MASTEC INC
Form 10-Q
August 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
Commission File Number 001-08106

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

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

(305) 599-1800
(Registrant's Telephone Number, Including Area Code)

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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	þ		Non-accelerated filer	¨
Accelerated filer	¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Act.) Yes ¨ No þ
As of July 29, 2013, MasTec, Inc. had 77,110,668 shares of common stock, $0.10 par value, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	$977,624	$988,874	$1,896,272	$1,727,131
Costs of revenue, excluding depreciation and amortization	822,655	868,504	1,614,154	1,520,752
Depreciation and amortization	33,602	21,763	65,355	42,480
General and administrative expenses	51,900	38,374	100,785	75,678
Interest expense, net	11,838	9,487	21,883	18,438
Loss on extinguishment of debt	—	—	5,624	—
Other expense (income), net	322	(366)	(504)	(827)
Income from continuing operations before provision for income taxes	$57,307	$51,112	$88,975	$70,610
Provision for income taxes	(21,776)	(19,948)	(34,124)	(27,751)
Income from continuing operations before non-controlling interests	$35,531	$31,164	$54,851	$42,859
Discontinued operations:				
(Loss) income from discontinued operations, net of tax, including impairment charges and loss on disposal (See Note 4 – Discontinued Operations)	$(484)	$(1,075)	$(1,431)	$1,399
Net income	$35,047	$30,089	$53,420	$44,258
Net income (loss) attributable to non-controlling interests	106	(3)	109	(6)
Net income attributable to MasTec, Inc.	$34,941	$30,092	$53,311	$44,264
Earnings per share (1) (See Note 2 - Earnings Per Share):				
Basic earnings (loss) per share:				
Continuing operations	$0.46	$0.39	$0.71	$0.53
Discontinued operations	(0.01)	(0.01)	(0.02)	0.02
Total basic earnings per share	$0.46	$0.37	0.70	0.55
Basic weighted average common shares outstanding	76,741	80,249	76,675	80,432
Diluted earnings (loss) per share:				
Continuing operations	$0.42	$0.38	$0.65	$0.52
Discontinued operations	(0.01)	(0.01)	(0.02)	0.02
Total diluted earnings per share	$0.41	$0.37	$0.63	$0.53
Diluted weighted average common shares outstanding	84,558	82,466	84,337	83,213

(1) Earnings per share tables may contain slight summation differences due to rounding.

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

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MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$35,047	$30,089	$53,420	$44,258
Foreign currency translation (losses) gains	(5,952)	(995)	(6,775)	129
Changes in value of available for sale securities (See Note 7 - Securities Available For Sale):				
Unrealized (losses) gains on available for sale securities, before tax	(13)	(506)	346	(89)
Reversal and reclassification adjustments:				
Reversal of unrealized gains, net, on sold or redeemed securities	(388)	—	(388)	—
Reclassification adjustment for unrealized gains on sold securities, recognized in earnings	(717)	—	(717)	—
Benefit from income taxes	431	211	293	40
Changes in value of available for sale securities, net of tax	$(687)	$(295)	$(466)	$(49)
Comprehensive income	$28,408	$28,799	$46,179	$44,338
Comprehensive income (loss) attributable to non-controlling interests	$106	$(3)	$109	$(6)
Comprehensive income attributable to MasTec, Inc.	$28,302	$28,802	$46,070	$44,344

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

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MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$13,295	$26,382
Accounts receivable, net of allowance	1,115,991	877,164
Inventories	67,015	83,939
Current deferred tax assets, net	8,851	3,276
Prepaid expenses and deposits	28,127	30,550
Other current assets	17,200	8,628
Current assets of discontinued operations	21,763	18,591
Total current assets	$1,272,242	$1,048,530
Property and equipment, net	470,544	350,378
Goodwill	860,207	826,110
Other intangible assets, net	168,701	137,100
Available for sale auction rate securities	9,341	14,408
Other assets	32,355	32,105
Long-term assets of discontinued operations	7,516	7,648
Total assets	$2,820,906	$2,416,279
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$49,907	$52,596
Accounts payable	383,372	401,078
Accrued salaries and wages	63,683	31,529
Accrued taxes payable	9,968	12,511
Accrued insurance	22,028	21,754
Other accrued expenses	39,942	11,550
Acquisition-related contingent consideration, current	51,305	19,216
Billings in excess of costs and earnings	133,464	123,435
Other current liabilities	35,034	29,698
Current liabilities of discontinued operations	9,905	10,679
Total current liabilities	$798,608	$714,046
Acquisition-related contingent consideration, net of current portion	115,580	135,712
Long-term debt	806,497	546,323
Long-term deferred tax liabilities, net	141,302	119,388
Other liabilities	38,606	38,875
Total liabilities	$1,900,593	$1,554,344
Commitments and Contingencies (See Note 17)		
Shareholders' equity:		
Preferred stock, $1.00 par value; authorized shares - 5,000,000; issued and outstanding shares – none	$—	$—
Common stock, $0.10 par value; authorized shares - 145,000,000; issued shares - 86,194,290 and 85,915,552 as of June 30, 2013 and December 31, 2012, respectively	8,619	8,592
Capital surplus	809,336	803,166

Contributed shares	6,002	—
Retained earnings	254,226	200,915
Accumulated other comprehensive loss	(12,742)	(5,501)
Treasury stock, at cost; 9,467,286 shares as of both June 30, 2013 and December 31, 2012	(150,000)	(150,000)
Total MasTec, Inc. shareholders' equity	$915,441	$857,172
Non-controlling interests	$4,872	$4,763
Total shareholders' equity	$920,313	$861,935
Total liabilities and shareholders' equity	$2,820,906	$2,416,279

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

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MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$53,420	$44,258
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,355	42,946
Stock-based compensation expense	6,617	2,171
Excess tax benefit from stock-based compensation	(1,462)	(70)
Non-cash interest expense	4,528	4,253
Write-off of unamortized financing costs on redeemed debt	1,508	—
Provision for doubtful accounts	2,491	1,275
Provision for losses on construction projects, net	1,387	(9,894)
Provision for inventory obsolescence	360	976
Gain on sale of property and equipment	(1,355)	(898)
Gain on sale of available for sale securities	(717)	—
Impairment charges and loss on disposal, discontinued operations	320	248
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(178,566)	(245,975)
Inventories	17,124	(7,729)
Deferred tax assets and liabilities, net	7,160	3,515
Other assets, current and non-current portion	16,950	(568)
Accounts payable and accrued expenses	14,869	158,446
Billings in excess of costs and earnings	8,046	(9,942)
Other liabilities, current and non-current portion	(3,468)	12,744
Net cash provided by (used in) operating activities	$14,567	$(4,244)
Cash flows (used in) provided by investing activities:		
Cash paid for acquisitions, net, including contingent consideration	(133,392)	(15,862)
Capital expenditures	(71,382)	(28,490)
Proceeds from sale of property and equipment	18,978	3,808
Proceeds from sale or redemption of investments	5,025	—
Proceeds from disposal of business, net	—	97,728
Investments in life insurance policies	(94)	(284)
Net cash (used in) provided by investing activities	$(180,865)	$56,900
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of 4.875% senior notes	400,000	—
Repayment of 7.625% senior notes	(150,000)	—
Proceeds from credit facility	499,666	422,550
Repayments of credit facility	(558,596)	(418,750)
Repayments of other borrowings	(18,570)	(10,542)
Proceeds from (repayments of) book overdrafts	7,989	(5,290)
Payments of capital lease obligations	(21,139)	(9,668)
Proceeds from stock option exercises and other share-based awards	4,283	766
Excess tax benefit from stock-based compensation	1,462	70
Purchases of treasury stock	—	(35,087)

Payments for debt extinguishment, call premiums	(4,116)	—
Payments of financing costs	(7,569)	(115)
Net cash provided by (used in) financing activities	$153,410	$(56,066)
Net decrease in cash and cash equivalents	(12,888)	(3,410)
Net effect of currency translation on cash	(274)	(56)
Cash and cash equivalents - beginning of period	26,767	20,280
Cash and cash equivalents - end of period	$13,605	$16,814
Cash and cash equivalents of discontinued operations	$310	$386
Cash and cash equivalents of continuing operations	$13,295	$16,428
Supplemental cash flow information:		
Interest paid	$17,756	$13,726
Income taxes paid, net of refunds	$41,625	$18,896
Receipt of inventory prepaid in prior year	$—	$12,005
Supplemental disclosure of non-cash investing and financing information:		
Equipment acquired under capital lease	$56,622	$26,729
Equipment acquired under financing arrangements	$23,406	$2,204
Value of shares withheld for payroll taxes under share-based compensation arrangements	$1,463	$—
Value of shares contributed by shareholder, former owner of acquired business	$6,002	$—

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

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MASTEC, INC.
NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business, Basis of Presentation and Significant Accounting Policies

Nature of the Business

MasTec, Inc. (collectively with its subsidiaries, “MasTec” or the “Company”) is a leading infrastructure construction company operating mainly throughout North America across a range of industries. The Company’s primary activities include the engineering, building, installation, maintenance and upgrade of energy, utility and communications infrastructure, such as: electrical utility transmission and distribution; natural gas and petroleum pipeline infrastructure; wireless, wireline and satellite communications; power generation, including renewable energy infrastructure; and industrial infrastructure. MasTec’s customers are primarily in these industries.

Basis of Presentation

The accompanying condensed unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying condensed consolidated balance sheet as of December 31, 2012 is derived from the Company’s audited financial statements as of that date. Because certain information and footnote disclosures have been condensed or omitted, these condensed unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2012 contained in the Company’s most recent Annual Report on Form 10-K. In management’s opinion, all normal and recurring adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included. Interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. The Company believes that the disclosures made in these condensed unaudited consolidated financial statements are adequate to make the information not misleading.

Principles of Consolidation

The accompanying condensed unaudited consolidated financial statements include MasTec, Inc. and its subsidiaries and include the accounts of all majority-owned subsidiaries over which the Company exercises control and, when applicable, entities in which the Company has a controlling financial interest. Other parties’ interests in companies for which MasTec exercises control and has a controlling financial interest are reported as non-controlling interests within shareholders’ equity. Net income or loss attributable to non-controlling interests is reported as a separate line item below net income. The Company’s investments in entities in which the Company does not have a controlling interest, but has the ability to exert significant influence, are accounted for using the equity method of accounting. Equity method investments are recorded as long-term assets in the condensed unaudited consolidated balance sheets. Income or loss from these investments is recorded within other income or expense, net, in the condensed unaudited consolidated statements of operations. The cost method is used for investments in entities over which the Company does not have the ability to exert significant influence. All significant intercompany balances and transactions have been eliminated in consolidation.

Management Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Key estimates include: the recognition of revenue, in particular, on long-term construction contracts, including estimates of costs to complete projects and provisions for contract losses; allowances for doubtful accounts; accrued self-insured claims; estimated fair values of goodwill and intangible assets, acquisition-related contingent consideration, assets and liabilities classified as held-for-sale, convertible debt obligations, available for sale securities and investments in cost and equity method investees; asset lives used in computing depreciation and amortization, including amortization of intangible assets; accounting for income taxes; and the estimated impact of contingencies and ongoing litigation. While management believes that such estimates are fair when considered in conjunction with the consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the condensed unaudited consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies

Except for adoption of the accounting pronouncements discussed below, there have been no material changes to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

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New accounting pronouncements

Recently Issued Accounting Standards, Not Adopted as of June 30, 2013

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-05"). The objective of ASU 2013-05 is to resolve diversity in practice regarding the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The Company is currently evaluating the potential impact of this ASU on its condensed unaudited consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-04"). ASU 2013-04 provides guidance related to the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in ASU 2013-04 also requires an entity to disclose the nature and amount of the obligation. ASU 2013-05 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Retrospective application is required for all periods presented. The Company is currently evaluating the potential impact of this ASU on its condensed unaudited consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Liabilities (Topic 405): Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11"). ASU 2013-11 provides guidance on the presentation in the financial statements of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, and explains that unrecognized tax benefits should be presented as a reduction to deferred tax assets for net operating loss carryforwards, similar tax losses or tax credit carryforwards. To the extent a net operating loss carryforward, similar tax loss or tax credit carryforward is not available as of the reporting date under the tax law of the applicable jurisdiction, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company is currently evaluating the potential impact of this ASU on its condensed unaudited consolidated financial statements.

Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). The amendment requires disclosure of information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, disclosure is required, either on the face of the statement where net income is presented, or in the notes, of significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The new requirements are effective for public companies in interim and annual reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 as of January 1, 2013 did not have an impact on the Company's condensed unaudited consolidated financial statements.

Note 2 – Earnings Per Share

Basic earnings per share is computed by dividing earnings available to MasTec's common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing earnings by the number of fully diluted shares, which includes the effect of dilutive potential issuances of common shares as determined using earnings from continuing operations. The potential issuance of common shares upon the exercise, conversion or vesting, as applicable, of outstanding stock options and unvested restricted share awards, as calculated under the treasury stock method, as well as shares associated with the Company's outstanding convertible debt securities, may be dilutive.

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The following table, which may contain slight summation differences due to rounding, provides details of the Company's earnings per share calculations for the periods indicated (in thousands, except per share amounts).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Basic				
Net income attributable to MasTec:				
Net income from continuing operations	$35,425	$31,164	$54,742	$42,859
Net (loss) income from discontinued operations	(484)	(1,072)	(1,431)	1,405
Basic net income attributable to MasTec	$34,941	$30,092	$53,311	$44,264
Weighted average shares outstanding	76,741	80,249	76,675	80,432
Basic earnings (loss) per share:				
Continuing operations	$0.46	$0.39	$0.71	$0.53
Discontinued operations	(0.01)	(0.01)	(0.02)	0.02
Total basic earnings per share	$0.46	$0.37	$0.70	$0.55
Diluted				
Net income attributable to MasTec:				
Basic net income from continuing operations	$35,425	$31,164	$54,742	$42,859
Interest expense on original 4.0% notes, net of tax	59	59	118	116
Interest expense on original 4.25% notes, net of tax	20	19	39	39
Diluted net income from continuing operations	$35,504	$31,242	$54,899	$43,014
Net (loss) income from discontinued operations	(484)	(1,072)	(1,431)	1,405
Diluted net income attributable to MasTec	$35,020	$30,170	$53,468	$44,419
Shares:				
Basic weighted average shares outstanding	76,741	80,249	76,675	80,432
Dilutive common stock equivalents	776	799	781	815
Dilutive premium shares, new 4.0% notes	3,187	260	3,104	545
Dilutive premium shares, new 4.25% notes	3,048	352	2,971	615
Dilutive shares, original 4.0% notes	612	612	612	612
Dilutive shares, original 4.25% notes	194	194	194	194
Diluted weighted average shares outstanding	84,558	82,466	84,337	83,213
Diluted earnings (loss) per share:				
Continuing operations	$0.42	$0.38	$0.65	$0.52
Discontinued operations	(0.01)	(0.01)	(0.02)	0.02
Total diluted earnings per share	$0.41	$0.37	$0.63	$0.53

There were 123,077 and 61,878 weighted average anti-dilutive common stock equivalents from restricted share awards that were not included in the Company's diluted earnings per share calculations for the three and six month periods ended June 30, 2013, respectively. For the three and six month periods ended June 30, 2012, a total of 136,158 and 1,066 weighted average anti-dilutive common stock equivalents from restricted share awards, respectively, were not included in the Company's diluted earnings per share calculations.

The Company's Board of Directors authorized a $150 million share repurchase plan in 2011, under which the Company repurchased 4.6 million shares of common stock for $75.0 million during the year ended December 31, 2011. During the year ended December 31, 2012, the Company repurchased an additional 4.9 million shares under this plan for an aggregate purchase price of $75.0 million, which completed the share repurchase plan. The repurchased shares are held in the Company's treasury. See Note 14 - Common Stock Activity.

Senior Convertible Notes – Diluted Share Impact

The Company has $215 million of outstanding convertible notes, including $105.3 million of new 4.0% senior convertible notes (the “New 4.0% Notes”) and $97.0 million of new 4.25% senior convertible notes (the “New 4.25% Notes” and, together with the New 4.0% Notes, the “New Convertible Notes”). The Company also holds $9.6 million of original 4.0% senior convertible notes and $3.0 million of original 4.25% senior convertible notes, (the “Original 4.0% Notes” and the “Original 4.25% Notes,” respectively and, collectively, the “Original Convertible Notes”). The New Convertible Notes have an optional physical (common share), cash or combination settlement feature and contain certain conditional conversion features. Due to the optional cash settlement feature and management’s intent to settle the principal amount thereof plus accrued interest

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in cash, the conversion shares underlying the New Convertible Notes, totaling approximately 13.0 million shares if fully settled in common stock, are not included in the Company's diluted share count. If, however, the Company's average stock price per share exceeds the respective conversion prices for the New Convertible Notes during a given reporting period, the resulting weighted average value of the respective number of conversion shares underlying the New Convertible Notes in excess of the principal amount of the notes, converted to shares at the market price, is included in the Company's diluted share count (such shares are referred to as "premium shares"). See below and Note 10 - Debt of the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012.

The number of common shares issuable upon conversion of the Company's Original Convertible Notes is determined for the corresponding periods by application of the "if-converted" method to the extent the effect on earnings per share from continuing operations is dilutive. Under the "if-converted" method, net income attributable to MasTec from continuing operations is adjusted to add back the after-tax amount of interest recognized in the period associated with the Original Convertible Notes, and correspondingly, the Original Convertible Notes are assumed to have been converted with the resulting common shares added to weighted average shares outstanding.

The following table summarizes the principal amounts of the Company's outstanding convertible notes for the periods indicated, including their respective classification within the computation of earnings per share for the periods indicated (in millions):

	Three and Six Months Ended June 30,	
	2013	2012
Dilutive:		
New 4.0% Notes (1)	$105.3	$105.3
New 4.25% Notes (1)	97.0	97.0
Original 4.0% Notes (2)	9.6	9.7
Original 4.25% Notes (2)	3.0	3.0
Total principal amount, dilutive outstanding convertible notes	$215.0	$215.0

(1) Dilutive shares associated with the New Convertible Notes are attributable to the weighted average premium value, in shares, of the conversion shares underlying the New Convertible Notes in excess of the respective principal amounts thereof.

(2) Dilutive shares associated with the Original Convertible Notes are attributable to the underlying principal amounts.

The Company's average stock price for the three and six month periods ended June 30, 2013 and 2012 exceeded the conversion prices of the New Convertible Notes. The number of premium shares included in the Company's diluted share count varies with fluctuations in the Company's actual share price for the related periods. Higher share prices result in a greater number of equivalent premium shares. Details of the calculation underlying the number of premium shares included in the Company's diluted share count for the periods indicated are as follows (in thousands, except per share amounts):

	As of and for the Three Months Ended June 30,				As of and for the Six Months Ended June 30,			
	2013		2012		2013		2012	
	New 4.0% Notes	New 4.25% Notes	New 4.0% Notes	New 4.25% Notes	New 4.0% Notes	New 4.25% Notes	New 4.0% Notes	New 4.25% Notes
Principal amount	$105,322	$97,000	$105,322	$97,000	$105,322	$97,000	$105,322	$97,000
Conversion price per share	$15.76	$15.48	$15.76	$15.48	$15.76	$15.48	$15.76	$15.48
Number of conversion shares, principal amount	6,683	6,268	6,683	6,268	6,683	6,268	6,683	6,268
Weighted average actual per share price	$30.13	$30.13	$16.40	$16.40	$29.43	$29.43	$17.16	$17.16

Excess over principal amount	$96,021	$91,837	$4,261	$5,777	$91,325	$87,433	$9,345	$10,545
Weighted average equivalent premium shares	3,187	3,048	260	352	3,104	2,971	545	615

Note 3 – Acquisitions and Other Investments

Allocations of purchase prices for acquisitions are based on estimates of the fair value of consideration paid and of the net assets acquired and are subject to adjustment upon finalization of these fair value estimates. In the second quarter of 2013 and in December 2012, the Company acquired certain businesses, as discussed below and in Note 3 - Acquisitions and Other Investments of the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012. As of June 30, 2013, the allocations of purchase prices to the fair values of tangible and intangible assets and liabilities, including the estimated values of contingent earn-out obligations and the estimated useful lives of acquired assets for these acquisitions, are provisional and remain preliminary as management continues to assess the valuation of these items and any ultimate

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purchase price adjustments that may result based on the final net assets and net working capital of the acquired businesses, as prescribed in the corresponding purchase agreements.

During the three and six months ended June 30, 2013, the Company revised its preliminary allocations for certain of the 2012 acquisitions based on new information about the facts and circumstances existing as of the respective dates of such acquisitions, or, for purchase price adjustments, based on the final net assets and net working capital of the businesses acquired, as prescribed in the relevant purchase agreements. These adjustments resulted in the recognition of, or adjusted the fair values of, certain acquired assets and assumed liabilities, which resulted in the revision of comparative prior period financial information. Such measurement period adjustments are presented as if the adjustments had been taken into account as of the dates of the respective acquisitions. All changes that do not qualify as measurement period adjustments are included in current period earnings.

2013 Acquisitions

Big Country

Effective May 1, 2013, MasTec acquired all of the issued and outstanding interests of Big Country Energy Services, Inc. and its affiliated operating companies (collectively, "Big Country") for an aggregate purchase price composed of approximately $103.5 million in cash, a five year contingent earn-out, valued at $22.8 million as of the date of acquisition, and the assumption of $24.4 million in debt. The earn-out is equal to 25% of the excess, if any, of Big Country’s annual earnings before interest, taxes, depreciation and amortization, over certain thresholds set forth in the purchase agreement, payable annually in cash.

Big Country is a North American oil and gas pipeline and facility construction services company, headquartered in Calgary, Alberta, Canada. Big Country also has construction offices in Alberta, British Columbia and Saskatchewan, as well as in Wyoming and North Dakota. Big Country's services include oil, natural gas and natural gas liquids gathering systems and pipeline construction; pipeline modification and replacement services; compressor and pumping station construction; and other related services supporting the oil and gas production, processing and transportation industries. Big Country is expected to significantly expand MasTec's ability to take advantage of the rapidly expanding opportunities anticipated for energy infrastructure work in North America in the coming years.

The following table summarizes the preliminary estimated fair value of consideration paid and the allocation of purchase price as of the date of acquisition:

	May 1, 2013 (in millions)	
Purchase price consideration:		
Cash	$103.5	
Fair value of contingent consideration (earn-out liability)	22.8	
Total consideration transferred	$126.3	
Purchase price allocation to identifiable assets acquired and liabilities assumed:		
Current assets	$69.0	
Property and equipment	42.6	
Pre-qualifications	29.6	
Finite-lived intangible assets	10.1	
Current liabilities	(21.9	)
Long-term debt	(24.4	)
Deferred income taxes	(10.1	)
Total identifiable net assets	$94.9	
Goodwill	$31.4	
Total consideration allocated	$126.3	

The fair values and weighted average useful lives of Big Country's acquired finite-lived intangible assets were assigned as follows as of the date of acquisition:

Fair Value

	(in millions)	Weighted Average Useful Life (in years)
Backlog	$1.8	1
Non-compete agreements	1.8	8
Customer relationships	6.5	6
Total acquired amortizing intangibles	$10.1	5

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Finite-lived intangible assets will be amortized in a manner consistent with the pattern in which the related benefits are expected to be consumed. The intangible asset related to Big Country's pre-qualifications with companies in the oil and gas industry has been assigned an indefinite life as the pre-qualifications do not expire or diminish in value, and the companies to which they relate have extremely long operating histories. Goodwill arising from the acquisition represents the estimated value of Big Country's geographic presence in key high growth Canadian markets, its assembled workforce, its management team's industry-specific project management expertise and synergies expected to be achieved from the combined operations of Big Country and MasTec. As of the date of acquisition, the total amount of goodwill expected to be deductible for tax purposes was $4.1 million.

The fair value of the earn-out obligation was estimated using an income approach and incorporates significant inputs not observable in the market. Key assumptions in the estimated valuation include the discount rate and probability-weighted EBITDA projections. The range of potential undiscounted payments that MasTec could be required to make under the earn-out arrangement was estimated to be between $0.3 million and $55.3 million; however, there is no maximum earn-out payment amount.

Big Country is reported within the Company's oil and gas segment.

Other 2013 Acquisitions

Effective April 1, 2013, MasTec acquired all of the issued and outstanding interests of Data Cell Systems, Inc. ("Data Cell"). Data Cell was formerly a subcontractor to MasTec's wireless business and will provide self-perform communications tower construction, installation, maintenance and other services in support of telecommunications infrastructure construction in the Company's communications segment.

Unaudited Pro Forma Information - 2013 Acquisitions

The following unaudited supplemental pro forma results of operations include the results of operations of each of the companies acquired in 2013 as if each had been consolidated as of January 1, 2012 and have been provided for illustrative purposes only. These unaudited pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented, or of the results that may be achieved by the combined companies in the future. Future results may vary significantly from the results reflected in the following unaudited pro forma financial information because of future events and transactions, as well as other factors, many of which are beyond MasTec’s control.

The unaudited pro forma combined results of operations presented below for three and six month periods ended June 30, 2013 and 2012, respectively, have been prepared by adjusting the historical results of MasTec to include the historical results of the acquisitions described above as if they occurred on January 1, 2012. These unaudited pro forma combined historical results were then adjusted for an increase in amortization expense due to the incremental intangible assets recorded related to the acquisitions, a reduction in interest income resulting from the cash consideration paid and a reduction in interest expense relating to the repayment of acquired debt. The unaudited pro forma results of operations do not include any adjustments to eliminate the impact of acquisition related costs or any cost savings or other synergies that may result from these acquisitions. As noted above, the unaudited pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited, in millions)		(unaudited, in millions)	
Revenue	$995.1	$1,039.5	$1,987.9	$1,849.8
Net income	$34.7	$29.6	$57.9	$47.2

Results of Acquired Businesses 2013

Revenues and net income resulting from the year over year incremental impact of the Company's 2013 acquisitions are included in MasTec's consolidated results of operations as follows (in millions):

	For the Three and Six Months Ended June 30, 2013
Revenue	$39.6
Net income	$1.5

Acquisition costs incurred in connection with these acquisitions of $0.9 million and $1.4 million were included in general and administrative costs for the three and six month periods ended June 30, 2013, respectively.

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2012 Acquisitions
Bottom Line Services
Effective December 1, 2012, MasTec acquired all of the issued and outstanding interests of Bottom Line Services, LLC ("BLS") for an aggregate purchase price composed of approximately $67.6 million in cash and a five year earn-out, valued at $11.1 million as of the date of acquisition. BLS is engaged in providing natural gas and petroleum pipeline infrastructure services, primarily in eastern Texas. Its services include pipeline and facilities construction, painting and maintenance services.
The following table summarizes the estimated fair value of consideration paid and the allocation of purchase price for BLS, as revised, as of the date of acquisition:

	December 1, 2012 (in millions)
Purchase price consideration:	
Cash	$67.6
Fair value of contingent consideration (earn-out liability)	11.1
Total consideration transferred	$78.7
Purchase price allocation to identifiable assets acquired and liabilities assumed:	
Current assets	$36.3
Property and equipment	12.6
Trade name	2.6
Non-compete agreements	0.5
Customer relationships	24.4
Current liabilities	(12.8)
Total identifiable net assets	$63.6
Goodwill	$15.1
Total consideration allocated	$78.7

BLS is reported within the Company's oil and gas segment.

During the second quarter of 2013, $2.3 million of additional pre-acquisition project cost liabilities were recorded as a result of the ongoing review of the acquired net working capital of BLS. In addition, accounts receivable were reduced by $0.1 million. These adjustments resulted in an increase to the previously recorded amount of BLS goodwill of $2.4 million.

Other 2012 Acquisitions

Effective December 1, 2012, MasTec acquired all of the issued and outstanding interests of Go Green Services, LLC and all of the issued and outstanding shares of Dynamic Tower Services, Inc. ("DTS"). Go Green was formerly a subcontractor to MasTec's oil and gas business and provides self-perform clearing and trenching services for natural gas and petroleum pipeline infrastructure construction in the Company's oil and gas segment. DTS was formerly a subcontractor to MasTec's wireless business and provides self-perform communications tower construction, installation, maintenance and other services in support of telecommunications infrastructure construction in the Company's communications segment.

Results of Acquired Businesses 2012

Revenues and net income resulting from the year over year incremental impact of the Company's 2012 acquisitions are included in MasTec's consolidated results of operations as follows (in millions):

	For the Three Months Ended	For the Six Months Ended

	June 30, 2013	June 30, 2013
Revenue	$47.0	$90.0
Net income	$2.0	$3.8

There were no acquisition costs incurred in connection with the 2012 acquisitions for the three and six month periods ended June 30, 2012, respectively.

2011 Acquisitions

In the second quarter of 2011, the Company acquired certain businesses, as discussed in Note 3 - Acquisitions and Other Investments of the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012. During the first

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quarter of 2013, the Company remeasured the contingent consideration liability for EC Source Services LLC ("EC Source") using currently available facts and circumstances, including recent and expected future performance, which resulted in an increase in EC Source's expected future earn-out liability. EC Source is reported within the Company's electrical transmission segment. In addition, the contingent consideration liability for Optima Network Services, Inc. ("Optima") was remeasured and settled in full during the first quarter of 2013 as a result of an amendment to the Optima purchase agreement effective February 28, 2013. Optima is reported within the Company's communications segment. The adjustments to the EC Source and Optima earn-out liabilities were recorded within other expense and other income, respectively, during the six month period ended June 30, 2013.

Other Investments

Through a 60%-owned consolidated subsidiary, MasTec owns a 34% interest in a rock extraction business in Panama (for a net beneficial ownership interest of 20.4%). This investment, which is a component of the Company's discontinued Globetec operation, is accounted for under the equity method of accounting, and is reflected within long-term assets of discontinued operations in the condensed unaudited consolidated financial statements. MasTec has performed construction services for this investee. No revenues were recognized for the three and six months ended June 30, 2013. Revenues of approximately $0.4 million and $1.2 million are included within the Company's results from discontinued operations for the three and six month periods ended June 30, 2012, respectively. Receivables from this investee, which are reflected within assets held for sale in the condensed unaudited consolidated financial statements, were approximately $3.7 million as of both June 30, 2013 and December 31, 2012.

The Company has certain other cost and equity method investments. None of these investments was material individually or in the aggregate for any period presented. No impairment charges related to the Company's cost method investments nor the Company's equity method investments were recorded during the three or six month periods ended June 30, 2013 or 2012.

Note 4 – Discontinued Operations

DirectStar

In May 2012, Red Ventures exercised its option to acquire from the Company all of the issued and outstanding equity interests in DirectStar, which provides marketing and sales services on behalf of DIRECTV®. The Company consummated the sale of DirectStar to Red Ventures in June 2012 for a net sale price of $98.9 million in cash. DirectStar is presented as a discontinued operation in the Company’s condensed unaudited consolidated financial statements for all periods presented.

Results from discontinued operations associated with DirectStar for the period indicated were as follows (in millions):

	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2012
Revenue	$25.3	$60.2
Income from operations before provision for income taxes	0.8	6.2
Loss on disposal before provision for income taxes	(0.2)	(0.2)
Provision for income taxes	$(0.3)	$(2.3)
Net income from discontinued operations	$0.3	$3.7

Globetec

In September 2012, the Company's board of directors approved a plan of sale for its Globetec business. The decision to sell was made after evaluation of, among other things, short and long-term prospects of the Globetec operation. Accordingly, Globetec's projects and assets are reflected as assets and liabilities of discontinued operations in the condensed unaudited consolidated balance sheets for all periods presented, and Globetec's results of operations are presented as discontinued operations in the condensed unaudited consolidated statements of operations for all periods presented.

As of June 30, 2013, the carrying value of the subject net assets held-for-sale was $19.4 million. This amount is composed of total assets of $29.3 million and total liabilities of $9.9 million. During the third quarter of 2012, the Company recognized impairment charges of approximately $6.4 million pertaining to goodwill and intangible assets as well as approximately $6.3 million of estimated losses on disposal in connection with its decision to sell Globetec. During the quarter ended June 30, 2013, the Company recognized additional impairment charges of approximately $0.3 million related to Globetec. Estimated losses on disposal were based on an evaluation of, among other things, the expected cash flows from the operation of the projects of the Globetec business, as well as the estimated net realizable value of the assets to be sold.

Management's current discussions with a potential buyer include discussion of a potential sale price that considers the Company's view of the estimated fair value of the net assets that have been classified as held-for-sale as of June 30, 2013. The Company's estimates are subject to change in the future. If the Company is not able to sell these projects and assets at the current estimated selling price, the Company may incur additional losses in the future.

The following table is a summary of assets and liabilities associated with the Globetec operation as of the dates as indicated (in millions):

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	June 30, 2013	December 31, 2012
Assets:		
Current assets	$21.8	$18.6
Property and equipment, net	2.0	2.0
Other long-term assets	5.5	5.7
Assets of discontinued operations	$29.3	$26.3
Liabilities:		
Accounts payable and accrued expenses	$7.2	$7.0
Other current liabilities	2.7	3.7
Liabilities of discontinued operations	$9.9	$10.7

The Globetec business has trade receivables for certain "pay-when-paid" projects that provide for payment through March 2018. These receivables, which are included within assets of discontinued operations, have been recorded at their respective net present values, with the non-current portion recorded within long-term assets of discontinued operations. Imputed interest is reflected within the results of operations from discontinued operations. As of June 30, 2013 and December 31, 2012, $6.0 million and $6.3 million were outstanding, respectively. Of these amounts, approximately $4.0 million and $4.3 million are long-term as of June 30, 2013 and December 31, 2012, respectively. Certain of Globetec's international subsidiaries obtained short-term financing by factoring their respective accounts receivable. The amounts of receivables sold during the periods ended June 30, 2013 and 2012, and the balances outstanding as of June 30, 2013 and December 31, 2012, were not material.

The following table presents results from discontinued operations associated with the Globetec operation for the periods indicated (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	$6.9	$3.4	$13.2	$8.7
Loss from operations before benefit from income taxes	(0.9)	(1.7)	(2.1)	(3.2)
Impairment of assets, disposal group, before benefit from income taxes	(0.3)	—	(0.3)	—
Benefit from income taxes	$0.7	$0.3	$1.0	$0.9
Net loss from discontinued operations	$(0.5)	$(1.4)	$(1.4)	$(2.3)

Included within the above results from discontinued operations for DirectStar and Globetec is $0.2 million and $0.5 million of depreciation and amortization for the three and six month periods ended June 30, 2012, respectively.

Note 5 - Goodwill and Other Intangible Assets

The following table sets forth information for the Company's goodwill and intangible assets as of the dates indicated (in millions):

	June 30, 2013	December 31, 2012
Amortizing intangible assets: (1)		
Gross carrying amount	$141.2	$129.4
Less: accumulated amortization	(67.0)	(58.5)
Amortizing intangible assets, net	$74.2	$70.9
Non-amortizing intangible assets:		
Trade names	$34.9	$34.9
Pre-qualifications	59.6	31.3
Non-amortizing intangible assets	$94.5	$66.2
Goodwill	$860.2	$826.1

Goodwill and other intangible assets	$1,028.9	$963.2

(1)Consists principally of customer relationships, backlog, trade names and non-compete agreements with finite lives.

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During the second quarter of 2013, the Company acquired Big Country, an oil and gas pipeline and facility construction services company, and Data Cell, a telecommunications infrastructure company. Also during the second quarter, the Company recorded a $2.4 million opening balance sheet adjustment relating to the 2012 acquisition of BLS. In addition, the Company paid and recorded $4.7 million of post-closing purchase price adjustments relating to the 2012 acquisition of DTS during the first quarter of 2013 based on DTS's final closing tangible net worth and net working capital. The acquisition adjustments for BLS and DTS resulted in the revision of comparative financial information as of December 31, 2012. See Note 3 - Acquisitions and Other Investments.

The Company recorded a $6.4 million impairment charge associated with goodwill and other intangible assets of its discontinued Globetec business during the third quarter of 2012. See Note 4 - Discontinued Operations for additional information.

The following table provides a reconciliation of changes in goodwill and other intangible assets for the periods indicated (in millions):

		Other Intangible Assets		
	Goodwill	Non-amortizing	Amortizing	Total
Balance as of December 31, 2011	$714.8	$66.2	$44.5	$825.5
Accruals of acquisition-related contingent consideration (a)	$3.5			3.5
Amortization expense			(5.7)	(5.7)
Balance as of June 30, 2012	$718.3	$66.2	$38.8	$823.3
Balance as of December 31, 2012	$826.1	$66.2	$70.9	$963.2
Additions from new business combinations	36.8	29.6	13.2	79.6
Accruals of acquisition-related contingent consideration (a)	—			—
Amortization expense			(9.4)	(9.4)
Currency translation adjustments	(2.7)	(1.3)	(0.5)	(4.5)
Balance as of June 30, 2013	$860.2	$94.5	$74.2	$1,028.9

(a) Represents contingent consideration for acquisitions prior to January 1, 2009, which is only accrued as earned, in accordance with U.S. GAAP.

The following table provides a reconciliation of changes in goodwill by reportable segment for the periods indicated (in millions):

	Communications	Electrical Transmission	Oil and Gas	Power Generation and Industrial	Total Goodwill
Balance as of December 31, 2011	$258.0	$129.5	$209.7	$117.6	$714.8
Accruals of acquisition-related contingent consideration (a)	—	—	3.5	—	3.5
Balance as of June 30, 2012	$258.0	$129.5	$213.2	$117.6	$718.3
Balance as of December 31, 2012	$305.8	$129.5	$273.2	$117.6	$826.1
Additions from new business combinations	5.4	—	31.4	—	36.8
Currency translation adjustments	—	—	(2.7)	—	(2.7)
Balance as of June 30, 2013	$311.2	$129.5	$301.9	$117.6	$860.2

(a) Represents contingent consideration for acquisitions prior to January 1, 2009, which is only accrued as earned, in accordance with U.S. GAAP.

See Note 16 - Segments and Operations by Geographic Area for details pertaining to the Company's reportable segments.

Note 6 – Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts and notes receivable, cash collateral deposited with insurance carriers, cash surrender value of life insurance policies, auction rate securities, cost and equity method investments, deferred compensation plan assets and liabilities, accounts payable and other current liabilities, acquisition-related contingent consideration and debt obligations.

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value guidance establishes a valuation hierarchy, which requires maximizing the use of observable inputs when measuring fair value. The three levels of inputs that may be used are:

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Level 1 - Quoted market prices in active markets for identical assets or liabilities.
Level 2 - Observable market based inputs or other observable inputs.
Level 3 - Significant unobservable inputs that cannot be corroborated by observable market data. These values are generally determined using valuation models incorporating management's estimates of market participant assumptions.
Carrying amounts and estimated fair values of selected financial instruments as of the dates indicated were as follows (in millions):

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash surrender value of life insurance policies	$12.9	$12.9	$11.9	$11.9
Auction rate securities	9.3	9.3	14.4	14.4
Liabilities:				
Deferred compensation plan liabilities	$3.9	$3.9	$3.3	$3.3
Acquisition-related contingent consideration	165.9	165.9	143.6	143.6
4.875% senior notes	400.0	381.8	—	—
7.625% senior notes	—	—	150.0	154.9
Original 4.0% Notes	9.6	20.5	9.7	15.9
Original 4.25% Notes	3.0	6.5	3.0	5.1
New 4.0% Notes	102.3	223.3	100.9	173.4
New 4.25% Notes	93.3	210.3	92.1	164.9

The following methods and assumptions were used to estimate the fair values of financial instruments:
Cash Surrender Value of Life Insurance Policies. Cash surrender values of life insurance policies are based on current cash surrender values as quoted by insurance carriers. Life insurance policies support the Company's split dollar agreements and deferred compensation plan assets.
Auction Rate Securities. The fair value of the Company's auction rate securities was estimated by an independent valuation firm, Houlihan Capital Advisors, LLC, using a probability weighted discounted cash flow model. During the second quarter of 2013, the Company sold one of its auction rate securities, and the issuer of another of its auction rate securities redeemed the security at its par value. See Note 7 - Securities Available for Sale.
Deferred Compensation Plan Liabilities. Deferred compensation plan liabilities are based on employee deferrals, together with Company matching contributions, which are valued according to employee-directed investment options. The fair value of deferred compensation plan liabilities is based on quoted market prices of the employees' underlying investment selections.
Acquisition-Related Contingent Consideration Acquisition-related contingent consideration in the table above represents the estimated fair value of additional future earn-outs payable for acquisitions of businesses that closed after January 1, 2009, in accordance with U.S. GAAP. The fair value of such acquisition-related contingent consideration is based on management's estimates and entity-specific assumptions and is evaluated on an on-going basis. See Note 3 - Acquisitions and Other Investments for details of recent acquisitions.
Debt. The estimated fair values of the Company's 4.875% senior notes, 7.625% senior notes, New Convertible Notes and Original Convertible Notes, which are measured on a nonrecurring basis, are based on quoted market prices, a Level 1 input. During the first quarter of 2013, the Company repurchased and redeemed all of its outstanding 7.625% senior notes. See Note 2 - Earnings per Share and Note 10 - Debt for details regarding the Company's debt instruments, including the value of the premium over the principal amount of the New Convertible Notes.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of June 30, 2013, the Company held certain assets and liabilities required to be measured at fair value on a recurring basis. The fair values of financial assets and liabilities measured on a recurring basis were determined using the following inputs as of the dates indicated (in millions):

	Fair Value as of June 30, 2013	Fair Value Measurements Using Inputs Considered as Significant		
		Level 1	Level 2	Level 3
Assets				
Cash surrender value of life insurance policies	$12.9	$12.9		
Auction rate securities	$9.3			$9.3
Liabilities				
Deferred compensation plan liabilities	$3.9	$3.9		
Acquisition-related contingent consideration	$165.9			$165.9

	Fair Value as of December 31, 2012	Fair Value Measurements Using Inputs Considered as Significant		
		Level 1	Level 2	Level 3
Assets				
Cash surrender value of life insurance policies	$11.9	$11.9		
Auction rate securities	$14.4			$14.4
Liabilities				
Deferred compensation plan liabilities	$3.3	$3.3		
Acquisition-related contingent consideration	$143.6			$143.6

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The following tables provide a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis using significant unobservable inputs for the periods indicated (in millions):

Three Months Ended June 30, 2013 and 2012:	Auction Rate Securities		
Assets	Student Loan	Structured Finance Securities	Total
Balance as of March 31, 2012	$12.0	$2.0	$14.0
Changes in fair value recorded in earnings	—	—	—
Changes in fair value recorded in other comprehensive income	(0.3)	(0.2)	(0.5)
Balance as of June 30, 2012	$11.7	$1.8	$13.5
Balance as of March 31, 2013	$11.7	$3.0	$14.7
Changes in fair value recorded in earnings	—	—	—
Changes in fair value recorded in other comprehensive income	(0.0)	—	(0.0)
Redemption or sale of securities (See Note 7 - Securities Available For Sale)	$(2.4)	$(3.0)	$(5.4)
Balance as of June 30, 2013	$9.3	$—	$9.3

Liabilities	Acquisition-Related Contingent Consideration
Balance as of March 31, 2012	$80.9
Payments of contingent consideration	(1.6)
Valuation changes recorded in earnings	—
Balance as of June 30, 2012	$79.3
Balance as of March 31, 2013	$142.6
Payments of contingent consideration	(2.0)
Valuation changes recorded in earnings	—
Additions from new business combinations	26.7
Currency translation adjustments included in other comprehensive income	(1.4)
Balance as of June 30, 2013	$165.9

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Six Months Ended June 30, 2013 and 2012:	Auction Rate Securities		
Assets	Student Loan	Structured Finance Securities	Total
Balance as of December 31, 2011	$11.9	$1.7	$13.6
Changes in fair value recorded in earnings	—	—	—
Changes in fair value recorded in other comprehensive income	(0.2)	0.1	(0.1)
Balance as of June 30, 2012	$11.7	$1.8	$13.5
Balance as of December 31, 2012	$11.7	$2.7	$14.4
Changes in fair value recorded in earnings	—	—	—
Changes in fair value recorded in other comprehensive income	(0.0)	0.3	0.3
Redemption or sale of securities (See Note 7 - Securities Available For Sale)	(2.4)	(3.0)	(5.4)
Balance as of June 30, 2013	$9.3	$—	$9.3

Liabilities	Acquisition-Related Contingent Consideration
Balance as of December 31, 2011	$80.9
Payments of contingent consideration	(1.6)
Valuation changes recorded in earnings	—
Balance as of June 30, 2012	$79.3
Balance as of December 31, 2012	$143.6
Payments of contingent consideration	(2.6)
Valuation changes recorded in earnings	—
Additions from new business combinations	26.7
Currency translation adjustments included in other comprehensive income	(1.8)
Balance as of June 30, 2013	$165.9

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis, which are initially measured at fair value, and are subsequently remeasured in the event of an impairment or other measurement event, if applicable, include items such as cost and equity method investments, goodwill and other intangible assets, long-lived assets and debt instruments.

During the first quarter of 2013, the Company repurchased and redeemed its 7.625% Senior Notes. A debt extinguishment loss of $5.6 million was recorded in connection with the transaction. During the second quarter of 2012, the Company sold the assets and liabilities of DirectStar and incurred a $0.2 million loss on disposal.

As of the dates indicated, the Company held the following assets and liabilities required to be remeasured on a nonrecurring basis:

	June 30, 2013	December 31, 2012
Assets of discontinued operations, classified as held for sale	$29.3	$26.3
Liabilities of discontinued operations, classified as held for sale	$9.9	$10.7

See Note 4 - Discontinued Operations and Note 10 - Debt for additional details.

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Note 7 - Securities Available For Sale

As of June 30, 2013, the Company’s securities available for sale consisted of auction rate securities, which represent interests in pools of student loans guaranteed by the U.S. government under the Federal Family Education Loan Program. During the second quarter of 2013, the issuer of one of the Company's student loan auction rate securities redeemed its security at the security's par value of $2.6 million. Additionally, during the quarter ended June 30, 2013, the Company sold its structured finance security, which had a par value of $5.0 million and a cost basis of $1.7 million. This structured finance security, which was fully collateralized by investment grade credit-linked notes is composed of floating rate international bank notes, had an attached credit default swap under which the principal value of the security would be partially or fully forfeited at net default rates on the underlying corporate debt obligations ranging from 8% to 9%. As of December 31, 2012, the net default rate was estimated to be 6.22%.

Details of the second quarter 2013 redemption and sale transactions, as well as the corresponding securities, are as follows (in millions):

	Par Value	Cumulative Credit Losses	Adjusted Cost Basis	Gross Unrealized (Losses) Gains	Fair Value	Redemption or Sale Price	Reversal of Gross Unrealized Losses (Gains)	Realized Gain on Disposal
Student loan auction rate security	$2.6	$—	$2.6	$(0.2)	$2.4	$2.6	$0.2	$—
Structured finance auction rate security	5.0	(3.3)	1.7	1.3	3.0	2.4	(0.6)	(0.7)
Total	$7.6	$(3.3)	$4.3	$1.1	$5.4	$5.0	$(0.4)	$(0.7)

The gross unrealized gain of $1.1 million, net, was comprised of $0.7 million of unrealized gains in other comprehensive income and a deferred tax liability of $0.4 million.

Management believes the temporary unrealized decline in estimated fair value associated with its remaining student loan auction rate securities is primarily attributable to the limited liquidity of these investments and overall market volatility. The Company expects to recover the remaining cost basis of its student loan auction rate securities, and does not intend to sell, or believe that it will more likely than not be required to sell its student loan auction rate securities before recovery of their cost basis, which may be at maturity.

The fair values of the Company's auction rate securities were estimated by an independent valuation firm, Houlihan Capital Advisors, LLC, as of June 30, 2013 and December 31, 2012, using a probability weighted discounted cash flow model. The valuation of these securities is sensitive to market conditions and management’s judgment and can change significantly based on the assumptions used. The following tables set forth the fair values of the Company’s auction rate securities by type of security and underlying credit rating as of the dates indicated (in millions):

	Underlying Credit Rating (1)			
As of June 30, 2013	AA-	BB	CCC	Total
Student loan auction rate securities	$6.7	$2.6		$9.3

	Underlying Credit Rating (1)			
As of December 31, 2012	AA-	BB	CCC	Total
Student loan auction rate securities	$9.1	$2.6		$11.7
Structured finance auction rate securities			2.7	2.7
Total auction rate securities	$9.1	$2.6	$2.7	$14.4

(1) The Company’s auction rate securities maintain split ratings. For purposes of this table, securities are categorized according to their lowest rating.

The weighted average yields on the Company’s auction-rate securities ranged from 1.46% to 1.92% for the six months ended June 30, 2013. These yields represent the predetermined “maximum” reset rates that occur upon auction failures according to the specific terms within each security’s governing documents.

Auction Rate Securities – Reconciliation of Cost Basis to Fair Value

The Company's student loan auction rate securities have been in a continuous unrealized loss position for over twelve months. The following table presents the cost basis, gross cumulative unrealized (losses) gains and estimated fair values of the Company’s auction rate securities as of the dates indicated (in millions):

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	June 30, 2013		
	Adjusted Cost Basis (1)	Gross Cumulative Unrealized (Losses)/Gains	Fair Value
Student loan auction rate securities	$10.3	$(1.0)	$9.3

	December 31, 2012		
	Adjusted Cost Basis (1)	Gross Cumulative Unrealized (Losses)/Gains	Fair Value
Student loan auction rate securities	$12.9	$(1.2)	$11.7
Structured finance auction rate securities	1.7	1.0	2.7
Total auction rate securities	$14.6	$(0.2)	$14.4

(1) Adjusted cost basis reflects adjustments for credit and other losses recognized in earnings on our structured finance security. There were no adjustments to the cost basis of securities held as of June 30, 2013. Cumulative adjustments to the cost basis of securities held as of December 31, 2012 totaled $3.3 million. Par value of securities held as of June 30, 2013 and December 31, 2012 totaled $10.3 million and $17.9 million, respectiv