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

TABLE OF CONTENTS

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.

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 to identify 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.

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:

	Year Ended December 31,		
	2002	2003	2004
		(In thousands)	
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.

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)

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

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

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

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.

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.

MASTEC, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands)

	Common Stock		Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Total	Comprehensive Income (Loss)
	Shares	Amount					
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.

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.

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 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.

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, 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

Table of Contents

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 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.

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 the Company's projections for 2005, the Company believes they will be in compliance with the amended credit facility's financial covenants for 2005. The Company is dependent upon borrowings and letters of credit under this credit facility to fund operations. Should the Company be unable to comply with the terms and covenants of the amended credit facility, it would be required to obtain further modifications of the credit facility or another source of financing to continue to operate. The Company may not be able to achieve its 2005 projections and thus may not be in compliance with the amended credit facility's financial covenants in 2005.

The Company's variable rate credit facility exposes it to interest rate risk. However, the Company had no borrowings outstanding under the credit facility at December 31, 2004.

Senior Subordinated Notes

The Company has a $196.0 million, 7.75% senior subordinated notes due in February 2008, with interest due semi-annually, of which $195.9 million, net of discount, is outstanding as of December 31, 2004. The notes are redeemable, at the company's option at 102.583% of the principal amount during the twelve-month period beginning February 1, 2004, 101.292% during the twelve-month period beginning February 1, 2005, and 100% annually thereafter. The notes also contain default (including cross-default) provisions and covenants restricting many of the same transactions as under our credit facility.

The Company had no holdings of derivative financial or commodity instruments at December 31, 2004.

The maturities of long-term debt obligations (excluding capital leases) as of December 31, 2004, are as follows (in thousands):

2005	$ 99
2006	76
2007	56
2008	195,925
2009 and thereafter	2
Total	$196,158

Note 8 — Restructuring Charges

During the second quarter of 2002, the Company initiated a study to determine the proper balance of downsizing and cost cutting in relation to its ability to respond to current and future work opportunities in each of its service offerings. The review not only evaluated the Company's 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, the Company implemented a restructuring program which included the:

- elimination of service offerings that no longer fit into the core business strategy. This process included reducing or eliminating service offerings that did not fit our long-term business plan.
- reduction or elimination of services that did not produce adequate revenue or margins to support the level of profitability, return on investment or investments in capital resources. This included exiting contracts that did not meet minimum rate of return requirements to improve margins and reduce costs.
- analysis of businesses that provided adequate profit contributions but needed margin improvements.
- review of new business opportunities in similar business lines.

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. The total employees impacted were approximately 1,025. As of December 31, 2004, all employees have been terminated and virtually all severance and benefit costs have been paid. Approximately 25 facilities were closed 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 the Company's business for which cash flows could be clearly defined. The Company also continues to be involved in the markets in which these 25 facilities operated. As of December 31, 2004, remaining obligations under existing lease agreements for closed facilities amounted to approximately $0.2 million.

In addition to the costs noted above, the Company paid a consulting firm approximately $4.6 million to assist in preparing the plan, all of which was expensed in 2002 as the plan was complete as of December 31, 2002. Valuation allowances and impairment losses related to property and equipment totaling $12.8 million were recorded in connection with the restructuring plan (see Note 6).

The following is a reconciliation of the restructuring accruals as of December 31, 2004 (in thousands):

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

Note 9 — Lease Commitments

The Company has operating lease agreements for premises and equipment that expire on various dates. The operating lease agreements are subject to escalation. Rent expense for the years ended December 31, 2002, 2003 and 2004 was approximately $18.5 million, $21.2 million and $18.7 million, respectively.

MASTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *(continued)*

The Company also has capital lease agreements for equipment that expire on various dates.

Minimum future lease commitments under non-cancelable operating leases and future minimum capital lease payments, including effect of escalation clauses in effect at December 31, 2004 were as follows (in thousands):

	Operating Leases	Capital Leases
2005	$28,707	$ 497
2006	21,420	429
2007	13,180	363
2008	4,813	363
2009	2,426	182
Thereafter	3,533	—
Total minimum lease payments	$74,079	$1,834
Less amounts representing interest		251
		$1,583
Less current portion		497
		$1,086

For leases with purchase options, the option to purchase equipment is at estimated fair market value. We have non-cancelable subleases for certain capital leases which are recorded in other assets. Future minimum leases received from subleases through January 2010 aggregated $3.9 million as of December 31, 2004.

Note 10 — Discontinued Operations

In March 2004, the Company ceased performing contractual services for customers in Brazil, abandoned all assets in its Brazil subsidiary and made a determination to exit the Brazil market. During the year ended December 31, 2004, the Company wrote off approximately $12.3 million in goodwill (see Note 3) 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 abandoned Brazil subsidiary has been classified as a discontinued operation. The results of operations for the years ended December 31, 2002 and 2003 have been reclassified to loss from discontinued operations. The net income for the Brazil subsidiary was $1.2 million in the year ended December 31, 2002 and the net loss for Brazil was $21.8 million and $20.2 million for the years ended December 31, 2003 and 2004, respectively. 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.

The following table summarizes the assets and liabilities of our Brazil operations as of December 31, 2003 and 2004 (in thousands):

	December 31, 2003	December 31, 2004
Current assets	$ 7,755	$ 290
Non current assets	2,244	—
Current liabilities	(21,886)	(19,455)
Non current liabilities	(1,334)	(2,170)
Accumulated foreign currency translation.	(21,091)	(21,335)

The following table summarizes the results of operations for our Brazil operations (in thousands):

MASTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *(continued)*

	2002	2003	2004
Revenue	$ 41,773	$ 18,761	$ —
Cost of revenue	(37,110)	(20,846)	(5)
Operating expenses	(3,393)	(18,877)	(1,046)
Income (loss) from operations before (provision) benefit for income taxes and minority interest	1,270	(20,962)	(1,051)
(Provision) Benefit for income taxes	58	(2,584)	—
Minority interest	137	(1,708)	—
Net income (loss)	$ 1,191	$(21,838)	$(1,051)

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. The results of operations for the years ended December

31, 2002 and 2003 have been reclassified to loss from discontinued operations. The net loss for the Network Services division was $17.9 million, $6.0 million and $3.0 million for the years ended December 31, 2002, 2003 and 2004, respectively.

The following table summarizes the assets and liabilities of our Network Services as of December 31, 2003 and 2004 (in thousands):

	December 31, 2003	December 31, 2004
Current assets	$4,063	$4,464
Non current assets	1,106	27
Current liabilities	5,278	2,753
Non current liabilities	—	—
Shareholder’s deficit	109	1,738

The following table summarizes the results of operations for our Network Services operations (in thousands):

	2002	2003	2004
Revenue	$ 29,815	$ 24,006	$ 17,046
Cost of revenue	(28,457)	(27,728)	(16,435)
Operating and other expenses	(9,232)	(5,821)	(3,614)
Loss from operations before benefit for income taxes and cumulative effect of accounting change	$ (7,874)	$ (9,543)	$ (3,003)
Cumulative effect of accounting change	(13,075)	—	—
Benefit for income taxes	3,036	3,522	—
Net loss	$(17,913)	$ (6,021)	$ (3,003)

Note 11 — Retirement and Stock Option Plans

We have a 401(k) plan covering all eligible employees. Subject to certain dollar limits, eligible employees may contribute up to 15% of their pre-tax annual compensation to the plan. Our matching contributions in the form of Company Common Stock charged to earnings were approximately $806,000 for the year ended December 31, 2002. We did not match employee contributions in 2003 and 2004 but may, at the Board of Director’s discretion, do so in the future.

The Company has granted options to purchase its common stock to employees and directors of the Company and its affiliates under various stock option plans at no less than the fair market value of the underlying stock on the date of grant. These options are granted for a term not exceeding ten years and are forfeited in the event the employee or director terminates his or her employment or relationship with the Company or one of its affiliates. All option plans contain anti-dilutive provisions that require the adjustment of the number of shares of the Company common stock represented by each option for any stock splits or dividends.

We have seven stock option plans in effect as of December 31, 2004: the 1994 Stock Incentive Plan (the “1994 Plan”), the 1994 Stock Option Plan for Non-Employee Directors (the “Directors’ Plan”), the 1997 Annual Incentive Compensation Plan (the “1997 Incentive Plan”), the 1997 Non-Qualified Employee Stock Purchase Plan (the “1997 Plan”), the Non-Employee Directors’ Stock Plan, the 1999 Non-Qualified Option Plan (the “Non-Qualified Plan”), the 2003 Employee Stock Incentive Plan (the “2003 Plan”) and the Amended and Restated 2003 Stock Incentive Plan for Non-Employees (the “2003 Non-Employee Plan”) and individual option agreements. Typically, options under these plans are granted at fair market value at the date of grant, vest between three to five years after grant and terminate no later than 10 years from the date of grant.

The 2003 Non-Employee Plan was adopted in April 2003 and authorized granting of restricted stock to non-employees. The Company has reserved 1,000,000 shares of common stock for grant under the 2003 Non-Employee Plan which covers stock options or restricted stock awards. The Company 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 the restricted stock is shown as a reduction of stockholders’ equity in the consolidated balance sheets. The Company approved the issuance of restricted stock to the board of directors in 2005 with grant dates in 2004. Therefore, the Company recorded a non-cash stock compensation expense and a liability in the year ended December 31, 2004 in the amount of approximately $39,000 based on the market price at the date of grant.

Under these plans there were a total of 815,855, 7,590,793 and 7,453,209 options available for grant at December 31, 2002, 2003 and 2004, respectively. The 1994 Plan and the Directors Plan expired in 2004. In addition, there are 241,450 options outstanding under individual option agreements with varying vesting schedules at exercise prices ranging from $2.56 to $17.67 with terms up to 10 years. The 1997 Plan also allows eligible employees to purchase common stock of the company through payroll deductions or in a lump sum at a 15% discount from fair market value. The amount of compensation expense related to these transactions is immaterial.

The following is a summary of all stock option transactions during the periods indicated:

	Stock Options	Weighted Average Exercise Price
Outstanding December 31, 2001	6,725,387	$17.18
Granted	933,500	5.41
Exercised	—	—
Canceled	(622,275)	22.50
Outstanding December 31, 2002	7,036,612	$15.32
Granted	2,812,000	7.28
Exercised	(171,176)	4.67
Canceled	(393,556)	19.23
Outstanding December 31, 2003	9,283,880	$12.91
Granted	610,500	9.01
Exercised	(343,839)	5.38
Canceled	(588,511)	13.64
Outstanding December 31, 2004	8,962,030	$12.84

The following tables summarize information about stock options outstanding:

	As of December 31, 2004				
	Stock Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
$2.0050 - $2.2150	376,499	5.29	$ 2.0552	92,840	$ 2.0550
$2.2151 - $3.3400	150,000	4.62	$ 3.3400	100,000	$ 3.3400
$3.3401 - $4.8600	436,667	3.09	$ 4.4409	386,435	$ 4.3938
$4.8601 - $7.0900	764,106	6.55	$ 5.5908	377,065	$ 5.7896
$7.0901 - $10.5600	2,179,816	7.06	$ 8.2993	981,101	$ 8.9504
$10.5601 - $15.5833	2,587,860	3.95	$13.3136	2,211,260	$13.1260
$15.5834 - $21.0417	1,703,901	4.53	$19.3286	1,703,901	$19.3286
$21.0418 - $28.5000	525,921	2.39	$26.8849	517,654	$26.8864
$28.5001 - $36.8750	232,010	1.48	$33.3335	232,010	$33.3335
$36.8751 - $45.0833	5,250	2.38	$44.0120	5,250	$44.0120
$2.0050 - $45.0833	8,962,030	4.91	$12.8396	6,607,516	$14.6839

As of December 31, 2004, we had 6,607,516 options which were exercisable at a weighted average exercise price of $14.68 per share. As of December 31, 2003, we had 5,899,561 options which were exercisable at a weighted average exercise price of $15.78 per share.

Note 12 – Equity Investment

In September 2004, MasTec purchased a 49% interest in a limited liability corporation with an established marketing group. The Company's payments for its interest are due quarterly over three years beginning in September 2004. Equity payments fluctuate based on the venture's sales. In addition, the Company is responsible for 49% of the venture's net operating capital needs until the venture is self sufficient. The Company expects this venture will be able to fully fund its own operating capital requirements by mid- to late 2005. The venture is intended to strengthen relationships with existing and future customers, and increase Company sales. 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.

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 has accounted for this investment using the equity method as the Company has the ability to exercise significant influence over the operational policies of the Company. As of December 31, 2004, the Company had an investment balance of approximately $3.7 million in relation to this investment with a corresponding liability related to the outstanding commitment which is included in other assets and other liabilities in the accompanying consolidated balance sheet. Based upon the lack of significance to the financial information of the Company, no summary financial information for this equity investment has been provided.

Note 13 — Income Taxes

The benefit for income taxes before cumulative change in accounting principle consists of the following (in thousands):

MASTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *(continued)*

	2002 As Restated	2003	2004
Current:			
Federal	$ (2,497)	$ 315	$ 2,312
Foreign	557	(2,237)	(1,015)
State and local	(2,680)	4,858	251
	(4,620)	2,936	1,548
Deferred:			
Federal	(51,258)	(8,888)	(2,267)
Foreign	(444)	(562)	1,015
State and local, net of valuation provisions	(3,023)	(1,789)	(296)
	(54,725)	(11,239)	(1,548)
Benefit for income taxes	$(59,345)	$ (8,303)	$ —

The tax effects of significant items comprising our net deferred tax asset as of December 31, 2003 and 2004 are as follows (in thousands):

	2003	2004
Deferred tax assets:		
Non-compete	$ 4,188	$ 3,709
Bad debts	8,839	8,080
Accrued self insurance	8,559	19,143
Operating loss and tax credit carry forward	61,532	73,390
Other	3,117	4,853
Goodwill	6,500	3,972
Valuation Allowance	(8,289)	(32,349)
Subtotal	84,446	80,798
Deferred tax liabilities:		
Accounts receivable retainage	9,365	6,642
Property and equipment	12,225	10,301
Basis differences in acquired assets	418	409
Other	7,147	6,607
Total deferred tax liabilities	29,155	23,959
Net deferred tax asset	$55,291	$ 56,839

At December 31, 2004, the Company has approximately $159.7 million of net operating loss carryforwards for U.S. federal income tax purposes that expire beginning in 2022. The Company has net operating loss carryforwards for U.S. state and local purposes that expire from 2005 to 2024. Additionally, the Company has approximately $4.9 million of net operating loss carryforwards for Canadian income tax purposes that expire beginning in 2010.

In assessing the ability to realize the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the projected future taxable income and prudent and feasible tax planning strategies in making this assessment. As of December 31, 2003 and 2004, valuation allowances of $8.3 million and $32.3 million have been recorded.

A reconciliation of U.S. statutory federal income tax expense on the loss before cumulative effect of change in accounting principle and benefit for income taxes is as follows:

MASTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *(continued)*

	2002 As Restated	2003	2004
U.S. statutory federal rate applied to pretax loss	(35)%	(35)%	(35)%
State and local income taxes	(5)	(2)	(8)
Amortization and impairment	—	—	—
Non-deductible expenses	—	1	4
Effect of non U.S operations	—	1	
Worthless stock deduction	—	—	(52)
Other	2	—	3
Valuation allowance for deferred tax assets	3	10	88
Benefit for income taxes	(35)%	(25)%	0%

Note 14 — Operations by Geographic Areas and Segments

The Company operates in one reportable segment as a specialty trade contractor. The Company provides services in the telecommunications, broadband (including cable, satellite and high speed internet), energy, traffic control and homeland security systems markets.

Revenue by customer industry group reflecting the revenue reclassification to discontinued operations is as follows:

	Year Ended December 31,		
	2002 As Restated	2003 (In thousands)	2004
Telecommunications	$329,855	$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
	$766,469	$827,480	$913,795

During the years ended December 31, 2002, 2003 and 2004, we operated in the United States and Canada. In 2003, we became engaged in a single project in Mexico which we completed shortly after December 31, 2003. In 2002 and 2003, we had operations in Brazil. In 2004, we ceased performing contractual services in Brazil, abandoned all assets in our Brazil subsidiary and made a determination to exit the Brazil market. The following table reflects financial information for our U.S. and foreign operations including the reclassification of 2002 and 2003 results of operations for the Brazil operations and our Network Services division to discontinued operations. Over the past three years, we have continued to reduce capital expenditures of long-lived assets and have placed greater reliance on operating leases to meet our equipment needs.

	Year Ended December 31,		
	2002	2003 (In thousands)	2004
Revenue:			
United States	$740,224	$800,974	$900,842
Foreign	26,243	26,506	12,953
	$766,467	$827,480	$913,795

	At December 31,		
	2002	2003 (In thousands)	2004
Long Lived Assets:			
United States	$114,053	$82,541	$68,426
Foreign	4,422	3,291	877
	$118,475	$85,832	$69,303

Note 15 — Commitments and Contingencies

In the second quarter of 2004, purported class action complaints were filed against the Company and certain of its 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 Complaint was filed by Plaintiffs which the Court granted. Plaintiffs filed their Second Amended Complaint on February 22, 2005. Plaintiffs contend that the Company's 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 Company 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 the Company's 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. MasTec believes the claims are without merit. MasTec will vigorously defend these lawsuits but may be unable to successfully resolve these disputes without incurring significant expenses. Due to the early stage of these proceedings, any potential loss cannot presently be determined with respect to this litigation.

On July 28, 2004, MasTec, Inc.'s Board of Directors received a demand from a shareholder that the Board take appropriate steps to remedy breaches of fiduciary duty, mismanagement and corporate waste, all arising from the same factual predicate set out in the shareholder class actions described above. On November 18, 2004, the Board of Directors authorized its Executive Committee to establish appropriate procedures and form a special litigation committee, as contemplated by Florida law, to investigate these allegations and to determine whether it is in the best interests of MasTec to pursue an action or actions based on said allegations. On December 22, 2004, a derivative action was filed by the shareholder. On January 10, 2005, the Executive Committee formed a special litigation committee to investigate this matter. By agreement of counsel, the derivative action has been stated during the pendency of any motion to dismiss in the securities class action.

The Company contracted to construct a natural gas pipeline for Coos County, Oregon in 2003. Construction work on the pipeline ceased in December 2003 after the County refused payment due on regular contract invoices of $6.3 million and refused to process change orders for additional work submitted to the County on or after November 29, 2003. In February 2004, MasTec brought an action for breach of contract against Coos County in Federal District Court in Oregon, seeking payment for work done, interest and anticipated profits. In April 2004, Coos County announced it was terminating the contract and seeking another company to complete the project. Coos County subsequently counterclaimed for breach of contract and other causes in the Federal District Court action. The amount of revenue recognized on the Coos County project that remained uncollected at December 31, 2004 amounted to $6.3 million representing amounts due MasTec on normal progress payment invoices submitted under the contract. In addition to these uncollected receivables, the Company also has additional claims for payment and interest in excess of $6.0 million, including all of its change order billings and retainage, which the Company has not recognized as revenue but to which the Company believes is due to the Company under the terms of the contract. In addition, the Company was made party to a number of citizen initiated actions arising from the Coos County project. A complaint alleging failure to comply with prevailing wage requirements was issued by the Oregon Bureau of Labor and Industry. A number of individual property owners brought claims in Oregon state courts against the Company for property damages and related claims; a number of citizens' groups brought an action in federal court for alleged violations of the Clean Water Act. All but one of the individual property claims has been settled; one is set for trial in 2005. The Company will vigorously defend these actions, but may incur significant expense in connection with that defense.

In connection with the Coos County pipeline project, the United States Army Corps of Engineers and the Oregon Division of State Land, Department of Environmental Quality issued cease and desist orders and notices of non-compliance to Coos County and to the Company with respect to the County's project. A cease and desist order was issued by the Corps on October 31, 2003 and addressed sedimentary disturbances and the discharge of bentonite, an inert clay mud employed for this kind of drilling, resulting from directional boring under stream beds along a portion of the natural gas pipeline route then under construction. The County and the Company received a subsequent cease and desist order from the Corps on December 22, 2003. The order addressed additional sedimentary discharges caused by clean up efforts along the pipeline route. MasTec and the County were in substantial disagreement with the United States Army Corps of Engineers and the Oregon Division of State Land as to whether the subject discharges were permitted pursuant to Nationwide Permit No. 12 (utility line activities) or were otherwise prohibited pursuant to the Clean Water Act. However, the Company has been cooperating with Corps of Engineers and the Oregon Division of State Land, Department of Environmental Quality to mitigate any adverse impact as a result of construction. Corps of Engineer and Oregon Division of State Land notices or complaints focused for the largest part on runoff from the construction site and from nearby construction spoil piles which may have increased sediment and turbidity in adjacent waterways and roadside ditches. Runoff was the result of extremely wet and snowy weather, which produced exceptionally high volumes of runoff water. MasTec employed two erosion control consulting firms to assist. As weather permitted and sites became available, MasTec moved spoil piles to disposal sites. Silt fences, sediment entrapping blankets and sediment barriers were employed in the meantime to prevent sediment runoff. Ultimately, when spring weather permitted, open areas were filled, rolled and seeded to eliminate the runoff. To date, mitigation efforts have cost the Company approximately $1.4 million. These costs were included in the costs on the project at December 31, 2003 and December 31, 2004. No further mitigation expenses are anticipated. The only additional anticipated liability arises from possible fines or penalties assessed, or to be assessed by the Corps of Engineers and/or Oregon Division of State Land. The County accepted a fine of $75,000 to settle this matter with the Corp of Engineers; the County has not concluded with the Oregon Department of Environmental Quality. No fines or penalties have been assessed against the Company by the Corp of Engineers to date. On August 9, 2004, the Oregon Division of State Land Department of Environmental Quality issued a Notice of Violation and Assessment of Civil Penalty to MasTec North America in the amount of $126,000. MasTec North America has denied liability for the civil penalty and requested a formal contested case hearing on the same.

The potential loss for all Coos Bay matters and settlements reached described above is estimated to be $205,000 at December 31, 2004, which is recorded in the consolidated balance sheet as accrued expenses.

The labor union representing the workers of Sistemas e Instalaciones de Telecomunicacion S.A. (“Sintel”), a former MasTec subsidiary, initiated an investigative action with a Spanish federal court that commenced in July 2001 alleging that five former members of the board of directors of Sintel, including Jorge Mas, the Chairman of the Board of MasTec, and his brother Juan Carlos Mas, approved a series of allegedly unlawful transactions that led to the bankruptcy of Sintel. The Company is also named as a potentially liable party. The union alleges Sintel and its creditors were damaged in the approximate amount of 13 billion pesetas ($95.1 million at December 31, 2004). The Court has taken no action to enforce a bond order pending since July 2001 for the amount of alleged damages. The Court has conducted extensive discovery, including the declarations of certain present and former executives of MasTec, Inc. and intends to conduct additional discovery. To date, no actions have been taken by the Court against the Company or any of the named individuals. The Company’s directors’ and officers’ insurance carrier reimbursed the Company in the third quarter 2004 for approximately $1.2 million in legal fees already incurred and agreed to fund legal expenses for the remainder of the litigation. The amount of loss, if any, relating to this matter cannot presently be determined.

In 2003, the Company’s quarterly financial information was restated for $6.1 million of previously recognized revenue related primarily to work performed on undocumented or unapproved change orders and other matters disputed by the Company’s clients. The revenue restatement was related to projects performed for ABB Power (“ABB”),MSE Power Systems (“MSE”), and the University of California, and in connection with restated Canadian revenue. Recovery of this revenue and related revenue from subsequent periods not restated is now the subject of several independent collection actions. MasTec provided services to ABB, in the amount of $2 million is subject to dispute. The parties have attempted arbitration, which has been unsuccessful. A legal action was filed by the Company on February 2005. An action has been brought against MSE in New York state court. MasTec provided services to MSE on five separate projects in Pennsylvania, New York and Georgia, with invoices in excess of $8 million now in dispute. The Company experienced cost overruns in excess of $2.7 million in completing a networking contract for the University of California as the result of a subcontractor’s refusal to complete a fixed price contract. An action has been brought against that subcontractor to recover cost overruns. Finally, the Company experienced a revenue adjustment resulting from correction of intentionally overstated work in progress and revenue in an amount of $1.3 million in a Canadian subsidiary. The individuals responsible for the overstatement were terminated and an action against them has been brought to recover damages resulting from the overstatement.

In November 2004, the Company entered into, and bonded a conditional $2.6 million settlement of litigation brought for subcontract work done by Hugh O’Kane Electric for MasTec on a telecommunication project for Telergy in New York. Telergy is in bankruptcy and did not pay MasTec for the Hugh O’Kane work. The settlement was conditioned on the outcome of an interlocutory appeal brought by MasTec. The appeal sought to enforce contract terms which relieved MasTec of its obligation to pay Hugh O’Kane when MasTec was not paid by Telergy. New York’s appellate level court upheld the enforceability of the term of MasTec’s contract, but remanded the case to the trial court to determine whether the Company was estopped from using this contract provision as a defense. The Company expects to recover the bond posted in connection with the appeal, and will continue to contest this matter in the trial court. The amount of the loss, if any, relating to this matter cannot be determined at this time.

The Company is also a party to other pending legal proceedings arising in the normal course of business. While complete assurance cannot be given as to the outcome of any legal claims, management believes that any financial impact would not be material to the Company's results of operations, financial position or cash flows.

The Company has commitments at December 31, 2004 to pay life insurance premiums on policies on the life of its chairman of the board, vice chairman and its chief executive officer totaling $17.7 million over the next nineteen years, for capital leases totaling $1.8 million and, for operating lease commitments of $74.1 million. In 2004, the Company 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.

The Company is required to provide payment and performance bonds in connection with some of its contractual commitments. Such bonds amounted to $117.9 million at December 31, 2004 related to projects in process.

Note 16 — Concentrations of Risk

The Company is subject to certain risk factors, including, but not limited to risks related to economic downturns in the telecommunications and broadband industries, collectibility of receivables, competition within our industry, the nature of our contracts (which do not obligate our clients to undertake any infrastructure projects and may be canceled on short notice), acquisition integration and financing, seasonality, availability of qualified employees, recoverability of goodwill, and potential exposures to environmental liabilities.

The Company has more than 500 clients throughout the United States, and Canada, which include some of the largest and most prominent companies in the communications, broadband and energy fields, as well as government agencies such as departments of transportation. The Company's clients include incumbent local exchange carriers, broadband and satellite operators, public and private energy providers, long distance carriers, financial institutions and wireless service providers.

The Company grants credit, generally without collateral, to our customers. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors. However, the Company generally has certain lien rights on that work and concentrations of credit risk are limited due to the diversity of our customer base. The Company believes the billing and collection policies are adequate to minimize potential credit risk. No customer accounted for more than 10% of revenue during the year ended December 31, 2002. During 2003, Comcast and DIRECTV® accounted for 14.2% and 12.0%, respectively. During 2004, DIRECTV® and Comcast accounted for 21.4% and 12.3%, respectively of total revenue.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments. Management analyzes historical bad debt experience, client concentrations, client credit-worthiness, 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. If judgments regarding the collectability of accounts receivables are incorrect, adjustments to the allowance may be required, which would reduce profitability. During 2002, 2003 and 2004 bad debt provisions of $15.4 million, $8.8 million and $5.1 million, respectively, were recorded primarily due to the general economic climate of 2002. As of December 31, 2004, remaining receivables from clients undergoing bankruptcy reorganization totaling $15.1 million of which $9.4 million is included in specific reserves. Based on the analytical process described above, management believes that the Company will recover the net amounts recorded. The Company maintains an allowance for doubtful accounts of $28.8 million and $20.0 million as of December 31, 2003 and 2004, respectively for both specific customers and as a reserve against other past due balances. Should additional clients file for bankruptcy or experience difficulties, or should anticipated recoveries in existing bankruptcies and other workout situations fail to materialize, the Company could experience reduced cash flows and losses in excess of the current allowance.

Note 17 — Quarterly Information (Unaudited)

The following table presents unaudited quarterly operating results for the years ended December 31, 2003 and 2004. The Company believes that all necessary adjustments have been included in the amounts stated below to present fairly the quarterly results when read in conjunction with the Consolidated Financial Statements and Notes thereto for the years ended December 31, 2003 and

MASTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *(continued)*

2004. The quarterly information has been adjusted for the reclassification of the net loss of Brazil and Network Services operations to discontinued operations.

	2003 Quarter Ended				2004 Quarter Ended			
	Mar 31 As Restated	Jun 30 As Restated	Sep 30 As Restated	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
	(In thousands, except per share data)				(In thousands, except per share data)			
Revenue	$ 167,839	$ 194,301	$ 231,056	$ 234,284	$ 194,707	$ 225,741	$ 246,622	$ 246,724
(Loss) income from continuing operations	$ (1,308)	$ 2,850	$ 4,800	$ (30,578)	$ (24,280)	$ (436)	$ 4,265	$ (5,767)
Loss from discontinued operations	$ (444)	$ (830)	$ (2,490)	$ (24,299)	$ (21,786)	$ (304)	$ (42)	$ (1,088)
Net (loss) income	$ (1,752)	$ 2,020	$ 2,310	$ (54,877)	$ (46,066)	$ (740)	$ 4,223	$ (6,855)
Basic (loss) income per share	$ (0.04)	$ 0.04	$ 0.05	$ (1.14)	$ (0.95)	$ (0.02)	$ 0.09	$ (.14)
Diluted (loss) income per share	$ (0.04)	$ 0.04	$ 0.05	$ (1.14)	$ (0.95)	$ (0.02)	$ 0.09	$ (.14)
Basic income (loss) per share	$ (0.04)	$ 0.04	$ 0.05	$ (1.14)	$ (0.95)	$ (0.02)	$ 0.09	$ (.14)
Diluted income (loss) per share	$ (0.04)	$ 0.04	$ 0.05	$ (1.14)	$ (0.95)	$ (0.02)	$ 0.09	$ (.14)

In connection with the filing of our 2003 Form 10-K, the 2003 quarterly information was restated for $6.1 million of previously recognized revenue related primarily to work performed on undocumented or unapproved change orders and other matters which are being disputed by the Company’s clients. In addition, the quarterly information was restated for overstatements due to irregularities in revenue recorded by the Canadian operations in the amount of $1.3 million. As a result, revenue was restated by $272,000 in the first quarter, $1.3 million in the second quarter and $5.8 million in the third quarter. In addition, the third quarter information was restated to accrue for costs on a loss job in the amount of $462,000 and properly reflect a bonus to an officer which was earned in the third quarter in the amount of approximately $246,000. As a result, cost of revenue was restated by $708,000 in the third quarter of 2003.

In the fourth quarter 2003, the Company accrued losses incurred on construction projects in the amount of approximately $7.4 million due to projected losses and changes in estimates made in 2004, recorded inventory adjustments in the amount of approximately $4.4 million as a result of physical inventories, wrote-off an insurance receivable of $3.2 million, and increased insurance reserves in the amount of $8.3 million. As stated in Note 2, the Company restated its results of operations for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003 from amounts previously reported.

In the fourth quarter 2004, the Company recorded $1.0 million of bad debt expense based on the Company’s write off history, the Company accrued losses incurred on construction projects in the amount of approximately $1.1 million due to projected losses and changes in estimates made in 2005, wrote off approximately $600,000 of fixed assets as a result of physical inventories and recorded approximately $2.0 million in legal settlements and legal fees related to various litigation.

Note 18 — Related Party Transactions

MasTec purchases, rents and leases equipment used in its business from a number of different vendors, on a non-exclusive basis, including Neff Corp., in which Jorge Mas, the Company’s Chairman and Jose Mas, the Company’s Vice-Chairman and Executive Vice President, are directors and owners of a controlling interest. Juan Carlos Mas, the brother of Jorge and Jose Mas, is Chairman, Chief Executive Officer, a director and a shareholder of Neff Corp. During the years ended December 31, 2002, 2003 and 2004, MasTec paid Neff approximately $26,000, $1.7 million and $1.2 million, respectively for equipment purchases, rentals and leases. MasTec believes the amount paid to Neff is equivalent to the payments that would have been made between unrelated parties for similar transactions acting at arm’s length.

Effective as of August 27, 2002, MasTec and Jorge Mas entered into a split dollar agreement wherein MasTec agreed to pay the premiums due on two life insurance policies with an aggregate face amount of $50,000,000. Mr. Mas and his spouse are the insureds under the policies. Under the terms of this agreement, MasTec is the sole owner and beneficiary of the policies and is entitled to recover all premiums it pays on the policies plus interest equal to four percent, compounded annually, upon the death of the insureds. The remainder of the policies’ proceeds will be paid in accordance with Mr. Mas’ designations. MasTec will make the premium payments until the agreement is terminated, which occurs upon any of the following events: (i) total cessation of MasTec's business, (ii) bankruptcy, receivership or dissolution of MasTec, or (iii) a change of control of MasTec.

Additionally, effective as of September 13, 2002, MasTec and Jorge Mas entered into a second split dollar agreement (as amended on December 1, 2002) wherein MasTec agreed to pay the premiums due on a life insurance policy with a face amount of $80,000,000, $60,000,000 of which is subject to the agreement and the remaining $20,000,000 is deemed to be key-man insurance payable to MasTec and falls outside of the agreement. Jorge Mas is the insured under this policy. Under the terms of this agreement, MasTec is the sole owner and beneficiary of the policy and is entitled to recover all premiums it pays on the portion of the policy subject to the agreement, plus interest equal to four percent, compounded annually, upon the death of the insured. MasTec will make the premium payments until the agreement is terminated, which occurs upon any of the following events: (i) total cessation of MasTec's business, (ii) bankruptcy, receivership or dissolution of MasTec, or (iii) a change of control of MasTec. An amount equal to $60,000,000 of the policy's proceeds will be paid in accordance with Jorge Mas' designations. Any remainder of the proceeds will be paid to MasTec. In 2002, 2003 and 2004, MasTec paid $1,340,400, $1,303,783 and $1,135,092 in premiums in connection with the split dollar agreements for Jorge Mas.

In 2002, MasTec paid $75,000 to Mr. Shanfelter related to a life insurance policy which was cancelled in April 2002. MasTec was to be reimbursed by the insurance company upon Mr. Shanfelter's death. Accordingly a receivable was recorded at the time of the payments. During the year ended December 31, 2004 the Company wrote off the receivable balance because the policy was cancelled and all payments became taxable to Mr. Shanfelter.

On November 1, 2002, MasTec and Austin Shanfelter entered into a split dollar agreement wherein MasTec agreed to pay the premiums due on a life insurance policy with an aggregate face amount of $18,000,000. Mr. Shanfelter and his spouse are the insureds under the policy. Under the terms of this agreement, MasTec is the sole owner and beneficiary of the policy and is entitled, upon the death of the insureds, to recover all premiums it pays on the policy plus interest equal to four percent, compounded annually. The remainder of the policy's proceeds will be paid in accordance with Mr. Shanfelter's designations. MasTec will make the premium payments for the term of the agreement or until the agreement is terminated, which occurs upon any of the following events: (i) total cessation of MasTec's business, (ii) bankruptcy, receivership or dissolution of MasTec, or (iii) the six year anniversary of the agreement. In 2002, 2003 and 2004, MasTec paid approximately $0, $500,000 and $500,000, respectively in premiums in connection with the split dollar agreement for Mr. Shanfelter and his family.

Effective as of July 16, 2004, MasTec and Jose Mas entered into a split dollar agreement wherein MasTec agreed to pay premiums on a life insurance policy with an aggregate face amount of $5.0 million. Under the terms of the agreement, MasTec is the sole owner and beneficiary of the policy and is entitled to recover all premiums it pays on the policy plus interest equal to 3.5%, compounded annually, upon the death of the insured. The remainder of the policy's proceeds will be paid in accordance with Mr. Mas' designations. MasTec has agreed to make the premium payments until at least July 15, 2009. In 2004, MasTec paid approximately $150,000 in premiums in connection with the split dollar agreement for Mr. Jose Mas.

On January 1, 2002, MasTec entered into an employment agreement with Austin J. Shanfelter relating to his employment as President and Chief Executive Officer. The agreement expires on December 31, 2005 unless earlier terminated, and provides that Mr. Shanfelter will be paid an annual salary of $600,000, an initial bonus of $100,000 prior to March 31, 2003 and deferred compensation of $2,000,000. The agreement also provides for a bonus to be paid pursuant to an incentive performance bonus plan to be agreed upon and stock options pursuant to MasTec's stock option plans. Following termination of employment, the agreement provides for a two-year consulting period at $500,000 per year. Additionally, if there is a change of control of MasTec during the employment term, the executive will be entitled to all of the unpaid portion of his salary for the remaining term of the agreement, to the consulting fees, any unpaid portion of the initial bonus and the deferred compensation amount and to immediate vesting of any previously unvested options. The agreement also contains gross-up for any excise taxes, confidentiality, non-competition and non-solicitation provisions.

On January 1, 2002, MasTec entered into an employment agreement with Donald P. Weinstein relating to his employment as Executive Vice President and Chief Financial Officer. On January 7, 2004 (but effective as of December 1, 2003), the Company entered into an amended employment agreement with Mr. Weinstein. The agreement was for a term of three years and provided that Mr. Weinstein would be paid an annual base salary of $300,000 (with annual cost of living increases). Additionally, Mr. Weinstein was entitled to receive a total of $600,000 of deferred compensation over the term of the contract and was to be entitled to participate in a bonus plan for senior management, and would be entitled to a minimum annual performance bonus of $50,000 per year. Mr.

MASTEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *(continued)*

Weinstein resigned effective March 11, 2004. In connection therewith, the Company entered into a severance agreement with Mr. Weinstein pursuant to which the Company paid him his base salary of $300,000 through December 2004, provide him with certain employee and insurance benefits and provide for the vesting of his stock options. The severance agreement was approved by the Compensation Committee on July 16, 2004. As a result of Mr. Weinstein’s severance agreement, the Company recorded $199,500 in stock compensation expense in the year ended December 31, 2004 related to the extension of the exercise period on Mr. Weinstein’s stock options. In addition, a severance accrual was recorded for $300,000 as of March 11, 2004 which has been reduced as payments have been made.

In July 2002, MasTec entered into an employment agreement with Eric J. Tveter as Executive Vice President and Chief Operations Officer with a two year term at an annual base salary of $300,000 (with annual cost of living increases) and a grant of 50,000 stock options, a guaranteed bonus for the year 2002 equal to one half of his base salary paid to him during the year 2002 and the right to participate in MasTec’s bonus plan for senior management beginning January 1, 2003. The agreement also contained noncompete and nonsolicitation provisions for a period of two years following the term of the agreement. Mr. Tveter resigned his position with the company on March 22, 2004. In connection therewith, we entered into a severance agreement with Mr. Tveter pursuant to which the Company paid him severance of $33,134 during 2004, paid his regular salary through July 14, 2004 at an annual rate of $306,837, provided him with certain employee benefits and provided for the vesting of his stock options. The Compensation Committee approved Mr. Tveter’s severance agreement on April 15, 2004 which will be the new measurement date of his stock options. As a result of Mr. Tveter’s severance agreement, the Company recorded approximately $216,800 in stock compensation expense in the year ended December 31, 2004 related to the extension of the exercise period on Mr. Tveter’s stock options. In addition, a severance accrual was recorded as of March 22, 2004 for approximately $173,000 which has been reduced as payments have been made.

On October 12, 2004, MasTec entered into an employment agreement with C. Robert Campbell relating to his employment as Executive Vice President and Chief Financial Officer. The agreement expires on January 17, 2007 unless earlier terminated, and provides that Mr. Campbell will be paid an annual salary of $350,000 and an initial bonus of $75,000 upon execution of the employment agreement. The agreement also provides for a minimum annual performance bonus of $50,000 per year and stock options pursuant to MasTec’s stock option plans. Following termination of employment without cause or good reason, the executive will receive his base salary from the date of termination for a period of twelve months. If the agreement is terminated by the Company not renewing or extending the employment agreement then the executive shall be entitled to severance benefits for a period of six months from the termination date. If there is a change of control of MasTec during the employment term, the executive will be entitled to one and a half times the unpaid portion of his salary for the greater of twelve months or the remaining term of the agreement and to immediate vesting of any previously unvested options. The agreement also contains confidentiality, non-competition and non-solicitation provisions.

On January 3, 2005, MasTec entered into an employment agreement with Gregory S. Floerke relating to his employment as Chief Operations Officer. The agreement expires on January 2, 2007 unless earlier terminated, and provides that Mr. Floerke will be paid an annual salary of $300,000 during the first year of employment and $350,000 during the second year of employment. The agreement also provides for stock options pursuant to MasTec’s stock option plans. Following termination of employment without cause or good reason the executive will receive his base salary for 12 months after the date of termination. If the agreement is not renewed by the Company, the executive is entitled to severance benefits for a period of six months from the termination date. The agreement also contains confidentiality, non-competition and non-solicitation provisions.

Item 9A. ***Controls and Procedure***

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and are subject to certain limitations, including the exercise of judgment by individuals, the difficulty in identifying unlikely future events, and the difficulty in eliminating misconduct completely**.** Based upon that evaluation, we concluded that as of December 31, 2004, our disclosure controls and procedures were ineffective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission or that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure. The basis for this determination was that, as discussed below, we have identified a material weakness in our internal control over financial reporting, which we view as an integral part of our disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's internal control over financial reporting is designed to provide reasonable assurance to management and to the Company's Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's internal control over financial reporting. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The results of management's assessment and review were reported to the Audit Committee of the Board of Directors.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations, or COSO, of the Treadway Commission in "Internal Control-Integrated Framework." Because of the one material weakness described below, management believes that, as of December 31, 2004, our internal control over financial reporting was not effective.

In the course of management's investigation, management noted one matter involving internal control and its operation that management considered a material weakness under standards established by the Public Company Accounting Oversight Board. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal control that could adversely affect our ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Management's consideration of internal control would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, management did identify weaknesses in internal controls involving inventory practices and policies in the ITS division, with respect to inventory pricing on receipt and the related costs of sales, and inventory tracking prior to sale or use. Inventory at December 31, 2004 related to ITS was approximately $27.7 million. Management believes this constitutes a material weakness in internal control over the financial reporting process, including the closing process, as it relates to this division. As a result of this weakness, a significant adjustment to correct for this weakness was required and has been recorded in preparing our 2004 financial statements.

Since December 31, 2004, we have continued to improve the system of internal controls related to inventory by implementing the inventory Oracle module into our financial system and testing the system to ensure it is accurately capturing the correct prices and quantities. Once this system can be relied upon, management will no longer be required to perform manual procedures to eliminate this risk of misstatement. An effective internal control framework requires the commitment of management to require competence, diligence, and integrity on the part of its employees. Control activities include policies and procedures adopted by management to ensure the execution of management directives, and to help advance the successful achievement of our objectives.

Scope of Management's Report on Internal Control Over Financial Reporting – In our Form 10-K for the year ended December 31, 2004 previously filed with the Securities and Exchange Commission on March 31, 2005, we incorrectly noted a scope limitation in our assessment regarding the effectiveness of our internal control over financial reporting due to our failure to test the internal control over financial reporting of both our Network Services division, which we accounted for as a discontinued operation in 2004, and Globetec, Inc., a company that is 51% owned by us. In our Form 10-K filed on March 31, 2005, we disclosed that this scope limitation was based on the insignificance of these operations (within the meaning of Rule 11-01(b) of Regulation S-X) as well as, with respect to Globetec, our inability to dictate or modify the controls of that entity. Since we own 51% of Globetec and have the contractual right to appoint a majority of the managers on Globetec's Board of Managers, we were incorrect in concluding that we are unable to dictate or modify the controls of Globetec. In addition, while the entities' insignificance is a proper reason for excluding such entities from our internal control over financial reporting testing, we should not have characterized this exclusion from our internal control over financial reporting testing as a scope limitation.

We determined that both our Network Services division's and Globetec's account balances and processes should be excluded from our internal control over financial reporting evaluation process based on a materiality and scoping analysis that we performed similar to that prescribed by paragraphs 22 and 23 of Auditing Standard No. 2 – An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of the Financial Statement. Pursuant to this materiality and scoping analysis, we determined that the account balances and processes of each of our Network Services division and Globetech were insignificant from a quantitative and qualitative perspective. We based our conclusion on the fact that our Network Services division's and Globetec's combined net assets, revenues and net loss as of and for the year ended December 31, 2004 were $7.8 million, $24.7 million and $1.8 million, respectively, each of which is less than 4% of the related line items on our financial statements, and therefore individually and in the aggregate immaterial to our financial position and operations. We therefore determined that the lack of testing of the internal controls over financial reporting of our Network Services division and Globetec would not lead to a material misstatement of our financial statements.

Changes in Internal Control over Financial Reporting — There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent auditors have issued an attestation report on management's assessment of our internal control over financial reporting. That report appears below.

Attestation Report of the Registered Public Accounting Firm

The Board of Directors and Stockholders of
MasTec, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A, that MasTec, Inc. did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effect of the material weakness identified in management's assessment, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MasTec, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operation effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness was identified and included in management's assessment:

> Management identified weaknesses in internal controls involving inventory practices and policies in the Company's ITS division, with respect to inventory pricing on receipt and the related cost of revenue, and inventory tracking prior to sale or use. Management believes this constitutes a material weakness in internal control over the financial reporting process, including the Company's closing process, as it relates to this division. As a result of this weakness, a significant adjustment to correct for this weakness was required and has been recorded by the Company in preparing the 2004 financial statements. Management has undertaken a review of the related account and believes that it has identified and corrected any misstatement resulting from this material weakness.
>
> Since December 31, 2004, the Company has improved the system of internal controls related to inventory by continuing to implement the Oracle inventory module into the Company's financial system and testing the system to ensure it is accurately capturing the correct prices and quantities. Once this system can be relied upon, management will not need to perform as many manual procedures.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 financial statements, and this report does not affect our report dated March 29th, 2005 on those financial statements, which expressed an unqualified opinion.

In our opinion, management's assessment that MasTec, Inc. did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, MasTec, Inc. has not maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the COSO.

/s/ BDO Seidman, LLP

Miami, FL
March 29th, 2005

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) 1. *Financial Statements* — The consolidated financial statements and the reports of the Independent Registered Public Accounting Firms are listed on page 44 through 73.

2. *Financial Statements Schedules* — The financial statement schedule information required by Item 14(a)(2) is included as part of "Note 5 — Accounts Receivable" of the Notes to Consolidated Financial Statements.

3. *Exhibits including those incorporated by reference:*

Exhibit No.	Description
3.1	Articles of Incorporation, filed as Appendix B to our definitive Proxy Statement for our 1998 Annual Meeting of Stockholders dated April 14, 1998 and filed with the Securities and Exchange Commission on April 14, 1998, and incorporated by reference herein
3.2	Second Amended and Restated Bylaws of MasTec, Inc. Amended and Restated as of May 30, 2003, filed as Exhibit 3.1 to our Form 10-Q for the quarter ended June 30, 2003 and filed with the Commission on August 14, 2003 and incorporated by reference herein
4.1	Indenture, dated as of February 4, 1998 between MasTec and First Trust national Association, as trustee relating to our 7.75% Senior Subordinated Notes Due 2008, filed as Exhibit 4.2 to our Registration Statement on Form S-4 filed on February 13, 1998 (file no. 333-46361) and incorporated by reference herein
10.1	1994 Stock Incentive Plan filed as an Appendix to our definitive Proxy Statement for our 1993 Annual and Special Meeting of Stockholders, dated February 10, 1994 and filed with the Commission on February 11, 1994 and incorporated by reference herein
10.2	1994 Stock Option Plan for Non-employee Directors filed as an Appendix to our definitive Proxy Statement for our 1993 Annual and Special Meeting of Stockholders, dated February 10, 1994 and filed with the Commission on February 11, 1994 and incorporated by reference herein
10.4	1999 Non-Qualified Employee Stock Option Plan, as amended October 4, 1999, filed as Exhibit 10.4 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.5	Revolving Credit and Security Agreement dated as of January 22, 2002 between MasTec, certain of its subsidiaries, and Fleet Financial Corporation as agent filed as Exhibit 10.2 to our Annual Report on Form 10-K for the year ended December 31, 2001, and filed with the Commission on March 28, 2002 and incorporated by reference herein
10.6	Assumption and Amendment Agreement to Revolving Credit and Security Agreement dated February 7, 2002 filed as Exhibit 10.3 to our Annual Report on Form 10-K for the year ended December 31, 2001, and filed with the Commission on March 28, 2002 and incorporated by reference herein
10.7	Amendment No. 2 to the Revolving Credit and Security Agreement dated as of October 25, 2002 between MasTec, Inc., certain of its subsidiaries, and Fleet Financial Corporation as agent, filed as Exhibit 10.7 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.8	Amendment No. 3 and Consent to the Revolving Credit and Security Agreement dated as of November 1, 2002 between MasTec, Inc., certain of its subsidiaries, and Fleet Financial Corporation as agent, filed as Exhibit 10-8 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein

Table of Contents

Exhibit No.	Description
10.9	Amendment No. 4 to the Revolving Credit and Security Agreement dated as of March 6, 2003 between MasTec, Inc., certain of its subsidiaries, and Fleet Financial Corporation as agent, filed as Exhibit 10.9 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.11+	Employment Agreement dated September 27, 2002, between MasTec, Inc. and Austin J. Shanfelter, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended September 20, 2002, and filed with the Commission on November 14, 2002 and incorporated by reference herein
10.12+	Severance Agreement with Jose Sariego dated as of December 31, 2002, filed as Exhibit 10.14 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.13+	Split-Dollar Agreement effective August 27, 2002 between MasTec, Inc. and Jorge Mas, filed as Exhibit 10.15 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.14+	Split-Dollar Agreement effective September 13, 2002 between MasTec, Inc. and Jorge Mas, filed as Exhibit 10.16 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.15+	First Amendment to the Split-Dollar Agreement dated September 13, 2002 between MasTec, Inc. and Jorge Mas, filed as Exhibit 10.17 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.16+	Split-Dollar Agreement effective September 13, 2002 between MasTec, Inc. and Austin J. Shanfelter, filed as Exhibit 10.18 to our Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated by reference herein
10.17	2003 Employee Stock Incentive Plan, filed as Appendix B to our definitive proxy statement for our 2003 Annual Meeting of Shareholders, dated April 25, 2003 and incorporated by reference herein
10.18	Amendment No. 5 to our Revolving Credit and Security Agreement dated as of September 18, 2003 between MasTec, Inc., certain of its subsidiaries and Fleet Financial Corporation as agent, filed as Exhibit 10.1 to our Form 10-Q for the quarter ended September 30, 2003 and incorporated by reference herein
10.19	Amended and Restated 2003 Stock Incentive Plan for Non-Employees, filed as Appendix A to our definitive proxy statement for a Special Meeting of Shareholders, dated November 17, 2003 and incorporated by reference herein
10.21	Amendment No. 6 to the Revolving Credit and Security Agreement dated as of December 29, 2003 between MasTec, Inc., certain of its subsidiaries and Fleet Financial Corporation as agent, filed as Exhibit 10.2 to our Registration Statement on Form S-3 (file no. 333-111845) and incorporated by reference herein
10.22	Amendment No. 7 to the Revolving Credit and Security Agreement dated as of July 22, 2004 between MasTec, Inc., certain of its subsidiaries and Fleet Financial Corporation, as agent, filed as Exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated by reference herein
10.23+	Separation Agreement and General Release entered into as of March 22, 2004 between MasTec, Inc. and Eric J. Tveter, filed as Exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated by reference herein
10.24+	Separation Agreement and General Release entered into as of March 11, 2004 between MasTec, Inc. and Donald P. Weinstein, filed as Exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated by reference herein
10.25+	Separation Agreement and General Release entered into as of August 7, 2001 between MasTec, Inc. and Joel Citron, filed as Exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated by reference herein
10.26	Amendment No. 8 to Revolving Credit and Security Agreement dated October 4, 2004, filed as Appendix A to our Form 8-K filed October 8, 2004
10.27+	Employment Agreement, dated October 12, 2004 between C. Robert Campbell and MasTec, Inc. , filed as Appendix A to our Form 8-K filed October 21, 2004
10.28	Amendment No. 9 to Revolving Credit and Security Agreement dated December 29, 2004, filed as Exhibit 10.28 to our Form 10-Q for the three months ended September 30, 2004 and incorporated by reference herein
10.29+	Employment Agreement dated January 3, 2005 between Gregory S. Floerke and MasTec, Inc.
10.30+**	Split-Dollar Agreement effective July 16, 2004 between MasTec, Inc and Jose Mas

Exhibit No.	Description
10.31**	Amendment No. 10 to Revolving Credit and Security Agreement dated March 17, 2005
21.1**	Subsidiaries of MasTec
23.1*	Consent of Independent Registered Public Accounting Firm (BDO Seidman LLP)
23.2*	Consent of Independent Registered Public Accounting Firm (Ernst & Young LLP)
31*	Certifications required by Section 302(b) of the Sarbanes-Oxley Act of 2002
32*	Certifications required by Section 906 of the Sarbanes-Oxley Act of 2002

* Exhibits filed with this Form 10-K/A

** Previously filed with the Form 10-K

\+ Management contract or compensation plan arrangement

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida, on August 3, 2005.

MASTEC, INC.

/s/ AUSTIN J. SHANFELTER

Austin J. Shanfelter
President and Chief Executive Officer
(Principal Executive Officer)

/s/ C. ROBERT CAMPBELL

C. Robert Campbell
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-112010, 333-105781, 333-105516, 333-38932, 333-77823, 333-47003, 333-30647, 033-55327, Form S-4 No. 333-79321, and Form S-3 No 333-46067) of MasTec, Inc. of our reports dated March 31, 2005 relating to the consolidated financial statements and the effectiveness of MasTec, Inc.'s internal control over financial reporting for the year ended December 31, 2004, which appear in this Form 10-K/A.

/s/ BDO Seidman LLP

Miami, Florida
July 29, 2005

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-112010, 333-105781, 333-105516, 333-38932, 333-77823, 333-47003, 333-30647, 033-55327, Form S-4 No. 333-79321, and Form S-3 No. 333-46067) pertaining to MasTec, Inc. of our report dated July 23, 2004 except for Note 10, as to which the date is March 30, 2005, with respect to the consolidated balance sheets of MasTec, Inc. as of December 31, 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) included in the Annual Report (Form 10-K/A) for the year ended December 31, 2004.

/s/ Ernst and Young LLP

Miami, Florida
July 28, 2005

Exhibit 31.1

Certifications

I, Austin Shanfelter, certify that:

I have reviewed this Form 10-K/A of MasTec, Inc;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2005

/s/ Austin J. Shanfelter

Austin J. Shanfelter
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certifications

I, C. Robert Campbell, certify that:

I have reviewed this Form 10-K/A of MasTec, Inc;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2005

/s/ C. Robert Campbell
C. Robert Campbell
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of MasTec, Inc. (the "Company") on Form 10-K/A for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Austin J. Shanfelter, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2005

/s/ Austin J. Shanfelter
Name: Austin J. Shanfelter
Title: President and Chief Executive Officer

The certification set forth above is being furnished as an Exhibit solely pursuant to Section 906 of the Sarbanes–Oxley Act of 2002 and is not being filed as part of the Annual Report of MasTec, Inc. on Form 10-K/A for the period ending December 31, 2004, or as a separate disclosure document of the Company or the certifying officers.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of MasTec, Inc. (the “Company”) on Form 10-K/A for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, C. Robert Campbell, Executive Vice President — Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2005

/s/ C. Robert Campbell
Name: C. Robert Campbell
Title: Executive Vice President/ Chief Financial Officer

The certification set forth above is being furnished as an Exhibit solely pursuant to Section 906 of the Sarbanes–Oxley Act of 2002 and is not being filed as part of the Annual Report of MasTec, Inc. on Form 10-K/A for the period ending December 31, 2004, or as a separate disclosure document of the Company or the certifying officers.