
| Inventories | 326 | 541 |
| Insurance deposits and other prepaid expenses | 271 | (777) |
| Accounts payable and accrued contract costs | 27,871 | (10,248) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 9,598 | (9,488) |
| Accrued expenses and other current liabilities | (1,494) | (603) |
| Payments made to settle asset retirement obligations | (14,516) | 0 |
| Insurance and other long-term obligations | (827) | (1,989) |
| Income taxes receivable | (654) | (266) |
| Net cash provided by operating activities | 88,084 | 44,671 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (12,542) | (8,287) |
| Proceeds from sale of fixed assets | 296 | 926 |
| Restricted cash received for transfer of asset retirement obligations | 20,025 | - |
| Net cash provided by (used in) investing activities | 7,779 | (7,361) |
| **Cash flows from financing activities** | | |
| Principal payments on long-term obligations | (143,741) | (3,487) |
| Proceeds from issuance of long-term debt | 165,150 | 1,968 |
| Deferred financing costs paid and original issue discount | (3,712) | - |
| Distributions to shareholder | (50,000) | - |
| Capital contributions by noncontrolling interests | 198 | - |
| Proceeds from line of credit | - | 19,150 |
| Repayments of line of credit | - | (25,650) |
| Net cash used in financing activities | (32,105) | (8,019) |
| Net increase in cash, cash equivalents and restricted cash | 63,758 | 29,291 |
| **Cash, cash equivalents and restricted cash** | | |
| Beginning of year | 35,953 | 6,662 |
| End of year | $ 99,711 | $ 35,953 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the period for | | |
| Interest | $ 15,475 | $ 9,471 |
| Income taxes | 1,155 | 1,521 |

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

**NorthStar Group Services, Inc.**
**Notes to Consolidated Financial Statements**
**December 31, 2019 and 2018**

*(amounts in thousands)*

## 1. Organization and Business

NorthStar Group Services, Inc. (the "Company") is a wholly owned subsidiary of NorthStar Group Holdings, LLC, a Delaware limited liability company ("Holdings"). The Company commenced its operations on April 23, 2014. On June 12, 2017, following the completion of a merger agreement, 100% of the ownership of Holdings was transferred to an unrelated investment group, resulting in a change in ownership. The Company provides facility, technical, and environmental services to a broad range of commercial, industrial, institutional, and government clients located throughout the United States and is a market leader in its core decommissioning, demolition and remediation service lines. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc. (also doing business as LVI Environmental Services, Inc.), NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, Renu Recycling Services, Environmental Waste Resources, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), NorthStar Environmental Services of New Orleans, Inc., NorthStar I&E, Inc. (also doing business as NorthStar Infrastructure & Environmental, Inc.), NorthStar Decommissioning Holdings, LLC, NorthStar Nuclear Decommissioning Company, LLC, NorthStar Vermont Yankee, LLC, NorthStar Facility and Site Services, Inc., Accelerated Decommissioning Partners, LLC, ADP CR3, LLC, ADP SF1, LLC, and NorthStar Services UK, Ltd.

**Acquisition of Vermont Yankee Nuclear Power Station**

On January 11, 2019, the Company completed the Membership Interest Purchase and Sale Agreement (MIPA), under which the Company acquired 100% of the membership interest of a legal entity owning the Vermont Yankee Nuclear Power Station, a nuclear power plant that had been permanently closed in 2014. The plant was transferred to the Company from its former owner for the purpose of expedited decommissioning. Under the terms of the MIPA, the Company is responsible for the decommissioning of the plant, spent fuel management and eventual site restoration.

As of the date of the MIPA, the Company recorded a liability for the present value of the estimated future cash outflows for demolition, decommissioning, and site restoration costs, and for costs related to the management of the spent nuclear fuel storage. At closing, the former owners transferred to the Company the existing decommissioning and site restoration trust investment portfolios to fund the required work (the "NDT" and the "SRT," respectively, and collectively the "trust funds"), plus $20,000 cash that was deposited into a long-term escrow account as a regulatory condition of the transaction. In accordance with the agreement, the Company deposited an additional $10,000 into the escrow account. The Company recorded a receivable for expected future recovery of spent fuel management costs from the U.S. Department of Energy.

*(amounts in thousands)*

The Company recorded the following amounts at the closing of the MIPA:

| | | |
|---|---|---|
| Nuclear decommissioning trust | $ | 487,627 |
| Site restoration trust | | 59,991 |
| Restricted cash | | 20,000 |
| Reimbursements due from U.S. Department of Energy | | 98,000 |
| Deferred tax asset | | 225,650 |
| | $ | 891,268 |
| | | |
| Asset retirement obligations | $ | 611,827 |
| Unearned revenue - site restoration | | 54,720 |
| Deferred credit | | 224,721 |
| | $ | 891,268 |

The value of the NDT fund portfolio at closing, plus the forecast earnings thereon, included funding that was anticipated to be approximately equal to the estimated fair value of the anticipated future cash flows required to complete the decommissioning and spent fuel management activities. The value of the SRT fund portfolio at closing exceeded the estimated fair value of the anticipated future cash flows for site restoration by $34,720, and the Company recorded an unearned revenue liability for this estimated excess plus the $20,000 cash escrow received from the former owner, for a total $54,720. The Company recognized a deferred tax asset of $225,650 for the tax effect of the total difference between the book and tax basis of the acquired assets and liabilities. The excess of the amounts assigned to the acquired assets were allocated pro rata to reduce the assigned values to zero, with the remainder recorded as a deferred tax credit of $224,721. The amount of the anticipated reimbursements from the U.S. Department of Energy is classified as a long-term asset, as there is significant uncertainty as to the timing of when these amounts will be recovered.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. Certain prior year amounts have been reclassified to conform to the current year presentation. All significant intercompany accounts and transactions have been eliminated in consolidation.

# NorthStar Group Services, Inc.
## Notes to Consolidated Financial Statements
## December 31, 2019 and 2018

*(amounts in thousands)*

### Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in recording account balances and transactions related to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts, the recoverability of long-lived assets and goodwill, the fair value of asset retirement obligations acquired in asset acquisitions, accrued contract costs, and insurance obligations. Actual results could differ materially from those estimates.

### Cash and Cash Equivalents

The Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents.

### Restricted Cash

Restricted cash relates primarily to an escrow balance required by the terms of an asset acquisition completed in 2019 (see Note 1), which the Company may not access until certain milestones specified in the MIPA have been completed.

### Accounts Receivable

Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable, including retained and unbilled accounts receivable, are amounts receivable from customers that are expected to be collected within one year. The Company estimates an allowance for doubtful accounts based on the aging of the individual amounts receivable beginning with a 10% allowance for balances that are 180 days past due. An incremental 15% additional allowance is recognized after 270 days of delinquency, and another 25% at 360 days. After one year, the allowance is increased by an incremental 10% of the original balance per quarter, until the original receivable is fully reserved, or collected. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable gross balance and is determined based on historical write-off experience. The Company also considers factors related to specific customers' ability to pay and current economic trends and will record an additional allowance for doubtful accounts as needed. The Company writes off accounts receivable against the allowance for doubtful accounts when management determines the balance is uncollectible and the Company ceases collection efforts.

### Inventories

Inventories are stated at the lower of cost or net realizable value using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in services provided to clients. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

*(amounts in thousands)*

**Insurance Deposits and Other Prepaid Expenses**

The Company provides cash deposits to certain insurance carriers, which the carriers hold as collateral against future insurance claims. The insurance deposit requirements are reviewed and adjusted annually when the related polices are renewed. Prepaid expenses represent advance payments made to various services providers for services to be received within one year.

**Decommissioning Trust Funds**

The Company records the decommissioning trust funds on the balance sheet at their fair value. The investments included in these portfolios consist of available-for-sale government debt securities and cash. Unrealized gains recorded on the available-for-sale debt securities in the trust funds are recognized in the accumulated other comprehensive income component of shareholder's equity. See Note 10 for details on the decommissioning trust funds.

**Reimbursements Due from U.S. Department of Energy**

In connection with the 2019 acquisition discussed in Note 1, the Company recorded an asset that was transferred by the former owner for the expected future recovery of spent fuel management costs from the U.S. Department of Energy. The asset was recorded at fair value, estimated by using a discounted cash flow forecast of the amounts anticipated to be recovered as determined by an independent third-party valuation. Interest is accreted on the balance each year to reflect the time value of money for this present value asset. There is uncertainty as to the timing of when the amounts will be recovered, and therefore the Company has classified this asset as long term on the consolidated balance sheets.

**Asset Retirement Obligations**

The Company recorded a liability for the asset retirement obligations related to the 2019 acquisition discussed in Note 1. The asset retirement obligation was recorded at its fair value, which was measured by using the present value of the estimated future cash outflows for demolition, decommissioning, and site restoration costs, and for costs related to the management of spent nuclear fuel storage. The asset retirement obligation is accreted each year through a charge to cost of revenues, to reflect the time value of money for this present value obligation. Additionally, changes in cash flow assumptions impacting the asset retirement obligations are assessed at each balance sheet date with an offset through cost of revenues.

**Unearned Revenue – Site Restoration**

The Company acquired unearned revenue in connection with the 2019 acquisition discussed in Note 1. Along with the related asset retirement obligation for the eventual restoration of the site for future unrestricted use, the Company acquired ownership of a site restoration trust investment portfolio plus $20,000 restricted cash. The fair value of the site restoration trust investment portfolio exceeded the estimated fair value of the anticipated future cash flows for site restoration by $34,720, and the Company recorded a liability for the estimated value of such excess plus the restricted cash received. The unearned revenue will be recognized in earnings over time as the Company performs its obligations for the site restoration, in a manner consistent with the related contract. In accordance with the terms of the MIPA, the Company does not have the right to draw upon the excess cash in the site restoration investment portfolio or the $20,000 restricted cash until certain milestones specified in the MIPA have been completed, and therefore the unearned revenue is classified as a long-term liability.

*(amounts in thousands)*

**Revenue Recognition**
On January 1, 2019, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) ASC Topic 606 *Revenue for Contracts with Customers* using the modified retrospective transition method. There was no impact on the Company's financial statements from the adoption of this standard was recognized as an adjustment to the opening balance of retained earnings. Revenue recognized on contracts that has not been billed to clients is classified as a current asset, costs and estimated earnings in excess of billings on uncompleted contracts. Amounts billed to clients in excess of revenue recognized on contracts to date are classified as a current liability, billings in excess of costs and estimated earnings on uncompleted contract.

*Construction-type contracts*
The Company recognizes revenue for its construction-type contracts over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Depending on the commercial terms, contracts may be accounted for as a single unit of account (a single performance obligation), or may be segmented between types of services when there are multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using an estimate of the stand-alone selling price of each distinct service in the contract. Project mobilization costs are generally charged to project costs as incurred when they are an integrated part of the performance obligation being transferred to the client. Depending on the contract terms, the Company recognizes revenue over time, based on either (a) contract costs incurred to date compared to the total estimated costs at completion (an input method), or on (b) the achievement of contractual performance criteria (an output method), with output-based methodology generally reserved for larger multi-year projects with well-defined regulatory or contractual criteria to establish progress. The over time method is the most faithful depiction of the Company's performance because it directly measures the value of the services transferred to the customer. This method also generally aligns timing of typical customer payments with satisfaction of performance obligations, with differences resulting in a contract asset or liability, as included in Note 4. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion. For the years ended December 31, 2019 and 2018, the Company recorded $1,873 and $212 for loss contracts, respectively. Revenues are recorded net of sales tax. For the years ended December 31, 2019 and 2018, contract revenues include revenues from salvage proceeds totaling $12,203 and $19,988, respectively.

*Service contracts*
For service contracts in which the Company has the right to consideration from the customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date, revenue is recognized when services are performed and contractually billable. Service contracts that include multiple performance obligations are segmented between types of services. For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using an estimate of the stand-alone selling price of each distinct service in the contract.

# NorthStar Group Services, Inc.
## Notes to Consolidated Financial Statements
## December 31, 2019 and 2018

*(amounts in thousands)*

*Variable consideration*
The nature of the Company's contracts gives rise to several types of variable consideration, such as award and incentive fees. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount.

**Revenue Recognition of Claims**
Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to scope and/or price. Such amounts are considered variable consideration and are recorded when likely to be received or awarded. Claims receivable are presented either in unbilled accounts receivable for projects that are complete, or in costs and estimated earnings in excess of billings on uncompleted contracts for projects still in progress. There was no accrued revenue subject to claims at either December 31, 2019 or 2018.

**Accrued Contract Costs**
Accrued contract costs represent costs incurred and payable by the Company at the balance sheet date to its subcontractors and other third party vendors for its long-term construction-type contracts.

**Insurance Policies**
The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions that were developed with the assistance of specialists. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the expenses accrued are adequate to cover losses incurred to date; however, the accrued expenses are based on an estimate and the ultimate liability may be more or less than the amount recognized.

**Property and Equipment**
Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the life of the asset. The cost of maintenance and repairs is charged to expense as incurred and significant improvements and betterments are capitalized. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss, if any, is recognized in the consolidated statements of operations.

*(amounts in thousands)*

**Goodwill**
Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company performs an annual impairment analysis at December 31. The Company has elected the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. If the Company determines that this is the case, it is required to perform the currently prescribed impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recorded for the reporting unit. If, after considering the totality of events and circumstances, the Company determines that it is more likely than not that the goodwill intangible asset is not impaired, further quantitative assessment is unnecessary. The more likely than not threshold is defined as having a likelihood of more than 50%.Testing for impairment is performed at least annually, or more frequently if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing its annual impairment analysis at December 31, 2019 and 2018, the Company has concluded that no factors existed that indicated that it is more likely than not that the fair value of its reporting unit was less than its carrying amount.

**Intangible Assets – Net**
Intangible assets recognized in connection with an acquisition of a business include customer relationships, backlog, and a trademark. These assets were recorded at their estimated fair values at the date of acquisition, assigned estimated useful lives, and are amortized primarily on a straight line basis, which approximates the pattern of economic benefit, over their respective useful lives.

**Recoverability of Long-Lived Assets**
The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset or asset group to the estimated undiscounted future cash flows expected to result from use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset or asset group, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The Company determined that there was no impairment of long-lived assets during the years ended December 31, 2019 and 2018.

**Deferred Financing Costs**
The Company amortizes deferred financing costs over the life of the related debt using the effective interest rate method.

**Fair Value of Financial Instruments**
The Company's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt. The carrying values of the Company's financial assets and liabilities approximate their fair value. The Company early adopted ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* effective January 1, 2019, with no impact on the Company's financial statements. The guidance in ASC Topic 825, *Financial Instruments* paragraphs 10-50-16 through 50-19 (as amended), requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value.

*(amounts in thousands)*

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as quoted prices in active markets for identical instruments; Level 2 - defined as observable inputs other than quoted prices in active markets; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

**Income Taxes**

Holdings files a consolidated Federal income tax return for each tax period that includes the operating results of the Company, which is part of the consolidated group. All Federal income tax liabilities are paid by Holdings. Holdings, LLC has elected to be treated as a taxable entity for income tax reporting purposes and files its income tax returns on the accrual basis as a corporation for federal and state income tax purposes. The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Under ASC Topic 740, current and deferred taxes are recognized for the tax effects of differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances on deferred tax assets are provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities are classified as noncurrent on the balance sheet in accordance with Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes*.

ASC Topic 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The guidance in ASC Topic 740 states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" for this purpose is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest in income tax expense.

**Deferred tax credit**

The tax basis of the assets acquired in connection with the 2019 transaction discussed in Note 1 exceeded the fair value book basis, resulting in the recognition of a deferred tax asset. The excess of the amounts assigned to the acquired assets were allocated pro rata to reduce the assigned values to zero, with the remainder recorded as a deferred tax credit. The deferred tax credit will be reversed to tax expense in proportion to the reversal of the related deferred tax asset as the tax and book basis differences decrease over time.

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing guidance on accounting for leases. The ASU requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be

*(amounts in thousands)*

adopted using a modified retrospective transition approach and provides for certain practical expedients. The amendments in this update will be effective for the Company's fiscal year beginning January 1, 2021. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The amendments in ASU 2012-12, among other things, remove certain exceptions to the general principles in ASC 740 and seek more consistent application by clarifying and amending the existing guidance. ASU 2019-12 is effective for the Company on January 1, 2022. Early adoption is permitted, including adoption in any interim period. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

## 3. Accounts Receivable - Net

Accounts receivable - net as of December 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Billed | $ 115,294 | $ 105,706 |
| Retained | 29,457 | 14,400 |
| Unbilled | 8,213 | 7,238 |
| Total accounts receivable | 152,964 | 127,344 |
| Less: Allowance for doubtful accounts | (3,838) | (7,525) |
| Accounts receivable - net | $ 149,126 | $ 119,819 |

During the year ended December 31, 2019, the Company wrote down receivables against the allowance of $2,940, and recovered $1,400 for receivables that had been previously written off.

## NorthStar Group Services, Inc.
### Notes to Consolidated Financial Statements
### December 31, 2019 and 2018

*(amounts in thousands)*

### 4. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts as of December 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 348,225 | $ 98,285 |
| Estimated earnings | 70,386 | 22,265 |
| | 418,611 | 120,550 |
| Less: Billings to date | (429,609) | (121,446) |
| | $ (10,998) | $ (896) |
| **The above amounts are included in the consolidated balance sheets under the following captions** | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 6,679 | $ 7,183 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (17,677) | (8,079) |
| | $ (10,998) | $ (896) |

### 5. Property and Equipment - Net

Property and equipment - net as of December 31, 2019 and 2018 consist of the following:

| Category | Useful Life *in years* | 2019 Value | 2018 Value |
|---|---|---|---|
| Land | | $ 830 | $ 830 |
| Buildings | 40 | 800 | 800 |
| Furniture and fixtures | 5 | 166 | 166 |
| Computer equipment | 3 | 1,733 | 1,683 |
| Leasehold improvements | Shorter of useful life or life of lease | 1,799 | 1,424 |
| Equipment | 7-10 | 43,719 | 36,073 |
| Vehicles | 7 | 12,141 | 9,335 |
| | | 61,188 | 50,311 |
| Less: Accumulated depreciation and amortization | | (27,040) | (15,905) |
| Property and equipment - net | | $ 34,148 | $ 34,406 |

Depreciation expense for the years ended December 31, 2019 and 2018 was $12,531 and $11,689, respectively, which includes the depreciation of assets under capital lease.

The gross amount of assets acquired pursuant to capital leases total $12,704 and $13,497, offset by accumulated depreciation of $5,160 and $3,558 as of December 31, 2019 and 2018, respectively, and are included in the table above.

*(amounts in thousands)*

## 6. Goodwill and Intangible Assets

The Company's goodwill of $100,430 relates to a business combination completed in 2017. No impairment charges related to goodwill were recognized in the years ended December 31, 2019 and 2018 in connection with the annual goodwill impairment or qualitative assessment at December 31.

As of December 31, 2019 and 2018, the Company's intangible assets and related accumulated amortization consist of the following:

| | 2019 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
| Customer relationships | 10 years | $ 72,900 | $ 18,590 | $ 54,310 |
| Trademark | 10 years | 8,000 | 2,040 | 5,960 |
| Total intangible assets | | $ 80,900 | $ 20,630 | $ 60,270 |

| | 2018 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Cost | Accumulated Amortization | Net |
| Customer relationships | 10 years | $ 72,900 | $ 11,300 | $ 61,600 |
| Backlog | 1.5 years | 8,500 | 8,500 | - |
| Trademark | 10 years | 8,000 | 1,240 | 6,760 |
| Total intangible assets | | $ 89,400 | $ 21,040 | $ 68,360 |

The weighted average useful life of the Company's intangible assets when acquired was 9.2 years. Amortization expense related to intangible assets for the years ended December 31, 2019 and 2018 was $8,090 and $13,474, respectively. Amortization expense for each of the next five years for intangible assets subject to amortization is $8,090.

*(amounts in thousands)*

## 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2019 and 2018 consists of the following:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Workers compensation and other liability insurance | $ | 11,317 | $ | 7,562 |
| Payroll and other compensation accruals | | 16,354 | | 16,130 |
| Sales tax | | 549 | | 697 |
| Interest | | 360 | | 3,699 |
| Other | | 2,957 | | 3,942 |
| Accrued expenses and other current liabilities | $ | 31,537 | $ | 32,030 |

## 8. Long-Term Financing Obligations

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2019 and 2018 are as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Current portion of long-term financing obligations** | | | | |
| Senior Secured Credit Facility [(a)] | | | | |
| Former Term Loan [(a)] | $ | - | $ | 19,593 |
| Term Loan A [(a)] | | 1,375 | | - |
| Term Loan B [(a)] | | 371 | | - |
| Equipment finance obligations [(b)] | | 2,794 | | 2,856 |
| Short-term financing obligations | $ | 4,540 | $ | 22,449 |
| **Noncurrent portion of long-term financing obligations** | | | | |
| Senior Secured Credit Facility | | | | |
| Former Term Loan [(a)] | $ | - | $ | 119,812 |
| Term Loan A [(a)] | | 75,066 | | - |
| Term Loan B [(a)] | | 83,507 | | - |
| Equipment finance obligations [(b)] | | 1,820 | | 4,030 |
| Long-term financing obligations | $ | 160,393 | $ | 123,842 |

a. Amended and Restated Credit and Guaranty Agreement and Revolving Credit Facility

The Company entered into the Second Amended and Restated Credit and Guaranty agreement on June 12, 2017 (the "Former Credit Facility") with various lenders, consisting of a term loan of $140,000 (the "Former Term Loan") and a $55,000 revolving credit facility. The lenders had a security interest in substantially all of the assets of the Company and its subsidiaries. The Former Credit Facility was scheduled to mature on May 31, 2021, whereupon the balance outstanding on the Former Term Loan and revolver would be payable in full. Principal payments on the Former Term Loan were due quarterly beginning on

*(amounts in thousands)*

December 31, 2019 in amounts as described within the agreement. When certain annual financial performance thresholds have been exceeded, the Former Credit Facility required that the Company prepay a portion of the Former Term Loan by June 30 of the immediately following year. The Company met such thresholds during 2019, and reclassified $20,000 of the Former Term Loan as a current liability, which was paid in June 2019.

On September 6,2019, the Company entered into the Credit and Guaranty Agreement (the "Credit Facility") with various lenders, for an aggregate amount of $217,500, consisting of Term Loan A for $80,000, Term Loan B for $87,500, and a $50,000 revolving credit facility (the "Revolver"). The proceeds from the Credit Facility were used to repay the Former Term Loan including accrued interest, and cancel the Former Credit Facility, whereupon the Company wrote off $431 of the related deferred issuance costs to interest expense. The lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. Term Loan A and the Revolver mature on September 6, 2024, whereupon the balance of Term Loan A and the Revolver will be payable in full. The Credit Facility matures on September 6, 2025, whereupon the balance outstanding on Term Loan B will be payable in full.

Interest is charged on the Revolver, Term Loan A and Term Loan B at an applicable margin percentage above either the Base Rate or above the Adjusted Eurodollar Rate, at the Company's option. The Base Rate is defined in the Credit Facility as the greatest of (i) the Prime Rate; (ii) the Federal Funds Effective Rate plus 0.5%; and (iii) the Adjusted Eurodollar Rate plus 1%. The Adjusted Eurodollar Rate is defined in the Credit Facility as the greater of (i) the London InterBank Offered Rate and (ii) 1%. The applicable margin is on a sliding scale based upon the Company's total net leverage ratio as defined in the Credit Facilty, measured quarterly and payable in cash. The effective rate on Term Loan A and Term Loan B at December 31, 2019 was an annual rate of 6.1%% and 6.9%, respectively. The effective rate on the Old Term Loan at December 31, 2018 was an annual rate of 6.9%. The Revolver also has a fee of 0.375% per annum on the unused portion of the facility. Interest on outstanding borrowings and the fee are payable monthly.

The Term Loan A and Term Loan B were issued at discounts of $1,481 and $1,691, respectively. The amortization of the discounts on these loans for the year ended December 31, 2019 was a combined $159, and is classified as interest expense in the consolidated statement of operations. Amortization of deferred financing costs for the years ended December 31, 2019 and 2018, was approximately $786 and $247, respectively, and is classified as interest expense in the consolidated statement of operations.

As of December 31, 2019 and 2018, the Company had outstanding letters of credit in the amount of $7,087 and $9,567 for the benefit of its surety bonding (Note 11) and deductibles under insurance policies, and had drawn $0 on the Revolver, which reduced the borrowing availability under the Revolver to $42,913 and $45,433, respectively. The letters of credit are automatically renewable unless notice is provided 30 days prior to cancellation.

*(amounts in thousands)*

b. Equipment Finance Obligations

The Company has financed equipment under capital lease agreements and equipment finance notes with various vendors for equipment utilized in the performance of its work. The terms of the leases vary from 36 to 60 months and carry interest rates ranging from 0.00% to 8.95%.

At December 31, 2019 the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Capital Lease Obligations | Total Long-Term Financing Obligations |
|---|---|---|---|
| 2020 | $ 2,875 | $ 2,890 | $ 5,765 |
| 2021 | 3,875 | 1,161 | 5,036 |
| 2022 | 4,875 | 455 | 5,330 |
| 2023 | 4,875 | 241 | 5,116 |
| 2024 | 67,375 | - | 67,375 |
| Thereafter | 82,906 | - | 82,906 |
| Total future payments | 166,781 | 4,747 | 171,528 |
| Less: Amount representing interest | (6,462) | (133) | (6,595) |
| | $ 160,319 | $ 4,614 | $ 164,933 |

## 9. Income Taxes

The provision for income taxes for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Current (benefit) expense** | | |
| Federal | $ - | $ - |
| State and local | 872 | 776 |
| Total current expense | 872 | 776 |
| **Deferred (benefit) expense** | | |
| Federal | (5,895) | 2,296 |
| State and local | 1,113 | 2,306 |
| Total deferred (benefit) expense | (4,782) | 4,602 |
| Total income tax (benefit) expense | $ (3,910) | $ 5,378 |

The Company's effective tax rate for 2019 differs from the federal statutory rate mainly as a result of the deferred credit as well as state taxes and other permanent differences. The Company's effective tax rate for 2018 differs from the federal statutory rate mainly as a result of state taxes and permanent differences.

*(amounts in thousands)*

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for bad debts | $ 860 | $ 1,217 |
| Compensation accruals | 2,350 | 2,258 |
| Insurance reserves | 7,708 | 6,170 |
| Net operating loss | 11,101 | 10,340 |
| Decommissioning trust funds | 1,643 | - |
| Reimbursements due from US Department of Energy | 50,997 | - |
| Asset Retirement Obligations | 139,442 | - |
| Unearned Revenue - Site Restoration | 13,957 | - |
| Other | 1,389 | 1,676 |
| Total deferred tax assets | 229,447 | 21,661 |
| **Deferred tax liabilities** | | |
| Depreciation and amortization | (20,747) | (20,696) |
| Investment in partnerships | (3,423) | (1,659) |
| Unrealized gain on debt securities | (4,188) | - |
| Deferred Revenue | (4,423) | (5,369) |
| Total deferred tax liabilities | (32,781) | (27,724) |
| Net deferred tax assets (liabilities) | $ 196,666 | $ (6,063) |

As of December 31, 2019 and 2018, the Company has federal and combined state net operating loss carryforwards of $63,097 and $44,609 and separate state net operating loss carryforwards of approximately $10,017 and $33,956, respectively. Federal net operating loss carryforwards that were generated from 2018 onward do not have expiration dates, whereas the state and pre-2018 federal net operating loss carryforwards expire at various dates beginning in 2032. In general, under Section 382 of the United States Internal Revenue Code of 1986 ("IRC"), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses to offset future taxable income. In 2017, an analysis was conducted as a result of a change in the Company's ownership. The results of the analysis indicated that federal and state net operating losses were limited pursuant to IRC 382. This limitation has been considered in calculating the available net operating loss carryforwards.

The Company had approximately $16 and $58, for the years ended December 31, 2019 and 2018, for the payment of interest and penalties and $118 and $116 of unrecognized tax benefits accrued in other long-term obligations at December 31, 2019 and 2018, respectively. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits would affect the Company's effective tax rate upon recognition.

The Company's tax years 2016-2018 remain open to examination for federal purposes and for 2015 forward for most state jurisdictions.

*(amounts in thousands)*

## 10. Asset Retirement Obligations and Decommissioning Trust Funds

The Company recorded the asset retirement obligations and the trust funds in connection with the 2019 transaction discussed in Note 1. The terms of the underlying agreements legally restrict the Company's ability to make withdrawals from the trust funds, which are limited to the value of completed nuclear decommissioning, spent fuel management and site restoration work as specified in the pay item schedule included within the MIPA.

2019 activity associated with the asset retirement obligation liability was as follows:

| | |
|---|---|
| Liabilities as of January 11, 2019 | $ 611,827 |
| Accretion | 20,602 |
| Change in cash flow estimate | 6,769 |
| Spending | (97,465) |
| Liabilities as of December 31, 2019 | $ 541,733 |

The cumulative activity for the NDT and SRT funds in 2019 was as follows:

| | SRT | NDT | TOTAL |
|---|---|---|---|
| Assets as of January 11, 2019 | $ 59,991 | $ 487,627 | $ 547,618 |
| Interest earnings | 1,333 | 7,599 | 8,932 |
| Realized gains | 46 | 653 | 699 |
| Withdrawals per pay item schedule | (1,669) | (80,601) | (82,270) |
| Payments to custodian and fund manager | (80) | (599) | (679) |
| Unrealized gains | 2,717 | 13,551 | 16,268 |
| Fair value as of December 31, 2019 | $ 62,338 | $ 428,230 | $ 490,568 |

The Company records the trust funds on the balance sheet at their fair value. As of December 31, 2019, the trust funds' holdings consist of $27,950 in cash and cash equivalents and $462,618 in U.S. Treasury securities that are classified as available-for-sale. The fair value of the available-for-sale debt securities is determined by quoted market prices (a Level 2 input). Unrealized gains on the available-for-sale debt securities are recognized in the accumulated other comprehensive income component of member's equity. Unrealized losses (where cost exceeds fair market value) on the available-for-sale debt securities in the trust funds are also recorded in the accumulated other comprehensive income component of member's equity unless the unrealized loss is other than temporary and therefore recorded in earnings. Generally, the Company records gains and losses on its debt securities using the specific identification method to determine the cost basis of its securities.

The amortized cost of the trust funds' available-for-sale debt securities was $448,151 as of December 31, 2019. As of December 31, 2019, the available-for-sale debt securities have a weighted-average maturity of approximately 3.2 years.

*(amounts in thousands)*

## 11. Commitments and Contingencies

### Operating Leases

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for real property is calculated on a straight-line basis, and was $4,203 and $4,673 for the years ended December 31, 2019 and 2018, respectively. The Company received sublease income of $565 and $551 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| Years Ending December 31, | |
|---|---|
| 2020 | $ 4,069 |
| 2021 | 2,949 |
| 2022 | 1,833 |
| 2023 | 667 |
| 2024 | 252 |
| Thereafter | 328 |
| | $ 10,098 |

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 30.2% and 21.6% of consolidated total accounts receivable as of December 31, 2019 and 2018, respectively. In addition, the Company holds cash, cash equivalents, and restricted cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2019 and 2018, the Company had approximately $103,036 and $37,495 in excess of FDIC insured limits, respectively.

### Risks and Uncertainties

The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

*(amounts in thousands)*

**Surety Bonds**
As is customary in the contracting business, the Company is required to provide surety bonds to secure its performance under certain contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards, which may change from time to time. The Company's inability to obtain surety bonds in the future would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

**Litigation**
The Company is involved in various litigations that arise in the ordinary course of its business activities. In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

## 12. Related-Party Transactions

Pursuant to a change of the Company's ownership completed on June 12, 2017, the Company became a wholly owned subsidiary of JFL-NGS Partners, LLC, a Delaware limited liability company (the "Investor"). Certain members of the Company's senior management act in senior management roles at another entity that is owned 100% by the Investor. During the year ended December 31, 2019, the Company recognized revenue of $401 and incurred expense of $4,794 with that entity.

During the years ended December 31, 2019 and 2018, the Company paid rent expense of $317 and $354, respectively, to an entity in which a Company employee has an equity interest.

On June 12, 2017, the Company entered into a management services agreement (the "Management Agreement") pursuant to which certain of the members of the Investor (the "Advisors") are paid $750 per year plus out-of-pocket expenses for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company. Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has no stated term and will remain effective until terminated. The management fee is payable to the Advisors quarterly in advance. The Company incurred expense relating to the Management Agreement of $972 and $1,003 in the years ended December 31, 2019 and 2018, respectively. The amounts payable to the Advisors as of December 31, 2019 and 2018 were $0 and $162, respectively.

In connection with entering into the Credit Facility as described in Note 8, the Company paid the Advisors $975 on September 6, 2019. This payment was capitalized as deferred financing costs.

## 13. Retirement Plans

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 100% of their eligible compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The Company matching contributions vest over a five-

*(amounts in thousands)*

year period, as defined in the plan documents. Total Company matching contributions to the plan for the years ended December 31, 2019 and 2018, was $826 and $811, respectively.

During the year ended December 31, 2019 and 2018, the Company participated in several multiemployer pension plans ("MEPPs") that provide retirement benefits to certain union employees in accordance with various collective bargaining agreements ("CBAs") in the United States. The risks of participating in multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and if a participating employer chooses to stop participating in an employer plan it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Contributions to a particular MEPP are established by the applicable CBAs; however, the Company's required contributions may increase based on the funded status of an MEPP and legal requirements of the Pension Protection Act of 2006 ("PPA").

The Company could also be obligated to make payments to MEPPs if the Company either ceases to have an obligation to contribute to the MEPP or significantly reduces its contributions to the MEPP because of a reduced number of employees who are covered by the relevant MEPP for various reasons, including, but not limited to layoffs or closure of a subsidiary assuming the MEPP has unfunded vested benefits. The amount of such payments (known as a complete or partial withdrawal liability) would equal the Company's proportionate share of the MEPPs unfunded vested benefits. The Company believes that certain of the MEPPs in which the Company participates may have unfunded vested benefits. Due to uncertainty regarding future factors that could trigger withdrawal liability, as well as the absence of specific information regarding the MEPPs current financial situation, the Company is unable to determine the amount and timing of any future withdrawal liability, if any. The Company does not believe that its participation in these MEPPs will have a material adverse impact on its financial condition.

The PPA zone status for each plan has been evaluated based on the information that the Company received from the MEPPs and is certified by the MEPPs actuaries. The Company does not have any material obligations to the MEPPs, and the contributions for the year ended December 31, 2019 approximate the ongoing minimum contribution expense. There are no plan contributions made by the Company that exceed 5% of the total plan contributions for a respective plan.

**NorthStar Group Services, Inc.**
**Notes to Consolidated Financial Statements**
**December 31, 2019 and 2018**

*(amounts in thousands)*

## 14. Subsequent Events

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its consolidated financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date. The Company has evaluated subsequent events through March 31, 2020, the date that these consolidated financial statements were available to be issued.

In March 2020, the World Health Organization (WHO) announced that the worldwide outbreak of COVID-19 had become a global pandemic. This is a rapidly evolving global issue and management has taken multiple steps to manage the situation, including restricting on site access, promoting remote work for relevant roles, and compliance with and communication of CDC and other relevant government guidelines. Management continues to assess the potential business impacts and will take additional steps as the latest facts dictate.

On March 18, 2020, the Company paid a dividend of $75,975 to the stockholder.

No other events were identified that require recognition or disclosure.

# Supplemental Information

# NorthStar Group Services, Inc.
## Unaudited Supplemental Information – Disbursements from Trust Funds in 2019
## December 31, 2019

*(amounts in thousands)*

| Cert # | Date | Payee | SRT | NDT |
|---|---|---|---|---|
| 1 | 3/11/2019 | NorthStar Vermont Yankee, LLC | $ - | $ (8,735) |
| MGF-1 | 4/1/2019 | FPCM | - | (57) |
| MGF-2 | 4/1/2019 | FPCM | (7) | - |
| 2 | 4/8/2019 | NorthStar Vermont Yankee, LLC | - | (7,357) |
| MGF-3 | 5/3/2019 | FPCM | - | (63) |
| MGF-4 | 5/3/2019 | FPCM | (8) | - |
| 3 | 5/6/2019 | NorthStar Vermont Yankee, LLC | - | (5,151) |
| 4 | 6/10/2019 | NorthStar Vermont Yankee, LLC | - | (4,018) |
| MGF-5 | 6/10/2019 | FPCM | - | (60) |
| MGF-6 | 6/10/2019 | FPCM | (8) | - |
| CUS-1 | 6/10/2019 | BNY-Mellon | - | (31) |
| CUS-2 | 6/10/2019 | BNY-Mellon | (4) | - |
| 5 | 6/24/2019 | NorthStar Vermont Yankee, LLC | (250) | - |
| MGF-7 | 7/5/2019 | FPCM | | (62) |
| MGF-8 | 7/5/2019 | FPCM | (8) | - |
| 6 | 7/8/2019 | NorthStar Vermont Yankee, LLC | - | (6,521) |
| SR-01 | 7/15/2019 | NorthStar Vermont Yankee, LLC | (337) | - |
| 7 | 7/17/2019 | NorthStar Vermont Yankee, LLC | - | (38) |
| 8 | 8/1/2019 | NorthStar Vermont Yankee, LLC | - | (7,583) |
| 9 | 8/1/2019 | FPCM | - | (60) |
| | 8/1/2019 | BNY-Mellon | - | (15) |
| SR-02 | 8/8/2019 | NorthStar Vermont Yankee, LLC | (250) | - |
| | 8/8/2019 | FPCM | (8) | - |
| | 8/8/2019 | BNY-Mellon | (2) | - |
| 10 | 9/3/2019 | NorthStar Vermont Yankee, LLC | - | (12,201) |
| 11 | 9/6/2019 | FPCM | - | (61) |
| SR-03 | 9/6/2019 | FPCM | (8) | - |
| 12 | 10/7/2019 | FPCM | - | (61) |
| SR-04 | 10/7/2019 | NorthStar Vermont Yankee, LLC | (444) | - |
| | 10/7/2019 | FPCM | (8) | - |
| 13 | 10/9/2019 | NorthStar Vermont Yankee; LLC | - | (11,229) |
| 14 | 11/7/2019 | NorthStar Vermont Yankee, LLC | - | (9,959) |
| 15 | 11/14/2019 | FPCM | - | (57) |
| | 11/14/2019 | BNY-Mellon | - | (14) |

# NorthStar Group Services, Inc.
## Unaudited Supplemental Information – Disbursements from Trust Funds in 2019
## December 31, 2019

*(amounts in thousands)*

| Cert # | Date | Payee | SRT | NDT |
|---|---|---|---|---|
| SR-05 | 11/14/2019 | NorthStar Vermont Yankee, LLC | (194) | - |
| | 11/14/2019 | FPCM | (8) | - |
| | 11/14/2019 | BNY-Mellon | (3) | - |
| 16 | 12/9/2019 | NorthStar Vermont Yankee, LLC | - | (7,809) |
| | 12/9/2019 | FPCM | - | (58) |
| SR-06 | 12/6/2019 | NorthStar Vermont Yankee, LLC | (194) | - |
| SR-07 | 12/9/2019 | FPCM | (8) | - |
| **TOTAL 2019 DISBURSEMENTS** | | | **$ (1,749)** | **$ (81,200)** |

# NorthStar Group Services, Inc.
## Notes to Unaudited Supplemental Information
## December 31, 2019

*(amounts in thousands)*

1. **Basis of Presentation**
   The accompanying Supplemental Schedule – Disbursements from Trust Funds in 2019, has been prepared to provide an accounting of all disbursements from the trust funds, as described in Note 2 and Note 10 of the Consolidated Financial Statements, during 2019. The first column, "Cert #" represents the "Decommissioning Certificate" identification number. The Decommissioning Certificate process is governed by the NorthStar Vermont Yankee, LLC Decommissioning Completion Trust Agreement for Vermont Yankee Nuclear Power Station, dated January 11, 2019 (the "Agreement"), and means a document properly completed and executed by an Authorized Representative of the Company and substantially in the form governed by the Agreement, as it may from time to time be amended. The second column, "Date" represents the payment receipt date in a format of Month/Day/Year. The third column, "Payee" represents the recipient to the disbursement. The fourth column and fifth column represent the source of the respective disbursements. "SRT" represents funds disbursed from the site restoration trust and "NDT" represents funds disbursed from the nuclear decommissioning trust, both as defined in Note 1. This schedule is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

# Consolidated Financial Statements and Report of Independent Certified Public Accountants

## NORTHSTAR GROUP SERVICES, INC.

Years ended December 31, 2016 and 2015

# NORTHSTAR GROUP SERVICES, INC.

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholder of
**NorthStar Group Services, Inc.**

We have audited the accompanying consolidated financial statements of NorthStar Group Services, Inc. (a Delaware corporation) (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Managementrs responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditorrs responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Group Services, Inc. as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
August 15, 2017

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Balance Sheets
**As of December 31, 2016 and 2015**
**(in thousands, except share data)**

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | $ 2,821 | $ 838 |
| Accounts receivable - net | 125,478 | 155,378 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 11,081 | 18,466 |
| Inventories - net | 4,177 | 4,695 |
| Income tax receivable | 542 | - |
| Prepaid expenses and other current assets | 10,096 | 6,939 |
| Total current assets | 154,195 | 186,316 |
| Property and equipment - net | 23,381 | 26,061 |
| OTHER ASSETS | | |
| Goodwill | 139,525 | 138,917 |
| Other intangible assets - net | 30,511 | 42,360 |
| Restricted cash | 197 | 166 |
| Unbilled accounts receivable | 17,491 | - |
| Other noncurrent assets | 1,507 | 955 |
| Total assets | $ 366,807 | $ 394,775 |

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

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Balance Sheets
### As of December 31, 2016 and 2015
### (in thousands, except share data)

| | 2016 | 2015 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| CURRENT LIABILITIES | | |
| Checks in transit | $ - | $ 1,139 |
| Current maturities of long-term obligations | 3,758 | 19,967 |
| Accounts payable and accrued contract costs | 70,575 | 83,049 |
| Accrued expenses and other current liabilities | 32,714 | 36,735 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 4,286 | 7,027 |
| Income taxes payable | 7 | 7 |
| Total current liabilities | 111,340 | 147,924 |
| NONCURRENT LIABILITIES | | |
| Long-term obligations | 237,680 | 215,070 |
| Income tax liability | 621 | 664 |
| Due to parent | 1,000 | 1,179 |
| Deferred income taxes | 6,139 | 8,159 |
| Total liabilities | 356,780 | 372,996 |
| Commitments and contingencies (Note 11) | | |
| STOCKHOLDER'S EQUITY | | |
| Common stock ($1 par value; authorized, issued and outstanding 100,000 shares; December 31, 2016 and 2015, respectively) | 100 | 100 |
| Additional paid-in capital | 141,413 | 141,413 |
| Accumulated deficit | (131,486) | (119,734) |
| Total stockholder's equity | 10,027 | 21,779 |
| Total | $ 366,807 | $ 394,775 |

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

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Statements of Operations
**For the years ended December 31, 2016 and 2015**
**(in thousands, except share data)**

| | 2016 | 2015 |
|---|---|---|
| Revenues | $ 572,913 | $ 652,326 |
| Cost of revenues | 482,313 | 548,960 |
| Gross profit | 90,600 | 103,366 |
| Selling, general, and administrative expenses | 64,978 | 73,720 |
| Operating income | 25,622 | 29,646 |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (23,467) | (19,434) |
| Amortization expense | (14,787) | (15,531) |
| Management charge to related party | (305) | (343) |
| Other - net | (995) | (348) |
| Total other income (expense) | (39,554) | (35,656) |
| Loss before income taxes | (13,932) | (6,010) |
| Income tax benefit | (2,180) | (5,794) |
| Net loss | $ (11,752) | $ (216) |

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

# NORTHSTAR GROUP SERVICES, INC.
## Consolidated Statements of Changes in Stockholderæ Equity
**For the years ended December 31, 2016 and 2015**
**(in thousands, except share data)**

| | Common Stock | | Additional | | Total |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Paid-in Capital | (Accumulated Deficit) | Stockholder's Equity |
| **Balance - December 31, 2014** | 100,000 | $ 100 | $ 141,413 | $ (119,518) | $ 21,995 |
| Net loss | - | - | - | (216) | (216) |
| **Balance - December 31, 2015** | 100,000 | 100 | 141,413 | (119,734) | 21,779 |
| Net loss | - | - | - | (11,752) | (11,752) |
| **Balance - December 31, 2016** | 100,000 | $ 100 | $ 141,413 | $ (131,486) | $ 10,027 |

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

# NORTHSTAR GROUP SERVICES, INC.

## Consolidated Statements of Cash Flows

**For the years ended December 31, 2016 and 2015**
**(in thousands, except share data)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (11,752) | $ (216) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 25,851 | 26,215 |
| Bad debt expense | 762 | 1,398 |
| Gain on sale of fixed assets | (59) | (117) |
| Accrued interest expense - non-cash | 7,803 | 3,017 |
| Deferred income taxes | (2,020) | (2,830) |
| Changes in operating assets and liabilities | | |
| Accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts | 19,032 | (12,702) |
| Inventories | 518 | 1,065 |
| Prepaid expenses and other current assets | (3,771) | (2,998) |
| Other noncurrent assets | 62 | 88 |
| Accounts payable and billings in excess of costs and estimated earnings on uncompleted contracts | (15,215) | (3,820) |
| Accrued expenses and other current liabilities | (5,160) | 5,231 |
| Income taxes | (585) | (3,183) |
| Net cash provided by operating activities | 15,466 | 11,148 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments associated with purchase agreements, net of cash acquired | (608) | - |
| Restricted cash | (31) | - |
| Capital expenditures | (7,973) | (4,828) |
| Proceeds from sale of fixed assets | 840 | 756 |
| Net cash used in investing activities | (7,772) | (4,072) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from line of credit | 62,600 | 121,100 |
| Repayments of line of credit | (48,550) | (111,600) |
| Principal payments on long-term obligations | (20,068) | (15,692) |
| Deferred financing costs paid | - | (1,594) |
| Proceeds from issuance of long-term debt | 486 | - |
| Contributions and advances from parent - net | (179) | 169 |
| Net cash used in financing activities | (5,711) | (7,617) |
| Net increase (decrease) in cash and cash equivalents | 1,983 | (541) |
| Cash - beginning of year | 838 | 1,379 |
| Cash - end of year | $ 2,821 | $ 838 |

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

# NORTHSTAR GROUP SERVICES, INC.

## Consolidated Statements of Cash Flows

**For the years ended December 31, 2016 and 2015**
**(in thousands, except share data)**

| | 2016 | 2015 |
|---|---|---|
| Supplemental disclosures of cash flow: | | |
| Information - cash paid during the year for | | |
| Interest | $ 15,253 | $ 17,064 |
| Income taxes | $ 654 | $ 290 |
| Noncash transactions: | | |
| Assets acquired pursuant to capital leases | $ 1,298 | $ 9,899 |

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

# NORTHSTAR GROUP SERVICES, INC.
## Notes to Consolidated Financial Statements
**December 31, 2016 and 2015**
**(in thousands, except share data)**

## 1. ORGANIZATION AND BUSINESS

NorthStar Group Services, Inc. (formerly LVI Services Inc., the "Company") is a wholly owned subsidiary of NorthStar Group Holdings, LLC. The Company provides a number of building facility services including asbestos abatement, lead abatement, mold remediation, emergency disaster response, interior and structural demolition, salvage and recycling of related materials, fireproofing, design-build, repair, remodeling, and new construction services, and other specialty contracting services to a broad range of commercial, industrial, and institutional clients located throughout the United States. The Company provides its contracting services through its wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc. (also doing business as NorthStar D and R, Inc., LVI Facility Services of CT, Inc., Northeast Remediation, Twin Brooks Environmental, and LVI Environmental Services), NorthStar Demolition and Remediation, LP, NorthStar Contracting Group, Inc., NorthStar CG, LP (also doing business as EWR, Nutech Concrete Sawing and Drilling, Nutech Sawing and Drilling, Nutech, Renu, Renu Recycling Services, Environmental Waste Resources, Nuprecon Acquisition, LP, Nuprecon, LP and Nuprecon), Northstar Recovery Services Inc., NorthStar Federal Services, Inc. (also doing business as Randolph Construction Services), LVI Environmental Services Inc., TEG/LVI Environmental Services Inc. (also doing business as Structural Protection Services Systems), LVI Facility Services Inc., LVI Services of North Carolina Inc., and LVI Environmental Services of New Orleans, Inc.

### Liquidity and Capitalization

In 2014, the owners of the Company entered into a contribution agreement to acquire certain demolition contractors from the former owners. Subsequent to completing this acquisition, the Company and the former owners filed lawsuits against each other (the "Investor Dispute"). As disclosed in Note 8 – Long Term Obligations, due to the delays related to the Investor Dispute the Company failed to deliver the audited 2015 and 2016 financial statements and subsequent quarterly compliance certificates to its lenders by the dates required in its credit agreements. These events of default, coupled with the unwillingness of the Company's former investors to provide additional support to the business, significantly constrained the Company's access to liquidity and capital. On June 12, 2017, the Company entered into the recapitalization transaction described in Note 13 – Subsequent Events, addressing the prior liquidity issues and providing new capital to the business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America ("U.S. GAAP"). References to U.S. GAAP are to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC"). Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

### Principles of Consolidation

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, as well as revenues and expenses at the date of the consolidated financial statements and accompanying notes. Significant estimates made relate to percentage of completion accounting, revenue recognition, income taxes, the determination of the allowance for doubtful accounts and the valuation of consideration transferred in business combinations. Actual results could differ materially from those estimates.

### Cash and Cash Equivalents

For financial reporting purposes, the Company considers highly liquid investments, purchased with original maturities of three months or less, to be cash and cash equivalents. As of December 31, 2016 and 2015, cash consisted of cash on deposit.

### Restricted Cash

Restricted cash relates primarily to cash pledged to fund paid losses within the deductible limits of the Company's workers' compensation insurance program.

### Inventories

Inventories are stated at the lower of cost or market using a first-in, first-out basis to determine cost. Inventories consist of consumable materials and small tools used in the business. The Company records an allowance for shortage and damage based on historical trends and any known changes in the inventory balance.

### Construction-Type Contracts

In accounting for long-term construction-type contracts, including salvage revenues, the Company follows the provisions of ASC Topic 605-35 *Revenue Recognition - Construction-Type and Production*. Depending on the commercial terms of the contract, revenues are recognized either when costs are incurred, or using the percentage of completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage of completion, and for the years ended December 31, 2016 and 2015, the Company recorded $229 and $254 for loss contracts, respectively. The Company also recognizes as revenue costs associated with claims and unapproved change orders to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated. Revenues are recorded net of sales tax. Contract revenues include revenues from salvage proceeds for the years ended December 31, 2016 and 2015 totaling $28,145 and $20,084, respectively. The asset costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability billings in excess of costs and estimated earnings on uncompleted contracts represents amounts billed in excess of revenues recognized.

### Revenue Recognition of Claims

Claims receivable represent amounts in excess of the contract price from customers or others for unanticipated additional costs, when the additional costs result from customer-caused delays, errors in specifications and designs, contract terminations, and change orders in dispute or unapproved as to both scope and price. Such amounts are accrued as additional revenue when recovery is probable and the amount can be reasonably estimated, however, only to the extent that costs relating to the claim have been incurred. Claims receivable for projects that are complete are presented in either unbilled accounts receivable, if recovery of the claim is expected within one year of the balance sheet date, or unbilled accounts receivable, noncurrent if the claim, and related litigation if applicable, is expected to require more than one year to be resolved. Projects still in progress are presented in costs and estimated earnings in excess of billings on uncompleted contracts. Revenue subject to claims as of December 31, 2016 and 2015 was $18,117 and $13,194, respectively, of which $17,491 and $0 have been classified as long-term assets, respectively.

### Accounts Receivable

Retained accounts receivable represents amounts owed by clients for services rendered which are not due until completion of the related contract. Unbilled accounts receivable represents revenues recognized in excess of amounts billed on completed contracts. Accounts receivable including retained and unbilled accounts receivable are expected to be collected within one year. The Company estimates an allowance for doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay, and current economic trends. The Company writes off accounts receivable against the allowance when management determines the balance is uncollectible and the Company ceases collection efforts. Management believes that the allowance recorded is adequate to provide for anticipated credit losses.

### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years.

### Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill and certain indefinite-lived trademarks in accordance with ASC Topic 350 *Intangibles - Goodwill and Other*. Intangible assets that are not subject to amortization, such as goodwill and indefinite-lived trademarks, are subject to periodic testing for impairment under ASC Topic 350. The Company performs an annual impairment analysis at December 31 or instead may perform a qualitative assessment to determine whether it is more likely than not that the fair value if its reporting unit is greater than its carrying amount. The more likely than not threshold is defined as having a likelihood of more than 50%. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred.

As a result of performing the first step of its two-step annual impairment analysis at December 31, 2016 and 2015, the Company has concluded that there has been no impairment of goodwill.

Intangible assets determined to have definite lives are amortized over their useful lives. Other intangible assets include customer lists and acquired contracts. Customer lists are amortized on a straight-line basis over a period of between three to five years. Acquired contracts are amortized on a straight-line basis over one year, representing the approximate contract performance period.

### Recoverability of Assets

In accordance with ASC Topic 360, *Property, Plant and Equipment*, the Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company determined that there was no impairment of long-lived assets during the years ended December 31, 2016 and 2015.

### Deferred Financing Costs

The Company amortizes deferred financing costs over the life of the related debt using the straight-line method, which approximates the effective interest rate method.

### Fair Value of Financial Instruments

The guidance in ASC Topic 825, *Financial Instruments* paragraphs 10-50-16 through 50-19, requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques, and are determined in accordance with the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements for financial reporting. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 - defined as quoted prices in active markets for identical instruments; Level 2 - defined as observable inputs other than quoted prices in active markets; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying value and estimated fair value of long-term obligations at December 31, 2016 was $246,453 and $244,527, respectively. The carrying value and estimated fair value of long-term obligations at December 31, 2015 was $242,989 and $237,872, respectively. There are no quoted prices in active markets or other inputs that are either directly or indirectly observable for the long-term obligations, and therefore the Company measured the fair value of the long-term debt obligation by comparing the movements in the risk-free rate and the spread of the Baa corporate bond rate from the date of the inception of the debt (Level 3). Because of the short maturities, the carrying amounts of the other financial instruments approximate fair value.

### Income Taxes

The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. Under ASC Topic 740, a current or deferred tax liability or benefit is recognized for current or deferred tax effects of all events recognized in the consolidated financial statements. Those effects are measured based on provisions of current tax law to determine the amount of taxes payable or refundable currently or in future years. The tax effects of earning income or incurring expenses in future years or the future enactment of a change in tax laws or rates are not anticipated in determining deferred tax benefits or liabilities. All deferred tax assets and liabilities are classified as non current on the balance sheets in accordance with ASU 2015-17, *Balance Sheet Classification of Deferred Taxes.*

The Company follows the guidance with respect to accounting for uncertainty in income taxes. This guidance, located in ASC Topic 740, paragraph 10-65, clarifies the accounting for uncertainty in income taxes recognized in the consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The guidance in ASC Topic 740 states that an "enterprise shall initially recognize the financial statement effects of a tax position where it is more likely than not, based on the technical merits, that the position will be sustained upon examination." "More likely than not" is defined as a likelihood of greater than 50% based on the facts, circumstances, and information available at the reporting date. The Company includes penalties and interest as income tax expense.

**Recent Accounting Pronouncements**

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, *Intangiblesg gGoodwill and Other*: *Simplifying the Test for Goodwill Impairment*. The amendments in this update simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments in this update should be applied prospectively and will be effective for the Company's fiscal year beginning January 1, 2022. Early adoption is permitted for the year beginning in 2017. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations*: *Clarifying the Definition of a Business*. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively and will be effective for the Company's fiscal year beginning January 1, 2019. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*: *Restricted Cash (a consensus of the Emerging Issues Task Force*. The amendment requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash equivalents. The amendments in this update is effective for the Company's fiscal year beginning January 1, 2018. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows*: *Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*. The amendment provides updated guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims and corporate-owned life insurance, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. Early adoption is permitted. The amendments in this update are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

## NORTHSTAR GROUP SERVICES, INC.
**Notes to Consolidated Financial Statements**
**December 31, 2016 and 2015**
**(in thousands, except share data)**

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing guidance on accounting for leases. The ASU requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new guidance must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The amendments in this update will be effective for the Company's fiscal year beginning January 1, 2020. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. This ASU provides guidance to simplify the accounting for adjustments made to provisional amounts recognized in a business combination. Under the new guidance, an acquirer in a business combination must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This is a change from the previous requirement that the adjustments be recorded retrospectively. ASU 2015-16 is effective for interim and annual reporting periods beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date. The Company adopted this new standard in 2016, which did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This ASU changes the presentation of debt issuance costs on the balance sheet by requiring entities to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015. The guidance requires retrospective application and represents a change in accounting principle. The Company adopted this new standard in 2016, which did not have a material impact on its consolidated financial statements, as the application of this guidance affects classification only. Upon the adoption of this ASU, the Company reclassified $7,953 from deferred financing costs to long-term debt as of December 31, 2015.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. This ASU amends the consolidation guidance for variable interest entities (VIEs) and general partners' investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company adopted this new standard in 2016, which did not have a material impact on the Company's financial position, results of operations or cash flows.

In January 2015, the FASB issued ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. Under this ASU, an entity will no longer be allowed to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is unusual in nature and occurs infrequently. ASU 2015-01 is effective for interim and annual reporting periods beginning after December 31, 2015 with early adoption permitted. The Company adopted this new standard in 2016 and there was no material impact on the Company's financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entityfs Ability to Continue as a Going Concern*. This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and subsequent interim reporting periods. The adoption of ASU 2014-15 will not have any impact on the Company's financial position, results of operations or cash flows.

**(in thousands, except share data)**

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period*. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company adopted this new standard in 2016 and there was no material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and require separate accounting, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018 and can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact of adopting ASU 2014-09 on the Company's financial position, results of operations and cash flows.

## 3. ACCOUNTS RECEIVABLE - NET

The balances in accounts receivable - net as of December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Billed | $ 96,694 | $ 115,677 |
| Retained | 23,403 | 24,675 |
| Unbilled | 7,225 | 16,862 |
| Total accounts receivable | 127,322 | 157,214 |
| Less allowance for doubtful accounts | (1,844) | (1,836) |
| Accounts receivable - net | $ 125,478 | $ 155,378 |

# NORTHSTAR GROUP SERVICES, INC.
## Notes to Consolidated Financial Statements
**December 31, 2016 and 2015**
**(in thousands, except share data)**

## 4. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings on uncompleted contracts as of December 31, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 186,530 | $ 241,625 |
| Estimated earnings | 30,119 | 43,428 |
| | 216,649 | 285,053 |
| Less billings to date | 208,430 | 273,614 |
| | $ 8,219 | $ 11,439 |
| The above amounts are included in the consolidated balance sheets under the following captions | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 11,081 | $ 18,466 |
| Unbilled accounts receivable, noncurrent | 1,424 | - |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (4,286) | (7,027) |
| | $ 8,219 | $ 11,439 |

## 5. PROPERTY AND EQUIPMENT - NET

Property and equipment - net as of December 31, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Furniture and fixtures | $ 1,052 | $ 953 |
| Computer equipment | 4,941 | 4,512 |
| Leasehold improvements | 2,625 | 1,604 |
| Equipment | 66,401 | 66,468 |
| Vehicles | 13,467 | 13,437 |
| Land and buildings | 1,550 | 1,550 |
| | 90,036 | 88,524 |
| Less accumulated depreciation | (66,655) | (62,463) |
| Property and equipment - net | $ 23,381 | $ 26,061 |

**(in thousands, except share data)**

Depreciation expense for the years ended December 31, 2016 and 2015 was $11,064 and $10,684, respectively, which includes the depreciation of assets under capital lease.

The gross amount of assets acquired pursuant to capital leases total $17,456 and $15,266, offset by accumulated depreciation of $8,220 and $5,333 as of December 31, 2016 and 2015, respectively, and are included in the table above.

## 6. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets determined to have definite lives are amortized over their useful lives.

The Company's goodwill relates to acquisitions made in 2005, 2007, 2009, 2012, 2014 and 2016. As of December 31, 2016 and 2015, goodwill consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| **At the beginning of the year** | $ 138,917 | $ 138,917 |
| Current-year acquisitions | 608 | - |
| **At the end of the year** | $ 139,525 | $ 138,917 |

As of December 31, 2016 and 2015, the Company's intangible assets and related accumulated amortization consisted of the following:

| December 31, 2016 | Weighted-Average Useful Life | Cost | Accumulated Amortization | Impairment | Net |
|---|---|---|---|---|---|
| Finite life - customer related | 2.4 years | $ 37,000 | $ 19,275 | $ - | $ 17,725 |
| Finite life - trademarks | 3.4 years | 21,744 | 8,958 | - | 12,786 |
| Total intangible assets | 2.8 years | $ 58,744 | $ 28,233 | $ - | $ 30,511 |

| December 31, 2015 | Weighted-Average Useful Life | Cost | Accumulated Amortization | Impairment | Net |
|---|---|---|---|---|---|
| Finite life - customer related | 3.4 years | $ 44,175 | $ 18,864 | $ - | $ 25,311 |
| Finite life - trademarks | 4.3 years | 21,744 | 4,695 | - | 17,049 |
| Total intangible assets | 3.7 years | $ 65,919 | $ 23,559 | $ - | $ 42,360 |

**(in thousands, except share data)**

Amortization expense related to intangible assets for the years ended December 31, 2016 and 2015 was $11,849 and $14,309, respectively.

No impairment charges related to goodwill or other intangible assets were recognized in 2016 or 2015 in connection with the annual goodwill impairment or qualitative assessment at December 31.

Amortization expense through 2020 and thereafter, respectively, for intangible assets subject to amortization is as follows:

| | |
|---|---|
| 2017 | $ 11,662 |
| 2018 | 11,662 |
| 2019 | 6,836 |
| 2020 | 29 |
| 2021 | 29 |
| Thereafter | 293 |
| Total | $ 30,511 |

## 7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Payroll and other compensation accruals | $ 7,763 | $ 9,138 |
| Workers compensation and other liability insurance | 10,008 | 9,242 |
| Sales tax | 1,011 | 1,749 |
| Management fees | 1,688 | 931 |
| Interest | 1,095 | 560 |
| Other | 11,149 | 15,115 |
| Accrued expenses and other current liabilities | $ 32,714 | $ 36,735 |

# NORTHSTAR GROUP SERVICES, INC.

## Notes to Consolidated Financial Statements

**December 31, 2016 and 2015**
**(in thousands, except share data)**

## 8. LONG-TERM OBLIGATIONS

The current and noncurrent portions of long-term obligations by issuance as of December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Current portion of long-term obligations | | |
| Senior Secured Credit Facility | | |
| Term Loan [a] | $ - | $ 13,125 |
| Lease obligations [c] | 3,758 | 3,942 |
| Promissory note [d] | - | 2,900 |
| Short-term obligations | $ 3,758 | $ 19,967 |
| Noncurrent portion of long-term obligations | | |
| Senior Secured Credit Facility | | |
| Revolver [a] | $ 43,550 | $ 29,500 |
| Term Loan [a] | 143,947 | 142,792 |
| Mezzanine Term Loan [b] | 49,244 | 42,596 |
| Lease obligations [c] | 5,954 | 8,135 |
| Less: Deferred financing costs | (5,015) | (7,953) |
| Long-term obligations | $ 237,680 | $ 215,070 |

[a] **Amended and Restated Credit and Guaranty Agreement and Revolving Credit Facility**

On April 23, 2014, the Company entered into an Amended and Restated Credit and Guaranty agreement (the "Credit Facility") with various lenders, consisting of a Term Loan of $165,000 (the "Term Loan") and a $60,000 revolving credit facility (the "Revolver"). The capital stock of the Company and its subsidiaries is pledged as collateral and the lenders have a security interest in substantially all of the assets of the Company and its subsidiaries. The Credit Facility had an original maturity of April 24, 2019, whereupon the balance outstanding on the Term Loan and Revolver was to be payable in full. Principal payments on the Term Loan are due quarterly in amounts as described in the Credit Facility.

Interest is charged on both the Revolver and the Term Loan at an applicable margin percentage above either the prime lending rate of Manufacturers and Traders Trust Company ("M&T") or above the London InterBank Offered Rate, at the Company's option. The applicable margin is on a sliding scale based upon the Company's total debt leverage ratio as defined in the Amended Credit Agreement, measured quarterly and payable in cash and kind. The effective rate on the Term Loan at December 31, 2016 and 2015 was an annual rate of 6.2% and 5.7%, respectively payable in cash plus 0.8% payable in kind. In addition, the Revolver has a fee on the unused portion of the facility that ranges from 0.25% to 0.5% per annum, based on the applicable margin as specified in the Amended Credit Agreement. Interest on outstanding borrowings and the fee are payable monthly.

Amortization of deferred financing costs for the years ended December 31, 2016 and 2015 was approximately $2,938 and $1,469, respectively, and classified as amortization expense in the statements of operations.

As of December 31, 2016, the Company had outstanding letters of credit in the amount of $16,437 and had drawn $43,550 on the Revolver, which reduced the borrowing availability under the Revolver to $13.

Due to delays related to the Investor Dispute, the Company failed to deliver the audited 2016 and 2015 financial statements and the quarterly financial statements commencing with the fiscal quarter ended December 31, 2015 through and including the fiscal quarter ended March 31, 2017 by the date required by the Lenders, resulting in covenant violations. As described in Note 13, on June 12, 2017, the Company's former owners transferred 100% of the ownership interests in the Company to a third-party investor. As part of this transaction, the Lenders agreed to amend and restate the Term Loan in a manner that restored the Company to full compliance under the amended credit agreement as of the transaction date. The maturity dates of the Term Loan and Revolver were extended from April 24, 2019 to May 31, 2021, with no principal payment due until December 31, 2019. As a result of the subsequent Recapitalization, the Company has classified the Term Loan as a long-term liability as of December 31, 2016. The borrowing capacity under the Revolver was reduced to $55,000. In addition, the amended and restated agreement specifies that the requirement to comply with financial covenant ratios is suspended until December 31, 2019.

### (b) Mezzanine Term Loan

In connection with an acquisition completed in 2014, the Company entered into the Mezzanine Term Loan on April 24, 2014 with a lender (the "Mezzanine Lender"), and received proceeds of $40,000. The proceeds from the Mezzanine Term Loan were used to repay and cancel existing debt and to pay transaction costs incurred in relation to the 2014 acquisition and the Credit Facility. The Mezzanine Term Loan is subordinate to the Term Loan, and will mature on October 24, 2019, whereupon the balance outstanding will be payable in full. Interest is charged on the Mezzanine Term Loan at a combined rate payable in cash and in kind. The amounts payable in cash and kind are determined based on a sliding scale determined by the Company's senior leverage ratio as defined in the Mezzanine Term Loan documents, measured quarterly. The effective rate on the Mezzanine Term Loan at December 31, 2016 and 2015 was an annual rate of 2.5% and 6.0% payable in cash, plus 15.5% and 12.0% payable in kind, respectively.

Due to delays related to the Investor Dispute, the Company failed to deliver the audited 2016 and 2015 financial statements and the quarterly financial statements commencing with the fiscal quarter ended December 31, 2015 through and including the fiscal quarter ended March 31, 2017 by the date required by the Mezzanine Lender. As described in Note 13, on June 12, 2017, the Company's former owners transferred 100% of the ownership interests in the Company to a third-party investor, and the Mezzanine Lender contributed the entire balance outstanding under the Mezzanine Term Loan plus $7,000 cash to the investor in exchange for an equity interest. The Mezzanine Term Loan was then contributed to the Company and extinguished.

(in thousands, except share data)

### (c) Lease Obligations

The Company has leased equipment under capital lease agreements with various vendors for equipment utilized in the performance of its work. The terms of the leases vary from 36 to 60 months and carry interest rates ranging from 3.00% to 12.09%.

### (d) Promissory Note

On March 16, 2012, in connection with an asset purchase agreement, the Company issued a promissory note for $8,803 relating to the estimated remaining consideration payable to the sellers. Per the purchase agreement, the Company was to pay the sellers additional purchase consideration, the amount of which was estimated by the Company as of the date of the purchase agreement. On March 14, 2013, the Company agreed to modify certain terms of the promissory note to set the full amount of the additional purchase consideration at $9,000 and eliminate the requirement to make annual true-up payments based on financial performance, and to modify the amount of the required quarterly installment payments to $500, with payment of the remaining amounts owed on May 15, 2015. The Company recorded the value of the promissory note at its fair value as determined on the date of the purchase agreement, and recognized accretion to the promissory note as interest expense using the effective interest method. For the years ended December 31, 2016 and 2015, the Company recorded interest expense of $0 and $11, respectively, for the accretion of the promissory note. Pending the outcome of ongoing negotiations with the sellers of Randolph, the Company did not make the final payment that was due on May 15, 2015 as specified in the amended purchase agreement. The Company paid the sellers the remaining balance due of $2,900 in February and March 2016.

At December 31, 2016, the debt maturities and noncancelable capital lease obligations are as follows:

| | Long-Term Debt Obligations | Capital Lease Obligations | Total Long-Term Obligations |
|---|---|---|---|
| 2016 | $ 0 | $ 4,391 | $ 4,391 |
| 2017 | 20,781 | 2,817 | 23,598 |
| 2018 | 215,960 | 1,984 | 217,944 |
| 2019 | - | 1,495 | 1,495 |
| 2020 | - | 243 | 243 |
| Thereafter | - | - | - |
| Total payments | 236,741 | 10,930 | 247,671 |
| Less amount representing interest | - | 1,218 | 1,218 |
| | $ 236,741 | $ 9,712 | $ 246,453 |

# NORTHSTAR GROUP SERVICES, INC.
## Notes to Consolidated Financial Statements
**December 31, 2016 and 2015**
**(in thousands, except share data)**

### 9. INCOME TAXES

The provision for income tax expense for the years ended December 31, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Current | $ (160) | $ (2,964) |
| Deferred | (2,020) | (2,830) |
| Income tax benefit | $ (2,180) | $ (5,794) |

The Company's effective tax rate for 2016 and 2015 differs from the federal statutory rate mainly as a result of the state taxes, permanent differences, derecognition of uncertain tax benefits, and immaterial corrections of basis of long-lived assets.

The tax effects of the significant temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for bad debts | $ 507 | $ 435 |
| Compensation accruals | 2,286 | 2,528 |
| State deductions | 70 | 99 |
| Insurance reserves | 3,618 | 3,788 |
| Net operating loss | 17,488 | 18,294 |
| Other | 539 | 541 |
| | 24,508 | 25,685 |
| Less: valuation allowances | (953) | (1,151) |
| Net deferred tax assets | 23,555 | 24,534 |
| Deferred tax liabilities | | |
| Depreciation and amortization | (8,783) | (10,674) |
| Tax attribute reduction | (4,368) | (4,441) |
| Investment in partnerships | (7,049) | (4,124) |
| Accrual versus percentage of completion | (9,494) | (13,454) |
| Total deferred tax liabilities | (29,694) | (32,693) |
| Net deferred tax liabilities | $ (6,139) | $ (8,159) |

As of December 31, 2016 and 2015, the Company has federal net operating loss carryforwards of approximately $43,558 and $40,984, respectively, and state net operating loss carryforwards of approximately $53,000 and $66,000, respectively. These federal and state net operating losses expire at various dates through 2035. The Company has $3,040 of federal net operating losses for which the tax-effected benefit would be recorded to additional paid-in capital when such losses have been utilized to reduce income taxes payable. The Company has deferred tax assets for net operating losses that could become limited under Internal Revenue Code Section 382 should a greater than 50% ownership change occur during a three year testing period.

The Company has recorded a valuation allowance as of December 31, 2016 and 2015 of $953 and $1,151, respectively for state net deferred tax assets based on the Company's belief that it is not more likely than not that these net deferred tax assets will be realized. The tax provision includes a benefit of $198 and expense of $37 for the years ended December 31, 2016 and 2015, respectively, for the change in the valuation allowance.

For the years ended December 31, 2016 and 2015, the Company recorded expense of $37 and a reversal of $1,364, respectively for interest and penalties related to unrecognized tax benefits. The Company had approximately $63 and $26 for the payment of interest and penalties accrued in noncurrent income tax reserve at December 31, 2016 and 2015, respectively. The total amount of unrecognized tax benefits currently offset against existing tax attributes for federal and state net operating losses is $11,790. For the year ended December 31, 2015, the Company reduced its reserve for uncertain tax positions by approximately $3,345 as a result of the lapse of the statute of limitations. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months. All uncertain tax benefits for both years would affect the Company's effective tax rate upon recognition.

The Company's tax years 2013-2016 remain open for federal purposes and for 2012 forward for most major state jurisdictions.

## 10. COMMITMENTS AND CONTINGENCIES

### Operating Leases

The Company and its subsidiaries lease office space, warehouse space, heavy equipment, and vehicles used in the Company's business operations, under operating leases that expire at various dates through 2023. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance, and maintenance costs. Rent expense for occupied rental space is calculated on a straight-line basis, and aggregated $4,557 and $5,364 for the years ended December 31, 2016 and 2015, respectively.

## NORTHSTAR GROUP SERVICES, INC.
### Notes to Consolidated Financial Statements
**December 31, 2016 and 2015**
**(in thousands, except share data)**

As of December 31, 2016, minimum annual noncancelable operating lease commitments with initial terms in excess of one year are as follows:

| **Fiscal Years** | | |
|---|---|---|
| 2016 | $ | 4,867 |
| 2017 | | 3,751 |
| 2018 | | 3,209 |
| 2019 | | 2,497 |
| 2020 | | 1,396 |
| Thereafter | | 1,116 |
| Total | $ | 16,836 |

**Insurance Policies**

The Company has insurance policies for automobile liability, and commercial general liability, which includes asbestos and lead insurance coverage on an occurrence basis. The Company's employees are covered by workers' compensation insurance. The Company believes its insurance coverage to be adequate; however, there can be no assurance that such insurance will adequately cover claims, if any, made in the future. The Company retains self-insurance risk for per occurrence deductibles under each of the above-referenced policies. Losses are accrued based upon the accumulation of estimates for reported losses and include a provision for losses incurred but not reported, based on past experience and actuarial assumptions. The method used and the assumptions for estimating losses are regularly reviewed and updated with adjustments if any, and reflected in current operations as a change in estimate. Management believes that the accrual is adequate to cover losses incurred to date; however, this accrual is based on an estimate and the ultimate liability may be more or less than the amount recognized.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of contract and trade receivables. Two customers accounted for 9.4% and 11.8% of consolidated total accounts receivable as of December 31, 2016 and 2015, respectively. In addition, the Company holds cash in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At December 31, 2016 and 2015, the Company had approximately $9,854 and $257 in excess of FDIC insured limits, respectively.

**Risks and Uncertainties**

The Company is required to meet certain licensing, financial, and operating criteria as established by respective regulatory, governmental, and local agencies to bid and work in certain states. There is no assurance that these agencies will not change the established criteria or that the Company will continue to comply with the established criteria. Should the Company lose its ability to bid and work in certain states, the operations, cash flows and financial position of the Company could be adversely effected.

The valuation of the Company's goodwill is based on estimates and assumptions that could differ significantly from actual results. If operating results deteriorate, conclusions regarding the value of these assets could change resulting in a significant adverse impact on the financial statements.

### Surety Bonds

As is customary in the construction business, the Company is required to provide surety bonds to secure its performance under certain construction contracts. The Company's ability to obtain surety bonds primarily depends upon capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relation to the amount of the backlog and their underwriting standards, which may change from time to time. The Company's inability to obtain surety bonds in the future would significantly affect its ability to obtain new contracts, which could have a material adverse effect on its business.

### Letters of Credit

As of December 31, 2016 and 2015, the Company had outstanding letters of credit of $16,437 and $17,437, respectively, for the benefit of the Company's surety bonding and deductibles under insurance policies. Outstanding letters of credit reduce the amount of borrowings available under the Credit Facility. The letters of credit are automatically renewable unless participating parties notify the other party 30 days prior to cancellation.

### Litigation

The Company is involved in various litigations that arise in the ordinary course of its business activities (see Note 1). In management's opinion, based in part upon the advice of legal counsel, the Company's liability, if any, based on the outcome of such litigation would not have a material adverse effect on the Company's consolidated financial statements.

### Certain Fees Payable to Advisors; Management Agreement - Related Parties of the Company

On April 23, 2014, the Company entered into a new management services agreement pursuant to which certain of the Company's investors (the "Advisors") will be paid $750 per year for certain management, business and organization strategy, and merchant and investment banking services rendered to the Company (the "Management Agreement"). Such fees were negotiated by representatives of the Advisors and the Company. The Management Agreement has an initial term of 10 years. The amount payable to the Advisors as of December 31, 2016 and 2015 was $1,688 and $931, respectively. In connection with the Recapitalization (see Note 13), the Management Agreement was cancelled and no payment was made thereunder.

## 11. RELATED-PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015, the Company paid rent expense of $224 and $250, respectively, to entities in which certain Company employees have an equity interest. The Company incurred expense of $750 in each of the years ended December 31, 2016 and 2015 relating to the Management Agreement.

## 12. DEFINED CONTRIBUTION SAVINGS PLAN

The Company has established a contributory tax deferred 401(k) plan covering substantially all of its non-union employees. Eligible employees may contribute up to 15% of their compensation to this plan, subject to the annual Internal Revenue Service limit, and the Company will make a matching contribution of 25% of the first 6% contributed by the employee. Amounts contributed by employees are 100% vested. The

# NORTHSTAR GROUP SERVICES, INC.
## Notes to Consolidated Financial Statements
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**(in thousands, except share data)**

Company matching contributions vest over a five-year period, as defined in the plan documents. Total Company matching contributions to the plan for the years ended December 31, 2016 and 2015 was approximately $678 and $550, respectively.

### 13. SUBSEQUENT EVENTS

The Company considers the principles and requirements for subsequent events, including (1) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity shall make about events or transactions after the balance sheet date. The Company has evaluated subsequent events through August 15, 2017, the date that these consolidated financial statements were available to be issued.

On June 12, 2017, the Company's former owners transferred 100% of the ownership interests in the Company to a third-party investor ("InvestCo") who then made a significant equity investment in the Company to fund, among other things, the reduction in debt noted below (the "Recapitalization"). As part of the Recapitalization, the Mezzanine Lender contributed the entire balance outstanding under the Mezzanine Term Loan plus $7,000 cash to InvestCo in exchange for an equity interest in InvestCo. The Mezzanine Term Loan was then contributed to the Company and extinguished. InvestCo paid $51,323 to and on behalf of the Lenders, after which the balance outstanding on the Senior Secured Credit Facility and Revolving Credit Facility was reduced to $140,000 and $0, respectively, with the related credit agreement amended to extend the duration and include the new terms disclosed in Note 8.

**Counterparty Financial Analysis**

| | |
|---|---|
| **Counterparty** | NorthStar Group Services, Inc. |
| **Review Date** | 6/8/16 |
| **Review By** | Jordan Morgan |
| **Guarantor** | |
| **Ticker** | |

## Credit Ratings

| | S&P | | Moodys | | Moodys KMV | | Internal |
|---|---|---|---|---|---|---|---|
| | Rating | Date Issued | Rating | Date Issued | Rating | Date Issued | Rating |
| NorthStar Group Services, Inc. | NR | | NR | | | | |
| NorthStar Group Holdings | NR | | NR | | | | |

## Counterparty Overview

Northstar Group Services, Inc. is a provider of facility and environmental solutions. The facility services contractor offers asbestos abatement and a vast array of services to commercial, industrial, government and private sector customers. Other services include: Demolition, Emergency and Disaster Response, Nuclear Decommissioning, Commercial and Industrial Facility Deconstruction, Water Resource Management and Site Preparation services. In addition, it provides a full range of remediation contracting services including trench drilling, operation and maintenance services, and storage tank removal.

## Group Structure

NorthStar Group Services, Inc. (formerly LVI Services Inc.) is wholly owned and the primary subsidiary of NorthStar Group Holdings, LLC. NorthStar Group Services, Inc has several wholly owned subsidiaries: NorthStar Demolition and Remediation, Inc.; NorthStar Demolition and Remediation, LP; NorthStar Contracting Group, Inc.; NorthStar CG, LP; NorthStar Recovery Services, Inc.; NorthStar Federal Services, Inc.; LVI Environmental Services, Inc.; TEG/LVI Environemental Services Inc.; LVI Facility Services Inc.; LVI Services of North Carolina Inc.; and LVI Environmental Servies of New Orleans, Inc. The financials for NorthStar Group Holdings were used since NorthStar Group Services is the primary subsidiary and the Holdings financials were audited.

## Credit Measures for NorthStar Group Services, Inc.

*($Thousands)*

| **Liquidity** | FY2015 | FY2014 |
|---|---|---|
| Current Ratio | 1.26 | 1.10 |
| Cash Ratio | - | - |
| CFO / Current Liab | 0.08 | (0.07) |
| **Balance Sheet ($Thousands)** | FY2015 | FY2014 |
| Cash and Cash Equiv. | - | - |
| Total Assets | 401,890 | 403,624 |
| Total Debt | 242,990 | 241,293 |
| Total Equity | 21,779 | 21,995 |
| Tangible Net Worth | (159,498) | (173,591) |
| Total Debt / Total Cap | 92% | 92% |
| **Debt Ratios** | FY2015 | FY2014 |
| Total Debt / CFO | 20.79 | (20.78) |
| Total Debt / FFO | 9.29 | (20.01) |
| Total Debt / EBITDA | 6.13 | 40.34 |
| Market Cap - current | - | |

| **Interest Coverage** | FY2015 | FY2014 |
|---|---|---|
| EBIT / Interest Exp | 0.69 | (0.89) |
| EBITDA / Interest Exp | 2.04 | 0.45 |
| FFO Interest Coverage | 2.35 | 0.10 |
| **Earnings & Cash Flow ($Thousands** | FY2015 | FY2014 |
| Revenue | 652,326 | 473,240 |
| EBIT | 13,424 | (11,936) |
| EBITDA | 39,639 | 5,982 |
| Cash from Ops (CFO) | 11,689 | (11,612) |
| Funds from Ops (FFO) | 26,157 | (12,060) |
| Free Cash Flow (FCF) | 6,861 | (15,451) |
| **Profitability Measures** | FY2015 | FY2014 |
| Net Profit Margin | 0.0% | -2.7% |
| Return on Assets | -0.1% | -3.1% |
| Return on Capital | -0.1% | -4.8% |

## Business Risk & Key Issues ($Thousands)

- Financial statements were not audited or reviewed by an independent third party.
- Accumualted Deficit of $(119,734) and $(119,518) in 2015 and 2014, respectively.
- On April 23, 2014, Northstar entered into a 100% contribution agreement of assets with the former owners of the NCM Subsidiaries in exchange for 37.5% ownership in NorthStar Group Holdings, LLC. Net assets aquired by NorthStar are $137,716. Both parties of the agreement filed lawsuits against each other after the acquisition which may require adjustment to the final purchase price and related income taxes through current earnings pending the outcome.
- On October 31, 2014, Northstar completed an Asset Purchase Agreement with WRS Infrastructure & Environement, Inc. of consideration of $5,117 which was financed through the issuance of ownership units to the company's members in exchange for an equity contribution of $6,000. Based on an appraisal of the assets purchased, Northstar realized a gain on bargain purchase of $5,476 (included in net income).
- On March 16, 2012, Northstar entered a Stock Purchase Agreement for 100% of the shares of capital stock of Randolph Construction Services, Inc . The total purchase price was $9,053, of which $250 was paid in cash and a promissory note was issued for the remaining $8,803.
- On September 7, 2012, Northstar obtained a First Lien Term Loan of $70,000, a $40,000 revolver, and a Second Lien Term Loan of $20,000. Two investors of the Second Lien Loan were equity investors in the company's stock. Capital stock of NorthStar and its subsidiaries is pledged as collateral and the lenders have a secuirty interest in substantially all assets of NorthStar and its subsidiaries. The First Lien Loan requires quarterly principal payments and has an original maturity date of September 6, 2017, whereupon the outstanding balance of the First Lien Loan and the revolver are due. The Second Lien Loan will mature on March 6, 2018.
- On April, 24, 2014, Northstar amended the above Credit Agreement in relation to the NCM aquisition. Northstar borrowed an additional term loan in aggregate of $97,625, increased the borrowing capacity under the Revolver to $60,000, and extended the maturity date to April 24, 2019. Simultaneously, Northstar entered into the Senior Subordinated Puchase and Guaranty Agreement with another lender for $40,000 (Mezzanine Term Loan). Proceeds form these borrowings were used to repay and cancel the Second Lien Loan and Old NCM Debt. The Mezzanine loan is subordinate of the First Lien and will mature on October 24, 2019.
- As of December 31, 2015, the Company had outstanding LOCs of $17,437 and had drawn $29,500, which reduced the Revolver borrowing capacity to $13,063.
- LOCs are used for the benefit of the company's surety bonds.
- As of December 31, 2014, Northstar failed to comply with certain covenants of the First Lien Loan and the Mezzanine Term Loan. Lenders agreed to amend certain portions of the First Lien Loan and to waive certain events of default that had occured. Certain covenant ratios contained in the First Lien Loan were modified.
- Highly Leveraged, Okay Liquidity, profitable in 2015, negative TNW, 11x D/E

## Comments/Conclusion

Based upon the key risks drivers and current overall financial condition, NorthStar Group Services, Inc. warrants an internal credit rating of 7.

Additional Notes:
PPE increased by $8M, and depreciation increased
LOCs are used for surety bonds

**Counterparty Financial Analysis**

## NorthStar Group Services, Inc.

### Summary Financials

| *($ Thousands)* | FY2015 | FY2014 | FY2013 |
|---|---|---|---|
| **Balance Sheet Items** | | | |
| Cash and Cash Equiv. | | - | 5,629 |
| Accounts Receivable | 155,378 | 140,448 | 94,726 |
| Current Assets | 185,478 | 172,644 | 118,741 |
| Total Assets | 401,890 | 403,624 | 214,130 |
| Current Liabilities | 147,086 | 156,947 | 88,414 |
| Short-term debt (excl. CM of LT Debt) | | 4,044 | - |
| Current Maturities of LT Debt | 19,967 | 17,834 | 7,823 |
| LT Debt (excl. current maturities) | 223,023 | 219,415 | 98,552 |
| Total Debt | 242,990 | 241,293 | 106,375 |
| Minority Interest Equity (if separate) | | - | - |
| Owner's Equity (excl. Minority Interest) | 21,779 | 21,995 | 9,922 |
| Total Equity | 21,779 | 21,995 | 9,922 |
| Total Capitalization | 264,769 | 263,288 | 116,297 |
| Goodwill | 138,917 | 138,917 | 57,429 |
| Other Intangible Assets | 42,360 | 56,669 | 20,715 |
| Total Intangible Assets | 181,277 | 195,586 | 78,144 |
| Tangible Net Worth | (159,498) | (173,591) | (68,222) |
| **Income Statement Items** | | | |
| Revenue | 652,326 | 473,240 | 371,803 |
| Operating Income | 29,646 | (2,483) | 17,550 |
| Net Income (Loss) | (216) | (12,638) | 6,103 |
| Interest Expense | 19,434 | 13,423 | 7,832 |
| Tax Expense (Benefit) | (5,794) | (12,721) | 1,420 |
| Depr & Amort Expense | 26,215 | 17,918 | 9,495 |
| EBIT | 13,424 | (11,936) | 15,355 |
| EBITDA | 39,639 | 5,982 | 24,850 |
| Market Cap - current | | - | - |
| **Cash Flow Statement Items** | | | |
| Net cash from operations | 11,689 | (11,612) | 22,371 |
| Change in working capital | (14,468) | 448 | 7,175 |
| Funds from operations (FFO) | 26,157 | (12,060) | 15,196 |
| Capex & investments | 4,828 | 3,839 | 4,976 |
| Free Cash Flow (FCF) | 6,861 | (15,451) | 17,395 |
| **Changes in Working Capital** | FY2015 | FY2014 | FY2013 |
| Accounts receivable | (11,304) | (3,721) | 22,595 |
| Inventory | 1,065 | 53 | 635 |
| Prepaid expense and other | (2,998) | 1,019 | (548) |
| Accounts payable | (3,820) | 1,904 | (10,123) |
| Accrued expenses and other | 5,772 | 4,017 | (7,271) |
| Income tax payable | (3,183) | (2,824) | 1,887 |
| Change in WC | (14,468) | 448 | 7,175 |

### Credit Analysis

| | FY2015 | FY2014 | FY2013 |
|---|---|---|---|
| **Liquidity Measures** | | | |
| Current Ratio | 1.26 | 1.10 | 1.34 |
| Quick Ratio | 2.32 | 1.99 | 2.41 |
| Cash Ratio | - | - | 0.06 |
| Working Capital (millions$) | 38,392.0 | 15,697.0 | 30,327.0 |
| CFO / Current Liab | 0.1 | (0.1) | 0.3 |
| **Interest Coverage Ratios** | | | |
| EBIT / Interest Exp (times) | 0.69 | (0.89) | 1.96 |
| EBITDA / Interest Exp (times) | 2.04 | 0.45 | 3.17 |
| FFO Interest Coverage (times) | 2.35 | 0.10 | 2.94 |
| **Debt Ratios** | | | |
| Total Debt / CFO | 20.79 | (20.78) | 4.76 |
| Total Debt / FFO | 9.29 | (20.01) | 7.00 |
| Total Debt / EBITDA | 6.13 | 40.34 | 4.28 |
| Total Debt / Total Cap | 0.92 | 0.92 | 0.91 |
| **Profitability Measures** | | | |
| Net Profit Margin | 0.0% | -2.7% | 1.6% |
| Return on Avg Assets | -0.1% | -3.1% | 2.9% |
| Return on Avg Equity | -1.0% | -57.5% | 61.5% |
| Return on Avg Total Capital | -0.1% | -4.8% | 5.2% |

**Debt Maturities & Other Fixed Costs**

| | DEBT & CAP LEASES | OPERATING LEASES | | | |
|---|---|---|---|---|---|
| FY2016 | 20,646 | 4,734 | | | |
| FY2017 | 20,398 | 4,541 | | | |
| FY2018 | 23,216 | 3,406 | | | |
| FY2019 | 179,322 | 2,857 | | | |
| FY2020 | 1,129 | 2,296 | | | |
| Thereafter | 12 | 2,512 | | | |
| Total | 244,723 | 20,346 | - | - | - |

| Other Information | FY2015 | FY2014 | FY2013 |
|---|---|---|---|

**Counterparty Financial Analysis**

| | |
|---|---|
| **Counterparty** | Orano USA LLC fka Orano fka New Areva |
| **Contact** | |
| **Review Date** | 8/15/2018 |
| **Review By** | Matt Holstein |
| **Guarantor** | Orano |
| **Ticker** | |

## Credit Ratings

| | S&P | | Moodys | | Moodys KMV | | Internal |
|---|---|---|---|---|---|---|---|
| | Rating | Date Issued | Rating | Date Issued | Rating | Date Issued | Rating |
| Orano USA LLC | NR | | NR | | | | not rated |
| Orano SA | BB+ | 4/5/2018 | | | | | 5 |

## Counterparty Overview

Headquartered in Washington, D.C., Orano USA is a leading technology and services provider for decommissioning shutdown nuclear energy facilities, used fuel management, federal site cleanup and closure, and the sale of uranium, conversion, and enrichment services to the U.S. commercial and federal markets. Prior to a global rebranding in January 2018, Orano USA was AREVA Nuclear Materials.
Orano USA includes five business lines:

D&D (Decommissioning & Dismantling), based in Washington, D.C., applies global D&D expertise to the U.S. market, including the planned dismantling of the Vermont Yankee reactor vessel during decommissioning.
Federal Services, based in North Carolina, provides nuclear fuel cycle technologies and environmental management services to the U.S. federal government, and is a key partner in the MOX Services consortium building the MOX Fuel Fabrication Facility (MFFF) in South Carolina.
Mining, Conversion, Enrichment (MCE) Sales, based in Virginia, is a competitive provider of long-term uranium contracts for U.S. utility customers.
Orano Med, (formerly AREVA Med) based in Texas, is developing cancer-fighting isotopes for radioimmunotherapy, with research progressing for the next phase of FDA approval.
TN Americas, based in Maryland, is a global provider of storage, transportation and field services for used nuclear fuel and radioactive waste, with its NUHOMS® used nuclear fuel storage system securely operating at more than 30 U.S. sites.

## Group Structure

Orano USA (formerly AREVA Nuclear Materials),Fed is the U.S. subsidiary of Orano, a global nuclear fuel cycle company.

## Credit Measures {Orano SA}

Fiancials are Orano SA

| **Liquidity** | FY2017 | FY2016 |
|---|---|---|
| Current Ratio | 0.70 | 0.52 |
| Cash Ratio | 0.27 | 0.17 |
| CFO / Current Liab | 0.04 | 0.09 |
| **Balance Sheet ($Millions)** | FY2017 | FY2016 |
| Cash and Cash Equiv. | 1,950 | 1,434 |
| Total Assets | 22,212 | 21,414 |
| Total Debt | 5,105 | 5,873 |
| Total Equity | 952 | (1,016) |
| Tangible Net Worth | (1,580) | (3,920) |
| Total Debt / Total Cap | 84% | 121% |
| **Debt Ratios** | FY2017 | FY2016 |
| Total Debt / CFO | 16.36 | 7.66 |
| Total Debt / FFO | 17.07 | 6.48 |
| Total Debt / EBITDA | 5.21 | 5.29 |
| Market Cap - current | - | |

| **Interest Coverage** | FY2017 | FY2016 |
|---|---|---|
| EBIT / Interest Exp | (0.48) | 0.92 |
| EBITDA / Interest Exp | 4.78 | 5.07 |
| FFO Interest Coverage | 2.46 | 5.14 |
| **Earnings & Cash Flow ($Millions)** | FY2017 | FY2016 |
| Revenue | 3,926 | 4,401 |
| EBIT | (99) | 202 |
| EBITDA | 979 | 1,110 |
| Cash from Ops (CFO) | 312 | 767 |
| Funds from Ops (FFO) | 299 | 906 |
| Free Cash Flow (FCF) | (178) | 225 |
| **Profitability Measures** | FY2017 | FY2016 |
| Net Profit Margin | -9.2% | -7.9% |
| Return on Assets | -1.7% | -1.6% |
| Return on Capital | -6.6% | -7.2% |

## Business Risk & Key Issues

**Government Support-** S&P includes 3 notches of support based on its belief that Orano would be supported by the government of France if needed.
**Restructuring-** Japan Nuclear Fuel Ltd. and Mitsubishi Heavy industries contributed €500M in additional equity in February 2018.

Per S&P:
• Orano has reported EBITDA of close to €1 billion for 2017, despite challenging industry conditions, and its recent restructuring and capital increases have improved its liquidity and capital structure.
• We think Orano will continue to focus on cost-cutting and generate moderately positive free operating cash flow, enabling it to reduce net debt in 2018-2020.
• Consequently, we are upgrading Orano to 'BB+' from 'BB'.
• The stable outlook reflects our view that Orano will be able to reduce adjusted debt to EBITDA to below 5.5x in 2019-2020 despite challenging industry conditions, supported by its sizeable, long-term order backlog.

## Comments/Conclusion

Orano's 2017 financial picture is weak, but likely government support and the equity infusion in February 2018 improve Orano's ICR. Orano is assigned an internal rating of 5.

Counterparty Financial Analysis

Orano USA LLC financials are Orano SA

## Summary Financials

| ($Millions) | Euro FY2017 | FY2016 |
|---|---|---|
| **Balance Sheet Items** | | |
| Cash and Cash Equiv. | 1,950.0 | 1,434.0 |
| Accounts Receivable | 1,607.0 | 1,502.0 |
| Current Assets | 5,095.0 | 4,410.0 |
| Total Assets | 22,212.0 | 21,414.0 |
| Current Liabilities | 7,298.0 | 8,407.0 |
| Short-term debt (excl. CM of LT Debt) | - | - |
| Current Maturities of LT Debt | 429.0 | 1,022.0 |
| LT Debt (excl. current maturities) | 4,676.0 | 4,851.0 |
| Total Debt | 5,105.0 | 5,873.0 |
| Minority Interest Equity (if separate) | (192.0) | (40.0) |
| Owner's Equity (excl. Minority Interest) | 1,144.0 | (976.0) |
| Total Equity | 952.0 | (1,016.0) |
| Total Capitalization | 6,057.0 | 4,857.0 |
| Goodwill | 1,193.0 | 1,303.0 |
| Other Intangible Assets | 1,339.0 | 1,601.0 |
| Total Intangible Assets | 2,532.0 | 2,904.0 |
| Tangible Net Worth | (1,580.0) | (3,920.0) |
| **Income Statement Items** | | |
| Revenue | 3,926.0 | 4,401.0 |
| Operating Income | (34.0) | 415.0 |
| Net Income (Loss) | (360.0) | (349.0) |
| Interest Expense | 205.0 | 219.0 |
| Tax Expense (Benefit) | 56.0 | 332.0 |
| Depr & Amort Expense | 1,078.0 | 908.0 |
| EBIT | (99.0) | 202.0 |
| EBITDA | 979.0 | 1,110.0 |
| Market Cap - current | | - |
| **Cash Flow Statement Items** | | |
| Net cash from operations | 312.0 | 767.0 |
| Change in working capital | 13.0 | (139.0) |
| Funds from operations (FFO) | 299.0 | 906.0 |
| Capex & investments | 490.0 | 542.0 |
| Free Cash Flow (FCF) | (178.0) | 225.0 |
| **Changes in Working Capital** | FY2017 | FY2016 |
| Accounts receivable | | |
| Other assets | | |
| Accounts payable | | |
| Loyalty program | | |
| Air traffic liability | | |
| | 13.0 | (139.0) |
| Change in WC | 13.0 | (139.0) |

## Credit Analysis

| | FY2017 | FY2016 |
|---|---|---|
| **Liquidity Measures** | | |
| Current Ratio | 0.7 | 0.5 |
| Quick Ratio | 0.5 | 0.3 |
| Cash Ratio | 0.3 | 0.2 |
| Working Capital (millions$) | (2,203.0) | (3,997.0) |
| CFO / Current Liab | 0.0 | 0.1 |
| **Interest Coverage Ratios** | | |
| EBIT / Interest Exp (times) | (0.5) | 0.9 |
| EBITDA / Interest Exp (times) | 4.8 | 5.1 |
| FFO Interest Coverage (times) | 2.5 | 5.1 |
| **Debt Ratios** | | |
| Total Debt / CFO | 16.4 | 7.7 |
| Total Debt / FFO | 17.1 | 6.5 |
| Total Debt / EBITDA | 5.2 | 5.3 |
| Total Debt / Total Cap | 0.8 | 1.2 |
| **Profitability Measures** | | |
| Net Profit Margin | (0.1) | (0.1) |
| Return on Avg Assets | (0.0) | (0.0) |
| Return on Avg Equity | 11.3 | 0.3 |
| Return on Avg Total Capital | (0.1) | (0.1) |

**Debt Maturities & Other Fixed Costs**

| | DEBT & CAP LEASES | | | |
|---|---|---|---|---|
| FY2017 | 429 | | | |
| FY2018 | 821 | | | |
| FY2019 | 603 | | | |
| FY2020 | 852 | | | |
| FY2021 | 288 | | | |
| Thereafter | 2,112 | | | |
| Total | 5,105 | - | - | - |

| Other Information | FY2017 | FY2016 |
|---|---|---|

**Counterparty Financial Analysis**

DUKE ENERGY.

| | |
|---|---|
| **Counterparty** | Orano USA LLC & Subsidiaries |
| **Contact** | |
| **Review Date** | 4/29/2019 |
| **Review By** | Matt Holstein |
| **Guarantor** | |
| **Ticker** | |

## Credit Ratings

| | S&P | | Moodys | | Eikon MIR | | Internal |
|---|---|---|---|---|---|---|---|
| | Rating | Date Issued | Rating | Date Issued | Rating | Date Issued | Rating |
| Orano USA LLC & Subsidiaries | not rated | | not rated | | | | 6 |
| Orano SA | BB+ | | not rated | | | | 5 |
| Accelerated Decommissioning Partners | not rated | | not rated | | | | not rated |
| ADP CR3 LLC | not rated | | not rated | | | | not rated |

## Counterparty Overview

Headquartered in Washington, D.C., Orano USA is a leading technology and services provider for decommissioning shutdown nuclear energy facilities, used fuel management, federal site cleanup and closure, and the sale of uranium, conversion, and enrichment services to the U.S. commercial and federal markets. Prior to a global rebranding in January 2018, Orano USA was AREVA Nuclear Materials.
Orano USA includes five business lines:

D&D (Decommissioning & Dismantling), based in Washington, D.C., applies global D&D expertise to the U.S. market, including the planned dismantling of the Vermont Yankee reactor vessel during decommissioning.
Federal Services, based in North Carolina, provides nuclear fuel cycle technologies and environmental management services to the U.S. federal government, and is a key partner in the MOX Services consortium building the MOX Fuel Fabrication Facility (MFFF) in South Carolina.
Mining, Conversion, Enrichment (MCE) Sales, based in Virginia, is a competitive provider of long-term uranium contracts for U.S. utility customers.
Orano Med, (formerly AREVA Med) based in Texas, is developing cancer-fighting isotopes for radioimmunotherapy, with research progressing for the next phase of FDA approval.
TN Americas, based in Maryland, is a global provider of storage, transportation and field services for used nuclear fuel and radioactive waste, with its NUHOMS® used nuclear fuel storage system securely operating at more than 30 U.S. sites.

## Group Structure

Orano USA (formerly AREVA Nuclear Materials), is the U.S. subsidiary of Orano SA. Orano USA LLC is a guarntor of ADP CR3 LLC which is a project LLC established for the purpose of decommissioning work at Crystal River Unit 3. ADP CR3 is a subsidiary of a JV between Orano USA and NorthStar Group Services, Inc. NorthStar is also a guarantor for ADP CR3.

## Credit Measures {Orano USA LLC & Subsidiaries}

| **Liquidity** | FY2018 | FY2017 |
|---|---|---|
| Current Ratio | 1.19 | #DIV/0! |
| Cash Ratio | 0.44 | #DIV/0! |
| CFO / Current Liab | - | #DIV/0! |
| **Balance Sheet ($Millions)** | **FY2018** | **FY2017** |
| Cash and Cash Equiv. | 96 | - |
| Total Assets | 421 | - |
| Total Debt | 46 | - |
| Total Equity | 154 | - |
| Tangible Net Worth | 147 | - |
| Total Debt / Total Cap | 23% | #DIV/0! |
| **Debt Ratios** | **FY2018** | **FY2017** |
| Total Debt / CFO | #DIV/0! | #DIV/0! |
| Total Debt / FFO | #DIV/0! | #DIV/0! |
| Total Debt / EBITDA | 0.95 | #DIV/0! |
| Market Cap - current | - | |

| **Interest Coverage** | FY2018 | FY2017 |
|---|---|---|
| EBIT / Interest Exp | #DIV/0! | #DIV/0! |
| EBITDA / Interest Exp | #DIV/0! | #DIV/0! |
| FFO Interest Coverage | #DIV/0! | #DIV/0! |
| **Earnings & Cash Flow ($Millions)** | **FY2018** | **FY2017** |
| Revenue | 328 | - |
| EBIT | 48 | - |
| EBITDA | 48 | - |
| Cash from Ops (CFO) | - | - |
| Funds from Ops (FFO) | - | - |
| Free Cash Flow (FCF) | - | - |
| **Profitability Measures** | **FY2018** | **FY2017** |
| Net Profit Margin | 11.2% | #DIV/0! |
| Return on Assets | 8.7% | #DIV/0! |
| Return on Capital | 36.6% | #DIV/0! |

## Business Risk & Key Issues

**Orano SA:**

**S&P-** changed its outlook on Orano SA to Negative from Stable following the release of its 2018 earnings. The results were weak and the expectation is that EBITDA will decline while ARO liabilities will increase. S&P includes 3 notches of French government support in its rating of Orano SA. The sub-investment grade rating reflects the weak financials and volatile nature of nuclear liabilities.
**Working Capital-** Current liabilities significantly outweigh current assets
**Profitability-** Orano has shown a history of losses. It will need to turn its operations around or rely on other sources of funding to meet its obligations

**Orano USA:**

**Parent Support-** Orano USA is a modest part of Orano SA. Orano USA contributes roughly 9% of the group's revenue. Parent support for the USA operations is possible but cannot be relied upon. Support from the French government is included in the analysis of Orano while support from Orano for Orano USA is not included in the analysis of Orano USA. Orano SA's weak financial situation is a credit negative for Orano USA.
**Profitability-** Orano USA only provided one year's worth of financial information. However, 2018 was a very profitable year for Orano USA. Gross margin, operating margin, and profit margin are all strong.
**Capital Structure-** Orano USA's debt to capital ratio is 23%. Cash on hand exceeds the total debt burden. The balance sheet provided does not breakdown Orano USA's equity so it is unclear how much of the positive equity balance is from retained earnigns versus other sources of funding.
**Liquidity-** Without notes it is difficult to comfortably assess Orano USA's liquidity. Cash on hand is significant and the current ratio is adequate at 1.2. Orano USA's access to a line of credit either from a bank or Orano SA is not known from the information provided.
**Market-** Nuclear markets tend to be volatile. Nuclear fuel prices are low and the future for the nuclear industry in the US is uncertain. Decommissioning projects may present an opportunity for a company like Orano to uses its nuclear expertise. However, large scale projects can create lumpy and unpredicable cash flows. The US government is considering mandating that [illegible] minimum amount of uranium from US based companies which could further put pressure on Orano.

## Comments/Conclusion

Based on our internal review of their financial data, Orano USA LLC is assigned an internal rating of 6. Orano USA's financials are healthy but the information provided is limited. Its parent's financials are not healthy although government support is likely. Participation in a volatile industry, the lack of information provided, and the health of Orano are supporting factors in Orano USA's sub-investment grade ICR.

**Counterparty Financial Analysis**

## Orano USA LLC & Subsidiaries

**Summary Financials**

| *($Millions)* | FY2018 | FY2017 |
|---|---|---|
| **Balance Sheet Items** | | |
| Cash and Cash Equiv. | 96.0 | |
| Accounts Receivable | 120.0 | |
| Current Assets | 259.0 | |
| Total Assets | 421.3 | |
| Current Liabilities | 217.1 | |
| Short-term debt (excl. CM of LT Debt) | - | |
| Current Maturities of LT Debt | - | |
| LT Debt (excl. current maturities) | 46.0 | |
| Total Debt | 46.0 | - |
| Minority Interest Equity (if separate) | - | |
| Owner's Equity (excl. Minority Interest) | 154.1 | |
| Total Equity | 154.1 | - |
| Total Capitalization | 200.1 | - |
| Goodwill | - | |
| Other Intangible Assets | 7.4 | |
| Total Intangible Assets | 7.4 | - |
| Tangible Net Worth | 146.7 | - |
| **Income Statement Items** | | |
| Revenue | 328.0 | |
| Operating Income | 51.2 | |
| Net Income (Loss) | 36.6 | |
| Interest Expense | - | |
| Tax Expense (Benefit) | 11.7 | |
| Depr & Amort Expense | - | |
| EBIT | 48.3 | - |
| EBITDA | 48.3 | - |
| Market Cap - current | | - |
| **Cash Flow Statement Items** | | |
| Net cash from operations | | |
| Change in working capital | - | - |
| Funds from operations (FFO) | - | - |
| Capex & investments | | |
| Free Cash Flow (FCF) | - | - |

| **Changes in Working Capital** | FY2018 | FY2017 |
|---|---|---|
| Accounts receivable | | |
| Other assets | | |
| Accounts payable | | |
| Other liabilities | | |
| Change in WC | - | - |

| **Credit Analysis** | FY2018 | FY2017 |
|---|---|---|
| **Liquidity Measures** | | |
| Current Ratio | 1.2 | #DIV/0! |
| Quick Ratio | 1.0 | #DIV/0! |
| Cash Ratio | 0.4 | #DIV/0! |
| Working Capital (millions$) | 41.9 | - |
| CFO / Current Liab | - | #DIV/0! |
| **Interest Coverage Ratios** | | |
| EBIT / Interest Exp (times) | #DIV/0! | #DIV/0! |
| EBITDA / Interest Exp (times) | #DIV/0! | #DIV/0! |
| FFO Interest Coverage (times) | #DIV/0! | #DIV/0! |
| **Debt Ratios** | | |
| Total Debt / CFO | #DIV/0! | #DIV/0! |
| Total Debt / FFO | #DIV/0! | #DIV/0! |
| Total Debt / EBITDA | 1.0 | #DIV/0! |
| Total Debt / Total Cap | 0.2 | #DIV/0! |
| **Profitability Measures** | | |
| Net Profit Margin | 11.2% | #DIV/0! |
| Return on Avg Assets | 8.7% | #DIV/0! |
| Return on Avg Equity | 47.5% | #DIV/0! |
| Return on Avg Total Capital | 36.6% | #DIV/0! |

**Debt Maturities & Other Fixed Costs**

| | DEBT & CAP LEASES | | | |
|---|---|---|---|---|
| FY2018 | | | | |
| FY2019 | | | | |
| FY2020 | | | | |
| FY2021 | | | | |
| FY2022 | | | | |
| Thereafter | | | | |
| Total | - | - | - | - |

| **Other Information** | FY2018 | FY2017 |
|---|---|---|



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| | Citizens of the State of Florida |
|---|---|
| Docket No.: | 20190140-EI |
| Witness: | Richard A. Polich |
| Exhibit No.: | ____ (RAP-7) |
| Date: | May 28, 2020 |

## ASSESSMENT OF NORTHSTAR BALANCE SHEET UNDER FINANCIAL HARDSHIP

($,000s)

| Assets | PORTION OF BALANCE SHEET APPLICABLE TO FINANCIAL HARDSHIP | 2019 | 2018 | 2017 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | |
| Cash And Cash Equivalents | 100% | $69,055 | $35,854 | $6,562 | $0 | $0 |
| Accounts Receivable | 60% | $89,476 | $71,891 | $91,395 | $93,227 | $84,269 |
| Costs And Estimated Earnings In Excess Of Billings On Uncompleted Contracts | 0% | $0 | $0 | $0 | $0 | $0 |
| Inventories | 20% | $642 | $707 | $816 | $939 | $1,152 |
| Income Tax Receivable | 100% | $695 | $41 | $11,945 | $0 | $403 |
| Insurance Deposits And Other Prepaid Expenses | 100% | $13,023 | $13,109 | $0 | $6,939 | $3,941 |
| Total Current Assets | | $172,891 | $121,603 | $110,718 | $101,105 | $89,765 |
| **Non-Current Assets** | | | | | | |
| Property And Equipment - Net | 20% | $6,830 | $6,881 | $7,923 | $5,212 | $4,728 |
| Goodwill | 0% | $0 | $0 | $0 | $0 | $0 |
| Intangible Assets - Net | 0% | $0 | $0 | $0 | $0 | $0 |
| Other Noncurrent Assets | 0% | $0 | $0 | $0 | $0 | $0 |
| Restricted Cash | 0% | $0 | $0 | $0 | $0 | $0 |
| Defered Financing Costs | 100% | $0 | $0 | $0 | $7,953 | $7,581 |
| Decommissioning Trust Funds | 0% | $0 | $0 | $0 | $0 | $0 |
| Reimbursements Due From U.S. Department Of Energy | 0% | $0 | $0 | $0 | $0 | $0 |
| Deferred Income Tax | 0% | $0 | $0 | $0 | $0 | $0 |
| Total Non-Current Assets | | $6,830 | $6,881 | $7,923 | $13,165 | $12,309 |
| **TOTAL NEAR-TERM AVAILABLE ASSETS** | | **$179,720** | **$128,484** | **$118,640** | **$114,270** | **$102,074** |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Current Maturities Of Long-Term Financing Obligations | 100% | $4,540 | $22,449 | $3,183 | $19,967 | $17,834 |
| Accounts Payable | 100% | $39,806 | $38,164 | $46,542 | $0 | $0 |
| Accrued Contract Costs | 100% | $58,253 | $32,024 | $33,894 | $83,350 | $85,854 |
| Accrued Expenses And Other Current Liabilities | 100% | $31,841 | $32,342 | $32,699 | $36,735 | $27,220 |
| Billings In Excess Of Costs And Estimated Earnings On | 100% | $0 | $0 | $0 | $0 | $0 |
| Uncompleted Contracts | 100% | $17,677 | $8,079 | $17,567 | $7,027 | $12,086 |
| Income Taxes Payable | 100% | $0 | $0 | $266 | $7 | $0 |
| Total Current Liabilities | 100% | $152,117 | $133,058 | $134,151 | $147,086 | $142,994 |
| **Non-Current Liabilities** | | | | | | |
| Long-Term Financing Obligations | 50% | $80,197 | $61,921 | $75,441 | $111,512 | $109,708 |
| Asset Retirement Obligations | 0% | $0 | $0 | $0 | $0 | $0 |
| Unearned Revenue - Site Restoration | 0% | $0 | $0 | $0 | $0 | $0 |
| Deferred Income Taxes | 0% | $0 | $0 | $0 | $0 | $0 |
| Deferred Tax Credit | 0% | $0 | $0 | $0 | $0 | $0 |
| Insurance And Other Long-Term Obligations | 0% | $0 | $0 | $0 | $0 | $0 |
| Total Non-Current Liabilities | | $80,197 | $61,921 | $75,441 | $111,512 | $109,708 |
| **TOTAL NEAR-TERM LIABILITIES** | | **$232,314** | **$194,979** | **$209,592** | **$258,598** | **$252,702** |
| ***CASH OR CASH EQUIVALENT AVAILABLE*** | | ***($52,593)*** | ***($66,495)*** | ***($90,951)*** | ***($144,328)*** | ***($150,628)*** |

| | Citizens of the State of Florida |
|---|---|
| Docket No.: | 20190140-EI |
| Witness: | Richard A. Polich |
| Exhibit No.: | ____ (RAP-7) |
| Date: | May 28, 2020 |

## ASSESSMENT OF NORTHSTAR BALANCE SHEET UNDER FINANCIAL HARDSHIP

($,000s)

| Assets | PORTION OF BALANCE SHEET APPLICABLE TO FINANCIAL HARDSHIP | 2019 | 2018 | 2017 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | |
| Cash And Cash Equivalents | 100% | $69,055 | $35,854 | $6,562 | $0 | $0 |
| Accounts Receivable | 100% | $149,126 | $119,819 | $152,325 | $155,378 | $140,448 |
| Costs And Estimated Earnings In Excess Of Billings On Uncompleted Contracts | 0% | $0 | $0 | $0 | $0 | $0 |
| Inventories | 20% | $642 | $707 | $816 | $939 | $1,152 |
| Income Tax Receivable | 100% | $695 | $41 | $11,945 | $0 | $403 |
| Insurance Deposits And Other Prepaid Expenses | 100% | $13,023 | $13,109 | $0 | $6,939 | $3,941 |
| Total Current Assets | | $232,541 | $169,530 | $171,648 | $163,256 | $145,944 |
| **Non-Current Assets** | | | | | | |
| Property And Equipment - Net | 20% | $6,830 | $6,881 | $7,923 | $5,212 | $4,728 |
| Goodwill | 0% | $0 | $0 | $0 | $0 | $0 |
| Intangible Assets - Net | 0% | $0 | $0 | $0 | $0 | $0 |
| Other Noncurrent Assets | 0% | $0 | $0 | $0 | $0 | $0 |
| Restricted Cash | 0% | $0 | $0 | $0 | $0 | $0 |
| Defered Financing Costs | 100% | $0 | $0 | $0 | $7,953 | $7,581 |
| Decommissioning Trust Funds | 0% | $0 | $0 | $0 | $0 | $0 |
| Reimbursements Due From U.S. Department Of Energy | 0% | $0 | $0 | $0 | $0 | $0 |
| Deferred Income Tax | 0% | $0 | $0 | $0 | $0 | $0 |
| Total Non-Current Assets | | $6,830 | $6,881 | $7,923 | $13,165 | $12,309 |
| **TOTAL NEAR-TERM AVAILABLE ASSETS** | | **$239,371** | **$176,412** | **$179,570** | **$176,421** | **$158,253** |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Current Maturities Of Long-Term Financing Obligations | 100% | $4,540 | $22,449 | $3,183 | $19,967 | $17,834 |
| Accounts Payable | 100% | $39,806 | $38,164 | $46,542 | $0 | $0 |
| Accrued Contract Costs | 100% | $58,253 | $32,024 | $33,894 | $83,350 | $85,854 |
| Accrued Expenses And Other Current Liabilities | 100% | $31,841 | $32,342 | $32,699 | $36,735 | $27,220 |
| Billings In Excess Of Costs And Estimated Earnings On | 100% | $0 | $0 | $0 | $0 | $0 |
| Uncompleted Contracts | 100% | $17,677 | $8,079 | $17,567 | $7,027 | $12,086 |
| Income Taxes Payable | 100% | $0 | $0 | $266 | $7 | $0 |
| Total Current Liabilities | 100% | $152,117 | $133,058 | $134,151 | $147,086 | $142,994 |
| **Non-Current Liabilities** | | | | | | |
| Long-Term Financing Obligations | 50% | $80,197 | $61,921 | $75,441 | $111,512 | $109,708 |
| Asset Retirement Obligations | 0% | $0 | $0 | $0 | $0 | $0 |
| Unearned Revenue - Site Restoration | 0% | $0 | $0 | $0 | $0 | $0 |
| Deferred Income Taxes | 0% | $0 | $0 | $0 | $0 | $0 |
| Deferred Tax Credit | 0% | $0 | $0 | $0 | $0 | $0 |
| Insurance And Other Long-Term Obligations | 0% | $0 | $0 | $0 | $0 | $0 |
| Total Non-Current Liabilities | | $80,197 | $61,921 | $75,441 | $111,512 | $109,708 |
| **TOTAL NEAR-TERM LIABILITIES** | | **$232,314** | **$194,979** | **$209,592** | **$258,598** | **$252,702** |
| ***CASH OR CASH EQUIVALENT AVAILABLE*** | | ***$7,057*** | ***($18,567)*** | ***($30,021)*** | ***($82,176)*** | ***($94,449)*** |

## Exhibit RAP-8

16. With regard to any of your calculations and/or projections of the funding levels in the Contractor's Provisional Trust:

a. Please describe the any calculations or projections that you performed.

**RESPONSE:**

**DEF has not performed any calculations or projections associated with the Contractor's Provisional Trust Fund since the fund value is $50M from the closing date until Milestone One is achieved. The Contractor's Provisional Trust Fund value is $20M after Milestone One is achieved until the ISFSI-Only Interim End-State Conditions are achieved.**

**The estimates provided in 16 b-k are based on a Closing Date of August 1, 2020, and do not include any interest income or account fees and reflects only ADP CFR3's actual, projected contributions to the Contractor's Provisional Trust Fund.**

b. How long after closing will it take for the Contractor's Provisional Trust to reach the full $30 million if ADP CR3 follows the decommissioning schedule contained in the DSA?

**RESPONSE:**

**There is no condition associated with "the full $30M" in the DSA. To the extent this question is asking when the total value of the fund consists of $30M cash and $20M disposal guarantee, ADP CR3 estimates this condition to exist in the first quarter 2022.**

c. What is the amount of IOI Decommissioning Subaccount funds you expect to be transferred to ADP CR3 over this same period (referred to in subpart b.)

**RESPONSE:**

**ADP CR3 estimates that they will have invoiced DEF for approximately $167M for Decommissioning work that has been completed.**

d. How long after closing will it take for the Contractor's Provisional Trust to reach the full $35 million if ADP CR3 follows the decommissioning schedule contained in the DSA?

**RESPONSE:**

**There is no condition associated with "the full $35M" in the DSA. To the extent this question is asking when the total value of the fund consists of $35M cash and $15M disposal guarantee, ADP CR3 estimates this condition to exist in the third quarter 2022.**

e. What is the amount of IOI Decommissioning Subaccount funds you expect to be transferred to ADP CR3 over this same period (referred to in subpart c.)

**RESPONSE:**

**ADP CR3 estimates that they will have invoiced DEF for approximately $250M for Decommissioning work that has been completed.**

f. How long after closing will it take for the Contractor's Provisional Trust to reach the full $40 million if ADP CR3 follows the decommissioning schedule contained in the DSA?

**RESPONSE:**

**There is no condition associated with "the full $40M" in the DSA. To the extent this question is asking when the total value of the fund consists of $40M cash and $10M disposal guarantee, ADP CR3 estimates this condition to exist in the fourth quarter 2023.**

g. What is the amount of IOI Decommissioning Subaccount funds you expect to be transferred to ADP CR3 over this same period (referred to in subpart f.)

**RESPONSE:**

**ADP CR3 estimates that they will have invoiced DEF for approximately $333M for Decommissioning work that has been completed.**

h. How long after closing will it take for the Contractor's Provisional Trust to reach the full $45 million if ADP CR3 follows the decommissioning schedule contained in the DSA?

**RESPONSE:**

**There is no condition associated with "the full $45M" in the DSA. To the extent this question is asking when the total value of the fund consists of $45M cash and $5M disposal guarantee, ADP CR3 estimates this condition to exist in the first quarter 2025.**

| | Citizens of the State of Florida |
|---|---|
| Docket No.: | 20190140-EI |
| Witness: | Richard A. Polich |
| Exhibit No.: | ____ (RAP-9) |
| Date: | May 28, 2020 |

## PROJECTED CONTRACTOR'S PROVISIONAL TRUST FUNDING
### CPT FUNDED AT 6% OF ADPCR3 INVOICES

| CPT FUNDING (MILLIONS) | % of CPT $50 Million | PROJECTED DATE CPT REACHES FUNDING LEVEL | ESTIMATED ADPCR3 INVOICED AMOUNTS (MILLIONS) | % of DSA CONTRACT FIXED PRICE OF $540 MILLION |
|---|---|---|---|---|
| $20 | 40.0% | DSA Closing | $0 | 0.0% |
| $30 | 60.0% | 2022 1st Qtr | $167 | 30.9% |
| $35 | 70.0% | 2022 3rd Qtr | $250 | 46.3% |
| $40 | 80.0% | 2023 4th Qtr | $333 | 61.7% |
| $45 | 90.0% | 2025 1st Qtr | $417 | 77.2% |
| $50 | 100.0% | 2026 2nd Qtr | $500 | 92.6% |

***CPT is not become fully funded until 2nd quarter of 2026, after over 92.6% of DSA contract price is spent.***

## PROJECTED CONTRACTOR'S PROVISIONAL TRUST FUNDING
### CPT FUNDED AT 10% OF ADPCR3 INVOICES

| CPT FUNDING (MILLIONS) | % of CPT $50 Million | PROJECTED DATE CPT REACHES FUNDING LEVEL | ESTIMATED ADPCR3 INVOICED AMOUNTS (MILLIONS) | % of DSA CONTRACT FIXED PRICE OF $540 MILLION |
|---|---|---|---|---|
| $20 | 40.0% | DSA Closing | $0 | 0.0% |
| $37 | 73.4% | 2022 1st Qtr | $167 | 30.9% |
| $45 | 90.0% | 2022 3rd Qtr | $250 | 46.3% |
| $50 | 100.0% | 2023 4th Qtr | $333 | 61.7% |
| $50 | 100.0% | 2025 1st Qtr | $417 | 77.2% |
| $50 | 100.0% | 2026 2nd Qtr | $500 | 92.6% |

***CPT becomes fully funded in 4th quarter of 2023 and only 61.7% of DSA contract price has been spent.***

**CERTIFICATE OF SERVICE**
**Docket No. 20190140-EI**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished by electronic mail on this 28th day of May, 2020, to the following:

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**Hand Filing with PSC Clerk
†Overnight delivery or electronic delivery
+Letter Only

*s/Charles J. Rehwinkel*
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Deputy Public Counsel