WIRELESS FACILITIES INC
Form 10-Q/A
April 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JULY 1, 2005

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

Commission file number 0-27231

WIRELESS FACILITIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3818604**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4810 Eastgate Mall
San Diego, CA 92121
(858) 228-2000

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicated by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). Yes o No x

As of August 5, 2005 there were 71,679,171 shares of the registrant s common stock outstanding.

EXPLANATORY NOTE

Wireless Facilities, Inc. (the Company) is filing this Quarterly Report on Form 10-Q/A for the fiscal quarter ended June 30, 2005 (this Amendment) to reflect the restatement of its consolidated financial statements for the fiscal quarter ended June 30, 2005 and to amend and restate Items 1, 2 and 4 of Part I, Item 6 of Part II and the principal executive officer and principal financial officer certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 contained in the original filing made with the Securities and Exchange Commission on August 10, 2005 (the Prior Report). Please refer to Note 1(b) of the financial statements included in Item 1 for a description and quantification of the restatement.

This Prior Report has not been updated except to comply with changes in the required form of Quarterly Report on Form 10-Q and as required to reflect the effects of the restatement and the amendment and restatement of the items indicated above. Items included in the Prior Report that are not included herein are not amended and remain in effect as of the date of the original filing of the Prior Report. Additionally, other than as indicated above, this Amendment does not provide an update or a discussion of any other events that have occurred since the filing of the Prior Report. Accordingly, this Amendment should be read in conjunction with any filings made with the Securities and Exchange Commission subsequent to the filing of the Prior Report.

WIRELESS FACILITIES, INC.

FORM 10-Q/A

FOR THE QUARTERLY PERIOD ENDED JULY 1, 2005

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WIRELESS FACILITIES, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited in millions, except par value and number of shares)

	December 31, 2004	June 30, 2005 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 54.4	$ 24.3
Restricted cash		0.1
Short-term investments	7.6	
Accounts receivable, net	133.4	129.3
Prepaid expenses	3.0	5.1
Employee loans and advances, net	0.6	0.5
Other current assets	6.4	8.1
Total current assets	205.4	167.4
Property and equipment, net	13.4	15.0
Goodwill	82.6	116.4
Other intangibles, net	6.4	8.3
Deferred tax assets, net	20.1	17.7
Investments in unconsolidated affiliates	2.1	2.1
Other assets	0.7	1.2
Total assets	$ 330.7	$ 328.1
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 31.7	$ 25.3
Accrued expenses	29.2	34.5
Accounts payable related party	1.0	1.2
Billings in excess of costs on contracts	7.7	5.6
Tax contingencies	15.0	15.5
Accrual for contingent acquisition consideration	14.6	8.9
Accrual for unused office space	0.9	0.7
Income taxes payable	5.6	2.8
Capital lease obligations short-term	0.2	0.3
Current liabilities of discontinued operations	0.8	0.2
Total current liabilities	106.7	95.0
Accrual for unused office space, net of current portion	1.7	1.4
Capital lease obligations, net of current portion		0.5
Other liabilities	1.3	1.3
Total liabilities	109.7	98.2
Minority interest in subsidiary	0.3	0.3
Commitments and contingencies (Note 1)		
Stockholders equity:		
Preferred stock, 5,000,000 shares authorized		
Series B Convertible Preferred Stock, $.001 par value, 25,483 shares outstanding at December 31, 2004 and June 30, 2005, respectively (liquidation preference $12.7)		
Common Stock, $.001 par value, 195,000,000 shares authorized; 71,103,301 and 71,555,061 shares issued and outstanding at December 31, 2004 and June 30, 2005, respectively	0.1	
Additional paid-in capital	319.8	322.0
Accumulated deficit	(95.4)	(88.6)
Accumulated other comprehensive loss	(3.8)	(3.8)
Total stockholders equity	220.7	229.6
Total liabilities and stockholders equity	$ 330.7	$ 328.1

See accompanying notes to unaudited consolidated financial statements.

WIRELESS FACILITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in millions, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2004	2005 (Restated)	2004	2005 (Restated)
Revenues	$ 102.7	$ 109.0	$ 199.8	$ 210.2
Cost of revenues	78.8	84.9	154.2	163.3
Gross profit	23.9	24.1	45.6	46.9
Selling, general and administrative expenses	14.6	18.9	29.2	36.1
Operating income	9.3	5.2	16.4	10.8
Other income (expense), net:				
Interest income, net			0.1	0.2
Foreign currency gain (loss)	(0.4)	0.1	(0.2)	(0.1)
Impairment of investment in unconsolidated affiliate and other expenses, net	(3.0)		(2.9)	
Other income (expense), net	(3.4)	0.1	(3.0)	0.1
Income before provision for income taxes	5.9	5.3	13.4	10.9
Provision for income taxes	1.7	2.0	3.2	4.1
Income from continuing operations	4.2	3.3	10.2	6.8
Loss from discontinued operations	(2.5)		(2.7)	
Net income	$ 1.7	$ 3.3	$ 7.5	$ 6.8
Basic earnings (loss) per common share:				
Income from continuing operations	$ 0.06	$ 0.04	$ 0.14	$ 0.09
Loss from discontinued operations	(0.04)		(0.04)	
Net income	$ 0.02	$ 0.04	$ 0.10	$ 0.09
Diluted earnings (loss) per share:				
Income from continuing operations	$ 0.06	$ 0.04	$ 0.13	$ 0.09
Loss from discontinued operations	(0.04)		(0.03)	
Net income	$ 0.02	$ 0.04	$ 0.10	$ 0.09
Weighted average common shares outstanding:				
Basic	72.6	73.9	72.4	73.8
Diluted	75.5	74.8	76.2	75.4

See accompanying notes to unaudited consolidated financial statements.

WIRELESS FACILITIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Six months ended June 30, 2004	2005 (Restated)
Operating activities:		
Net income from continuing operations	$ 10.2	$ 6.8
Adjustments to reconcile net to net cash provided by (used in) operating activities:		
Depreciation and amortization	3.4	4.0
Deferred tax asset	1.9	2.4
Credit for doubtful accounts	(0.7)	
Equity loss in unconsolidated affiliates	3.2	
Stock based compensation expense		0.1
Net loss on disposition of fixed assets		0.4
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(36.8)	11.8
Accounts receivable related party	0.2	
Prepaid expenses	(0.7)	(1.8)
Other assets	2.0	(1.9)
Accounts payable	8.0	3.5
Accrued expenses	(3.4)	(5.7)
Tax contingencies		(0.7)
Accounts payable related party		0.2
Billings in excess of costs on contracts	(2.2)	(2.1)
Accrual for contingent acquisition consideration		0.2
Accrual for unused office space	(0.5)	(0.5)
Other liabilities	1.8	(2.8)
Net cash provided by (used in) continuing operations	$ (13.6)	$ 13.9
Loss from discontinued operations	(2.7)	
Changes in net assets and liabilities of discontinued operations	2.9	(0.6)
Net cash used in discontinued operations	0.2	(0.6)
Net cash provided by (used in) operating activities	(13.4)	13.3
Investing activities:		
Capital expenditures	(3.2)	(4.2)
Proceeds from sale of short-term investments	33.8	7.6
Investment in unconsolidated subsidiary	(1.0)	
Cash paid for contingent consideration	(8.3)	(15.5)
Cash paid for company acquisitions, net of cash received	(47.4)	(33.4)
Increase in restricted cash	(1.0)	(0.1)
Net cash used in investing activities	(27.1)	(45.6)
Financing activities:		
Proceeds from issuance of common stock	5.4	0.9
Proceeds from issuance of common stock under employee stock purchase plan	2.0	1.1
Repayment of capital lease obligations	(0.3)	0.1
Net cash provided by financing activities	7.1	2.1
Effect of exchange rate on cash and cash equivalents	(0.8)	0.1
Net decrease in cash and cash equivalents	(34.2)	(30.1)
Cash and cash equivalents at beginning of period	79.1	54.4
Cash and cash equivalents at end of period	$ 44.9	$ 24.3
Supplemental disclosure of cash flow information:		
Cash received during the period for interest	$ 0.1	$ 0.2
Net cash refunded (paid) during the period for income taxes	$ 0.5	$ (3.7)
Supplemental disclosures of non-cash investing and financing transactions:		
Fair value of assets acquired in acquisitions	$ 54.8	$ 40.0
Cash paid for acquisitions	48.5	33.4
Liabilities assumed in acquisitions	$ 6.3	$ 6.6

A financing obligation of $0.6 million was incurred when the Company purchased software licenses during the six months ended June 30, 2005.

See accompanying notes to unaudited consolidated financial statements.

WIRELESS FACILITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and Summary of Significant Accounting Policies

(a) Description of Business

Wireless Facilities, Inc. (WFI or the Company) was initially incorporated in the state of New York on December 19, 1994, commenced operations in March 1995 and was reincorporated in Delaware in 1998. WFI conducts business in three segments: Wireless Network Services, Government Network Services and Enterprise Network Services. WFI is an independent, global provider of outsourced communications and security systems engineering and integration services for the wireless communications industry through its Wireless Network Services division (WNS), the U.S. government through its Government Network Services division (GNS), WFI Government Services, Inc., and enterprise customers through its Enterprise Network Services division (ENS).

(b) Restatement of Interim Financial Statements

On March 10, 2006, the Company determined that its unaudited interim financial statements for the quarters ended July 1, 2005 and September 30, 2005 required revision to reflect the accounting impact of the cancellation of certain sites by its customer in Mexico during those periods. The reason for the revisions was the Company s determination that a customer in Mexico had cancelled sites in June, July and August of 2005 that the Company s subsidiary in Mexico was building. Although the Company had an agreement with its customer to build these sites, the terms and conditions of the agreement did not provide for recovery by the Company of costs incurred on in-process sites in the event of site cancellation, unless agreed to by the customer.

Senior management as well as the Audit Committee first became aware of communications regarding these site cancellations after the replacement of certain managers in these operations in the fourth quarter of 2005. The replacement of these managers was prompted by certain control deficiencies and required improvements to the entity level control environment that the Company had identified in certain of its Latin American operations in the third quarter of 2005. As the Company disclosed in Item 4 of its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, as filed November 9, 2005 these control deficiencies included required improvements in the following areas; (i) contracts: a thorough review of all existing contractual documents was required to ensure that the Company has the proper formal contractual documentation necessary to support the project estimate at completion computation, and (ii) project costs: additional procedures were required to ensure that certain expenditures have been properly classified as project direct costs.

Shortly after the Company made the change in managers of these operations, information related to the site cancellations was brought for the first time to the attention of the Company s executive management team who then commenced an investigation and analysis of such information under the oversight of the Audit Committee. During the in-depth review of this matter by the Company s executive management team, it was discovered that the information concerning these sites, as reported by the former managers of these operations, was inconsistent with facts revealed in documents discovered by executive management conducting the investigation. Also during the review, it became apparent that certain former managers had, in prior periods, reported the status of the cancelled sites to executive management in a manner which was inconsistent with the documents in possession of the former managers. At the conclusion of this investigation and analysis, the Company determined that the unrecoverable costs

associated with the cancelled sites should have been recognized in the second and third fiscal quarters of 2005. As a result, the Company is concurrently filing this Amended Report on Form 10-Q and an amendment to its previously filed Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 to effect revisions reflecting the appropriate recognition of the unrecoverable costs in those periods. The previously issued unaudited interim financial statements for those periods should no longer be relied upon.

The following table (in millions) shows the impact of the restatements of the relevant captions from the Company s consolidated balance sheet as of June 30, 2005. These tables contain only the changed balances and do not represent the complete balance sheet.

	As Previously Reported	Adjustments	As Restated
Accounts receivable, net	$ 131.1	$ (1.8)	$ 129.3
Other current assets	6.9	1.2	8.1
Total current assets	168.0	(0.6)	167.4
Deferred tax assets, net	17.1	0.6	17.7
Accrued expenses	33.5	1.0	34.5
Total current liabilities	94.0	1.0	95.0
Total liabilities	97.2	1.0	98.2
Accumulated deficit	(87.6)	(1.0)	(88.6)
Total stockholders equity	230.6	(1.0)	229.6

The following tables (in millions, except for per share data) show the impact of the restatements of the relevant captions from the Company s consolidated statements of operations for the three and six months ended June 30, 2005. These tables contain only the changed balances and do not represent the complete statements of operations.

	Three months ended June 30, 2005		
	As Previously Reported	Adjustments	As Restated
Revenues	$ 110.8	$ (1.8)	$ 109.0
Cost of revenues	85.1	(0.2)	84.9
Gross profit	25.7	(1.6)	24.1
Operating income	6.8	(1.6)	5.2
Income from continuing operations before taxes	6.9	(1.6)	5.3
Provision (benefit) for income taxes	2.6	(0.6)	2.0
Income from continuing operations	4.3	(1.0)	3.3
Net income	4.3	(1.0)	3.3
Basic earnings per common share:			
Income from continuing operations	$ 0.06		$ 0.04
Diluted earnings per share:			
Income from continuing operations	$ 0.06		$ 0.04
Weighted average common shares outstanding:			
Basic	71.3		73.9
Diluted	74.8		74.8

	Six months ended June 30, 2005		
	As Previously Reported	Adjustments	As Restated
Revenues	$ 212.0	$ (1.8)	$ 210.2
Cost of revenues	163.5	(0.2)	163.3
Gross profit	48.5	(1.6)	46.9
Operating income	12.4	(1.6)	10.8
Income from continuing operations before taxes	12.5	(1.6)	10.9
Provision (benefit) for income taxes	4.7	(0.6)	4.1
Income from continuing operations	7.8	(1.0)	6.8
Net income	7.8	(1.0)	6.8
Basic earnings per common share:			
Income from continuing operations	$ 0.11		$ 0.09
Diluted earnings per share:			
Income from continuing operations	$ 0.10		$ 0.09
Weighted average common shares outstanding:			
Basic	71.2		73.8
Diluted	75.4		75.4

The following table (in millions) shows the impact of the restatements of the relevant captions from the Company s consolidated statements of cash flows for the six months ended June 30, 2005. These tables contain only the changed balances and do not represent the complete statements of cash flows.

	Six months ended June 30, 2005		
	As Previously Reported	Adjustments	As Restated
Net income from continuing operations	$ 7.8	$ (1.0)	$ 6.8
Deferred tax asset	3.0	(0.6)	2.4
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	10.0	1.8	11.8
Other assets	(0.7)	(1.2)	(1.9)
Accrued expenses	(6.7)	1.0	(5.7)

(c) Fiscal Calendar and Basis of Presentation

The consolidated financial statements include the accounts of WFI and its wholly-owned and majority owned subsidiaries. WFI and its subsidiaries are collectively referred to herein as the Company.

The Company operates and reports using a 52-53 week fiscal year ending the last Friday in December. As a result, a fifty-third week is added every five or six years. Our 52 week fiscal year consists of four equal quarters of 13 weeks each, and our 53 week fiscal year consists of three 13 week quarters and one 14 week quarter. The financial results for our 53 week fiscal years and our 14 week fiscal quarters will not be exactly comparable to our 52 week fiscal years and our 13 week fiscal quarters. The 2004 and 2005 quarters presented in this report on Form 10-Q have the same number of weeks. For presentation purposes, all fiscal periods presented or discussed in this report have been presented as ending on the last day of the nearest calendar month. For example, our second quarter ended on July 1, 2005, but we present our quarter as ending on June 30, 2005.

The information as of June 30, 2005, and for the three months ended June 30, 2004 and 2005 is unaudited. In the opinion of management, these unaudited consolidated financial statements include all

adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the interim periods presented. Interim operating results are not necessarily indicative of operating results expected in subsequent periods or for the year as a whole. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in WFI s annual consolidated financial statements for the year ended December 31, 2004, filed with the United States Securities and Exchange Commission on Form 10-K on March 31, 2005, as amended on April 29, 2005.

The unaudited consolidated financial statements include the accounts of WFI and its wholly-owned and majority-owned subsidiaries. WFI and its subsidiaries are collectively referred to herein as the Company.

(d) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In the future, the Company may realize actual results that differ from the current reported estimates. The Company s significant estimates include those related to revenue recognition, allowance for doubtful accounts, valuation of long-lived assets including identifiable intangibles and goodwill, accounting for income taxes including the related valuation allowance, accruals for partial self-insurance, contingencies, litigation, and contingent acquisition consideration.

(e) Reclassifications

Certain prior period amounts have been reclassified to the extent deemed necessary in order to conform with the current period presentation.

(f) Cash and Cash Equivalents, Restricted Cash, and Short-Term Investments

The Company s cash equivalents consist of its highly liquid investments with an original maturity of three months or less as of the date purchased by the Company. At December 31, 2004, the Company s short-term investments consist of corporate notes and bonds and U.S. government and agency securities. The Company s restricted cash relates to a deposit on a credit card arrangement.

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The Company has evaluated its investment policies consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Based on such evaluation, the Company s management has determined that all of its investment securities are properly classified as available-for-sale. Based on the Company s intent, investment policies and related ability to liquidate debt securities maturing after one year during the one-year operating cycle, the Company classified such short-term investment securities within current assets as of December 30, 2004. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of Stockholders Equity under the caption Accumulated Other Comprehensive Income or Loss . The amortized cost basis of debt securities is periodically adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included as a component of interest income (expense). The amortized cost basis of securities sold is based on the specific identification method and all such realized gains and losses are recorded to other income (expense), net. Interest and dividends on securities classified as available-for-sale are included in interest income.

	June 30, 2005 Amortized Cost Basis	**Fair Value Basis**
Cash and cash equivalents:		
Cash	$ 17.1	$ 17.1
Money market	7.2	7.2
Cash and cash equivalents	24.3	24.3
Restricted cash	0.1	0.1
Cash and cash equivalents and restricted cash	$ 24.4	$ 24.4

There were no net unrealized gains or losses for quarter ended June 30, 2005. The realized gains from the sale of short-term investments for the quarter ended June 30, 2005 was immaterial.

(g) Revenue Recognition

The Company provides services for four primary types of contracts: fixed-price long-term turnkey; time and materials; cost plus; and contract management and out of pocket reimbursables. The Company realizes a significant portion of its revenue from long-term contracts and accounts for these contracts under the provisions of Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Revenue on fixed-price contracts is recognized using the percentage-of-completion method of accounting based on the ratio of total costs incurred to date compared to estimated total costs to complete the contract. Estimates of costs to complete include materials, direct labor, overhead, and allowable general and administrative expenses. While the Company generally does not incur a material amount of set-up fees for its projects, such costs, if any, are excluded from the estimated total costs to complete the contract. Cost estimates are reviewed monthly on an individual contract basis, and are revised periodically throughout the life of the contract such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. The full amount of an estimated loss associated with a contract is accrued and charged to operations in the period it is determined that it is probable a loss will be realized from the performance of the contract. Significant management judgments and estimates, including the estimated costs to complete projects, which determine the project s percent complete, must be made and used in connection with the revenue recognized in any accounting period. In the future, the Company may realize actual results that differ from current estimates.

Accordingly, the revenue we recognize in a given financial reporting period depends on (1) the costs we have incurred for individual projects, (2) our then current estimate of the total remaining costs to complete the individual projects and (3) current estimated contract value associated with the projects. If, in

any period, we significantly increase or decrease our estimate of the total costs to complete a project, and/or reduce or increase the associated contract value, revenue for that period would be impacted. To the extent that our estimates fluctuate over time or differ from actual results, gross margins in subsequent periods may vary significantly from our estimates. Material differences may result in the amount and timing of our revenue for any period if management made different judgments or utilized different estimates.

Many of the Company s contracts are master service agreements under which the Company is contracted to provide services to deploy a pre-determined and specific number of wireless telecommunication sites in specific geographic markets. These contractual arrangements with the Company s customers typically include milestone billings. The milestone billing clauses relate specifically to the timing of customer billings and payment schedules, and are independent of the Company s right to payment and the timing of when revenue is recognized. Under the terms of substantially all of the Company s contracts, if a contract is terminated without proper cause by the customer, if the customer creates unplanned/unreasonable time delays, or if the customer modifies the contract tasks/scope, the Company has contractual rights to reimbursement in accordance with the terms and conditions regarding payment for work performed, but not yet billed (i.e., unbilled trade accounts receivable) at a gross profit margin that is consistent with the project margin for the work performed. Furthermore, certain additional provisions indemnify the Company for additional or excess costs incurred, whereby any scope reductions (i.e., reduction in original number of sites) or other modifications are subject to reimbursement of costs incurred to date with a reasonable profit margin based on the contract value and completed work at that time. The inherent aforementioned risks associated with the presence of potential partial milestone billings or reductions in scope or scope modifications are reflected in the Company s ongoing periodic assessment of the total contract value and the associated revenue recognized and, hence, any allowance for unbilled trade accounts receivable. Total net unbilled accounts receivable at December 31, 2004 and June 30, 2005 were $56.0 and $71.3 million, respectively. Total retainages included in accounts receivable were $1.9 million and $1.4 million at June 30, 2005 and December 31, 2004, respectively. Allowances for doubtful accounts as of December 31, 2004 and June 30, 2005 were $1.8 million and $0.7 million, respectively. Management determines the adequacy of this allowance by periodically evaluating the aging and past due nature of individual customer accounts receivable balances and considering the customer s current financial situation as well as the existing industry economic conditions and other relevant factors that would be useful toward assessing the risk of collectibility.

Revenue from time and materials contracts is recognized when it is realized or realizable and earned, in accordance with Staff Accounting Bulletin (SAB) 101, as revised by SAB 104 (recognized when services are rendered at contracted labor rates, when materials are delivered and when other direct costs are incurred). Additionally, based on management s periodic assessment of the collectibility of its accounts receivable, credit worthiness and financial condition of customers, the Company determines if collection is reasonably assured prior to the recognition of revenue.

The Company s government network services business with the U.S. government and prime contractors is generally performed under cost reimbursable plus fixed fee, fixed price or time and material contracts. Cost reimbursable contracts for the government provide for reimbursement of costs plus the payment of a fee. Under fixed-price contracts, the Company agrees to perform certain work for a fixed price. Under time and materials contracts, the Company is reimbursed for labor hours at negotiated hourly billing rates and is reimbursed for travel and other direct expenses at actual costs plus applied general and administrative expenses.

Under certain of its contracts, the Company provides supplier procurement and material purchases for its customers. The Company records revenue on these arrangements on a gross or net basis in accordance with EITF 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent,

depending on the specific circumstances of the arrangement. The Company considers the following criteria, among others, for recording revenue on a gross or net basis:

(1) Whether the Company acts as a principal in the transaction:

(2) Whether the Company takes title to the products;

(3) Whether the Company assumes risks and rewards of ownership, such as risk of loss for collection, delivery or returns;

(4) Whether the Company serves as an agent or broker, with compensation on a commission or fee basis; and

(5) Whether the Company assumes the credit risk for the amount billed to the customer subsequent to the delivery.

(h) Stock-based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25 to account for its stock option plans. Under this method, compensation expense is measured on the date of grant by comparing the current market price of the underlying stock to the exercise price. If the exercise price is less than the market price compensation expense is recorded on a straight-line basis over the applicable vesting period. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure.

On May 18, 2005, the Compensation Committee of the Company s Board of Directors approved the acceleration of vesting of all unvested options to purchase shares of the Company s common stock that are held by current employees, including executive officers, and which have an exercise price per share equal to or greater than $10.00. Options to purchase 2,044,487 shares of common stock are subject to this acceleration. The exercise prices and number of shares subject to the accelerated options were unchanged.

The acceleration of these options was undertaken to eliminate the future compensation expense that the Company would otherwise recognize in its consolidated statement of operations with respect to these options once the Financial Accounting Standards (FASB) No. 123 (revised 2004) Share-Based Payment , issued by the Financial Accounting Standards Board, becomes effective. As originally issued by the FASB, SFAS No. 123 was to be implemented as of the beginning of the first interim or annual period beginning after June 15, 2005. In April, 2005, the SEC announced it will permit companies to implement SFAS No. 123R at the beginning of the next fiscal year. The future expense that is eliminated as a result of the acceleration of the vesting of these options is approximately $12.9 million (of which approximately $7.6 million is attributable to options held by executive offers and $0.4 million is attributable to options held by directors).

Under SFAS No. 123, the weighted average option price of stock options granted during the six months ended June 30, 2004 and 2005 were $10.41 and $6.60, respectively, on the date of grant. Fair value under SFAS No. 123 is determined using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended June 30, 2004	2005	Six months ended June 30, 2004	2005
Expected term (Hold Period):				
Stock Options	4 years	4 years	4 years	4 years
Purchase Plan	6 months	6 months	6 months	6 months
Interest Rate	3.14 %	3.89 %	3.14 %	3.89 %
Volatility	100 %	77 %	100 %	77 %
Dividends				

Had compensation expense been recognized for stock-based compensation plans under the fair value method in accordance with SFAS No. 123, the Company would have recorded the following net income (loss) and net income (loss) per share amounts (in millions, except per share amounts):

	Three months ended June 30, 2004	2005 (Restated)	Six months ended June 30, 2004	2005 (Restated)
Net income	$ 1.7	$ 3.3	$ 7.5	$ 6.8
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(4.0)	(2.8)	(9.8)	(6.2)
Pro forma net income (loss)	$ (2.3)	$ 0.5	$ (2.3)	$ 0.6
Earnings (loss) per common share:				
Basic as reported	$ 0.02	$ 0.04	$ 0.10	$ 0.09
Basic pro forma	$ (0.03)	$ 0.01	$ (0.03)	$ 0.01
Diluted as reported	$ 0.02	$ 0.04	$ 0.10	$ 0.09
Diluted pro forma	$ (0.03)	$ 0.01	$ (0.03)	$ 0.01
Weighted average shares:				
Basic as restated and pro forma	72.6	73.9	72.4	73.8
Diluted as reported	75.5	74.8	76.2	75.4
Diluted pro forma	68.3	74.8	66.2	75.4

(i) Accrual for Unused Office Space

As a result of the Company s operating results and the economic environment in the telecommunications industry, during 2002, the Company recorded a charge for unused office space. The accrual for loss on unused office space as of December 31, 2004 and June 30, 2005 was $2.6 million and $2.1 million, respectively. The Company estimates that the remaining accrual will be utilized through 2010, the term of the Company s lease agreements.

(j) Tax Contingencies

The Company assesses tax uncertainties and exposure items after taking into consideration the probability of the tax contingencies being incurred. Accordingly, based upon the Company s assessment of the probability of these tax contingencies, it determined that accruals of $13.1 million and $13.5 million were required for foreign tax contingencies as of December 31, 2004 and June 30, 2005, respectively; $1.0 million was required for sales and use tax contingencies as of December 31, 2004 and June 30, 2005,

respectively; and $0.9 million and $1.0 million were required for VAT tax contingencies as of December 31, 2004 and June 30, 2005, respectively.

(k) Income Taxes

The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company maintains a valuation allowance on the portion of the deferred tax assets for which it is more likely than not that the Company will not realize the benefits of these tax assets in future tax periods. The valuation allowance is based on estimates of future taxable income by tax jurisdiction in which the Company operates, the number of years over which the deferred tax assets will be recoverable, and scheduled reversals of deferred tax liabilities.

In assessing the realizability of deferred tax assets, management considers, on a periodic basis, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(l) Foreign Currency Translation

In accordance with SFAS No. 52 Foreign Currency Translation, the financial statements of the Company s foreign subsidiaries where the functional currency has been determined to be the local currency are translated into United States dollars using period-end rates of exchange for assets and liabilities and rates of exchange that approximate the rates in effect at the transaction date for revenues, expenses, gains and losses.

(2) Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R). As amended by Securities and Exchange Commission Release No. 33-8568, Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No 123 (Revised 2004), *Share-Based Payment* , FAS 123R is effective for interim or annual periods beginning after June 15, 2005 (January 1, 2006 for the Company). The Company has not completed its analysis of the estimated impact of adopting the provisions of SFAS No. 123R. If the Company continues to use the Black Scholes method, the Company does not believe the impact will be materially different than the pro forma disclosure in Note 1 (g).

FAS 123R will require all share-based payment transactions, including those with employees, to be measured at fair value. Moreover, the fair value of share-based payment awards (including employee stock option grants) will be recognized as expense in the statements of operations over the requisite service period of each award. FAS 123R also changes the manner in which deferred taxes are recognized on share-based payment awards, as well as the accounting for award modifications.

In December 2004 the FASB issued Statement of Financial Accounting Standards No. 153 Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does

not believe the adoption of SFAS No. 153 will have a material impact on its operating results and its financial position.

In May 2005, the FASB issued Statement of Financial Standard No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3 SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was affected by a change in accounting principle, and (2) correction of errors in previously issued financial statements shall be termed a restatement. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

(3) Net Income Per Common Share

The Company calculates net income per share in accordance with the provisions of SFAS No. 128, Earnings Per Share . Under SFAS No. 128, basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the reporting period. The Company adopted EITF No. 03-6 Participating Securities and the Two-Class Method under FASB Statement No. 128 on January 1, 2005. In accordance with EITF No. 03-6, the Company determined that its Series B Convertible Preferred Stock were participating securities, and therefore were required to be included in the weighted average basic shares. Accordingly, all prior year amounts presented have been restated to reflect the current year presentation. Diluted net income per common share reflects the effects of potentially dilutive securities. Weighted average shares used to compute basic and diluted net income per share are presented below (in millions):

	Three months ended June 30,		**Six months ended June 30,**	
	2004	**2005**	**2004**	**2005**
Income from continuing operations	$ 4.2	$ 3.3	$ 10.2	$ 6.8
Weighted average shares, basic (restated)	72.6	73.9	72.4	73.8
Dilutive effect of stock options	2.9	0.9	3.8	1.6
Dilutive effect of contingently issuable shares pursuant to Employee Stock Purchase Plan				
Weighted average shares, diluted	75.5	74.8	76.2	75.4
Basic income from continuing operations per share	$ 0.06	$ 0.04	$ 0.14	$ 0.09
Diluted income from continuing operations per share	$ 0.06	$ 0.04	$ 0.13	$ 0.09

The following instruments were not included in the calculation of diluted net income per share because the effect of these instruments was anti-dilutive (in millions):

	Three months ended June 30,		**Six months ended June 30,**	
	2004	**2005**	**2004**	**2005**
Dilutive effect of Stock options	4.5	9.6	2.6	6.3
Average market value of stock per share	$ 9.94	$ 5.74	$ 11.94	$ 6.77
Average outstanding stock option price per share	$ 9.82	$ 8.77	$ 9.82	$ 8.77

(4) Investments in Unconsolidated Affiliates

Tactical Survey Group, Inc.

On February 23, 2004, the Company paid $1.0 million in cash to acquire an 11.4% interest in Tactical Survey Group, Inc. (TSG), a privately-held company that provides expertise in developing, deploying and integrating tactical survey systems for use in government and commercial applications. Pursuant to the provisions of APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB 18), this investment is accounted for under the equity method of accounting due to the presence of significant influence deemed to exist based on the significant number of contracts that the Company has entered into with TSG and the presence of a Company employee on TSG s board of directors. The balance of the Company s investment in TSG at December 31, 2004 and June 30, 2005, totaled $1.2 million and has been classified on the consolidated balance sheet under the caption Investments in unconsolidated affiliates.

CommVerge Solutions, Inc.

The Company has an investment in CommVerge Solutions, Inc., a privately-held wireless network planning and deployment company. The balance of the Company s investment in CommVerge Solutions, Inc. at December 31, 2004 and June 30, 2005 totals $0.9 million and has been classified on the consolidated balance sheet under the caption Investment in unconsolidated affiliates . One of the Company s Directors is also a Director of CommVerge Solutions, Inc.

(5) Acquisitions

TLA Associates

On January 27, 2005, WFI Government Services, Inc. (WGSI), entered into a stock purchase agreement (the Stock Purchase Agreement) to acquire all of the issued and outstanding shares of capital stock of TLA Associates (TLA). The purchase price for the acquisition was $34 million in cash, plus direct acquisition costs of approximately $0.6 million. TLA provides services including network engineering, network infrastructure support, information assurance, application development, and managed services, including network maintenance and monitoring, to government agencies.

The acquisition was accounted for under the provisions of purchase method accounting in accordance with Statement of Financial Accounting Standards No. 141 Business Combinations (SFAS No. 141). The excess purchase price paid over the fair value of tangible net assets acquired was allocated to goodwill in the amount of $28.0 million and to identifiable finite lived intangible assets in the amount of $2.7 million. The identified intangible assets consist of backlog of $1.3 million, customer relationships of $0.8 million and non-competition agreements $0.6 million. The estimated post-closing working capital adjustment of $3.3 million, which was allocated to goodwill, was paid in the second quarter of 2005, and increased the purchase price to $37.9 million, which includes direct acquisition cost of $0.6 million. The allocation of the purchase price is subject to adjustments within a one year period of the acquisition date. The results of operations of TLA since the acquisition date are included in the Company s unaudited consolidated financial statements for the six months ended June 30, 2005, and are a component of the Company s government network services operating segment.

The following summary presents pro forma consolidated results of operations for the three and six months ended June 30, 2004 as if the acquisition described above had occurred January 1, 2004, and includes adjustments that were directly attributable to the transaction or were expected to have a continuing impact on the Company.

The pro forma results are unaudited and for illustrative purposes only for the applicable periods, and do not purport to be indicative of the actual results which would have occurred had the transactions been completed as of the beginning of the periods, nor are they indicative of results of operations which may occur in the future. The following is also a reconciliation of GAAP to pro forma financial results for the three and six months ended June 30, 2004 (all unaudited amounts except per share amounts are in millions):

	Three months ended June 30, 2004			**Six months ended June 30, 2004**		
	As Reported	**Pro forma Adjustments**	**Pro forma**	**As Reported**	**Pro forma Adjustments**	**Pro forma**
Revenue	$ 102.7	$ 6.9	$ 109.6	$ 199.8	$ 13.4	$ 213.2
Operating income	$ 9.3	$ 0.7	$ 10.0	$ 16.4	$ 1.4	$ 17.8
Net income	$ 1.7	$ 0.5	$ 2.2	$ 7.5	$ 1.1	$ 8.6
Net income per common share:						
Basic	$ 0.02		$ 0.03	$ 0.10		$ 0.12
Diluted	$ 0.02		$ 0.03	$ 0.10		$ 0.11
Weighted average shares outstanding:						
Basic	72.6		72.6	72.4		72.4
Diluted	75.5		75.5	76.2		76.2

High Technology Solutions, Inc.

On January 5, 2004, the Company completed its acquisition of all of the outstanding securities of High Technology Solutions, Inc. (HTS), for $48.5 million in cash. HTS provides systems engineering, systems integration, and the outsourcing of technical services such as operational test and evaluation and program management to government agencies.

The acquisition was accounted for under the provisions of the purchase method of accounting in accordance with SFAS No. 141. The excess purchase price paid over the fair value of tangible net assets acquired of $44.0 million was allocated to goodwill in the amount of $40.1 million, and to identifiable finite-life intangible assets in the amount of $3.9 million. The identified intangible assets consist of $3.2 million allocated to contracts and backlog, $0.2 million for intellectual property and $0.5 million for a non-compete agreement. In connection with the Company s acquisition of HTS and the determination of the fair value of assets acquired pursuant to the provisions of SFAS No. 141, the Company valued acquired contracts in process at contract price, minus the estimated costs to complete and an allowance for the normal industry profit on its effort to complete such contracts. This adjustment totaling $1.5 million has been reflected in the accompanying consolidated balance sheet as an increase to goodwill and a corresponding increase to billings in excess of costs (deferred profit). The Company recognized approximately $0.2 million as a reduction of costs against the deferred profit during each of the six months ended June 30, 2004 and June 30, 2005. The remaining amount of $0.8 million at June 30, 2005 is estimated to reduce costs through 2008. The results of operations of HTS since the acquisition date are included in the Company s unaudited consolidated financial statements for the three and six months ended June 30, 2004 and are a component of the government network services operating segment.

The following table summarizes the changes in the carrying amounts of goodwill and other indefinite and finite-life intangible assets for the six months ended June 30, 2005, (in millions):

	Wireless Network Services	Enterprise Network Services	Government Network Services	Total
Goodwill, net				
Balance as of December 31, 2004	$ 25.5	$ 11.2	$ 45.9	$ 82.6
Acquisition			28.0	28.0
Accrual for contingent consideration		5.0	0.9	5.9
Adjustment			(0.1)	(0.1)
Balance as of June 30, 2005	25.5	16.2	74.7	116.4
Other intangibles, net				
Balance as of December 31, 2004		1.4	5.0	6.4
Acquisition			2.7	2.7
Amortization expense				