MASTEC INC
Form 10-K/A
August 03, 2005

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

Form 10-K/A
(Amendment No. 1)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004
Commission File Number 001-08106

MasTec, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Florida	**65-0829355**
(State or Other jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
800 S. Douglas Road, 12th Floor, Coral Gables, FL	**33134**
(Address of Principal Executive Offices)	*(Zip Code)*

(305) 599-1800
(Registrant s Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.10 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Exchange Act Rule 12b-2). Yes þ No o

The aggregate market value of the registrant s outstanding common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold as of the last business day of the registrant s most recently completed second fiscal quarter was $146,606,680 (based on a closing price of $5.43 per share for the registrant s common stock on the New York Stock Exchange on June 30, 2004).

There were 48,748,206 shares of common stock outstanding as of March 3, 2005.

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Explanatory Note

Mastec, Inc. (the Company) is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the 2004 10-K), which was originally filed on March 31, 2005. This Amendment No. 1 is being filed to address comments from the staff of the Securities and Exchange Commission in connection with the staff s review of the 2004 10-K. This Amendment No. 1 amends: (i) Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates to provide more detailed disclosure regarding the Company s recognition of deferred tax assets; (ii) Part I, Item 8 Financial Statements Note 1 to provide more detailed disclosure regarding the Company s recognition of deferred tax assets; (iii) Part II, Item 9A, Internal Controls and Procedures to delete a scope limitation to its Management s Report on Internal Control Over Financial Reporting; and (iv) the certifications required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), so that they be dated as of a current date as required by Rule 12b-15 of the Exchange Act.

This Amendment No. 1 does not result in a change in the Company s previously reported earnings shown in its Consolidated Statements of Operations or on any amounts previously reported in its Consolidated Balance Sheets. Further, this Amendment No. 1 does not reflect events occurring after the filing of the 2004 Form 10-K, and does not modify or update the disclosures therein in any way other than as required to reflect the amendments described above.

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Cautionary Statement Regarding Forward-Looking Statements

We are making this statement pursuant to the safe harbor provisions for forward-looking statements described in the Private Securities Litigation Reform Act of 1995. We make statements in this Annual Report on Form 10-K and in the documents that we incorporate by reference into this Annual Report that are forward-looking. When used in this Annual Report or in any other presentation, statements which are not historical in nature, including the words anticipate, estimate, should, expect, believe, intend, target, project and similar expressions are intended forward-looking statements. They also include statements regarding:

- our future growth and profitability;
- our competitive strengths; and
- our business strategy and the trends we anticipate in the industries and economies in which we operate.

These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions relating to:

- economic downturns, consolidation and technological and regulatory changes in the industries we serve;
- consolidation within our markets;
- technical and regulatory changes in our clients industries;
- the highly competitive nature of our industry;
- the ability of our clients to terminate many of our contracts;
- the seasonality and quarterly variations we experience in our revenue and profitability;
- our dependence on a limited number of clients;
- the restrictions imposed by our credit facility and senior notes; and
- the other factors referenced in this Annual Report, including, without limitation, under Item 1. Business , including the subsection of such item captioned Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Furthermore, forward-looking statements speak only as of the date they are made. If any of these risks or uncertainties materialize, or if any of our underlying assumptions are incorrect, our actual results may differ significantly from the results that we express in or imply by any of our forward-looking statements. These and other risks are detailed in this Annual Report on Form 10-K, in the documents that we incorporate by reference into this Annual Report on Form 10-K and in other documents that we file with the Securities and Exchange Commission. We do not undertake any obligation to publicly update or revise these forward-looking statements after the date of this Annual Report on Form 10-K to reflect future events or circumstances. We qualify any and all of our forward-looking statements by these cautionary factors.

In conducting our audit for the year ended December 31, 2003 and filing our 2003 Annual Report on Form 10-K, we restated our annual financial statements for 2000, 2001, and 2002. Except as otherwise stated, all financial information contained in this Annual Report on Form 10-K gives effect to these restatements.

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PART I

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical consolidated financial statements and related notes thereto in Item 8. Financial Statements. The discussion below contains forward-looking statements that are based upon our current expectation and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in Cautionary Statement Regarding Forward-Looking Statements. The consolidated results of operations in 2002 and 2003 reflect the reclassification of 2002 and 2003 results of continuing operations for the Brazil operations and our Network Services division to discontinued operations.

Overview

We serve providers of telecommunications services, broadband services (including cable, satellite and high-speed Internet) energy services and traffic control and homeland security systems.

Revenue by customer industry group is as follows:

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
Telecommunications	$329,853	$231,263	$251,083
Broadband	152,104	265,383	342,553
Energy	162,822	198,583	175,314
Government	121,688	132,251	144,845
	$766,467	$827,480	$913,795

A significant portion of our revenue is derived from service agreements. Some of these agreements are billed on a time and materials basis and revenue is recognized as the services are rendered. The remainder of these agreements are referred to as master service agreements, because they are exclusive (with certain exceptions) up to a specified dollar amount per work order within a defined geographic area. Work performed under service agreements is typically generated by work orders, each of which is performed for a fixed fee. The majority of these services typically are of a maintenance nature and to a lesser extent upgrade services. These service agreements are frequently awarded on a competitive bid basis, although clients are often willing to negotiate contract extensions beyond their original terms without re-bidding. Our service agreements have various terms, depending upon the nature of the services provided and are typically subject to termination by the client on short notice. Under our master service and similar type service agreements we furnish various specified units of service for a separate fixed price per unit of service. We recognize revenue as the related unit of service is performed. Profitability will be reduced if the actual costs to complete each unit exceed original estimates on fixed price service agreements. We also immediately recognize the full amount of any estimated loss on these fixed fee projects if estimated costs to complete the remaining units for the project exceed the revenue to be received from such units.

The remainder of our work is provided pursuant to contracts for specific installation/construction projects or jobs. For installation/construction projects, we recognize revenue on the units-of-delivery or percentage-of-completion methods. Revenue on unit based projects is recognized using the units-of-delivery method. Under the units-of-delivery method, revenue is recognized as the units are completed at the contractually agreed price per unit. For certain clients with unit based construction/installation contracts, we recognize revenue after the service is performed and work orders are approved to ensure that collectibility is probable from these clients. Revenue from completed work orders not collected in accordance with the payment terms established with these clients is not recognized until collection is assured. Revenue on non-unit based contracts is recognized using the percentage-of-completion method. Under the percentage-of-completion method, we record revenue as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is that percentage of total estimated revenue that incurred costs to date bear to estimated total contract costs. Clients are billed with varying frequency: weekly, monthly or upon attaining specific milestones. Such contracts generally include retainage provisions under which 2% to 15% of the contract price is withheld from us until the work has been completed and accepted by the client.

Revenue by type of contract is as follows:

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	Year Ended December 31, 2002	2003 (In thousands)	2004
Master service and other service agreements	$494,357	$560,127	$636,563
Installation/construction projects agreements	272,110	267,353	277,232
	$766,467	$827,480	$913,795

Our costs of revenue include the costs of providing services or completing the projects under our contracts including operations payroll and benefits, fuel, subcontractor costs, equipment rental, materials not provided by our clients, and insurance. Profitability will be reduced if the actual costs to complete each unit exceed original estimates on fixed price service agreements. We also immediately recognize the full amount of any estimated loss on fixed fee projects if estimated costs to complete the remaining units for the project exceed the revenue to be received from such units.

Our clients generally supply materials such as cable, conduit and telephone equipment. Customer furnished materials are not included in revenue and cost of sales due to all materials being purchased by the customer. The customer determines the specifications of the materials that are to be utilized to perform installation/construction services. We are only responsible for the performance of the installation/construction services and not the materials for any contract that includes customer furnished materials nor do we not have any risk associated with customer furnished materials. Our customers retain the financial and performance risk of all customer furnished materials.

General and administrative expenses include all costs of our management and administrative personnel, severance payments, reserves for bad debts, rent, utilities, travel and business development efforts and back office administration such as financial services, insurance, administration, professional costs and clerical and administrative overhead.

In March 2004, we ceased performing contractual services in Brazil, abandoned all assets of our Brazil subsidiary and made a determination to exit the Brazil market. During the year ended December 31, 2004, we wrote off approximately $12.3 million in goodwill and the net investment in our Brazil subsidiary of approximately $6.8 million which consisted of the accumulated foreign currency translation loss of $21.3 million less a net deficit in assets of $14.5 million. The abandoned subsidiary has been classified as a discontinued operation and its net losses are not included in our consolidated net loss from continuing operations for the years ended December 31, 2002, 2003 and 2004. The net income (loss) for our Brazil subsidiary was reclassified to discontinued operations in the amount of $1.2 million and $(21.8) million for the years ended December 31, 2002 and 2003, respectively. The net loss for the year ended December 31, 2004 included in discontinued operations was $20.2 million. In November 2004, the subsidiary applied for relief and was adjudicated bankrupt by a Brazilian bankruptcy court. The subsidiary is currently being liquidated under court supervision.

During the fourth quarter 2004, we ceased performing services and committed to sell our Network Services division and exit this service market. This division has been classified as a discontinued operation and its net losses are not included in our consolidated net loss from continuing operations for the years ended December 31, 2002, 2003, and 2004. The net loss for the Network Services division was reclassified to discontinued operations in the amount of $17.9 million and $6.0 million for the years ended December 31, 2002 and 2003, respectively. The net loss for the year ended December 31, 2004 included in discontinued operations was $3.0 million.

Financial Metrics

Members of our senior management team regularly review key performance metrics and the status of operating initiatives within our business. These key performance indicators are:

- revenue by client and industry;
- monthly, quarterly and annual changes in revenue by client and industry;

backlog;

costs of revenue, and general and administrative expenses as percentages of revenue;

number of vehicles and equipment per employee;

days sales outstanding; and

interest and debt service coverage ratios.

We analyze this information periodically through operating reviews which include detailed discussions related to significant jobs/projects, proposed investments in new business opportunities or property and equipment and integration and cost reduction efforts.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, intangible assets, reserves and accruals, impairment of assets, income taxes, insurance reserves and litigation and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities, that are not readily apparent from other sources. Actual results may differ from these estimates if conditions change or if certain key assumptions used in making these estimates ultimately prove to be materially incorrect.

We believe the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue and related costs for master and other service agreements billed on a time and materials basis are recognized as the services are rendered. There are also some master service agreements that are billed on a fixed fee basis. Under our fixed fee master service and similar type service agreements we furnish various specified units of service for a separate fixed price per unit of service. We recognize revenue as the related unit of service is performed. For service agreements on a fixed fee basis, profitability will be reduced if the actual costs to complete each unit exceed original estimates. We also immediately recognize the full amount of any estimated loss on these fixed fee projects if estimated costs to complete the remaining units exceed the revenue to be received from such units.

We recognize revenue on unit based construction/installation projects using the units-of-delivery method. Our unit based contracts relate primarily to contracts that require the installation or construction of specified units within an infrastructure system. Under the units-of-delivery method, revenue is recognized at the contractually agreed upon price as the units are completed and delivered. Our profitability will be reduced if the actual costs to complete each unit exceed our original estimates. We are also required to immediately recognize the full amount of any estimated loss on these projects if estimated costs to complete the remaining units for the project exceed the revenue to be earned on such units. For certain clients with unit based construction/installation contracts we recognize revenue after service has been performed and work orders are approved to ensure that collectibility is probable from these clients. Revenue from completed work orders not collected in accordance with the payment terms established with these clients is not recognized until collection is assured.

Our non-unit based, fixed price installation/construction contracts relate primarily to contracts that require the construction design and installation of an entire infrastructure system. We recognize revenue and related costs as work progresses on non-unit based, fixed price contracts using the percentage-of-completion method, which relies on contract revenue and estimates of total expected costs. We estimate total project costs and profit to be earned on each long-term, fixed-price contract prior to commencement of work on the contract. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Under the percentage-of-completion method, we record revenue and recognize profit or loss as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is that percentage of total estimated revenue that incurred costs to date bear to estimated total contract costs, after adjusting estimated total contract costs for the most recent information. If, as work progresses, the actual contract costs exceed our estimates, the profit we recognize from that contract decreases. We recognize the full amount of any estimated loss on a contract at the time our estimates indicate such a loss.

Our clients generally supply materials such as cable, conduit and telephone equipment. Customer furnished materials are not included in revenue and cost of sales as all materials are purchased by the customer. The customer determines the specification of the materials that are to be utilized to perform installation/construction services. We are only responsible for the performance of the installation/construction services and not the materials for any contract that includes customer furnished materials and nor do we have any risk associated with customer furnished materials. Our customers retain the financial and performance risk of all customer furnished materials.

We have commenced legal action against some of our clients in connection with work performed in 2003. In addition, we have made claims for amounts in excess of the agreed contract price (or amounts not included in the original contract price) that we seek to collect from clients for delays we believe were caused by the clients, errors in specifications and designs, change orders in dispute or unapproved as to either scope or price, or other causes of unanticipated additional costs. Although any costs for the work related to these claims have been included in costs of revenue, since we cannot reliably estimate what amounts, if any, of these claims are probable of collection, we have not recognized any of these claims as revenue to date. We will recognize revenue on these claims upon collections. We may not be successful in collecting any of these claims. See Item 3. Legal Proceedings.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. Management analyzes past due balances based on invoice date, historical bad debt experience, client concentrations, client credit-worthiness, client financial condition and credit reports, the availability of mechanics and other liens, the existence of payment bonds and other sources of payment, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. We review the adequacy of reserves for doubtful accounts on a quarterly basis. If our estimates of the collectibility of accounts receivable are incorrect, adjustments to the allowance for doubtful accounts may be required, which could reduce our profitability.

Our estimates for our allowance for doubtful accounts are subject to significant change during times of economic weakness or uncertainty in either the overall U.S. economy or the industries we serve, and our loss experience has increased during such times.

We recorded provisions against earnings for doubtful accounts of $15.4, $8.8, and $5.1 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Inventories

Inventories consist of materials and supplies for construction projects, and are typically purchased on a project-by-project basis. Inventories are valued using the weighted average-cost method and are stated at the lower of cost or market. Construction projects are completed pursuant to customer specifications. The loss of the customer or the cancellation of the project could result in an impairment of the value of materials purchased for that customer or project. Technological or market changes can also render certain materials obsolete. Allowances for inventory obsolescence are determined based upon the specific facts and circumstances for each project and market conditions. During 2002, 2003 and 2004, we recorded inventory obsolescence provisions of $5.2 million, $2.2 million and $0.9 million, respectively, that have been included in Costs of revenue in the Consolidated Statements of Operations in Item 8 of this Annual Report on Form 10-K.

Depreciation

We depreciate our property and equipment over estimated useful lives using the straight-line method. We periodically review changes in technology and industry conditions, asset retirement activity and salvage values to determine adjustments to estimated remaining useful lives and depreciation rates.

Effective November 30, 2002, we implemented the results of a review of the estimated service lives of our property and equipment in use. Useful lives were adjusted to reflect the extended use of much of our equipment. In addition, the adjustments made the estimated useful lives for similar equipment consistent among all operating units. Depreciation expense was reduced by $5.8 million for the years ended December 31, 2003 and 2004 from the amount of expense which would had been reported using the previous useful lives as a result of the change of estimate. During 2002 we also implemented a plan to improve profitability by more effectively utilizing our fleet. Under the plan, we began disposing of excess or underutilized assets in 2002.

During 2003 and 2004, we continued to dispose of excess assets and increased our reliance on operating leases to finance equipment needs, thereby reducing our depreciation expense. We do anticipate continued declines in our depreciation expense, since we believe we can continue to use more lease opportunities.

Valuation of Equity Investments.

We have one common stock investment which we account for by the equity method because we own between 20% and 50% of the common stock and we have a non-controlling ownership interest. Our share of the earnings or losses in this investment is included in the consolidated statements of operations. As of December 31, 2004, our investment exceeded the net equity of such investment and accordingly the excess is considered to be equity goodwill. We evaluate the equity goodwill for impairment under Accounting Principles Board No. 18, The Equity Method of Accounting for Investments in Common Stock , as amended.

In December 2003, the FASB issued FASB Interpretation No. 46R (FIN 46R) which clarified some of the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities. (FIN 46) and exempted certain entities from its requirements. FIN 46R was effective on March 31, 2004. We have considered the provisions of FIN 46R for this investment and believe it will not be necessary to include in our consolidated financial statements any assets, liabilities or activities of this investment. We have provided certain disclosed information of this investment in this Annual Report on Form 10-K in Item 8. Financial Statements. Note 12.

Valuation of Long-Lived Assets

We review long-lived assets, consisting primarily of property and equipment and intangible assets with finite lives, for impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). In analyzing potential impairment, we use projections of future undiscounted cash flows from the assets. These projections are based on our views of growth rates for the related business, anticipated future economic conditions and the appropriate discount rates relative to risk and estimates of residual values. We believe that our estimates are consistent with assumptions that marketplace participants would use in their estimates of fair value. However, economic conditions, interest rates, the anticipated cash flows of the businesses related to these assets and our business strategies are all subject to change in the future. If changes in growth rates, future economic conditions or discount rates and estimates of terminal values were to occur, long-lived assets may become impaired. During 2002, 2003 and 2004, we recognized impairment losses and write-offs of long-lived assets of $12.8 million, $0.9 million and $2.0 million, respectively, relating to long-lived assets no longer in use and held for sale, certain assets in use and long-lived assets related to the discontinued operations in Brazil.

Valuation of Intangible Assets

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , we conduct, on at least an annual basis, a review of our reporting units to determine whether their carrying value exceeds fair market value as determined using a discounted cash flow methodology for each unit. Should this be the case, the value of our goodwill may be impaired and written down. Our adoption of SFAS No. 142 in 2002 resulted in a write-down of our goodwill, net of tax, in the amount of $25.7 million net of $13.8 million tax benefit, to reduce the carrying value of our goodwill. This charge was reflected as a cumulative effect of an accounting change in the consolidated statement of operations included in Item 8. of this Annual Report on Form 10-K, of which $13.1 million has been reclassified to discontinued operations. Impairment losses subsequent to adoption totaling $79.7 million ($51.9 million, net of tax) are reflected in our operating results in the Consolidated Statement of Operations for 2002.

In connection with the disposition of the Brazil subsidiary, we wrote off goodwill associated with this reporting entity in the amount of $12.3 million in 2004 which is included in discontinued operations.

We could record additional impairment losses if, in the future, profitability and cash flows of our reporting units decline to the point where the carrying value of those units exceed their market value.

Insurance Reserves

We presently maintain insurance policies subject to per claim deductibles of $2 million for our workers compensation, and general liability policies and $3 million for our automobile liability policy. We have excess umbrella coverages up to $100 million per claim and in the aggregate. We are required to post letters of credit to secure our obligation to reimburse the insurance carrier for amounts that have been or could potentially be advanced by the carrier within the deductible layer and also post letters of credit to our surety company. Such letters of credit amounted to $63.3 million at December 31, 2004. We actuarially determine any liabilities for unpaid claims and associated expenses, including incurred but not reported losses, and reflect those liabilities in our balance sheet as other current and non-current liabilities. The determination of such claims and expenses and the appropriateness of the related liability is reviewed and updated quarterly. However, insurance liabilities are difficult to assess and estimate due to the many relevant factors, the effects of which are often unknown, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. We are working with our insurance carrier to resolve claims more quickly in an effort to reduce our exposure. We are also attempting to accelerate the claims process where possible so that amounts incurred can be reported rather than estimated. In addition, known amounts for claims that are in the process of being settled, but that have been paid in periods subsequent to those being reported, are booked in such reporting period. For example, Reliance Insurance Company, our insurance carrier for certain liabilities through July 2000, was placed into receivership in 2001. We have considered the financial condition of Reliance in the determination of our unpaid claims, including our estimate of claims incurred but not reported, that would be subject to reimbursement by Reliance. Our accruals are based upon known facts, historical trends and our reasonable estimate of future expenses and we believe such accruals to be adequate. If we do not accurately estimate the losses resulting from these claims, we may experience losses in excess of our estimated liability, which may reduce our profitability. We also may be required to post additional collateral with the insurance carrier, which could reduce our liquidity, or pay increased insurance premiums, which could decrease our profitability.

On January 1, 2004, we formed a captive insurance subsidiary, JMC Insurance Company, Inc., a South Carolina corporation, to write a portion of our own workers compensation, general liability and automobile liability coverages under deductible reinsurance policies. JMC Insurance Company, Inc., which is our first formation and management of a captive insurance company, was capitalized with a $1 million letter of credit.

Income Taxes

We record income taxes using the liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequence of temporary differences between the financial statement and income tax bases of our assets and liabilities. We estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. The recording of a net deferred tax asset assumes the realization of such asset in the future. Otherwise a valuation allowance must be recorded to reduce this asset to its net realizable value. We consider future pretax income and ongoing prudent and feasible tax planning strategies in assessing the need for such a valuation allowance. In the event that we determine that we may not be able to realize all or part of the net deferred tax asset in the future, a valuation allowance for the deferred tax asset is charged against income in the period such determination is made.

As a result of our 2003 and 2004 operating losses, we have recorded valuation allowances aggregating $8.3 million and $32.3 million as of December 31, 2003 and 2004, respectively, to reduce certain of our net deferred Federal, foreign and state tax assets to their estimated net realizable value. We anticipate that we will generate sufficient pretax income in the future to realize our deferred tax assets. In the event that our future pretax operating income is insufficient for us to use our deferred tax assets, we have based our determination that the deferred tax assets are still realizable based on a feasible tax planning strategy that is available to us involving the sale of one of our divisions.

Restructuring Charges

During the second quarter of 2002, we initiated a study to determine the proper balance of downsizing and cost cutting in relation to our ability to respond to current and future work opportunities in each of our service offerings. The review not only evaluated our current operations, but also the growth and opportunity potential of each service offering as well as the consolidation of back-office processes. As a result of this review, we implemented a restructuring program which included:

- Elimination or reduction in the scope of service offerings that no longer fit into our core business strategy or long-term business plan.

- Reduction or elimination of services that do not produce adequate revenue or margins to support the level of profitability, return on investment or investments in capital resources. This includes exiting contracts that do not meet the minimum rate of return requirements and aggressively seeking to improve margins and reduce costs.

Analysis of businesses that provide adequate profit contributions but still need margin improvements which includes aggressive cost reductions and efficiencies.

Review of new business opportunities in similar business lines that can utilize our existing human and physical resources.

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The elements of the restructuring program included involuntary terminations of employees in affected service offerings and the consolidation of facilities. The plan resulted in a pre-tax charge to operations of $3.7 million in 2002. The involuntary terminations impacted both the salaried and hourly employee groups. Approximately 1,025 employees were impacted in 2002. As of December 31, 2004, all employees to be terminated pursuant to our restructuring program have been terminated. We also closed approximately 25 facilities during 2002 as part of the program in which some of the assets were sold, while other assets were retained and transferred to other locations. These facility closures were not accounted for as discontinued operations due to these facilities not representing separate components of our business for which cash flows could be clearly defined. We also continue to be involved in the markets in which these 25 facilities operated.

In addition to the costs noted above, we paid a consulting firm approximately $4.6 million to assist us in preparing the plan, all of which was expensed in 2002 as the plan was complete as of December 31, 2002. We also recognized valuation allowances and impairment losses related to property and equipment of approximately $12.8 million in connection with the restructuring plan in the year ended December 31, 2002.

The following is a reconciliation of the restructuring accruals as of December 31, 2004 which represents remaining lease costs as well as reductions in the restructuring accruals during 2003 (in thousands):

Accrued costs at December 31, 2003	$ 600
Cash payments	(388)
Accrued costs at December 31, 2004	$ 212

Economic conditions, our business strategies or other factors could dictate further downsizing or elimination of elements of our business in the future, resulting in additional restructuring charges in 2005.

Litigation and Contingencies

Litigation and contingencies are reflected in our consolidated financial statements based on our assessments, along with legal counsel, of the expected outcome of such litigation or expected resolution of such contingency. An accrual is made when the loss of such contingency is probable and estimable. If the final outcome of such litigation and contingencies differs significantly from our current expectations, such outcome could result in a charge to earnings. See Part I Item 3. Legal Proceedings. for discussions of current litigation.

Results of Operations

Restatement of Financial Statements

In connection with the filing of our 2003 Form 10-K, we restated our annual financial statements for the year ended December 31, 2002 to increase our insurance expense (net of tax) and to record a valuation allowance for certain of our net deferred state tax assets. See Note 2 to our Consolidated Financial Statements in Item 8. in this Annual Report on Form 10-K for an explanation of these restatements. The following table shows the net impact of the restatements on our loss before cumulative effect of change in accounting principle and benefit for income taxes, net loss before cumulative effect of change in accounting principle and net loss before the effect of reclassifying certain continuing operations to discontinued operations (in thousands):

	2002	
	As Previously Reported	**As Restated**
Loss before cumulative effect of change in accounting principle and benefit for income taxes	$(168,608)	$(173,324)
Net loss before cumulative effect of change in accounting principle	$(103,135)	$(110,885)
Net loss	$(128,806)	$(136,556)

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We also restated our quarterly financial information for 2003 as a result of certain adjustments to revenue and other items that impact these previously issued quarterly reports. See Note 2 to our Consolidated Financial Statements in Item 8 for an explanation of these restatements (in thousands):

	Quarter Ended March 31, 2003		Quarter Ended June 30, 2003		Quarter Ended September 30, 2003	
	As Previously Reported	As Restated *	As Previously Reported	As Restated *	As Previously Reported	As Restated *
Revenue	$180,569	$180,297	$209,108	$207,841	$248,373	$242,539
(Loss) income before cumulative effect of change in accounting principle and benefit (provision) for income taxes	$ (2,648)	$ (2,920)	$ 4,733	$ 3,466	$ 10,662	$ 4,121
Net (loss) income before cumulative effect of change in accounting principle	$ (1,588)	$ (1,752)	$ 2,765	$ 2,020	$ 6,250	$ 2,310
Net (loss) income	$ (1,588)	$ (1,752)	$ 2,765	$ 2,020	$ 6,250	$ 2,310

* Before the effect of reclassification of certain continuing operations to discontinued operations.

Except as otherwise stated, all financial information contained in this Annual Report on Form 10-K gives effect to the restatements.

2005 Outlook

We believe we have increased market opportunities in 2005 in five areas:

Fiber to the Home (FTTH) In many markets, cable television providers have upgraded their networks to fiber optics which can provide video, video on demand, pay-per-view, high-speed Internet and telephony using VOIP. In contrast, RBOC s, municipalities and rural telephone companies presently rely primarily on copper wire infrastructures. In response to the competitive threat from cable providers, these entities have begun the process to upgrade their infrastructures with optical fiber, or FTTH. We believe that our resources, relationships and capabilities position us to benefit from the market opportunity. We also believe our rural telephone company clients will proceed with FTTH projects, utilizing available funding from the Rural Utility Service. Additionally, some municipalities are expected to build their own FTTH networks, and we are pursuing greater levels of business with these customers. The three major RBOC s have announced their intentions to enhance their infrastructures which may increase revenue in 2005. We have already experienced an increase in this type of revenue in the first quarter of 2005.

Satellite Install to the Home DIRECTV® continues to add a large number of new subscribers, which represents an expected increase in revenue for our installation and maintenance work in this area.

Federal Market for Telecommunications Upgrades The Federal government plans to continue to upgrade its telecommunications networks and systems for military bases, ports, borders and security systems. We are making a concerted effort to market to major government contracting firms and believe we can establish ourselves as a participant in this market.

Local Maintenance Work for Electrical Grid Upgrades We believe market and other conditions are making it increasingly attractive for utilities to outsource their maintenance activities and we are marketing our services in this area.

RBOC Maintenance Agreements We serve RBOC s in states that are currently experiencing increases in population such as Florida, Georgia, Nevada, North Carolina, South Carolina, and Texas. We believe that population increases in these states could increase the demand for our services.

Our 2005 results could be adversely affected by the matters discussed in Item 1. under the title Risk Factors of this Annual Report on Form 10-K and by the matters discussed in the paragraphs that follow.

The revenue from Comcast in 2003 and 2004 was driven to a significant extent by large projects to rebuild and upgrade Comcast s existing broadband networks in certain areas of the country. This rebuild and upgrade work will be minimal in 2005 due to most of the work being completed by December 31, 2004. Consequently, revenue from Comcast will significantly decline in 2005. To replace this revenue, we plan to pursue additional work from our broadband customers for installations to new and existing homes and more maintenance and repair work. In addition, we plan to pursue additional work related to FTTH initiatives.

Our status as an approved bidder on any state Department of Transportation (DOT) work is dependent in part on our submission on a timely basis of audited financial statements. Due to the delay in the completion of our 2003 audit, we were unable to submit our 2003 financial statements within the period required by the states of Florida and Texas. These states require that we submit on an annual basis, audited financial statements within 120 days after the end of the audited period. Several other state DOTs also require us to submit our annual financial information to qualify as an approved direct bidder for their projects. We have subsequently requalified in Texas, but remain unqualified in Florida and several other states. Until we submit our audited financial statements and other information on a timely basis, our status as an approved bidder for new states DOT work has been, or could be, suspended. As a result, until we are able to comply with the applicable state DOT requirements we could be unable to serve as a direct provider of new services to several state DOTs and, we could experience a decrease in revenue from these clients.

We have commenced legal action against some of our clients in connection with work performed in 2003. Outstanding accounts receivable, (exclusive of claims amounts) relating to contracts on which we are making claims amounted to $12.2 million at December 31, 2004. In addition, we have made claims for amounts in excess of the agreed contract price (or amounts not included in the original contract price) that we seek to collect from clients for delays we believe were caused by the client, errors in specifications and designs, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Any costs for the work related to these claims have been included in costs of revenue in 2003. However, as we cannot conclude that any of these claim amounts are probable of collection, we have not recognized such claim amounts as revenue for the years ended December 31, 2003 and 2004. If we are unsuccessful in our negotiations with our clients for some of these claims, we will take legal actions in an attempt to collect such amounts. Our clients may counterclaim against us for alleged contract damages, alleged liquidated damages and/or indemnification. If our clients can establish a contract entitlement, that entitlement could reduce any amounts otherwise due us from the client (including any remaining outstanding accounts receivable from the customer under the agreed contract price) and/or create liabilities for us.

In the second quarter of 2004, purported class action complaints were filed against us and certain of our officers in the United States District Court for the Southern District of Florida and one was filed in the United States District Court for the Southern District of New York. These cases have been consolidated in the Southern District of Florida. The complaints allege certain violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, related to current and prior period earnings report. Plaintiffs contend that our financial statements during the purported class period of August 12, 2003 to May 11, 2004 were materially misleading. See Item 3. Legal Proceedings for full description of claims. We believe the claims are without merit. We may be unable to successfully resolve these disputes without incurring significant expenses.

Under our credit facility, we are required to be in compliance with certain covenants. As a result of our net loss for the year ended December 31, 2004, we were not in compliance with the financial covenants of our credit facility at December 31, 2004. The credit facility was amended on March 17, 2005 modifying these covenants and as a result we were in compliance with our amended credit facility s financial covenants at December 31, 2004. We are dependent upon borrowings and letters of credit under the credit facility to fund our operations. While we believe we will be in compliance with the terms and covenants of the amended credit facility for 2005, we may not be able to achieve our 2005 internal projections and thus may not be in compliance with the terms and covenants of our amended credit facility. Should we be unable to comply with such terms and covenants, we would be required to obtain further modifications of the credit facility or another source of financing to continue to operate. Any such modifications or other sources of financing could significantly increase our financing costs. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources.

Comparisons of Fiscal Year Results

The components of our consolidated statements of operations, expressed as a percentage of revenue, are set forth in the following table:

	Year Ended December 31,		
	2002 As Restated	2003	2004
Revenue	100.0%	100.0%	100.0%
Costs of revenue, excluding depreciation	89.2	90.0	90.7
Depreciation	4.4	3.3	1.9
General and administrative expenses	14.0	8.6	8.2
Goodwill impairment	10.4		
Interest expense, net of interest income	2.4	2.3	2.1
Other (expense) income, net	(1.3)	0.2	
Loss from continuing operations before cumulative effect of change in accounting principle benefit for income taxes and minority interest	(21.7)	(4.0)	(2.9)
Benefit for income taxes	7.7	1.0	
Loss from continuing operations before cumulative effect of change in accounting principle	(14.0)	(3.0)	(2.9)
Cumulative effect of change in accounting principle	(1.6)		
Loss from continuing operations	(15.6)%	(3.0)%	(2.9)%
Loss from discontinued operations	(2.2)	(3.3)	(2.5)
Net loss	(17.8)	(6.3)	(5.4)

The following discussion and analysis of our results of operations should be read in conjunction with our consolidated financial statements and notes thereto in Item 8 of this Form 10-K.

Comparison of Years Ended December 31, 2004 and 2003

Revenue. Our revenue was $913.8 million for the year ended December 31, 2004, compared to $827.5 million for the same period in 2003, representing an increase of $86.3 million or 10.4%. This increase was due primarily to the increased revenue of approximately $96.7 million received from DIRECTV® and, to a lesser extent government and telecommunication customers. Revenue from telecommunications increased $23.3 million in 2004. We expect this trend to continue to increase in 2005. The increase in revenue was offset by a decrease in revenue from energy clients by $23.3 million in 2004 due to the gas pipeline and electrical substation revenue projects being completed in 2003 and a slight decrease in revenue from broadband clients due to the Comcast work slowing down towards completion at the end of 2004.

While we have refocused our business towards large, financially stable telecommunications, broadband, energy, governmental and other clients, these clients may not continue to fund capital expenditures for infrastructure projects at current levels or we may not be able to increase our market share with these stronger clients.

Costs of Revenue. Our costs of revenue were $828.7 million or 90.7% of revenue for the year ended December 31, 2004, compared to $744.6 million or 90.0% of revenue for the same period in 2003 reflecting that the costs remained consistent as a percentage of revenue. In the year ended December 31, 2004, we recorded losses on construction projects in the amount of $7.8 million compared to approximately $28.7 million in the year ended December 31, 2003. These losses arose from project costs that exceeded our expectations for a variety of reasons including internal bid, project management and cost estimation issues, errors in specifications and design, work outside of original contract scope and customer caused delays. In addition, we recorded obsolescence provisions for inventory of $0.9 million mainly due to inventories that were purchased for specific jobs no longer in process and which may not be used in the future. In the year ended December 31, 2003, an obsolescence provision was recorded in the amount of $1.8 million. These decreases were offset by the increase in cost of sales due to the increase in the number of employees and subcontractor costs related to the DIRECTV® business. In addition, insurance expense increased in the year ended December 31, 2004 due to the increased number of claims reported. As a result of the increased claims and loss history since the beginning of 2004, we adjusted our actuarial assumptions and increased our reserves and expenses by $13.2 million in the year ended December 31, 2004.

Depreciation. Depreciation was $17.1 million or 1.9% of revenue for the year ended December 31, 2004, compared to $27.6 million or 3.3% of revenue for the same period in 2003, representing a decrease of $10.5 million or 38%. We reduced depreciation expense in the year ended December 31, 2004 by continuing to reduce capital expenditures, disposing of excess equipment in 2003 and 2004 and placing greater reliance on operating leases to meet our equipment needs.

General and administrative. General and administrative expenses were $74.6 million or 8.2% of revenue for the year ended December 31, 2004, compared to $70.1 million or 8.6% of revenue for the same period in 2003, representing an increase of $4.5 million or 6.3%. The increase in general and administrative expenses was due to additional professional fees incurred in the year ended December 31, 2004 in the amount of $4.3 million related to the audit and quarterly reviews, increased audit fees in connection with our Sarbanes-Oxley compliance, increased consulting fees related to Sarbanes-Oxley compliance and an increase in legal fees related to our defense in various litigation matters. In addition, in 2004 we recorded $644,000 of non-cash stock compensation expense mainly related to the extension of the exercise period on certain stock options held by former employees. There was no such expense in 2003.

Interest expense, net. Interest expense, net of interest income, remained consistent at $19.5 million or 2.1% of revenue for the year ended December 31, 2004, compared to $19.2 million or 2.3% of revenue for the same period in 2003.

Other income, net. Other income was $191,000 for the year ended December 31, 2004, compared to $1.2 million for the same period in 2003 representing a decrease of $1.0 million or 84.6%. In the year ended December 31, 2003, we sold more equipment at auction and recognized more gains on these sales than in the year ended December 31, 2004.

Benefit for income taxes. For 2004 and 2003 our effective tax rates were approximately 0% and 25%, respectively. Our balance sheet as of December 31, 2004, includes a net deferred tax asset of $56.8 million of which $44.3 million relates to federal taxes and the remainder to various state and foreign taxes, net of valuation allowance. The realization of this net deferred tax asset is dependent upon our ability to generate future pretax income. We anticipate that we will generate sufficient pretax income in the future to realize a portion of our net deferred tax asset relating to federal income taxes. In making this assessment, we have considered our projected future pretax income based upon a prudent and feasible tax planning strategy available to us involving the sale of one of our divisions. However, this tax planning strategy does not appear viable for the purpose of realizing all of the various income tax components of our net deferred tax asset. Accordingly, we recorded an addition to our valuation allowance of $24.1 million in 2004 to reduce certain of our net deferred Federal, foreign and state tax assets at December 31, 2004, to their estimated net realizable value of $56.8 million. The primary reason for the difference in our effective tax rate from 2003 to 2004 was the effect of worthless stock deduction and increase in valuation allowance.

Deferred tax assets, net in 2004 increased to $56.8 million from $55.3 million. The increase in deferred tax assets, net was due to a reduction in deferred tax assets of $3.6 million and a reduction in deferred tax liabilities of $5.2 million. The decrease in deferred tax assets was primarily related to our increase in net operating loss carryforwards of $11.9 million as a result of our net loss in 2004, and an increase in deferred tax assets relating to accrued self insurance of $10.6 million offset by a decrease in deferred tax assets relating to goodwill of $2.5 million and an increase in the valuation allowance of $24.1 million for Federal, foreign and state tax assets. The reduction in deferred tax liabilities was primarily due to a decrease in deferred tax liabilities for property and equipment of $1.9 million and a decrease in deferred tax liabilities for accounts receivable retainage differences of $2.7 million.

Minority interest. Minority interest was $0.3 million or 0.04% of revenue for the year ended December 31, 2004, compared to $0 for the same period in 2003. We entered into a joint venture with a third party at the end of 2003. We own 51% of the company. This subsidiary had net income for the year ended December 31, 2004 which resulted in minority interest.

Discontinued operations. In the year ended December 31, 2004, we ceased performing contractual services for clients in Brazil, abandoned all assets of our Brazil subsidiary and made a determination to exit the Brazil market. The abandoned Brazil subsidiary has been classified as a discontinued operation and its net loss is not included in the results of continuing operations in 2004 or 2003. The results of operations for the year ended December 31, 2003 for Brazil have been reclassified to a loss from discontinued operations. During the year ended December 31, 2004, we wrote off approximately $12.3 million and the net investment in the Brazil subsidiary of approximately $6.8 million which consisted of the accumulated foreign currency translation loss of $21.3 million less a net deficit in assets of $14.5 million. The net loss for the Brazil subsidiary was $20.2 million and $21.8 million for the years ended December 31, 2004 and 2003, respectively. In November 2004, our subsidiary applied for relief and was adjudicated bankrupt by a Brazilian bankruptcy court. The subsidiary is currently being liquidated under court supervision. During the fourth quarter 2004, we ceased performing services and committed to sell our Network Services division and exit this service market. This division has been classified as a discontinued operation and its net loss is not included in the results of continuing operations in 2004 or 2003. The results of operations for the year ended December 31, 2003 for Network Services have been reclassified to a loss from discontinued operations. The net loss for the Network Services division was $3.0 million and $6.0 million for the years ended December 31, 2004 and 2003, respectively.

Comparison of Years Ended December 31, 2003 and 2002

Revenue. Our revenue was $827.5 for the year ended December 31, 2003 compared to $766.5 million for the same period in 2002, representing an increase of $61.0 million. The increase in revenue was primarily due to the growth in our broadband revenue and, to a lesser extent, growth in business with our energy and government clients. We experienced a 74.5% increase in revenue from broadband customers such as Comcast and DIRECTV® for upgrade construction and residential installation work. Overall revenue from broadband customers grew by $113.3 million in 2003. Revenue from energy clients grew by $35.8 million in 2003 to $198.6 million compared to $162.8 million in 2002 primarily due to new gas pipeline and electrical substation contracts. Our revenue from government work increased by $10.6 million in 2003 compared to 2002 due to an increase in dollar value of projects and expansion of the business into new states in 2003. Our overall 2003 revenue growth was reduced by a $98.8 million decrease in telecommunications revenue. Historically, we have derived a significant amount of our revenue from telecommunications clients. Commencing in the latter part of 2001 and throughout 2002, certain segments of the telecommunications industry suffered a severe downturn that resulted in a number of our clients filing for bankruptcy protection or experiencing financial difficulties. The downturn resulted in reduced capital expenditures for infrastructure projects, even among clients that did not experience financial difficulties. Revenue from telecommunication clients continued their downward trend in 2003.

Costs of revenue. Our costs of revenue was $744.6 million or 90.0% of revenue for the year ended December 31, 2003, compared to $683.9 million or 89.2% of revenue for the same period in 2002. Costs of revenue grew in terms of total dollars in 2003 due to the overall increase in revenue and a slight increase in payroll. Costs of revenue in 2003 include $28.7 million in losses incurred on construction projects during the year. These losses arose from project costs that exceeded our expectations for a variety of reasons including internal bid, project management and cost estimation issues, errors in specifications and designs, work outside of original contract scope and customer-caused delays.

Depreciation. Depreciation was $27.6 million or 3.3% of revenue for the year ended December 31, 2003, compared to $33.8 million or 4.4% of revenue for the same period in 2002, representing a decrease of $6.2 million or 18.3%. In 2003, depreciation expense was reduced by $5.8 million related to the change in estimate in useful lives that occurred on November 30, 2002. In addition, we reduced depreciation expense in 2003 by continuing to reduce capital expenditures, disposing of excess equipment and placing greater reliance on operating leases to meet our equipment needs.

General and administrative expenses. General and administrative expenses were $70.1 million or 8.5% of revenue for the year ended December 31, 2003 compared to $107.4 million or 14.0% of revenue for the same period in 2002, representing a decrease of $37.3 million or 34.7%. The decrease mainly relates to a decrease of $27.0 million related to our restructuring plan which resulted in the termination of employees, consolidation of facilities, functions and locations, and the recording of restructuring charges in 2002. In addition, bad debt expense included in general and administrative expense declined by approximately $10.8 million from 2002 to 2003. The large provision in 2002 was related to the after effects in 2002 related to clients declaring bankruptcy in 2001 in the telecommunications sector.

Interest expense. Interest expense, net of interest income, was $19.2 million or 2.3% of revenue for the year ended December 31, 2003, compared to $18.3 million or 2.4% for the same period in 2002 representing an increase of $874,000. Net interest costs grew as our average borrowings increased to support working capital needs. We incur interest expense primarily from our long-term subordinated debt which carries a fixed rate and to a lesser extent on periodic credit line borrowings to meet working capital needs and support various letters of credit.

Other (expense) income. Other income was $1.2 million in the year ended December 31, 2003 compared to other expense of $10 million for the same period in 2002. Other (expense) income in both years includes a gain on disposal of certain non-core assets and investments. During the year 2002, the gain was offset by a $13.2 million valuation allowance to reduce the carrying value of certain assets held for sale, long lived assets in use and investments. During 2003, the gain was slightly offset by the settlement of litigation of approximately $2.3 million and the write-off of certain non-core assets and investments.

Income taxes. For 2003 and 2002, our effective tax rates were approximately 25% and 35%, respectively. Our balance sheet as of December 31, 2003, includes a net deferred tax asset of $55.3 million of which $41.9 million relates to federal taxes and the remainder to various state and foreign taxes, net of valuation allowance. The realization of this net deferred tax asset is dependent upon our ability to generate future pretax income. We anticipate that we will generate sufficient pretax income in the future to realize the portion of our net deferred tax asset relating to federal income taxes. In making this assessment, we have considered our projected future pretax income based upon a prudent and feasible tax planning strategy available to us involving the sale of one of our divisions. However, this tax planning strategy does not appear viable for the purpose of realizing all of the various state income tax components of our net deferred tax asset. Accordingly, we recorded an addition to our valuation allowance of $3.4 million in 2003 to reduce certain of our net deferred state tax assets at December 31, 2003, to their estimated net realizable value of $55.3 million. We also recorded a valuation provision for state deferred taxes in 2002. However, this 2002 provision was less material to our overall deferred benefit in 2002. The primary reason for the difference in our effective tax rate from 2002 to 2003 was the effect of non-US operations; specifically losses from our operations in Mexico and Brazil for which we recorded no tax benefit.

Deferred tax assets, net in 2003 increased to $55.3 million from $46.7 million. The increase in deferred tax assets, net was due to an increase in deferred tax assets of $6.8 million and a reduction in deferred tax liabilities of $1.8 million. The increase in deferred tax assets was primarily related to our net operating loss carryforwards of $23.6 million as a result of our net loss in 2003, offset by a decrease in deferred tax assets relating to goodwill of $12.4 million and an increase in the valuation allowance of $3.4 million for state tax assets. The reduction in deferred tax liabilities was primarily due to an increase in deferred tax liabilities for property and equipment of $4 million offset by a decrease in deferred tax liabilities for other temporary differences of $4.3 million.

Discontinued operations. In the year ended December 31, 2004, we ceased performing contractual services for customers in Brazil, abandoned all assets of our Brazil subsidiary and made a determination to exit the Brazil market. The abandoned Brazil subsidiary has been classified as a discontinued operation. The results of operations for the years ended December 31, 2003 and 2002 have been reclassified to loss from discontinued operations. The net (loss) income for the Brazil subsidiary was $(21.8) million and $1.2 million for the years ended December 31, 2003 and 2002, respectively. The net loss in 2003 was due to a number of labor claims that were brought by ex-employees against our Brazil operations in 2003.We recorded $9.8 million of expense related to employment claims filed in Brazil in the year ended December 31, 2003 which also resulted in increased legal fees. In addition, we reserved $4.1 million in receivable balances due to the uncertainty of collection in 2003. In the year ended December 31, 2004, we also ceased performing services and committed to sell our Network Services division and exit this service market. This division has been classified as a discontinued operation. The results of operations for the years ended December 31, 2003 and 2002 have been reclassified to loss from discontinued operations. The net loss for the Network Services division was $6.0 million and $17.9 million for the years ended December 31, 2003 and 2002, respectively. The net loss in 2002 included $13.1 million of a one-time, non-cash charge to reduce the carrying value of goodwill related to the cumulative effect of an accounting change upon adoption of SFAS No. 142.

Financial Condition, Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from continuing operations, borrowings under revolving lines of credit, and proceeds from sales of assets and investments. We expect to continue selling vehicles and equipment as we see the need to upgrade with new equipment. We expect to continue to obtain proceeds from these sales in excess of $1.0 million per quarter depending upon market conditions. Our primary liquidity needs are for working capital, capital expenditures, letters of credit and debt service. In addition to ordinary course working capital requirements, we will continue to spend at least $10.0 to $15.0 million per year on capital expenditures in order to keep our equipment new and in good condition. We also expect our annual lease payments to increase as we place greater reliance on operating leases to meet our equipment needs. Interest payments of approximately $7.6 million are due each February and August under our subordinated debt agreement. In 2004, we purchased a 49% interest in a limited liability company with an established marketing group. The initial investment of $3.7 million will be paid over four quarters which commenced in the third quarter of 2004 with additional contingent payments of up to $1.3 million per quarter based upon the level of unit sales and profitability of the limited liability company for the two years following the period after the initial investment is fully funded.

We anticipate that funds generated from continuing operations, together with borrowings under our credit facility, and proceeds from sales of assets and investments will be sufficient to meet our working capital requirements, anticipated capital expenditures, letters of credit and debt service obligations for at least the next twelve months.

We need working capital to support seasonal variations in our business, primarily due to the impact of weather conditions on external construction and maintenance work, and the corresponding spending by our clients on their annual capital expenditure budgets. Our business is slower in the first and fourth quarters of each calendar year and stronger in the second and third quarters. We generally experience seasonal working capital needs from approximately April through September to support growth in unbilled revenue and accounts receivable, and to a lesser extent, inventory. Our billing terms are generally net 30 to 60 days, although some contracts allow our clients to retain a portion (from 2% to 15%) of the contract amount until the contract is completed to their satisfaction. We maintain inventory to meet the material requirements of some of our contracts. Some of our clients pay us in advance for a portion of the materials we purchase for their projects, or allow us to pre-bill them for materials purchases up to a specified amount.

Our vendors generally offer us terms ranging from 30 to 90 days. Our agreements with subcontractors usually contain a pay-when-paid provision, whereby our payments to subcontractors are made after we are paid by our clients.

As of December 31, 2004, we had $134.1 million in working capital compared to $113.4 million as of December 31, 2003. The increase in working capital was due to an increase in inventory and a decrease in current maturities of long-term debt offset by a decrease in accounts receivable. The decrease in accounts receivable was the result of a successful collections effort in the fourth quarter of 2004. The decrease in current maturities of long-term debt resulted in the payoff of all long-term debt obligations except for the 7.75% senior subordinated notes. The increase in inventory was due to the growth in our DIRECTV® business and the fact that in October 2003 DIRECTV® ceased providing inventory on consignment, requiring us to purchase inventory from DIRECTV®. As a result, as our DIRECTV® business increases, our inventory will also increase. Cash and cash equivalents remained consistent from \$19.4 million at December 31, 2003 to \$19.5 million at December 31, 2004. At December 31, 2004, the cash balance includes \$5.0 million in restricted cash related to collateral on our revolving credit facility.

Net cash provided by operating activities from continuing operations was \$5.4 million for the year ended December 31, 2004 compared to \$7.0 million for the year ended December 31, 2003. The net cash provided by operating activities from continuing operations in 2004 was primarily related to timing of cash collections from customers and payments to vendors offset by the loss from continuing operations. The net cash provided by operating activities from continuing operations in 2003 was primarily related to the loss from continuing operations offset by timing of cash collections from customers and payments to vendors and receipts of \$28.1 million in income tax refunds resulting from losses incurred in 2002.

Net cash used in investing activities of continuing operations was \$4.1 million for the year ended December 31, 2004 compared to cash provided by investing activities of continuing operations of \$7.4 million for the year ended December 31, 2003. The net cash used in investing activities from continuing operations in 2004 was related to capital expenditures in the amount of \$9.3 million and investment in life insurance policies for our key executive officers of \$1.8 million. In addition, we acquired a 49% interest in a company in 2004. Our investment to date amounts to \$1.1 million. The payments were offset by net proceeds from sales of assets of \$8.1 million. Net cash provided by investing activities from continuing operations in 2003 primarily related to \$22.3 million in net proceeds from sales of assets offset by capital expenditures in the amount of \$11.0 million and investment in life insurance policies to our key executive officers in the amount of \$1.8 million, and approximately \$1.9 million in contingent consideration paid related to acquisitions.

Net cash used in financing activities from continuing operations was \$1.0 million for the year ended December 31, 2004 compared to \$1.2 million for the year ended December 31, 2003. Net cash used in financing activities from continuing operations was primarily related to issuance of common stock offset by repayments of borrowings and capital lease payments.

We have a revolving credit facility for our North American operations that provides for borrowings up to an aggregate of \$125.0 million. The amount that we can borrow at any given time is based upon a formula that takes into account, among other things, eligible billed and unbilled accounts receivable, which can result in borrowing availability of less than the full amount of the facility. As of December 31, 2004 and 2003, net availability under the credit facility totaled \$25.5 million and \$37.9 million, net of outstanding standby letters of credit aggregating \$66.8 million and \$54.5 million, respectively. At December 31, 2004, \$63.3 million of the outstanding letters of credit are issued to support our casualty insurance requirements or surety needs. These letters of credit mature at various dates through December 31, 2005, and except for Letters of Credit totaling \$10.0 million, most have automatic renewal provisions subject to prior notice of cancellation. We had no outstanding draws under the credit facility on December 31, 2004 and 2003. The revolving credit facility matures on January 22, 2007. The revolving credit facility is collateralized by a first priority security interest in substantially all of our North American assets including \$5.0 million in restricted cash which is included in cash and cash equivalents at December 31, 2004 and a pledge of the stock of certain of our operating subsidiaries. All wholly owned subsidiaries collateralize the facility. Interest under the facility accrues at rates based, at our option, on the agent bank s base rate plus a margin of between 0.75% and 1.75% or its LIBOR rate (as defined in the credit facility) plus a margin of between 2.25% and 3.25%, each margin depending on certain financial thresholds. The facility includes an unused facility fee of 0.50%, which may be adjusted to as low as 0.375% or as high as 0.625% depending on the amount of the total commitment which is unused.

The revolving credit facility contains customary events of default (including cross-default) provisions and covenants related to our North American operations that prohibit, among other things, making investments and acquisitions in excess of a specified amount, incurring additional indebtedness in excess of a specified amount, paying cash dividends, making other distributions in excess of a specified amount, making capital expenditures in excess of a specified amount, creating liens against our assets, prepaying other indebtedness including our 7.75% senior subordinated notes, and engaging in certain mergers or combinations without the prior written consent of the lenders. In addition, any deterioration in the quality of billed and unbilled receivables would reduce availability under our revolving credit facility.

We are required to be in compliance with certain financial covenants measured on a monthly basis. As a result of our net loss for the year ended December 31, 2004, we were not in compliance with a monthly financial covenant, the fixed charge coverage ratio, of the credit facility at December 31, 2004. The credit facility was amended on March 17, 2005 modifying this covenant and other financial covenants and we were in compliance with our amended credit facility s financial covenants at December 31, 2004. Under the amended agreement, our North American operations must maintain minimum tangible net worth equal to:

§ $45 million at December 31, 2004;

§ $40 million from January 31 through May 31, 2005;

§ $45 million from June 30 through August 31, 2005;

§ $53.5 million from September 30 through November 30, 2005; then

§ $53.5 million beginning December 1, 2005; plus 50% of the consolidated net income of our operations from December 1, 2005 through the date of determination.

Since April 1, 2004, our North American Operations was also required to maintain a minimum fixed charge coverage ratio, computed on a monthly basis, beginning in May 2004. The fixed charge coverage ratio is generally defined to mean the ratio of our net income before interest expense, income tax expense, depreciation expense, and amortization expense plus $1.1 million to consolidated interest expense and current maturities of debt for the period of determination. For the purposes of determining the current maturities of long-term debt during the period from April 2004 through March 2005 used in determining the fixed charge coverage ratio the amount of current maturities of long term debt as of any month during this period is multiplied by a fraction, the numerator of which is the number of cumulative months since April 2004, and the denominator of which is 12.

Current ratio requirements are:

Period	Ratio
For the 9 month period ending December 31, 2004	1.50 to 1.00
For each of the 10 and 11 month periods ending January 31 and February 28, 2005	1.15 to 1.00
For each of the 12 month periods ending March 31, April 30 and May 31, 2005	1.20 to 1.00
For each of the 12 month periods ending June 30, July 31, and August 31, 2005	1.25 to 1.00
For each of the 12 month periods ending on September 30, October 31, and November 30, 2005	1.50 to 1.00
For the 12 month period ending on December 31, 2005 and each 12 month period ending on the last day of each calendar month thereafter	2.00 to 1.00

Based upon our projections for 2005, we believe we will be in compliance with the amended credit facility s financial covenants for 2005. We are dependent upon borrowings and letters of credit under this credit facility to fund operations. Should we be unable to comply with the terms and covenants of the amended credit facility, we would be required to obtain further modifications of the credit facility or another source of financing to continue to operate. We may not be able to achieve our 2005 projections and thus may not be in compliance with the amended credit facility s financial covenants in 2005.

As of December 31, 2004, we have outstanding $195.9 million, 7.75% senior subordinated notes due in February 2008, with interest due semi-annually. The notes also contain default (including cross-default) provisions and covenants restricting many of the same transactions as under our credit facility. The indenture which governs our 7.75% senior subordinated notes allows us to incur the following additional indebtedness: the credit facility (up to $150 million), renewals to existing debt permitted under the indenture plus an additional $25 million of indebtedness. The indenture prohibits incurring further indebtedness unless our fixed charge coverage ratio is at least 2:1 for the four most recently ended fiscal quarters determined on a proforma basis as if that additional debt has been incurred at the beginning of the period. The definition of our fixed charge coverage ratio under the indenture is essentially equivalent to that under our credit agreement.

Our credit standing and senior subordinated notes are rated by various agencies. In August 2004, Standard & Poor s withdrew its rating of our corporate credit, senior secured and subordinated debt. In its press release, Standard &

Poor s stated that the withdrawal was due to insufficient financial information available to support a ratings opinion due to the delays in our Form 10-Q filings in 2004. This withdrawal has not had an impact on our liquidity or ability to obtain necessary financing.

In 2003, we performed work on undocumented or unapproved change orders or other matters which are being disputed by our clients. We did not recognize this work as revenue in 2003 or in the year ended December 31, 2004. However, expenses for the work associated with these change orders and other matters were included in costs of revenue in 2003 resulting in a 45% decline in our 2003 margins. This has also affected our liquidity since we still have not been paid for the work performed. We have commenced legal action against some of our clients in connection with work performed in 2003. In addition, we have made claims for amounts in excess of the agreed contract price (or amounts not included in the original contract price) that we seek to collect from customers for delays we believe were caused by the customer, errors in specifications and designs, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Our customers may counterclaim against us for contract damages, liquidated damages and/or indemnification. If the customers can establish a contract entitlement, that entitlement could reduce any amounts otherwise due us from the customer (including any remaining outstanding accounts receivable from the customer under the contract price) and/or create liabilities for us. Should we be successful in collecting some of these claims we would recognize them as revenue when received. When revenue is recognized the margins will increase during such period of recognition since the costs have already been recorded. However, we may not be successful in collecting any of these claims.

In the second quarter of 2004, purported class action complaints were filed against us and certain of our officers in the United States District Court for the Southern District of Florida and one was filed in the United States District Court for the Southern District of New York. These cases have been consolidated by court order in the Southern District of Florida. The complaints allege certain violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, related to current and prior period earnings reports. On January 25, 2005, a motion for leave to file a Second Amended Compliant was filed by Plaintiffs which the Court granted. Plaintiffs filed their Second Amended Complaint on February 22, 2005. Plaintiffs contend that our financial statements during the purported class period of August 12, 2003 to May 11, 2004 were materially misleading in the following areas: 1) the financials for the third quarter of 2003 were allegedly overstated by $5.8 million in revenue from unapproved change orders from a variety of our projects; and 2) the financials for the second quarter of 2003 were overstated by some $1.3 million as a result of the intentional overstatement of revenue, inventories and work in progress at our Canadian subsidiary. Plaintiffs seek damages, not quantified, for the difference between the stock price plaintiffs paid and the stock price plaintiffs believe they should have paid, plus interest and attorney fees. We believe the claims are without merit. We will vigorously defend these lawsuits but may be unable to successfully resolve these disputes without incurring significant expenses.

The following table sets forth our contractual commitments as of December 31, 2004 and our anticipated payment obligations during the periods indicated below (in thousands):

		Payments Due By Period			
Contractual Obligations (1)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years and Thereafter**
Senior subordinated notes	$195,915	$	$	$195,915	$
Notes payable for equipment	243	99	132	12	
Equity investment	2,775	2,775			
Capital leases	1,834	497	792	545	
Operating leases	74,079	28,707	34,600	7,239	3,533
Executive life insurance	17,744	1,784	2,569	2,569	10,822
Total	$292,590	$33,862	$38,093	$206,280	$14,355

(1) Amounts do not include interest payments. We estimate that we will pay an

additional $15.4 million and $15.2 million in 2005 and each of the years between 2006 and 2008, respectively in interest payments for our senior subordinated notes and revolving credit facilities

Off-balance sheet arrangements

We provide letters of credit to secure our obligations primarily related to our insurance arrangements and surety bonds. We also provide letters of credit related to legal matters. Total letters of credit reduce our available borrowings under our credit facility and amounted to $66.8 million at December 31, 2004 of which $63.3 million were related to insurance matters and surety bond requirements.

Some of our contracts require us to provide performance and payment bonds, which we obtain from a surety company. If we were unable to meet our contractual obligations to a client and the surety paid our client the amount due under the bond, the surety would seek reimbursement of such payment from us. At December 31, 2004, performance and payment bonds outstanding on our behalf totaled $117.9 million.

Seasonality

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Our operations are historically slower in the first and fourth quarters of the year. This seasonality is primarily the result of client budgetary constraints and preferences and the effect of winter weather on our external activities. Some of our clients tend to complete budgeted capital expenditures before the end of the year and defer additional expenditures until the following budget year.

Impact of Inflation

The primary inflationary factor affecting our operations is increased labor costs. We did not experience significant increases in labor costs in 2003 or 2004. To a lesser extent, we are also affected by increases in fuel costs which increased significantly in 2004 and are expected to continue to increase in 2005.

Recently Issued Accounting Pronouncements

On December 17, 2003, the staff of the Securities and Exchange Commission published Staff Accounting Bulletin 104, Revenue Recognition, (SAB 104) to revise or rescind portions of the interpretative guidance included in Topic 13 of the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The principal revisions relate to the rescission of material no longer necessary because of private sector developments in U.S. generally accepted accounting principles. The adoption of SAB 104 during December 2003 did not have a material effect on our results of operations or financial position.

In December 2004, the FASB issued SFAS 123R which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of operations. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. We are required to adopt SFAS 123R in the third quarter of fiscal 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Item 8. Consolidated Financial Statements Note 1 Stock Based Compensation for the pro forma net loss and net loss per share amounts, for 2002 through 2004, as if we had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although we have not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating the requirements under SFAS 123R and expect the adoption to have a significant adverse impact on our consolidated statements of operations.

In March 2004, the FASB issued EITF Issue No. 03-1 (EITF 03-1), The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments which provided new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however the disclosure requirements remain effective for annual periods ending after June 15, 2004. We will evaluate the impact of EITF 03-1 once final guidance is issued.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets. This Statement amends the guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions (APB 29). APB 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar assets, requiring that some nonmonetary exchanges be recorded on a carryover basis. SFAS 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The provisions of SFAS 153 are effective for exchanges of nonmonetary assets occurring in fiscal periods beginning after June 15, 2005. We believe that SFAS 153 will have no significant effect on our financial position, results of operations, and cash flows.

Item 8. ***Financial Statements***

Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Shareholders of MasTec, Inc.

We have audited the accompanying consolidated balance sheet of MasTec, Inc. and subsidiaries as of December 31, 2004, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MasTec, Inc. as of December 31, 2004, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), the effectiveness of MasTec s Inc. internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 29, 2005 which expressed a qualified opinion thereon.

/s/ BDO Seidman, LLP
Miami, Florida
March 29, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Shareholders of MasTec, Inc.

We have audited the accompanying consolidated balance sheets of MasTec, Inc. as of December 31, 2002 and 2003, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the two years in the period ended December 31, 2003 (as restated See Note 2). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MasTec, Inc. at December 31, 2003 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 (as restated), in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Miami, Florida
July 23, 2004, except for
Note 10, as to which the
date is March 30, 2005

MASTEC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002 As Restated	2003	2004
	(In thousands except per share amounts)		
Revenue	$ 766,467	$827,480	$913,795
Costs of revenue, excluding depreciation	683,855	744,587	828,743
Depreciation	33,760	27,586	17,099
General and administrative expenses	107,446	70,112	74,550
Goodwill impairment	79,710		
Interest expense, net of interest income	18,306	19,180	19,478
Other (expense) income, net	(9,973)	1,242	191
Loss from continuing operations before cumulative effect of change in accounting principle, benefit for income taxes and minority interest	(166,583)	(32,743)	(25,884)
Benefit for income taxes	59,345	8,303	
Minority Interest			(333)
Loss from continuing operations before cumulative effect of change in accounting principle	(107,238)	(24,440)	(26,217)
Cumulative effect of change in accounting principle	(12,596)		
Net loss from continuing operations	(119,834)	(24,440)	(26,217)
Discontinued operations:			
Loss on write-off of assets of discontinued operations, net			(19,165)
Loss from discontinued operations, net of tax	(16,722)	(27,859)	(4,055)
Net loss	$(136,556)	$ (52,299)	$ (49,437)
Basic and diluted net loss per share:			
Continuing operations	$ (2.50)	$ (.51)	$ (.54)
Discontinued operations	(0.35)	(.58)	(.48)
Total basic and diluted net loss per share	$ (2.85)	$ (1.09)	$ (1.02)
Basic and diluted weighted average common shares outstanding	47,922	48,084	48,382
Basic and diluted net loss per share before cumulative effect of change in accounting principle	$ (2.59)	$ (1.09)	$ (1.02)
Cumulative effect of change in accounting principle	(0.26)		
Basic and diluted net loss per share	$ (2.85)	$ (1.09)	$ (1.02)

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

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MASTEC, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2004
	(In thousands, except shares)	
Assets		
Current assets:		
Cash and cash equivalents	$ 19,415	$ 19,548
Accounts receivable, unbilled revenue and retainage, net	208,211	200,743
Inventories	32,781	45,293
Income tax refund receivable	4,667	2,846
Prepaid expenses and other current assets	31,801	43,828
Total current assets	296,875	312,258
Property and equipment, net	85,832	69,303
Goodwill	150,984	138,640
Deferred taxes, net	55,083	50,732
Other assets	39,489	33,085
Total assets	$ 628,263	$ 604,018
Liabilities and Shareholders Equity		
Current liabilities:		
Current maturities of debt	$ 4,709	$ 99
Accounts payable	100,698	113,333
Other current liabilities	78,108	64,696
Total current liabilities	183,515	178,128
Other liabilities	31,974	38,678
Long-term debt	196,956	196,059
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value; authorized shares 5,000,000; issued and outstanding shares none		
Common stock $0.10 par value; authorized shares 100,000,000; issued and outstanding shares 48,222,000 in 2003 and 48,597,000 in 2004	4,822	4,860
Capital surplus	349,823	353,033
Accumulated deficit	(117,847)	(167,284)
Accumulated other comprehensive (loss) income	(20,980)	544
Total shareholders equity	215,818	191,153
Total liabilities and shareholders equity	$ 628,263	$ 604,018

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

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MASTEC, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(In Thousands)

	Common Stock		Capital	Retained Earnings (Accumulated	Accumulated Other Comprehensive (Loss)		Comprehensive Income
	Shares	Amount	Surplus	Deficit)	Income	Total	(Loss)
Balance December 31, 2001, as restated	47,905	$4,791	$348,022	$ 71,008	$(20,006)	$ 403,815	$
Net loss, as restated				(136,556)		(136,556)	$(136,556)
Foreign currency translation adjustment					(4,556)	(4,556)	(4,556)
Comprehensive loss for period							$(141,112)
Stock issued, primarily for stock options exercised	101	10	297			307	
Balance December 31, 2002, as restated	48,006	$4,801	$348,319	$ (65,548)	$(24,562)	$ 263,010	
Net loss				(52,299)		(52,299)	$ (52,299)
Foreign currency translation adjustment					3,582	3,582	3,582
Comprehensive loss for period							$ (48,717)
Stock issued, primarily for stock options exercised	216	21	1,061			1,082	
Tax benefit resulting from stock option plan			443			443	
Balance December 31, 2003	48,222	$4,822	$349,823	$(117,847)	$(20,980)	$ 215,818	

Net loss				(49,437)		(49,437)	$ (49,437)
Foreign currency translation adjustment					21,524	21,524	21,524
Non cash stock compensation			605			605	
Comprehensive loss for period							$ (27,913)
Stock issued, primarily for stock options exercised	375	38	1,840			1,878	
Tax benefit resulting from stock option plan			765			765	
Balance December 31, 2004	48,597	$4,860	$353,033	$(167,284)	$ 544	$ 191,153	

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

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MASTEC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002 As Restated	2003	2004
		(In thousands)	
Cash flows from operating activities of continuing operations:			
Loss from continuing operations	$(119,834)	$(24,440)	$(26,217)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	34,643	28,220	17,588
Non-cash stock and restricted stock compensation expense			644
(Gain) loss on disposal of assets and investments	(5,441)	(5,562)	(161)
Provision for doubtful accounts	15,088	4,278	5,086
Write-down of assets	20,375		2,020
Income tax refunds	53,414	28,121	176
Provision for inventory obsolescence	5,203	1,837	902
Cumulative change in accounting principle, net	12,596		
Goodwill impairment	79,710		
Minority interest			333
Deferred income tax benefit	(51,844)	(5,140)	
Changes in assets and liabilities net of effect of acquisitions:			
Accounts receivable, unbilled revenue and retainage, net	29,568	(31,678)	(240)
Inventories	(8,484)	(11,997)	(13,786)
Other assets, current and non-current portion	(17,181)	(14,736)	(2,211)
Accounts payable	(4,951)	34,404	13,763
Other liabilities, current and non-current portion	11,911	3,687	7,509
Net cash provided by operating activities of continuing operations	54,773	6,994	5,406
Cash flows (used in) provided by investing activities of continuing operations:			
Capital expenditures	(18,925)	(10,961)	(9,310)
Cash paid for acquisitions and contingent consideration, net of cash acquired	(17,269)	(1,861)	
Investments in unconsolidated companies partner		(275)	(1,092)
Investment in life insurance policies	(1,840)	(1,803)	(1,785)
Net proceeds from sale of assets and investments	13,891	22,253	8,065
Net cash (used in) provided by investing activities of continuing operations	(24,143)	7,353	(4,122)
Cash flows used in financing activities of continuing operations:			

Repayments proceeds from revolving credit facilities, net	(70,693)	1,309	
Proceeds repayments from other borrowings, net	(414)	(510)	(3,283)
Payments of capital lease obligations		(3,068)	(363)
Proceeds from issuance of common stock	310	1,082	2,643
Net cash used in financing activities of continuing operations	(70,797)	(1,187)	(1,003)
Net (decrease) increase in cash and cash equivalents	(40,167)	13,160	281
Net effect of translation on cash	2,465	(1,922)	432
Cash and cash equivalents beginning of period	48,478	8,730	19,415
Cash used in discontinued operations	(2,046)	(553)	(580)
Cash and cash equivalents end of period	$ 8,730	$ 19,415	$ 19,548
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 19,576	$ 15,504	$ 17,643
Income taxes	$ 1,555	$ 155	$ 68
Supplemental non-cash disclosures:			
Investment in unconsolidated companies			$ 2,775

As of December 31, 2002, approximately $1.9 million was accrued for contingent consideration earned in that year for acquisitions consummated in prior periods. The Company subsequently paid the $1.9 million contingent consideration amounts during the years ended December 31, 2003.

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

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MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of the Business and Summary of Significant Accounting Policies

MasTec, Inc. (collectively, with its subsidiaries, MasTec or the Company) serves providers of telecommunications, broadband (including cable, satellite and high speed Internet), energy services, traffic control and homeland security systems throughout many parts of North America. Although the Company s clients may contract for a full range of services, the Company s offerings are more typically separated into the construction, design and installation or the maintenance and upgrade, of infrastructure. MasTec is organized as a Florida corporation and its fiscal year ends December 31. MasTec or its predecessors have been active in the specialty infrastructure services industry for over 70 years.

In connection with the filing of its Annual Report on Form 10-K for 2003, the Company restated its 2002 financial statements as discussed in Note 2. All 2002 amounts in the financial statements reflect these restatements.

The following is a summary of the significant accounting policies followed in the preparation of the accompanying consolidated financial statements:

Management estimates. The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The more significant estimates relate to our revenue recognition, allowance for doubtful accounts, intangible assets, accrued insurance, income taxes, litigation and contingencies. Estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for judgments about results and the carrying values of assets and liabilities. Actual results and values may differ from these estimates.

Principles of consolidation. The consolidated financial statements include MasTec and its subsidiaries. The Company entered into a joint venture with a third party at the end of 2003 in which the Company owns a 51% interest. Other parties interests in consolidated entities are reported as minority interests. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications. Certain prior year amounts have been reclassified to conform to the 2004 presentation. In addition, as discussed in Note 10, the Company ceased doing business in Brazil and in Network Services in 2004. Accordingly, the net loss for these entities in 2002 and 2003 have been reclassified to loss from discontinued operations in the Company s consolidated statements of operations.

Comprehensive loss. Comprehensive loss is a measure of net loss and all other changes in equity that result from transactions other than with shareholders. Comprehensive loss consists of net loss and foreign currency translation adjustments.

Revenue recognition. Revenue and related costs for master and other service agreements billed on a time and materials basis are recognized as the services are rendered. There are also some service agreements that are billed on a fixed fee basis. Under the Company s fixed fee master service and similar type service agreements the Company furnishes various specified units of service for a separate fixed price per unit of service. The Company recognizes revenue as the related unit of service is performed. For service agreements on a fixed fee basis, profitability will be reduced if the actual costs to complete each unit exceed original estimates. The Company also immediately recognizes the full amount of any estimated loss on these fixed fee projects if estimated costs to complete the remaining units exceed the revenue to be received from such units.

The Company recognizes revenue on unit based construction/installation projects using the units-of-delivery method. The Company s unit based contracts relate primarily to contracts that require the installation or construction of specified units within an infrastructure system. Under the units-of-delivery method revenue is recognized at the contractually agreed price per unit as the units are completed and delivered. Profitability will be reduced if the actual costs to complete each unit exceed original estimates. The Company is also required to immediately recognize the full amount of any estimated loss on these projects if estimated costs to complete the remaining units for the project exceed the revenue to be received from such units. For certain clients with unit based construction/installation contracts the Company recognizes revenue after the service is performed and work orders are approved to ensure that collectibility is probable from these clients. Revenue from completed work orders not collected in accordance with the

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

payment terms established with these clients is not recognized until collection is assured.

The Company s non-unit based, fixed price installation/construction contracts relate primarily to contracts that require the construction, design and installation of an entire infrastructure system. The Company recognizes revenue and related costs as work progresses on non-unit based, fixed price contracts using the percentage-of-completion method, which relies on contract revenue and estimates of total expected contract revenue and costs. The Company estimates total project costs and profit to be earned on each long-term, fixed-price contract prior to commencement of work on the contract. The Company follows this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Under the percentage-of-completion method, the Company records revenue and recognizes profit or loss as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is the percentage of total estimated revenue that incurred costs to date bear to estimated total contract costs, after adjusting estimated total contract costs for the most recent information. If, as work progresses, the actual contract costs exceed estimates, the profit recognized on revenue from that contract decreases. The Company recognizes the full amount of any estimated loss on a contract at the time the estimates indicate such a loss.

The Company s clients generally supply materials such as cable, conduit and telephone equipment. Customer furnished materials are not included in revenue and cost of sales as all materials are purchased by the customer. The customer determines the specification of the materials that are to be utilized to perform installation/construction services. The Company is only responsible for the performance of the installation/construction services and not the materials for any contract that includes customer furnished materials and nor does the Company have any risk associated with customer furnished materials. The Company s clients retain the financial and performance risk of all customer furnished materials.

Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. Any costs and estimated earnings in excess of billings are classified as current assets. Work in process on contracts is based on work performed but not billed to clients as per individual contract terms.

Allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments. Management analyzes past due balances based on invoice date, historical bad debt experience, client concentrations, client credit-worthiness, client financial condition and credit reports, the availability of mechanic s and other liens, the existence of payment bonds and other sources of payment, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. The Company reviews the adequacy of the reserves on a quarterly basis. Amounts are written off against the allowance when deemed uncollectible.

Basic and diluted net loss per share. Basic net loss per common share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. Diluted net loss per common share include the dilutive effect of stock options using the treasury stock method. Potentially dilutive shares for the years ended December 31, 2002, 2003 and 2004, of approximately 74,000 shares, 479,000 shares and 593,000 shares, respectively, were not included in the diluted per share calculation because their effect would be anti-dilutive. Accordingly, for the years ended December 31, 2002, 2003 and 2004, diluted net loss per common share is the same as basic net loss per common share.

Cash and cash equivalents. All short-term investments with maturities of three months or less when purchased are considered to be cash equivalents. Restricted cash related to collateral of the revolving credit facility is also included in cash and cash equivalents.

Inventories. Inventories consist of materials and supplies for construction projects, and are typically purchased on a project-by-project basis. Inventories are valued using the weighted average-cost method and are stated at the lower of cost or market. Construction projects are completed pursuant to customer specifications. The loss of the customer or the cancellation of the project could result in an impairment of the value of materials purchased for that customer or project. Technological or market changes can also render certain materials obsolete. Inventory reserves are determined based upon the specific facts and circumstances for each project and market conditions. During 2002, 2003 and 2004, the Company recorded a provision for inventory obsolescence of $5.2 million, $1.8 million and $900,000, respectively, in Costs of revenue in the Consolidated Statements of Operations.

Property and equipment. Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are depreciated over the shorter of the term of the lease or the estimated useful lives of the improvements. Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for betterments and major improvements are capitalized and depreciated over the remaining useful life of the asset. The

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

carrying amounts of assets sold or retired and related accumulated depreciation are eliminated in the year of disposal and the resulting gains and losses are included in other income or expense.

Deferred financing costs. Deferred financing costs related to the Company s revolving credit facility and the senior subordinated notes whose short and long-term portions are included in other current and non-current assets in the consolidated balance sheets are amortized over the related terms of the debt using the effective interest method. Net deferred financing costs were $5.1 million and $4.2 million at December 31, 2003 and 2004, respectively.

Software capitalization. The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software in accordance with American Institute of Certified Public Accountants Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. These capitalized software costs are included in Property and equipment, net in the consolidated balance sheets and are being amortized ratably over a period not to exceed seven years.

Intangibles and other long lived assets. Long-lived assets and goodwill are recorded at the lower of carrying value or estimated fair value. Intangibles are amortized on a straight line basis over their definite useful life. Long-lived assets are depreciated using the straight-line method over the shorter of the useful lives (five to forty years) or lease terms (five to seven years for leasehold improvements) of the respective assets. Repairs and maintenance on such items are expensed as incurred.

Management assesses the impairment of intangibles long-lived assets and goodwill at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The Company follows the provisions of Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). Goodwill acquired in a purchase business combination and determined to have an infinite useful life is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. In addition, acquired intangible assets are required to be recognized and amortized over their useful lives if the benefit of the asset is based on contractual or legal rights. Effective January 1, 2002, we adopted SFAS No. 142 resulting in a write-down of our goodwill, net of tax, in the amount of $25.7 million, which is reflected in the consolidated financial statements as a cumulative effect of a change in accounting principle as discussed in Note 3. Impairment losses subsequent to adoption are performed during the fourth quarter of each year starting in 2002 and are reflected in operating income or loss in the consolidated statement of operations. During the fourth quarter of 2002, the Company recorded an additional impairment charge of $79.7 million which is reflected in operating losses in the consolidated statement of operations for the year ended December 31, 2002. No impairment charges were recorded in 2003 and 2004 in connection with the annual review. In connection with the abandonment of the Brazil subsidiary as discussed in Note 10, the Company wrote off goodwill associated with this reporting entity in the year ended December 31, 2004 in the amount of $12.3 million which is included in the loss from discontinued operations.

The Company reviews its long-lived assets, including property and equipment that are held and used in its operations for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable, as required by SFAS No. 144. If such an event or change in circumstances is present, the Company will estimate the undiscounted future cash flows, less the future outflows necessary to obtain those inflows, expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of the related assets, the Company will recognize an impairment loss or review its depreciation policies as may be appropriate. The Company records impairment losses resulting from such abandonment in operating income. Assets to be disposed of are reclassified as assets held for sale at the lower of their carrying amount or fair value less costs to sell. Write-downs to fair value less costs to sell are reported above the operating income line as other expense. See Note 6 for discussion of impairment losses recognized in 2002, 2003 and 2004.

Accrued insurance. The Company maintains insurance policies subject to per claim deductibles of $2 million for our workers compensation and general liability policies and $3 million for our automobile liability policy. The Company has excess umbrella coverage for losses in excess of the primary coverages up to $100 million per claim and in the aggregate. The liabilities are actuarially determined on a quarterly basis for unpaid claims and associated expenses, including the ultimate liability for claims incurred and an estimate of claims incurred but not reported. The accruals are based upon known facts, historical trends and our reasonable estimate of future expenses. However, a change in experience or actuarial assumptions could nonetheless materially affect results of operations in a particular period. Known amounts for claims that are in the process of being settled, but that have been paid in periods subsequent to those being reported, are booked in such reporting period.

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MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

On January 1, 2004, MasTec, Inc. formed a captive insurance subsidiary, JMC Insurance Company, Inc. (JMC), a South Carolina corporation, to write a portion of its workers compensation, general liability and automobile liability coverages under deductible reinsurance policies. JMC, which is the Company s first formation and management of a captive insurance company, was capitalized with a $1 million letter of credit. JMC is a wholly owned subsidiary of MasTec Inc. and is consolidated in the Company s financial statements.

Income taxes. Income taxes are recorded using the liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequence of temporary differences between the financial statement and income tax bases of our assets and liabilities. The Company estimates income taxes in each of the jurisdictions in which the Company operates. This process involves estimating tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. The recording of a net deferred tax asset assumes the realization of such assets in the future. Otherwise a valuation allowance must be recorded to reduce this asset to its net realizable value. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event that the Company determines that it will not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination is made.

As a result of its 2003 and 2004 operating losses, the Company recorded valuation allowances aggregating $8.3 million and $32.3 million as of December 31, 2003 and 2004, respectively, to reduce certain of its net deferred Federal, foreign and state tax assets to their estimated net realizable value. The Company anticipates that it will generate sufficient pretax income in the future to realize its deferred tax assets. In the event that the Company s future pretax operating income is insufficient for it to use its deferred tax assets, the Company has based its determination that the deferred tax assets are still realizable based on a feasible tax planning strategy that is available to the Company involving the sale of one of its divisions.

Equity investments. The Company has one common stock investment which the Company accounts for by the equity method because the Company owns between 20% and 50% of the common stock and the Company has a non-controlling ownership interest. The Company s share of its earnings or losses in this investment is included in the consolidated statements of operations. As of December 31, 2004 the Company s investment exceeded the net equity of such investment and accordingly the excess is considered to be equity goodwill. The Company evaluates the equity goodwill for impairment under Accounting Principle Board No. 18, The Equity Method of Accounting for Investments in Common Stock , as amended.

In December 2003, the FASB issued FASB Interpretation No. 46R (FIN 46R) which clarified some of the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities. (FIN 46) and exempted certain entities from its requirements. FIN 46R was effective on March 31, 2004. The Company has considered the provisions of FIN 46R for this investment and believes it will not be necessary to include in the consolidated financial statements any assets, liabilities or activities of this investment. A description of the Company s equity investment and the related transactions between the Company and this investee is discussed in Note 12.

Stock based compensation. The Company accounts for its stock-based award plans in accordance with Accounting Principle Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, under which compensation expense is recorded to the extent that the current market price of the underlying stock exceeds the exercise price.

The Company has reflected below the 2002, 2003 and 2004 net loss and the pro forma net loss as if compensation expense relative to the fair value of the options granted had been recorded under the provisions of SFAS No. 123 Accounting for Stock-Based Compensation. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following assumptions used for grants in 2002, 2003 and 2004, respectively: a five, seven and seven year expected life; volatility factors of 74%, 76% and 80%; risk-free interest rates of 3.0%, 3.0% and 3.6%; and no dividend payments. The required pro forma disclosures are as follows: (in thousands, except per share data)

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

	2002 As Restated	2003	2004
Net loss, as reported	$(136,556)	$(52,299)	$(49,437)
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards	(5,390)	(4,092)	(8,734)
Pro forma net loss	$(141,946)	$(56,391)	$(58,171)
Basic and diluted loss per share:			
As reported	$ (2.85)	$ (1.09)	$ (1.02)
Pro forma	$ (2.96)	$ (1.17)	$ (1.20)

The Company also grants restricted stock, which is valued based on the market price of the common stock on the date of grant. Compensation expense arising from restricted stock grants is recognized using the straight-line method over the period of the restrictions. Unearned compensation for performance-based options and restricted stock is shown as a reduction of stockholders equity in the consolidated balance sheets.

Fair value of financial instruments. The Company estimates the fair market value of financial instruments through the use of public market prices, quotes from financial institutions and other available information. Judgment is required in interpreting data to develop estimates of market value and, accordingly, amounts are not necessarily indicative of the amounts that we could realize in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts payable and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on management s estimates, equaled their carrying values. At December 31, 2003 and 2004, the fair value of senior subordinated notes was $204.7 million and $184.5 million, respectively, based on quoted market values. The Company uses letters of credit to back certain insurance policies. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

New accounting pronouncements. On December 17, 2003, the staff of the Securities and Exchange Commission (the SEC) published Staff Accounting Bulletin 104, Revenue Recognition, (SAB 104) to revise or rescind portions of the interpretative guidance included in Topic 13 of the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The principal revisions relate to the rescission of material no longer necessary because of private sector developments in U.S. generally accepted accounting principles. The adoption of SAB 104 during December 2003 did not have a material effect on the Company s results of operations or financial position.

In December 2004, the FASB issued SFAS 123R which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of operations. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. The Company is required to adopt SFAS 123R in the third quarter of fiscal 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See Note 1 Stock Based Compensation for the pro forma net loss and net loss per share amounts, for 2002 through 2004, as if the Company had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although the Company has not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, the Company is evaluating the requirements under SFAS 123R and expect the adoption to have a significant adverse impact on the results of operations.

In March 2004, the FASB issued EITF Issue No. 03-1 (EITF 03-1), The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments which provided new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however the disclosure requirements remain effective for annual periods ending after June 15, 2004. The Company will evaluate the impact of EITF 03-1 once final guidance is issued.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets (SFAS 153). This Statement amends the guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions (APB 29). APB 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar assets, requiring that some nonmonetary exchanges be recorded on a carryover basis. SFAS 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The provisions of SFAS 153 are effective for exchanges of nonmonetary assets occurring in fiscal periods beginning after June 15, 2005. We believe that SFAS 153 will have no significant effect on the financial position, results of operations, and cash flows of the Company.

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

Note 2 Restatement of Financial Statements

2002 Financial Statement Restatement

In connection with the audit of the 2003 financial statements and filing the 2003 Annual Report on Form 10-K, the Company identified errors in amounts previously reported in its financial statements for the year ended December 31, 2002. The Company made an error in determining the ability to realize approximately $4.9 million of its net deferred tax assets at December 31, 2002 relating to certain state income taxes. Understatements were also identified for errors in computing self-insurance reserves at December 31, 2000, 2001 and 2002 and insurance claims payments for 2002 made in 2003 that were not accrued as of December 31, 2002. Insurance expense was increased for the year ended December 31, 2002 in the amount of $4.7 million ($2.9 million, net of tax). The Company therefore decided that it would be appropriate to restate its financial information beginning with the year ended December 31, 2000 and including its annual financial statements for 2001 and 2002.

The following table sets forth the impact of its restatements on certain amounts previously reported in the Consolidated Financial Statements as of and for the year ended December 31, 2002:

	2002 As Reported	2002 As Restated *
	(In thousands)	
Balance Sheet		
Deferred tax asset, net	$ 40,271	$ 39,206
Total assets	623,792	622,681
Accounts payable	63,492	67,399
Other current liabilities	65,696	67,412
Total current liabilities	130,395	136,018
Other liabilities	22,214	26,218
Accumulated deficit	(54,810)	(65,548)
Total shareholders equity	273,748	263,010
Total liabilities and shareholders equity	$623,792	$622,681

	2002 As Reported	2002 As Restated*
Statement of Operations		
Revenue	$ 838,055	$ 838,055
Costs of revenue, excluding Depreciation	745,178	749,422
General and administrative expenses.	118,278	118,750
Loss before cumulative effect of change in accounting principle and benefit for income taxes	(168,608)	(173,324)
Benefit for income taxes	65,473	62,439
Net loss before cumulative effect of change in accounting principle	(103,135)	(110,885)
Net loss	$(128,806)	$(136,556)
Basic and diluted loss per share	$ (2.69)	$ (2.85)

* Before effect of reclassifying 2002 results of operations of the Brazil and Network

Services Operations to loss from discontinued operation discussed in Note 10.

Deferred tax asset

During the 2002 financial statement audit, MasTec prepared a tax strategy to support the carrying value of its deferred tax asset. This tax strategy did not consider the separate components of state taxes and federal taxes. During the 2003 financial statement audit,

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

the Company considered, for the first time, the issue of whether the tax strategy was sufficient to support a certain portion of the deferred tax asset related to state taxes. Under this revised analysis considering the impact of state taxes as well as federal taxes, MasTec determined that its reserves for 2002 and 2003 were understated. Specifically, the Company determined that the estimated gain from the sale of certain assets and expected revenue apportioned to each state would be insufficient to offset losses in certain states. MasTec therefore restated its 2002 financial statements to record a valuation allowance against the deferred tax asset in the amount of $4.9 million.

Self-insurance reserves

MasTec recalculated its self-insurance reserve requirements for the years ended December 31, 2000, 2001 and 2002 based on a revision in the calculation of aggregate deductible limits provided for under its insurance policies for automobile, workers compensation and general liability claims. Previously, MasTec s actuarially computed self-insurance reserves for those years were calculated based on the understanding that the aggregate deductible amounts were effectively fixed under the policies and would not be adjusted. In April 2004, Reliance Insurance Corp. (Reliance), which was MasTec s insurer through July 2000 and which was in liquidation, asserted the position that the policies permitted it to adjust the aggregate deductible amounts upward based on a payroll audit. Although Reliance had never audited payroll, MasTec reviewed its own payroll information to determine what adjustments would be required pursuant to the position asserted by Reliance. Although management continues to dispute the position asserted by Reliance, the self-insurance reserves were ultimately adjusted in the amount of $2.7 million in 2000, $2.2 million in 2001, and $809,000 in 2002, due to a lack of available contemporaneous documentation supporting its original understanding of the policy requirements.

MasTec also restated its December 31, 2002 self-insurance reserve to account for payments made by its third-party administrator in 2002, but not paid by MasTec until 2003. MasTec had not adjusted its 2002 self-insurance reserve for these payments on the mistaken understanding that the payments had already been accounted for in the actuarially computed self-insurance reserve. As a result, MasTec increased its 2002 self-insurance reserve by $4.7 million to accrue payments made by its third party administrator in 2002, but not paid until 2003.

Note 3 Goodwill and Other Intangible Assets

SFAS No. 142 requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, SFAS No. 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter.

The Company continues to amortize identifiable intangible assets that have a definite useful life. These consist exclusively of non-compete agreements that expire in 2010. Total amortization expense related to these non-compete agreements was $0.5 million, $0.6 million and $0.5 million in 2002, 2003 and 2004, respectively. The remaining balance of $1.1 million at December 31, 2004 will be amortized at a rate of $0.2 million per year.

Under SFAS No. 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value as determined using a discounted cash flow methodology applied to the particular unit. This methodology differs from the Company s previous policy, in accordance with accounting standards existing at that time, of using undiscounted cash flows on an enterprise-wide basis to determine recoverability. Upon adoption of SFAS No. 142 in the first quarter of 2002, we recorded a one-time, non-cash charge of approximately $25.7 million net of $13.8 million tax benefit to reduce the carrying value of our goodwill. This charge is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations of which $13.1 million has been reclassified to discontinued operations. (See Note 10). The SFAS No. 142 goodwill impairment recorded in the first quarter is associated with goodwill resulting from the acquisition of various inside plant infrastructure businesses and is based on discounting our projected future cash flows for these companies.

During the fourth quarter of 2002, the Company performed an annual review of goodwill for impairment. The review resulted in a goodwill impairment charge of approximately $79.7 million ($51.9 million, net of tax) and is based, in part, on an overall decline in the market value of our stock and market values of other companies that serve our industry. Impairment adjustments recognized after adoption are required to be recognized as operating expenses and have been presented under Goodwill impairment in the accompanying consolidated statements of operations. The primary factors contributing to the impairment charge were the overall

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

deterioration of the business climate during 2002, the continued depression in the Company s stock price, and the expected termination of various operations as a result of our restructuring plan (see Note 8).

During the fourth quarter of 2003 and 2004, the Company performed its annual review of goodwill for impairment. No impairment charge for 2003 and 2004 was required as a result of this review. In connection with the abandonment of the Brazil subsidiary as discussed in Note 10, the Company wrote off goodwill in the year ended December 31, 2004 in the amount of $12.3 million.

Note 4 Other Assets and Liabilities

Prepaid expenses and other current assets as of December 31, 2003 and 2004 consisted of the following (in thousands):

	2003	2004
Deferred tax assets	$ 208	$ 6,107
Notes receivable	3,890	2,511
Non-trade receivables	7,374	22,164
Other investments and assets held for sale	7,712	5,884
Prepaid expenses and deposits	7,239	5,931
Other	5,378	1,231
Total prepaid expenses and other current assets	$31,801	$43,828

Other non-current assets consist of the following as of December 31, 2003 and 2004 (in thousands):

	2003	2004
Long-term receivables, including retainage	$10,696	$ 4,694
Equity investment		3,780
Investment in real estate	1,683	1,683
Long-term portion of deferred financing costs, net	3,639	2,414
Cash surrender value of insurance policies	4,691	5,279
Non-compete agreement, net	1,572	1,080
Insurance escrow	7,219	7,083
Other	9,989	7,072
Total	$39,489	$33,085

Other current and non-current liabilities consist of the following as of December 31, 2003 and 2004 (in thousands):

	2003	2004
Current liabilities		
Accrued compensation	$21,459	$15,090
Accrued insurance	13,127	16,691
Accrued interest	6,458	6,329
Accrued restructuring	600	212
Accrued losses on contracts	7,482	2,638
Accrued guaranteed equity investment		2,775
Accrued labor claims	10,336	
Due to subcontractors	5,611	8,948
Other	13,035	12,013

Total	$78,108	$64,696

	2003	2004
Non-current liabilities		
Accrued insurance	$24,524	$33,751
Minority interest	434	333
Other	7,016	4,594
Total	$31,974	$38,678

Note 5 Accounts Receivable

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

Accounts receivable, classified as current, consist of the following (in thousands):

	2003	2004
Contract billings	$188,593	$183,873
Retainage	15,252	13,533
Unbilled revenue	33,210	23,297
	237,055	220,703
Less allowance for doubtful accounts	28,844	19,960
Accounts receivable, net	$208,211	$200,743

Retainage, which has been billed but is not due until completion of performance and acceptance by clients, is expected to be collected within one year. Any retainage expected to be collected beyond a year is recorded in long-term other assets.

Activity for the allowance for doubtful accounts is as follows (in thousands):

	For the Year Ended December 31,	
	2003	2004
Allowance for doubtful accounts at beginning of year	$25,843	$ 28,844
Provision for doubtful accounts from continued operations	4,278	5,086
Provision for doubtful accounts from discontinued operations	4,517	
Amounts charged against the allowance	(5,794)	(13,970)
Allowance for doubtful accounts at end of year	$28,844	$ 19,960

Note 6 Property and Equipment

Property and equipment including property and equipment under capital leases, is comprised of the following as of December 31, 2003 and 2004 (in thousands):

	2003	2004	Estimated Useful Lives (In Years)
Land	$ 5,235	$ 5,235	
Buildings and leasehold improvements	9,642	9,736	5 - 40
Machinery and equipment	212,613	176,531	2 - 15
Office furniture and equipment	38,415	33,224	3 - 5
	265,905	224,726	
Less accumulated depreciation	(180,073)	(155,423)	
	$ 85,832	$ 69,303	

Property and equipment under capitalized leasing arrangements are depreciated over their estimated useful lives.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the assets carrying amount to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value.

A review of the carrying value of property and equipment was conducted during the fourth quarter of 2002 in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This review was conducted in connection with the Company s plan of exiting businesses that did not have adequate revenue or margins to support the desired level of profitability and consideration of changes in the business environment which caused change in the extent and manner in which these assets were being used. Depreciation expense was reduced by $5.8 million and $5.9 million for the years ended December 31, 2003 and 2004, respectively, from the amount of expense which would had been reported using the previous useful lives as a result of the change in estimate.

MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

An impairment loss for the years ended December 31, 2002, 2003 and 2004 of $12.8 million, $0.9 million and $2.0 million, respectively, has been recognized and is presented in other (expense) income in the accompanying Consolidated Statements of Operations, for property and equipment whose carrying value was not recoverable (carrying value exceeded undiscounted cash flows expected to result from the use and eventual disposition of the assets) and exceeded its fair market value. In 2002, fair market value was determined by independent valuations. In 2003 and 2004, fair market value was based on disposals of similar assets.

Note 7 Debt

Debt is comprised of the following at December 31, 2003 and 2004 (in thousands):

	2003	2004
Revolving credit facility at LIBOR plus 3.25% (5.25%) and the bank s prime rate plus 1.75% (7%) for 2003 and 2004, respectively	$	$
7.75% senior subordinated notes due February 2008	195,887	195,915
Notes payable for equipment, at interest rates from 7.5% to 8.5% due in installments through the year 2008	1,418	243
Other revolving debt	4,360	
Total debt	201,665	196,158
Less current maturities	(4,709)	(99)
Long-term debt	$196,956	$196,059

Revolving Credit Facility

The Company has a revolving credit facility for North American operations that provides for borrowings up to an aggregate of $125.0 million. The amount that the Company can borrow at any given time is based upon a formula that takes into account, among other things, eligible billed and unbilled accounts receivable, which can result in borrowing availability of less than the full amount of the facility. As of December 31, 2003 and 2004, net availability under the credit facility totaled $37.9 million and $25.5 million net of outstanding standby letters of credit aggregating $54.5 million and $66.8 million, respectively. At December 31, 2004, $63.3 million of the outstanding letters of credit are issued to support the Company s casualty insurance requirements or surety needs. These letters of credit mature at various dates through December 31, 2005, and except for Letters of Credit totaling $10.0 million, most have automatic renewal provisions subject to prior notice of cancellation. The Company had no outstanding draws under the credit facility at December 31, 2004 and 2003. The revolving credit facility matures on January 22, 2007. The revolving credit facility is collateralized by a first priority security interest in substantially all of the Company s North American assets, including $5.0 million in restricted cash which is included in cash and cash equivalents at December 31, 2004 and a pledge of the stock of certain of the operating subsidiaries. All wholly owned subsidiaries collateralize the facility. Interest under the facility accrues at rates based, at the Company s option, on the agent bank s base rate plus a margin of between 0.75% and 1.75% or its LIBOR rate (as defined in the credit facility) plus a margin of between 2.25% and 3.25%, each margin depending on certain financial thresholds. The facility includes an unused facility fee of 0.50%, which may be adjusted to as low as 0.375% or as high as 0.625% depending on the amount of the total commitment which is unused.

The revolving credit facility contains customary events of default (including cross-default) provisions and covenants related to the North American operations that prohibit, among other things, making investments and acquisitions in excess of a specified amount, incurring additional indebtedness in excess of a specified amount, paying cash dividends, making other distributions in excess of a specified amount, making capital expenditures in excess of a specified amount, creating liens against the Company s assets, prepaying other indebtedness including the Company s

7.75% senior subordinated notes, and engaging in certain mergers or combinations without the prior written consent of the lenders. In addition, any deterioration in the quality of billed and unbilled receivables would reduce availability under the credit facility.

The Company is required to be in compliance with certain financial covenants measured on a monthly basis. As a result of the Company s net loss for the year ended December 31, 2004, the Company was not in compliance with a monthly financial covenant, at fixed charge coverage ratio, of the credit facility at December 31, 2004. The credit facility was amended on March 17, 2005 modifying this covenant and other financial covenants and the Company was in compliance with its amended credit facility s financial

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MASTEC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(continued)***

covenants at December 31, 2004. Under the amended agreement, the Company s North American operations must maintain minimum tangible net worth equal to:

- $45 million at December 31, 2004;

- $40 million from January 31 through May 31, 2005;

- $45 million from June 30 through August 31, 2005;

- $53.5 million from September 30 through November 30, 2005; then

- 53.5 million beginning December 1, 2005; plus 50% of the consolidated net income of our operations from December 1, 2005 through the date of determination.

Since April 1, 2004, the Company s North American Operations was also required to maintain a minimum fixed charge coverage ratio, computed on a monthly basis, beginning in May 2004. The fixed charge coverage ratio is generally defined to mean the ratio of our net income before interest expense, income tax expense, depreciation expense, and amortization expense plus $1.1 million to consolidated interest expense and current maturities of debt for the period of determination. For the purposes of determining the current maturities of long term debt during the period from April 2004 through March 2005 used in determining the fixed charge coverage ratio the amount of current maturities of long term debt as of any month during this period is multiplied by a fraction, the numerator of which is the number of cumulative months since April 2004, and the denominator of which is 12.