WIRELESS FACILITIES INC
Form 10-Q/A
September 20, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED APRIL 2, 2004**
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 ý No o

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

As of May 6, 2004, 68,255,535 shares of the registrant s common stock were outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the quarterly period ended April 2, 2004, filed with the Securities and Exchange Commission (the SEC) on May 10, 2004 is being filed for the purpose of including Part I, Items 1 and 2, as well as Part II, Item 1 and the principal executive officer and principal financial officer certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. See Note 1 to the consolidated financial statements (unaudited) for information regarding the restatement of the financial statements included herein.

This Amendment No. 1 on Form 10-Q/A does not reflect events occurring after the filing of the Quarterly Report on Form 10-Q on May 10, 2004, or modify or update the disclosure presented in the original Quarterly Report on Form 10-Q, except to reflect the revisions as described above.

WIRELESS FACILITIES, INC.

FORM 10-Q/A
FOR THE QUARTERLY PERIOD ENDED APRIL 2, 2004
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2003 (Restated)	March 31, 2004 (Unaudited and restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 86.6	$ 53.7
Short-term investments	27.6	2.0
Accounts receivable, net	95.2	111.1
Accounts receivable - related party, net	0.2	
Prepaid expenses	1.9	3.9
Employee loans and advances, net	0.1	0.4
Other current assets	4.5	4.4
Total current assets	216.1	175.5
Property and equipment, net	11.3	12.4
Goodwill	31.0	75.6
Other intangibles, net	1.9	5.7
Deferred tax assets, net	14.1	15.5
Investments in unconsolidated affiliates	4.0	5.2
Other assets	0.4	0.9
Total assets	$ 278.8	$ 290.8
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 13.6	$ 15.1
Accrued expenses	42.3	42.3
Billings in excess of costs	6.9	5.9
Accrual for contingent acquisition consideration	3.8	4.3
Income taxes payable, net	1.1	1.9
Capital lease obligations	0.5	0.4
Accrual for unused office space	1.5	1.0
Total current liabilities	69.7	70.9
Capital lease obligations, net of current portion	0.2	0.2
Accrual for unused office space, net of current portion	2.0	2.4

Other liabilities		1.3		1.3
Total liabilities		73.2		74.8
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; 90,000 and 42,258 shares outstanding at December 31, 2003 and March 31, 2004, respectively (liquidation preference $45.0)				
Common Stock, $.001 par value, 195,000,000 shares authorized; 62,550,245 and 68,128,579 shares issued and outstanding at December 31, 2003 and March 31, 2004, respectively		0.1		0.1
Additional paid-in capital		309.6		314.2
Accumulated deficit		(100.4)		(94.5)
Accumulated other comprehensive loss		(4.0)		(4.1)
Total stockholders equity		205.3		215.7
Total liabilities and stockholders equity	$	278.8	$	290.8

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 March 31,			
	2003		2004	
	(Restated)		(Restated)	
Revenues	$	52.6	$	98.3
Cost of revenues		39.6		76.4
Gross profit		13.0		21.9
Selling, general and administrative expenses		12.1		14.1
Credit for doubtful accounts				(0.3)
Depreciation and amortization		1.8		1.2
Operating income (loss)		(0.9)		6.9
Other income (expense), net:				
Interest income, net		0.3		0.1
Foreign currency gain		0.6		0.2
Other income (expense), net		(0.1)		0.1
Other income, net		0.8		0.4
Income before provision for income taxes		(0.1)		7.3
Provision for income taxes				1.4
Net income (loss)	$	(0.1)	$	5.9
Net income (loss) per share				
Basic	$	0.00	$	0.09
Diluted	$	0.00	$	0.08
Weighted average common shares outstanding:				
Basic		49.3		64.2
Diluted		49.3		76.9

See accompanying notes to unaudited consolidated financial statements.

WIRELESS FACILITIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three months ended March 31,	
	2003	**2004**
	(Restated)	**(Restated)**
Operating activities:		
Net income (loss)	$ (0.1)	$ 5.9
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2.4	1.6
Provision for deferred income taxes		1.4
Credit for doubtful accounts		(0.3)
Equity loss of unconsolidated affiliates	0.1	
Stock based compensation	0.8	
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	0.1	(8.6)
Accounts receivable related party	(0.2)	0.2
Income taxes receivable	0.6	
Prepaid expenses	0.1	(1.7)
Deferred tax asset	(1.6)	(0.7)
Other assets	1.6	(0.5)
Accounts payable and accrued expenses	3.3	(1.7)
Accounts payable related party	(0.2)	
Billings in excess of costs on completed contracts	(3.7)	(2.8)
Accrual for unused office space	0.1	(0.2)
Other liabilities	1.7	0.7
Net cash provided by (used in) operating activities	5.0	(6.7)
Investing activities:		
Sale/maturity of short-term investments		25.9
Investment in unconsolidated affiliate		(1.0)
Cash paid for contingent acquisition consideration		(4.0)
Cash paid for acquisitions, net of cash acquired	(1.8)	(48.4)
Capital expenditures	(0.8)	(2.1)
Net cash used in investing activities	(2.6)	(29.6)
Financing activities:		
Proceeds from issuance of common stock	2.4	3.6
Repayment of capital lease obligations	(0.9)	(0.1)
Net cash provided by financing activities	1.5	3.5

Effect of exchange rate on cash		(0.7)		(0.1)
Net increase (decrease) in cash and cash equivalents		3.2		(32.9)
Cash and cash equivalents at beginning of period		99.1		86.6
Cash and cash equivalents at end of period	$	102.3	$	53.7

See accompanying notes to unaudited consolidated financial statements.

	Three months ended March 31,	
	2003	**2004**
	(Restated)	**(Restated)**
Supplemental disclosure of cash flow information:		
Cash received during the period for interest	$	$ 0.1
Net cash refunded/(paid) during the period for income taxes	$ 1.0	$ (0.1)
Supplemental disclosures of non-cash investing and financing transactions:		
Fair value of assets acquired in acquisitions	$	$ 54.8
Cash paid for acquisitions		(48.4)
Liabilities assumed in acquisitions	$	$ 6.4
Common stock issued pursuant to Employee Stock Purchase Plan	$ 0.8	$ 0.9

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 is an independent, global provider of outsourced communications and security systems engineering and integration services for the wireless communications industry, the U.S. government, and enterprise customers. Such services include, but are not limited to, the design, deployment, integration, and the overall management of communications, information technology, and security networks. WFI s work for the wireless communications industry primarily involves radio frequency engineering, site development, project management and the installation of radio equipment networks. WFI also provides network management services, which involve day-to-day optimization and maintenance of wireless networks. WFI s work for the federal government primarily involves systems engineering, systems integration, and the outsourcing of technical services such as operational test and evaluation and program management. WFI also provides services in the areas of mission assurance, product and process validation and verification, and software and applications development. WFI s work for enterprise customers primarily involves the design, deployment, and integration of security and other in-building systems including access control and intrusion detection and is focused on opportunities to integrate wireless technology into enterprise networks, especially physical and electronic security systems, and voice and data networks. WFI s customers are primarily mature providers of wireless telecommunication services, wireless equipment vendors and a large range of customers from varied commercial, governmental and industry sectors that require security integration services. WFI s engagements range from small and short in duration, to large multi-year contracts performed on a domestic and international level. WFI s services are performed either on a time and materials basis, a cost plus fixed fee, or on a fixed price, time certain basis.

(b) Restatement of Prior Period Financial Statements

The Company recently determined that its previously filed financial statements for 2001, 2002 and 2003 required restatements. The following discussion describes the nature and impact of the restatement items. The primary reason for the restatement was a recent determination that the Company's balance sheet did not properly reflect certain accruals which pertained primarily to foreign tax contingencies, and to a lesser degree, certain domestic sales and use tax contingencies. Accordingly, the Company has restated its previously filed financial statements for the fiscal years 2001, 2002 and 2003 on its Form 10-K/A filed on September 20, 2004 (the Form 10-K/A). The financial statements included in the Form 10-K/A for fiscal years 2001, 2002, 2003, and as of December 31, 2002 and 2003 reflect the appropriate accounting treatment for the tax related contingencies.

Additionally, as part of the restatement process, two other types of adjustments were recorded. The first type of adjustment pertained to various items that had been previously identified in each of these prior periods, but were not recorded in the preceding periods because they were immaterial. Certain of these previously unadjusted differences became material after they were subsequently impacted or refined by the restatement items. These adjustments related to a variety of topics including period cut-off errors, reclassifications, reconciling differences that impacted asset and liability carrying values, and the timing of revenue recognition.

The second type of adjustment pertained to the correction of the accounting for certain other prior year transactions. These adjustments included the following: adjustments to reclassify bad debt expense as reductions to revenue, an impairment of the carrying value of a cost-method investment, recording stock compensation expense for changes in employment status which resulted in a modification of the terms of the employee stock options, the correction of an error in the measurement of progress toward contract completion, the correction of improper cost classifications and a contract billing error on a particular contract, a transitional impairment of goodwill of an acquired entity in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, the identification of purchased intangible assets acquired which resulted in a reclassification from goodwill to other intangible assets and the associated amortization expense, and the correction to record certain earn-out consideration as compensation expense rather than additional purchase consideration.

The impact of the adjustments noted above is reflected in the beginning balance sheet as of January 1, 2004. The adjustments relating to the first quarter of 2003 have been reflected in the financial statements included herein for that period. In addition, certain reclassifications of approximately $0.3 million between other income, bad debt expense and revenues were made to adjust for the collections of previously reserved receivable balances. The original establishment of those allowances and reserves were adjusted as part of the restatement adjustments. Accordingly, the reversal of such allowances in the first quarter of 2004 required restatement to conform to the classification as recorded in the restatement adjustments. There was no net impact of these reclassifications to net income in the first quarter of 2004.

Reliance should be placed solely on the financial statements in the Form 10-K/A and in this report on Form 10-Q/A and not on the previously published Form 10-K originally filed on March 8, 2004, the originally filed 10Q filed on May 10, 2004 or on any other previously reported financial statements for the periods identified above. A complete discussion of the restated financial data is included in Note 1 (b) Restatement of prior period Financial Statements to our consolidated financial statements included in the Form 10-K/A. The effect of this restatement was an adjustment to increase accumulated deficit by $42.9 million as of January 1, 2004. As a result of the various adjustments discussed above, modifications were required to previously filed footnotes as follows: Note 1(h), Note 3 Note 5 and Note 6.

The following tables (in millions) show the impact of the restatements of the relevant captions from the Company s financial statements as of and for the three months ended March 31, 2004. These tables contain only the changed balances and do not represent the complete statements of operations.

	March 31, 2004 (As previously Reported)	**Adjustments**	**March 31, 2004 (As restated)**
Accounts receivable, net	$ 112.7	$ (1.6)	$ 111.1
Employee loans and advances	.70	(0.3)	0.4
Total current assets	177.4	(1.9)	175.5
Goodwill	95.7	(20.1)	75.6
Other intangibles, net	4.3	1.4	5.7
Deferred tax assets, net	12.9	2.6	15.5
Investments in unconsolidated affiliates	9.3	(4.1)	5.2
Total assets	312.9	(22.1)	290.8
Accrued expenses	27.6	14.7	42.3
Income taxes payable, net	2.0	(.1)	1.9
Total current liabilities	56.3	14.6	70.9
Total liabilities	60.2	14.6	74.8
Additional paid-in-capital	308.0	6.2	314.2
Accumulated deficit	(51.6)	(42.9)	(94.5)
Total stockholders equity	252.4	(36.7)	215.7
Total liabilities and stockholders equity	312.9	(22.1)	290.8
Revenues	98.0	.3	98.3
Gross profit	21.6	.3	21.9
Operating income	6.6	.3	6.9
Other income (expense), net	0.4	(.3)	0.1
Other income, net	0.7	(.3)	0.4

A summary of the adjustments impacting net income in the three months ended March 31, 2003 is as follows (in millions):

		3 months ended March 31, 2003
Foreign tax contingencies	$	(0.3)
Prior year unrecorded entries		(0.8)
Contract cost misclassifications and duplicate billings		0.1
Stock compensation expense		(0.8)
Units of delivery revenue adjustments		(2.2)
Purchase price allocation adjustment		(0.1)
	$	(4.1)

There were no adjustments impacting net income in the three months ended March 31, 2004.

The following tables (in millions) show the impact of the restatements of the relevant captions from the Company s financial statements for the three months ended March 31, 2003. These tables contain only the changed balances and do not represent the complete statements of operations.

	Three months ended March 31, 2003					
		As Previously reported		Adjustments		As Restated
Revenues	$	53.9	$	(1.3)	$	52.6
Cost of revenues		39.0		0.6		39.6
Gross profit		14.9		(1.9)		13.0
Selling, general and administrative expenses		11.3		0.8		12.1
Provision (credit) for doubtful accounts		(1.3)		1.3		
Depreciation and amortization		1.7		0.1		1.8
Operating income (loss)		3.2		(4.1)		(0.9)
Net income (loss)	$	4.0		(4.1)		(0.1)
Net income per common share						
Basic	$	0.08			$	0
Diluted	$	0.06			$	0
Weighted average common shares outstanding						
Basic		49.3				49.3
Diluted		68.7				49.3

There was no impact to the subtotals for cash flows from operations, investing and financing activities in the statement of cash flows for the three months ended March 31, 2003 and 2004.

(c) Fiscal Calendar and Basis of Presentation

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 periods presented in this quarterly report are not exactly comparable because the first quarter ended April 2, 2004 is a 14 week quarter and the first quarter ended March 28, 2003 was a 13 week quarter. 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 first quarter ended on April 2, 2004, but we present our quarter as ending on March 31, 2004.

The information as of March 31, 2004, and for the three months ended March 31, 2003 and 2004 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 26, 2003, filed on Form 10-K/A on September 20, 2004, with the United States Securities and Exchange Commission.

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.

(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 and Short-Term Investments

The Company considers all highly liquid investments with an original maturity of three months or less when purchased as cash equivalents.

The Company has evaluated its investments in accordance 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 its ability to liquidate debt securities maturing after one year during the one-year operating cycle, the Company classifies such short-term investment securities within current assets. 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 as a component within other income (expense), net. Interest and dividends on securities classified as available-for-sale are included in interest income. The fair value of short-term investments at March 31, 2004 was as follows (in millions):

	March 31, 2004	
	Amortized Cost Basis	Fair Value Basis
Cash and cash equivalents:		
Cash	$ 8.8	$ 8.8
Money market	39.4	39.4
Corporate securities	5.5	5.5
Cash and cash equivalents	53.7	53.7
Short-term investments:		
Corporate notes and bonds	0.7	0.7
U.S. government and agency securities	1.3	1.3
Short-term investments	2.0	2.0
Cash and cash equivalents and short-term investments	$ 55.7	$ 55.7
Debt securities recorded at fair value, maturing:		
Within one year		$ 6.2
After one year through five years		1.3
Debt securities recorded at fair value		$ 7.5

(g) Revenue Recognition

The Company provides services for three primary types of contracts: fixed-price long-term turnkey; time and materials; and cost plus fixed fee.

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 for the Company s government contracts. 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 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 individual projects; and (3) the current estimated contract value associated with the projects. If, in any period, we 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. As a result, our gross margin in such period and in future periods may be affected. 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 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. 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 overall project margin. 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 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 March 31, 2004 was $50.1 million.

During the reporting periods contained herein, the Company experienced revenue and margin adjustments (i.e., swings) of certain projects based on the aforementioned factors, but the effect of such adjustments, both positive and negative, when evaluated in total were not significant to the unaudited consolidated financial statements.

Revenue from time and materials contracts is 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.

(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. The Company has adopted the disclosure provisions of SFAS No. 148 which amended SFAS No. 123 by permitting two additional transition methods for entities that choose to adopt the provisions of SFAS No. 123 as their method of accounting for stock-based employee compensation and requires new disclosures about the effect of stock-based employee compensation on reported results.

Under SFAS No. 123, the weighted average option price of stock options granted during the three months ended March 31, 2003 and 2004 were $5.23 and $11.44 respectively, on the date of grant. The fair value under SFAS No. 123 is determined by utilizing the Black-Scholes option-pricing model with the following assumptions:

	Three months ended March 31,	
	2003	**2004**
Expected term (Hold Period):		
Stock Options	4 years	4 years
Purchase Plan	6 months	6 months
Interest Rate	3.82%	2.99%
Volatility	100%	102%
Dividends		

The volatility factor is calculated based on the trailing historical volatility rates over the estimated hold period or, at the minimum, the standard 4-year vesting period. The actual volatility factor used for the three months ended March 31, 2003 reflects a modification to the calculated historical volatility of 137%, based on management s belief that recent experience indicates that the stock generally has become less volatile and is not indicative of expected future volatility.

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 March 31,			
	2003		**2004**	
Net income (loss) as restated	$	(0.1)	$	5.9
Actual stock-based compensation expense included in net earnings		0.8		
Total stock-based employee compensation expense determined under fair value based method for all awards		(6.5)		(5.6)
Pro forma net income (loss)	$	(5.8)	$	0.3
Earnings (loss) per common share:				
Basic as restated	$	0.00	$	0.09
Basic pro forma	$	(0.12)	$	0.00
Diluted as restated	$	0.00	$	0.08
Diluted pro forma	$	(0.12)	$	0.00
Weighted average shares:				
Basic as restated and pro forma		49.3		64.2
Diluted as restated		49.3		76.9
Diluted pro forma		49.3		76.9

(i) Accrual for Unused Office Space

Due to the downturn in the wireless telecommunications industry during 2001 through 2002, the Company recorded provisions for losses on unused office space under non-cancelable operating leases ranging in duration from 24 96 months. The initial provision for loss on unused office space was determined based upon management s analysis, review and assessment of the expected realization of projected sublease income associated with an expected excess facility capacity, compared to the aggregate scheduled lease payments through the remainder of the lease terms. The initial determination and computation of previous provision for loss were performed in accordance with FASB Technical Bulletin (FTB) 79-15, Accounting for Loss on a Sublease Not Involving the Disposal of a Segment.

During 2003, the Company reevaluated its accrual for unused office space. As a result, the Company recorded a $3.2 million reversal of the accrual for unused office space during the fourth quarter of 2003. The remaining accrual for unused office space as of March 31, 2004 was $3.4 million. The remaining accrual balance is primarily comprised of amounts payable under certain non-cancelable operating leases requiring payment for certain lease cancellation fees and other lease costs, net of assumed sublease income, with the remainder expected to be paid over the remaining lease terms, which expire in 2010.

(j) Commitments and Contingencies

The Company periodically evaluates all pending or threatened contingencies or commitments, if any, that are reasonably likely to have a material adverse effect on its operations or financial position. The Company assesses the probability of an adverse outcome and determines if it is remote, reasonably possible or probable as defined in accordance with the provisions of SFAS No. 5, Accounting for Contingencies. If information available prior to the issuance of the Company s financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the Company s financial statements, and the amount of the loss, or the range of probable loss can be reasonably estimated, then such loss is accrued and charged to operations. If no accrual is made for a loss contingency because one or both of the conditions pursuant to SFAS No. 5 are not met, but the probability of an adverse outcome is at least reasonably possible, the Company will disclose the nature of the contingency and provide an estimate of the possible loss or range of loss, or state that such an estimate cannot be made.

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 an accrual of $12.9 million was required for foreign tax contingencies and $2.0 million was required for domestic sales and use tax contingencies for those prior periods.

(k) Contingent Acquisition Consideration

From time to time, in connection with certain business acquisitions, the Company may agree to make additional future payments to sellers that are contingent upon the acquired entities achievement of specific performance-based milestones. Pursuant to the provisions of SFAS No. 141, such contingent liabilities are accrued, and therefore, recorded by the Company when the contingency is determinable beyond a reasonable doubt and, hence, the additional consideration becomes payable. During the restatement process, the Company determined that certain amounts of the earn-out consideration should be recorded as compensation expense in accordance with EITF 95-8 *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination* as a result of continued employment provisions in the agreements.

Assuming the entities acquired in 2003 reach the minimum base performance targets in 2004 through 2006, the aggregate future contingent payments related to the measurement periods from 2003 through 2006, including the amounts accrued and paid as of March 31, 2004, would approximate a cumulative total of $11.9 million. If the acquired entities exceed the defined annual performance targets through estimated annual growth of approximately 15% based on 2003 performance, the aggregate future contingent payments could likely range from $29.2 million to $31.0 million inclusive of the amounts paid and accrued through March 31, 2004 and the amounts earned from the achievement of the minimum base performance targets. The contingent consideration is calculated based on a certain multiple of defined annual earnings targets as stated in the respective purchase agreements. A portion of the possible future contingent payments will be recorded as compensation expense, as reflected in the table below.

The following table summarizes management s estimate of the potential range of future contingent consideration by year:

		(in millions)		
2004	**2005**	**2006**	**2007**	**Total**
$8.1-$8.6*	$9.4-$10.0*	$10.3-$11.0*	$1.4-$1.4*	$29.2-$31.0*

Potential range of future contingent consideration				
Potential portion to be recorded as compensation expense**	$3.6-$3.9	$4.1-$4.3	$1.4-$1.5	$9.1-$9.7

*Hypothetical range based on estimated annual growth of 15%.

**Potential expense is assumed to be accrued in the fiscal year earned. The $2.9 million compensation expense in fiscal 2003 is related to payments made in 2004. The timing of recognizing the liabilities and associated expenses for future year contingent payments could be accelerated and subject to periodic re-estimation if the continuous employment clauses are rescinded from the earn-out arrangements. The timing of cash payments would not be impacted by removing such requirements.

(2) Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable of Interest Entities, an Interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities (VIEs) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46R (Revised Interpretation) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretation. However, the Revised Interpretation must be applied no later than the first quarter of fiscal year 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretation. The Company evaluated a partnership that was created after January 1, 2004, and determined that it met the characteristics of a VIE and the requirements for consolidation pursuant to the provisions FIN 46R. Included in the Company s consolidated financial results are $0.2 million total net liabilities which are eliminated at the consolidated level against a corresponding receivable as of March 31, 2004, $0 revenue and $0.2 million of net loss from this partnership for the three months ended March 31, 2004.

(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. 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 March 31,	
	2003 (restated)	**2004**
Weighted average shares, basic	49.3	64.2
Dilutive effect of stock options		4.7

Dilutive effect of Series B Convertible Preferred Stock		7.9
Dilutive effect of contingently issuable shares pursuant to Employee Stock Purchase Plan		0.1
Weighted average shares, diluted	49.3	76.9

In November 3, 2003, 63,637 shares of Series A Convertible Preferred Stock were converted into 7,000,000 shares of the Company s Common Stock. On January 30, 2004, 7,742 shares of Series B Convertible Preferred Stock were converted into 774,200 shares of the Company s Common Stock. On March 5, 2004, 40,000 shares of Series B Convertible Preferred Stock converted into 4,000,000 shares of the Company s Common Stock. The converted shares are reflected in basic weighted shares outstanding based upon the date of conversion. Refer to Note 7 for further details regarding Series A and Series B Convertible Preferred Stock.

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 March 31, 2003 (restated)	Three months ended March 31, 2004
Dilutive effect of Stock options	5.7	0.8
Dilutive effect of Series A Convertible Preferred Stock	7.0	
Dilutive effect of Series B Convertible Preferred Stock	9.0	
Dilutive effect of contingently issuable shares pursuant to Employee Stock Purchase Plan	0.1	
Total anti-dilutive instruments	21.8	0.8
Average market value of stock per share	$ 6.14	$ 13.70
Average outstanding stock option price per share	$ 8.45	$ 9.65

(4) Investments in Unconsolidated Affiliates

Tactical Survey Group, Inc. (TSG)

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 WFI employee on TSG s board of directors. The equity in earnings from this investment is classified within other income (expense) in the Company s consolidated statements of operations. The balance of the Company s investment in TSG at March 31, 2004, totaled $1.2 million (inclusive of $0.2 million invested by HTS prior to the Company s acquisition of HTS on January 5, 2004) and has been classified on the consolidated balance sheet under the caption investment in unconsolidated affiliates. On at least a quarterly basis, the Company will obtain and review the financial statements and most recent forecasts of TSG. Based on that review and inquiries with TSG s management, the Company determines whether there has been other than a temporary impairment of its investment. Based on the periodic evaluations, the Company has concluded that the carrying value of its investment in TSG has not been impaired as of March 31, 2004.

(5) Acquisitions

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 purchase method accounting in accordance with SFAS No. 141. The excess purchase price paid over the fair value of tangible and identifiable 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 consists of $3.2 million allocated to contracts and backlog, $0.2 million for intellectual property, and $0.5 million for a non-compete agreement. The allocation of the purchase price is subject to refinement within a one-year period of the acquisition date. 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 $0.1 million as a reduction of costs against the deferred profit during the first quarter ended March 31, 2004. The remaining amount of $1.4 million at March 31, 2004 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 quarter ended March 31, 2004 and are a component of the government network services operating segment.

The following summary presents pro forma consolidated results of operations for the quarter ended March 31, 2003 as if the acquisitions described above had occurred at the beginning of the quarter ended March 31, 2003, 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 (as reported) to pro forma financial results for the quarter ended March 31, 2003 (all unaudited amounts except per share amounts are in millions):

	Three months ended March 31, 2003		
	As Restated	Pro forma Adjustments	Pro forma
Revenue	$ 52.6	$ 11.1	$ 63.7
Operating income	$ (0.9)	$ 0.9	$
Net income (loss)	$ (0.1)	$ 0.7	$ 0.6
Net income per common share:			
Basic	$ 0.00		$ 0.01
Diluted	$ 0.00		$ 0.01
Weighted average shares outstanding:			
Basic	49.3		49.3
Diluted	49.3		68.7

In connection with certain business acquisitions, the Company may agree to make additional future payments to sellers contingent upon achievement of specific performance-based milestones by the acquired entities. Pursuant to the provisions of SFAS No. 141, such amounts are accrued, and therefore, recorded by the Company when the contingency is resolved beyond a reasonable doubt and, hence, the additional consideration becomes payable. During the first quarter of fiscal year 2004, the Company paid $4.0 million of contingent consideration to the stockholders of two entities that were acquired in 2003 within the Enterprise Network Services segment. The Company had estimated and accrued $3.8 million of this contingent consideration as of December 31, 2003. As of March 31, 2004, $4.3 million had been accrued as additional contingent consideration pursuant to these arrangements. Such amount was paid in April 2004. In addition, the Company has agreed to pay additional consideration based upon the achievement of earnings targets for fiscal years 2004 through year 2006. Future additional consideration, if any, will be recorded at the time the outcome is issued or issuable or the outcome is determinable beyond a reasonable doubt. The timing of recognizing the liabilities and associated expenses for future year contingent payments could be accelerated and subject to periodic re-estimation if the contingent employment clauses are rescinded from the earn-out arrangements. The timing of payments of earn-outs would not be impacted by removing such requirements.

The following table summarizes the changes in the carrying amounts of goodwill and other indefinite and finite-life intangible assets for the three month ended March 31, 2004, are as follows (in millions):

	Wireless Network Services	Enterprise Network Services	Government Network Services	Total
Goodwill				

Balance as of December 31, 2003	$	25.5	$	5.5	$		$	31.0
Acquisition						40.2		40.2
Accrual for contingent consideration				4.3				4.3
Adjustment				0.1				0.1
Balance as of March 31, 2004		25.5		9.9		40.2		75.6
Other intangibles, net								
Balance as of December 31, 2003				1.9				1.9
Acquisition						3.9		3.9
Amortization expense						(0.1)		(0.1)
Balance as of March 31, 2004				1.9		3.8		5.7
Total goodwill and other intangibles, net	$	25.5	$	11.8	$	44.0	$	81.3

(6) Segment Information

In 2004, the Company reorganized its operating segments to reflect its current operations and strategic direction. Effective January 1, 2004, the Company reorganized its business along service lines including three reportable segments: Wireless Network Services, Enterprise Network Services and Government Network Services. Revenues and operating income generated by the Company s reporting segments for the three months ended March 31, 2003 and 2004 are as follows (in millions). All prior period amounts have been reclassified in order to conform with the current period presentation.

	Three months ended March 31,			
	2003 (restated)		2004 (restated)	
Revenues:				
Wireless Network Services	$	50.6	$	72.7
Enterprise Network Services		2.0		14.4
Government Network Services				11.2
Total revenues	$	52.6	$	98.3
Operating income:				
Wireless Network Services	$	(0.9)	$	4.9
Enterprise Network Services				0.9
Government Network Services				1.1
Total operating income (loss)	$	(0.9)	$	6.9

Revenues derived by geographic region are as follows (in millions):

	Three months ended March 31,			
	2003 (restated)		2004 (restated)	
Revenues:				
U.S.	$	44.4	$	74.4
Central and South America		3.0		15.3
Europe, Middle East and Africa		5.2		8.6
Total revenues	$	52.6	$	98.3

The Company had sales to two separate customers, which comprised $12.2 million (12.4%) and $11.5 million (11.7%) of the Company s total revenues for the quarter ended March 31, 2004. Revenues for these customers are recorded in the wireless network services operating segment.

(7) Related Party Transactions

On May 30, 2002, the Company issued an aggregate of 90,000 shares of Series B Convertible Preferred Stock, at an aggregate purchase price of $45.0 million, in a private placement to entities affiliated with one of the directors of the Company (40,000 shares), to a brother of the Chairman and Chief Executive Officer of the Company (10,000 shares) and to an unrelated third-party investor (40,000 shares). The Company received $44.9 million of proceeds, net of $0.1 million of issuance costs paid by the Company. Based upon a review by disinterested members of management and the board of directors of terms of comparable transactions available from or involving third parties, the Company believes that all transactions with related parties described above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. Each share of Series B Convertible Preferred Stock is initially convertible into 100 shares of Common Stock for a conversion price of $5.00 per share at the option of the holder at any time, subject to certain provisions in the Series B Preferred Stock Purchase Agreement. The Series B Preferred Stock Purchase Agreement has a lock-up provision, which expires over time, such that at the end of each of the three month periods that commenced on the 18 month anniversary of the closing date, 20% of the shares are released from the lock-up provision and available for resale upon conversion. On January 30, 2004, 7,742 shares of Series B Convertible Preferred Stock were converted into 774,200 shares of the Company s Common Stock. On March 15, 2004, 40,000 shares of Series B Convertible Preferred Stock were converted into 4,000,000 shares of the Company s Common Stock, of which 1,600,000 shares were transferred free of any lock-up restriction and 2,400,000 shares were transferred subject to the lock-up restriction which will lapse, along with the lock-up restriction on an additional 3,000,000 shares (on an as-converted basis), in three equal tranches of 1,800,000 shares each on May 30, 2004, August 30, 2004 and November 30, 2004.

In 2004, the Company entered into a partnership arrangement with an unrelated individual whereby the Company committed to fund a $1 million line of credit for working capital purposes of the newly created partnership, known as Mobilitie Partners, LLC (Mobilitie). The terms of the line of credit agreement provide for repayment based upon the occurrence of certain future events, such as a monetizing event. In addition, in the event the Company exits the partnership based upon its evaluation of the viability of the business, WFI is committed to fund approximately $0.4 million of future operating costs of its partner. For this consideration the Company received 15% equity interest in Mobilitie. The Company reviewed the terms of the partnership agreement and determined that it met the characteristics of a variable interest entity and the requirements for consolidation under FASB Interpretation No. 46R (see Note 2) and, accordingly, Mobilitie is required to be fully consolidated by WFI. As of March 31, 2004, approximately $0.25 million had been advanced on the line of credit, and has been recorded as a receivable of $0.25 million, which is eliminated by net liabilities of $0.5 million. For the three months ended March 31, 2004, $0 revenue and $0.25 million of net loss from this partnership were consolidated.

(8) Legal Matters

From time to time, the Company may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company s business. The Company is currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Quarterly Report on Form 10-Q/A to conform such statements to actual results or to changes in our expectations.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the related notes and other financial information appearing elsewhere in this Form 10-Q/A. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, under the caption Risks Related to Our Business, and the audited consolidated financial statements and related notes included in our Annual Report filed on Form 10-K/A for the year ended December 26, 2003 and other reports and filings made with the Securities and Exchange Commission.

Overview

We are an independent provider of outsourced communications and security systems engineering and integration services for the wireless communications industry, the U.S. government, and enterprise customers. The principal services we provide include, but are not limited to, the design, deployment, integration, and the overall management of communications, information technology, and security networks. Our work for the wireless communications industry primarily involves radio frequency engineering, site development, project management and the installation of radio equipment networks. We also provide network management services, which involve day-to-day optimization and maintenance of wireless networks. As a result of our acquisition of High Technology Solutions, Inc. or HTS, and the resulting formation of our Government Network Services division during the first quarter of 2004, we expect increased work for the federal government primarily involved with systems engineering, systems integration, and the outsourcing of technical services such as operational test and evaluation and program management. We also provide services in the areas of mission assurance, product and process validation and verification, and software and applications development. Our work for enterprise customers primarily involves the design, deployment, and integration of security and other in-building systems including access control and intrusion detection and is focused on opportunities to integrate wireless technology into enterprise networks, especially physical and electronic security systems, and voice and data networks.

Wireless network services contracts are primarily fixed price contracts whereby revenue is recognized using the percentage-of-completion method of accounting under the provisions of Statement of Position (SOP) 81-1, Accounting for Performance of Construction Type and Certain Production Type Contracts. For contracts offered on a time and expense basis, we recognize revenues as services are performed. We typically charge a fixed monthly fee for ongoing radio frequency optimization and network operations and maintenance services. With respect to these services, we recognize revenue as services are performed. Our government network services business with the U.S. government and prime contractors is generally performed under cost reimbursable, fixed price or time and materials contracts. Cost reimbursable contracts for the government provide for reimbursement of costs plus the payment of a fee. Some cost-reimbursable contracts include incentive fees that are awarded based on performance on the contract. Under fixed-price contracts, we agree to perform certain work for a fixed price. Under time and materials contracts, we are reimbursed for labor hours at negotiated hourly billing rates and reimbursed for travel and other direct expenses at actual costs plus applied general and administrative expenses.

Cost of revenues includes direct compensation, living, travel and benefit expenses for project-related personnel, payments to third-party sub-contractors, project-related incentive compensation based upon the successful achievement of certain project performance goals, allocation of corporate overhead costs of expendable computer software and equipment, and other direct project-related expenses. Direct compensation and benefits are computed based on standard costs and actual hours billed. We review and adjust these standard costs periodically to ensure they are comparable to actual costs.

Selling, general and administrative expenses include compensation and benefits for corporate service employees and similar costs for billable employees whose time and expenses cannot be assigned to a project (underutilization costs), expendable computer software and equipment, facilities expenses and other operating expenses not directly related and/or allocated to projects. General and administrative costs include all corporate and administrative functions that support existing operations and provide infrastructure to facilitate our future growth. Additionally, our sales personnel and senior corporate executives have, as part of their compensation packages, periodic and annual bonus/commission incentives based on the attainment of specified performance goals.

Credit for doubtful accounts includes the reversal of estimated losses resulting from the financial inability of our customers to make required payments for services we have performed. We consider the following factors when determining if collection of a receivable is reasonably assured: comprehensive collection history; results of our communications with customers; the current financial position of the customer; and the relevant economic conditions in the customer s country. If we have had no prior experience with the customer, we review reports from various credit organizations to ensure that the customer has a history of paying its creditors in a reliable and effective manner. If these factors do not indicate collection is reasonably assured, revenue is deferred until it becomes reasonably assured, which is generally upon receipt of cash. If the financial condition of our customers were to deteriorate, and adversely affect their financial ability to make payments, additional allowances would be required. Additionally, on certain contracts whereby we perform services for a prime/general contractor, a specified percentage of the invoiced trade accounts receivable may be retained by the customer until we complete the project. We periodically review all retainages for collectibility and record allowances for doubtful accounts when deemed appropriate, based on our assessment of the associated risks. Total retainages included in accounts receivable were $2.4 million at March 31, 2004.

In 2004, we reorganized our operating segments to reflect our current operations and strategic direction. Our three operating segments, effective January 1, 2004, are our Wireless Network Services segment (encompassing business consulting, design and deployment services and network management services), our Enterprise Network Services segment, and our Government Network Services segment.

Management currently considers the following events, trends and uncertainties to be important to understanding its financial condition and operating performance:

Capital spending by wireless carriers on improved network coverage, quality, and capacity domestically and internationally continued to increase resulting in a growth in our wireless network services business. We expect this trend to continue throughout 2004. Our response to this trend is to continue demonstrating our ability to provide quality turnkey network deployment services and present the benefits of operational outsourcing. We expect these recent positive trends in the industry to contribute to ongoing improved financial performance.

In the EMEA region, where revenues grew 65% year over year to $8.6 million, the initial roll out of 3G networks by certain customers has made our European operations the fastest growing in the company. The 3G activity by the major carriers in Europe has started to positively impact our revenues and operating results. We expect the increase in new customer engagements during the first quarter will materialize into greater growth opportunities later this year as the major carriers expand their 3G networks.

Our Latin America operations continued to experience significant growth resulting from certain large contracts awarded to us in the third quarter of fiscal year 2003. We expect continued growth in our overall international operations based on projected subscriber growth and continued marketplace competition.

We believe our government network services division will build and expand our customer relationships within the Departments of Defense and Homeland Security by taking advantage of the significant opportunities for companies with substantial expertise in wireless technology. We expect continued growth in revenues and operating income from this new operating segment.

We also believe our enterprise network services division will continue to be a driver for growth. We continue to be optimistic about the opportunity to integrate wireless technology into enterprise networks, especially physical and electronic security systems, and voice and data networks.

Our effective tax rate for the quarter ended March 31, 2004 of 19% is expected to be the annual effective tax rate for 2004. The annual and interim period effective tax rate(s) for 2004 is lower than the statutory rates due to the expected realization of certain tax benefits as a result of fiscal year 2004 forecasted income.

Critical Accounting Principles and Estimates

We have identified the following critical accounting policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, stockholders equity, revenues and expenses, and related disclosures of contingent assets and liabilities. On a periodic basis, as deemed necessary, we evaluate our estimates, including 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 and litigation and contingent acquisition consideration. We explain these accounting policies in the notes to the unaudited consolidated financial statements and at relevant sections in this discussion and analysis. These estimates are based on the information that is currently available and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

Revenue recognition. We derive a significant percentage of our revenue from long-term contracts and account for these contracts under the provisions of Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts . Revenue on time and materials contracts is recognized as services are rendered at contracted labor rates plus material and other direct costs incurred. The portion of our revenue derived from fixed price contracts accounted for approximately 65% of our revenues for the quarter ended March 31, 2004. Revenue on fixed price contracts is recognized using the percentage-of-completion method 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 material, direct labor, overhead, and allowable general and administrative expenses for our government contracts. These cost estimates are reviewed and, if necessary, revised monthly on a contract-by-contract basis. If, as a result of this review, we determine that a loss on a contract is probable, then the full amount of estimated loss is charged to operations in the period it is determined that it is probable a loss will be realized from the full performance of the contract. Significant management judgments and estimates, including but not limited to the estimated costs to complete projects, must be made and used in connection with the revenue recognized in any accounting period. The revenue we recognize in a given 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 individual projects; and (3) the current estimated contract value associated with the projects. If, in any period, we 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. As a result, our gross margin in such period and in future periods may be affected. 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.

A cancellation or modification of a fixed price contract which is accounted for using the percentage-of-completion method may adversely affect our gross margins for the period in which the contract is modified or cancelled. Under certain circumstances, a cancellation or negative modification could result in us having to reverse revenue that we recognized in a prior period, thus significantly reducing the amount of revenues we recognize for the period in which the adjustment is made. Correspondingly, a positive modification may positively affect our gross margins.

In addition, many of our contracts include milestone billings. If a contract is terminated or if the scope of a contract changes prior to a milestone billing, the amount of revenue we recognize may change, which would affect our revenue and gross margin in the period in which the contract is terminated or the scope is changed.

During the reporting periods contained herein, we did experience revenue and margin adjustments of certain projects based on the aforementioned factors, but the effect of such adjustments, both positive and negative, when evaluated in total were determined to be immaterial to the consolidated financial statements.

Allowance for (reversal of allowance for) doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the potential inability of certain customers to make required future payments on amounts due to us. 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 towards assessing the risk of collectibility. If the future financial condition of our customers were to deteriorate, resulting in their inability to make specific required payments, additions to the allowance for doubtful accounts may be required. In addition, if the financial condition of our customers improves and collections of amounts outstanding commence or are reasonably assured, then we may reverse previously established allowances for doubtful accounts.

Valuation of long-lived assets including intangible assets and goodwill. We recorded goodwill and finite-life intangible assets resulting from the recently and previously completed acquisitions. Management assesses the impairment of identifiable finite-life intangibles, long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable, but at a minimum on an annual basis. Factors we consider relevant which could trigger an accelerated impairment review include, but are not limited to, the following:

significant underperformance relative to historical or projected future operating results;

significant changes in the manner of our use of the acquired assets or the strategy for our overall business;

significant negative industry or economic trends;

significant decline in our stock price for a sustained period; and

our market capitalization relative to net book value.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based substantially on a projected discounted future cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model combined with other readily available and other relevant information. Net intangible assets, long-lived assets (including investments in unconsolidated affiliates), and goodwill was $98.9 million as of March 31, 2004.

On January 1, 2002, Statement of Financial Accounting Standards (SFAS) No. 142 became effective and as a result, we ceased amortization of all goodwill and indefinite lived intangible assets. In lieu of amortization, are required to perform, at a minimum, an annual impairment review unless specific evidence identified as a triggering event would warrant an accelerated review of our goodwill and intangible assets with indefinite lives. The first step of the goodwill impairment test requires the Company to determine and compare the fair value of its defined reporting units to their carrying values as of the evaluation date. The fair value for each reporting unit is determined using an undiscounted cash flow valuation analysis. The carrying values of each reporting unit are determined by specifically identifying and allocating the assets and liabilities of the Company to each reporting unit based on headcount, relative revenues or costs, or other methods as deemed appropriate by management. If the estimated fair values exceed the carrying values for each reporting unit, there is no indication of impairment. Consequently, the second step of the impairment test will not be required.

Since the last annual impairment test as of December 31, 2003, there has been no indication of a triggering event that would warrant an accelerated review of our goodwill and intangible assets with indefinite lives.

Accounting for income taxes and tax contingencies. As part of the process of preparing our consolidated financial statements we are required to estimate our provision for income taxes in each of the tax jurisdictions in which we conduct business. This process involves estimating our actual current tax expense in conjunction with the evaluation and measurement of temporary differences resulting from differing treatment of certain items for tax and accounting purposes. These temporary timing differences result in the establishment of deferred tax assets and liabilities, which are recorded on a net basis and included in our consolidated balance sheet. We then assess on a periodic basis the probability that our net deferred tax assets will be recovered and, therefore realized from future taxable income and to the extent we believe that recovery is not probable, a valuation allowance is established to mitigate such risk resulting in an additional related provision for income taxes during the period. If we are required to further increase the valuation allowance in the future, it could have an adverse impact on our results of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, tax contingencies and any required valuation allowance, including taking into consideration the probability of the tax contingencies being incurred. Management assesses this probability based upon information provided to us by our tax advisors, our legal advisors and similar tax cases. If at a later time our assessment of the probability of these tax contingencies changes, our accrual for such tax uncertainties may increase or decrease. We have a valuation allowance at March 31, 2004, due to management s overall assessment of risks and uncertainties related to our future ability to realize and, hence, utilize certain deferred tax assets, primarily consisting of net operating losses, carryforward temporary differences and future tax deductions resulting from certain types of stock option exercises, before they expire. The assessed adequacy of valuation allowance is based on our current estimates of fiscal year 2004 adjusted taxable income by each tax jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adversely adjust these estimates in future periods, our financial position and results of operations could be materially impacted. Given our historical cumulative loss position and pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) 109, Accounting for Income Taxes, no consideration is given to future taxable income in evaluating the recoverability of our deferred tax assets and the corresponding valuation allowance placed on these assets. Based on this, management believes the valuation allowance recorded at March 31, 2004 is properly stated. However, if positive evidence of future taxable income is generated over a sufficient period of time, consideration will be given to a reduction of our valuation allowance.

The annual and interim period effective tax rate for 2004 is anticipated to be lower than the statutory rates as we realize certain tax benefits through the reduction of our valuation allowance. Furthermore, the 2004 effective tax rate for annual and interim reporting periods has been impacted by the favorable resolution of certain tax items that were allowed for at December 31, 2003. Finally, during 2004, if we are impacted by a change in the valuation allowance as of December 31, 2004 resulting from a change in judgment regarding the realizability of deferred tax assets beyond December 31, 2004, such effect will be recognized in the interim period in which the change occurs.

Accrual for partial self-insurance. We maintain an accrual for our health and workers compensation partial self-insurance, which is a component of total accrued expenses in the consolidated balance sheets. Management determines the adequacy of these accruals based on a monthly evaluation of our historical experience and trends related to both medical and workers compensation claims and payments, information provided to us by our insurance broker, industry experience and average lag period in which claims are paid. If such information indicates that our accruals require adjustment, we will, correspondingly, revise the assumptions utilized in our methodologies and reduce or provide for additional accruals as deemed appropriate. As of March 31, 2004, the accrual for our partial self-insurance programs approximated $2.0 million. We also carry stop-loss insurance that provides coverage limiting our total exposure related to each medical and workers compensation claim incurred, as defined in the applicable insurance policies. The medical and workers compensation claims limits are $175,000 and $350,000, respectively.

Contingencies and litigation. We are subject to various claims and legal actions in the ordinary course of our business. We are currently not aware of any pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on us. If we become aware of such assessments against us, we will evaluate the probability of an adverse outcome and provide accruals or disclosures for such contingencies as necessary, in accordance with SFAS No. 5, Accounting for Contingencies .

Contingent Acquisition Consideration. From time to time, in connection with business acquisitions, we agree to make additional future payments to sellers contingent upon achievement of specific performance-based milestones by the acquired entities. Pursuant to the provisions of SFAS No. 141, such amounts are accrued, and therefore, recorded by us as liabilities when the contingency is determinable beyond a reasonable doubt and, hence, the additional consideration becomes payable. As of March 31, 2004, a contingent consideration accrual related to these arrangements totaling $4.3 million was recorded on our consolidated balance sheet and was paid to the selling shareholders during April 2004. See our Annual Report filed on Form 10-K/A for the year ended December 26, 2003, for further details regarding the range of estimated future contingent payments by year. The timing of recognizing future year contingent earn-outs could be impacted if the continued employment requirements are removed from the earn-out arrangements. The timing of actual payments would not be impacted by this change.

Results of Operations

Restatement of Prior Period Financial Statements

As discussed in Note(1) to the Financial Statements and in Note 1(b) of the Company s Form 10-K/A, the Company has restated its previously filed financial statements for the fiscal years 2001, 2002, and 2003 on its Form 10-K/A filed on September 20, 2004 (the Form 10-K/A). Accordingly, the prior year financial data contained in the financial statements and footnotes included in this filing have been restated for these adjustments.

Comparison of Results for the Three Months Ended March 31, 2003 to the Three Months Ended March 31, 2004

Revenues. Revenues increased 87% from $52.6 million for the quarter ended March 31, 2003 to $98.3 million for the quarter ended March 31, 2004. The $45.7 million increase was attributable to an increase in domestic revenues of $30.0 million and an increase in international revenues of $15.7 million. Revenues were also positively affected by the difference between the 13-week quarter in 2003 compared to the 14-week quarter in 2004.

A significant portion of the domestic revenue growth is attributed to incremental revenues from recent acquisitions. Our new government network services segment generated revenues totaling $11.2 million during the quarter ended March 31, 2004. Our enterprise network services segment generated revenues totaling $2.0 million and $14.4 million for the quarters ended March 31, 2003 and 2004, respectively. The increase of $12.4 million in 2004 was primarily attributed to $9.8 million of incremental revenue in the first quarter of 2004 that was generated by subsidiaries acquired in 2003. The remaining increase of $3.6 million relates to organic growth. Finally, the total remaining increase of $6.4 million in domestic revenues came from our wireless network solutions segment. Such increase is largely attributed to the positive momentum in the wireless industry as evidenced by increases in deployment and engineering activities for certain major carriers we service.

Another significant component of the overall revenue increase is attributable to our Latin American and EMEA operations. Aggregate increased international revenues totaling $15.7 million from the prior year period were due primarily to certain significant contracts that were awarded during the third quarter of fiscal 2003 in our Mexican operations and strong performance by our European operations. We expect continued revenue growth in 2004 as a result of the 3G network activities by the major wireless carriers in EMEA as well as investment plan of our customers in Mexico.

Revenues by operating segment for the quarters ended March 31, 2003 and 2004 are as follows (in millions):

	2003 (restated)	2004	$ change	% change
Wireless network services	$ 50.6	$ 72.7	$ 22.1	30.3%
Enterprise network services	2.0	14.4	12.4	620.0%
Government network services		11.2	11.2	100.0%
Total revenues	$ 52.6	$ 98.3	$ 45.7	86.9%

Revenues generated by geographic segment for the quarters ended March 31, 2003 and 2004 are as follows (in millions):

	2003 (restated)	2004	$ change	% change
United States	$ 44.4	$ 74.4	$ 30.0	67.6%
EMEA	5.2	8.6	3.4	65.4%
Latin America	3.0	15.3	12.3	410.0%
Total revenues	$ 52.6	$ 98.3	$ 45.7	86.9%

As described in the section Critical Accounting Principles and Estimates and in the footnotes to our unaudited consolidated financial statements, a significant portion of our revenue is derived from fixed price contracts whereby revenue is calculated using the percentage-of-completion method based on the ratio of total costs incurred to date compared to estimated total costs to complete the contract. These estimates are reviewed monthly on a contract-by-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. 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. Material differences may result in the amount and timing of our revenue for any period if management makes different judgments or utilizes different estimates. During the reporting periods contained herein, we did experience revenue and margin adjustments of certain projects based on the aforementioned factors, but the effect of such adjustments, both positive and negative, when evaluated in total were determined to be immaterial to the consolidated financial statements.

Cost of Revenues. Cost of revenues increased from $39.6 million for the quarter ended March 31, 2003 to $76.4 million for the quarter ended March 31, 2004 primarily due to the corresponding increase in total revenues. Incremental cost of revenues attributable to acquisitions consummated after the first quarter of fiscal year 2003 was $15.1 million during the quarter ended March 31, 2004. Gross margin during the quarter ended March 31, 2004 decreased from 25% to 22% of total revenues. The decline in gross margin is primarily attributable to requests for turnkey contract services which generally require us to utilize third-party vendors for products and services, thus reducing gross margin. Gross margin from our acquired HTS business of 17.5% is impacted by the classification of costs in accordance with contract terms with HTS customers. This decline is offset by a mix of certain projects within our wireless network services segment which produced higher margins due to improved project execution.

Selling, General and Administrative Expenses. Selling, general and administrative expenses declined as a percentage of revenue from 23% to 14% for the quarter ended March 31, 2003 and 2004, respectively due to higher revenues between periods. The increase in absolute dollars of $2.0 million from $12.1 million to $14.1 million for the quarters ended March 31, 2003 and 2004, respectively, is primarily due to increased infrastructure costs necessary to support the revenue growth as well as the impact of newly acquired entities since March 31, 2003.

Credit for Doubtful Accounts. Credit for doubtful accounts was zero and $0.3 million for the quarter ended March 31, 2003 and 2004, respectively. These credit amounts were calculated based upon a consistent application of the proportion of amounts collected compared to the amounts previously reserved on or before January 1, 2003. Based on collections received for amounts that had been previously reserved, a reduction of our allowance for doubtful accounts was recorded in the first quarter of 2004.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased 33% from $1.8 million to $1.2 million for the quarters ended March 31, 2003 and 2004, respectively. The decrease is primarily due to the write-off of certain drive test equipment during the fourth quarter of fiscal 2003 (approximately $0.3 million of lower depreciation expense) combined with lower amortization expense for assets under capital leases for which a significant portion reached their full three-year terms and were fully repaid as of March 31, 2004.

Other Income, Net. For the quarter ended March 31, 2003, net other income was $0.8 million compared to $0.4 million for the quarter ended March 31, 2004. The net decrease totaling $0.4 million was primarily attributable to $0.2 million of lower net interest income resulting from a reduction in cash and cash equivalents and short-term investments between periods and lower foreign currency gain primarily related to negative foreign currency fluctuations with the Mexican Peso.

Provision for Income Taxes. Our effective income tax rate for the quarter ended March 31, 2003 was zero compared to 19% for the quarter ended March 31, 2004. The effective tax rate for the quarter ended March 31, 2004 is lower than federal and state statutory rates primarily because of the realization of certain tax benefits through the reduction of our valuation allowance. Furthermore, the 2004 effective tax rate has been impacted by the favorable resolution of certain tax items that were reserved for at December 31, 2003.

Liquidity and Capital Resources

Our sources of liquidity include cash and cash equivalents and short-term investments, cash from operations and other external sources of funds. As of March 31, 2004, we had cash and cash equivalents and short-term investments totaling $53.7 million and $2.0 million, respectively.

Our operating cash flow is used to finance trade accounts receivable, fund capital expenditures and make strategic acquisitions. Financing trade accounts receivable is necessary because, on average, the customers and payers for our services do not pay us as quickly as we pay our vendors and employees for their goods and services. Capital expenditures consist primarily of investment in field equipment, computer hardware and software and improvement of our physical properties in order to maintain suitable conditions to conduct our business.

Cash from operations is primarily derived from our customer contracts in progress and associated changes in working capital components. Cash provided by operations was $5.0 million for the three months ended March 31, 2003 while cash used in operations was $6.7 million for the three months ended March 31, 2004. The decrease between periods is primarily due to growth of accounts receivable during the first quarter of fiscal 2004 associated with the growth in revenues as well as certain projects in our Latin America operations. Based on the terms of these contracts (i.e., billing milestones and project timeline) additional resources have been required up front to procure services and materials to complete the projects. Our cash payments for such additional resources have not and will not coincide with our collection of related accounts receivable balances as a result of the contract terms. Cash collected on our trade accounts receivable balances were $43.4 million and $90.8 million for the three months ended March 31, 2003 and 2004, respectively. This $47.4 million improvement from the prior year is primarily attributed to higher revenues and overall decline in the days sales outstanding from 108 days to 103 days as of March 31, 2003 and 2004, respectively. Additionally, we have continued to implement more aggressive collection strategies and control our overall operating expenses through more effective and efficient processes.

Cash used in investing activities was $2.6 million and $29.6 million for the three months ended March 31, 2003 and 2004, respectively. Investing activities for the three months ended March 31, 2003 consisted of capital expenditures of $0.8 million and cash paid for acquisition net of cash received of $1.8 million. During the three months ended March 31, 2004, investing activities represented cash paid of $48.4 million, net of cash received for the acquisition of HTS, capital expenditures of $2.1 million, cash paid totaling $4.0 million for contingent consideration related to prior acquisitions and cash paid of $1.0 million for investment in an unconsolidated affiliate, partially offset by $25.9 million of proceeds from the sale of short-term investments. See Note 5 to our unaudited consolidated financial statements for further discussion of our acquisitions.

Cash provided by financing activities for the three months ended March 31, 2003 was $1.5 million, which consisted primarily of proceeds from issuance of common stock resulting from exercises of employee stock options and purchases under our Employee Stock Purchase Plan totaling $2.4 million, offset by repayments of capital lease obligations totaling $0.9 million. Cash provided by financing activities was $3.5 million for the three months ended March 31, 2004. The positive cash flow from financing activities for this period consisted primarily of proceeds from the issuance of common stock totaling $3.6 million associated with exercises of employee stock options and purchases under our Employee Stock Purchase Plan, offset by the repayment of capital lease obligations of $0.1 million.

As discussed in the Risks Related to Our Business section of this Quarterly Report on Form 10-Q/A, our quarterly and annual operating results have fluctuated in the past and may vary in the future due to a variety of factors, many of which are external to our control. If the conditions in the wireless industry deteriorate or our customers cancel or postpone projects or if we are unable to sufficiently increase our revenues or further reduce our expenses, we may experience, in the future, a significant long-term negative impact to our financial results and cash flows from operations, thus limiting our available liquidity and capital resources.

New Financing Arrangements

On February 19, 2004 we filed a universal shelf registration statement on Form S-3 and an acquisition shelf registration statement on Form S-4 with the Securities and Exchange Commission (SEC). We have no immediate plans to raise capital under the shelf Form S-3 or to utilize the shelf Form S-4 for an acquisition transaction. The SEC declared the Form S-3 and Form S-4 registration statements effective on March 2, 2004. The universal shelf registration statement on Form S-3 will permit us to sell, in one or more public offerings, shares of newly issued common stock, shares of newly issued preferred stock, warrants or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to $200 million. In addition, the universal shelf registration statement will permit certain stockholders who purchased our Series A and Series B preferred stock, to sell up to 5.4 million shares of common stock, all of which are currently included in our diluted share count. The acquisition shelf registration statement on Form S-4 will enable us to issue up to $200 million of additional common stock in one or more acquisition transactions that we may make from time to time. These transactions may include the acquisition of assets, businesses or securities, whether by purchase, merger or any other form of business combination.

As discussed in the Risks Related to Our Business section of this Quarterly Report on Form 10-Q/A, our quarterly and annual operating results have fluctuated in the past and may vary in the future due to a variety of factors, many of which are external to our control. If the conditions in the wireless-related industry sectors deteriorate or our customers cancel or postpone projects or if we are unable to sufficiently increase our revenues or further reduce our expenses, we may experience, in the future, a significant long-term negative impact to our financial results and cash flows from operations, thus limiting our available liquidity and capital resources.

Contractual Obligations and Commitments

Pursuant to the stock purchase agreement for acquisitions made in 2003 in our Enterprise Network Services segment, we may be obligated to pay additional consideration to the selling stockholders that is contingent upon the successful achievement of specific annual earnings targets, as defined in the stock purchase agreement, for each of the years ending 2004, 2005 and 2006. In addition, we may pay the restricted cash of $1.0 million to the former stockholders of HTS in January 2005, after all indemnification obligations have been satisfied. In connection with acquisitions, we agree to make additional payments to sellers contingent upon achievement of performance milestones by the acquired entities.

Assuming the acquired entities reach the minimum base performance targets in 2004 through 2006, the aggregate future contingent payments related to the measurement periods from 2003 through 2006, including the balance paid and accrued through March 31, 2004, would approximate a cumulative total of $11.9 million. If the acquired entities exceed the defined annual performance targets through estimated annual growth of approximately 15% based on the 2003 performance, the aggregate future contingent payments could range from $29.2 to $31.0 million inclusive of the amounts paid and accrued through March 31, 2004 and the amounts earned from the achievement of the minimum base performance targets. The contingent consideration is calculated based on a certain multiple of defined annual earnings targets as stated in the respective purchase agreements.

The following table summarizes management s estimate of the potential range of future contingent consideration by year:

			(in millions)		
	2004	**2005**	**2006**	**2007**	**Total**
	$8.1-$8.6*	$9.4-$10.0*	$10.3-$11.0*	$1.4-$1.4*	$29.2-$31.0*

Potential range of future contingent consideration				
Potential portion to be recorded as compensation expense	$3.6-$3.9	$4.1-$4.3	$1.4-$1.5	$9.1-$9.7

*Hypothetical range based on estimated annual growth of 15%.

**Potential expense is assumed to be accrued in the fiscal year earned. The $2.9 million compensation expense in fiscal 2003 is related to payments made in 2004. The timing of recognizing the liabilities and associated expenses for future year contingent payments could be accelerated and subject to periodic re-estimation if the continuous employment clauses are rescinded from the earn-out arrangements. The timing of cash payments would not be impacted by removing such requirements.

Except as disclosed herein and in our annual report on Form 10-K/A, we currently have no material cash commitments other than our normal recurring trade payables, and expense accruals which are currently expected to be funded through existing working capital and future cash flows from operations. Other future cash requirements may include the payments of certain tax contingencies as discussed in Note 1(j). Aside from these recurring operating expenses, future capital expenditures and overall expansion will depend upon many factors, including the timing of payments under existing contracts and technology requirements within the wireless telecommunications industry. Additional capital expenditures may be required in order to stay competitive and effectively service our customers.

We are focused on effectively managing our overall liquidity position by continuously monitoring expenses, integrating effective cost savings programs and managing our accounts receivable collection efforts. We believe that our cash and cash equivalent balances and short-term investments will be sufficient to satisfy cash requirements for at least the next twelve months based on the current, existing level of operations. Although we cannot accurately anticipate the effect of inflation on our operations, we do not believe that inflation has had, or is likely in the foreseeable future to have, a material impact on our net revenues or results of operations.

Related Party Transactions

For detailed information regarding related party transactions, see Note 7 to our unaudited consolidated financial statements.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable of Interest Entities, an Interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities (VIEs) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 (Revised Interpretations) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later than the first quarter of fiscal year 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. We evaluated a partnership arrangement that was entered into in 2004 with Mobilitie Partners, LLC, and determined that it met the characteristics of a VIE and the requirements for consolidation pursuant to the provisions FIN 46R. Included in our consolidated financial results are $0.2 million total net liabilities which are eliminated at the consolidated level against a corresponding receivable as of March 31, 2004, $0 revenue and $0.2 million of net loss from this partnership for the three months ended March 31, 2004. Refer to Note 7.

Risks Related to Our Business

You should carefully consider the following risk factors and all other information contained herein as well as the information included in our Annual Report on Form 10-K/A for the year ended December 26, 2003, and other reports and filings made with the Securities and Exchange Commission in evaluating our business and prospects. Risks and uncertainties, in addition to those we describe below, that are not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks occur, our business and financial results could be harmed, the price of our common stock could decline. You should also refer to the other information contained in this report, including our unaudited consolidated financial statements and related notes.

Our success is dependent on growth in the deployment of wireless networks, and to the extent that such growth slows, our business may be harmed.

The wireless telecommunications industry has historically experienced a dramatic rate of growth both in the United States and internationally. In recent years, however, many telecommunications carriers have re-evaluated their network deployment plans in response to downturns in the capital markets, changing perceptions regarding industry growth, the adoption of new wireless technologies, increasing pricing competition for subscribers and a general economic slowdown in the United States and internationally. That trend has only recently begun to change as several large carriers in the U.S. and Latin America have started to once again focus on network expansion. If the rate of growth slows or carriers reduce their capital investments in wireless infrastructure or fail to expand into new geographic areas, our business may be significantly harmed.

The uncertainty associated with rapidly changing telecommunications technologies may also negatively impact the rate of deployment of wireless networks and the demand for our services. Telecommunications service providers face significant challenges in assessing consumer demand and in acceptance of rapidly changing enhanced telecommunications capabilities. If telecommunications service providers perceive that the rate of acceptance of next generation telecommunications products will grow more slowly than previously expected, they may, as a result, slow their development of next generation technologies. Moreover, increasing price competition for subscribers could adversely affect the profitability of carriers and limit their resources for network deployment. Any significant sustained slowdown will further reduce the demand for our services and adversely affect our financial results.

The high amount of capital required to obtain radio frequencies licenses could slow the growth of the wireless communications industry and adversely affect our business.

Our growth is dependent upon the increased use of wireless communications services. In order to provide wireless communications services, carriers must obtain rights to use specific radio frequencies. The allocation of frequencies is regulated in the United States and other countries throughout the world and limited spectrum space is allocated to wireless communications services. Industry growth may be affected by the amount of capital required to obtain licenses to use new frequencies. Typically, governments sell these licenses at auctions. Over the last several years, the amount paid for these licenses has increased significantly. In addition, litigation and disputes involving companies bidding to acquire spectrum has delayed the expansion of wireless networks in the United States, and it is possible that this delay could continue for a significant amount of time. The significant cost of licenses and delays associated with disputes over license auctions may slow the growth of the industry if service providers are unable to obtain the additional capital necessary to implement the necessary infrastructure. Our business could be adversely affected if this occurs.

If wireless carriers, network equipment vendors and enterprises do not outsource their wireless telecommunications services, our business will suffer.

Our success depends upon the continued trend by wireless carriers and network equipment vendors to outsource their network design, deployment and management needs. If this trend does not continue and wireless carriers and network equipment vendors elect to perform more network deployment services themselves, our operating results and revenues may decline.

If enterprise customers do not invest in security systems and other new in-building technologies such as wireless local area networks, our business will suffer.

In 2003, we launched significant enterprise-based WLAN (Wireless Local Area Networks) and security systems initiatives as a key component of the growth strategy for our Enterprise Network Services segment. We intend to devote significant resources to developing these initiatives, but we cannot predict that we will achieve widespread market acceptance among the enterprises we identify as our potential customers. It is possible that some enterprises will determine that their current capital constraints and other factors outweigh their need for WLANs and security systems. As a result, we may be affected by a significant delay in the adoption of WLAN and security systems by enterprises, which would harm our business.

Our failure to obtain new government contracts, the cancellation of government contracts, or a reduction in federal budget appropriations involving our services could materially adversely affect our revenues.

We anticipate that a material portion of our future revenues will come from our Government Network Services division. Our revenues and cash flows from our Government Network Services division may decline if a significant number of our government contracts are delayed or cancelled due to cutbacks in defense, homeland security or other federal agency budgets or for other reasons. In addition, our failure to successfully compete for and retain such government contracts could have an adverse effect on our revenues and cash flows. We cannot guarantee that we or if we are a subcontractor, that the prime contractor will win any particular bid, or that we will be able to replace business lost upon expiration or completion of a contract.

We anticipate that our Government Network Services division will also be sensitive to changes in national and international defense and budget priorities. Demand for our services may decline if conflicts in the Middle East and other high-risk areas subside, or if U.S. defense budget appropriations are reduced.

We are subject to extensive government regulation, and our failure or inability to comply with these regulations could subject us to penalties and result in a loss of our government contracts, which could adversely affect our revenues.

We must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our business. We are also subject to routine audits to assure our compliance with these requirements. Our failure to comply with these regulations, rules and approvals could result in the impositions of penalties and the loss of our government contracts and disqualification as a U.S. government contractor, which could adversely affect our revenues.

We derive a significant portion of our revenues from a limited number of customers.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. To the extent that any significant client uses less of our services or terminates its relationship with us, our revenues could decline significantly. As a result, the loss of any significant client could seriously harm our business. For the quarter ended March 31, 2004, we had two customers which comprised approximately 24% of our revenues, and our five largest customers accounted for approximately 43% of our total revenues. None of our customers are obligated to purchase additional services from us. As a result, the volume of work that we perform for a specific client is likely to vary from period to period, and a significant client in one period may not use our services in a subsequent period.

Recent business acquisitions and potential future business acquisitions could be difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results.

We completed our acquisition of HTS in January 2004. In addition, we acquired three other businesses in 2003. Our integration of these acquisitions will require significant management time and financial resources because we will need to integrate dispersed operations with distinct corporate cultures. We also may continue to expand our operations through business acquisitions over time. We recently filed an acquisition shelf registration statement on Form S-4. This shelf registration will enable us to issue up to $200 million of our newly issued common stock in one or more acquisition transactions.

Our failure to properly integrate businesses we acquire and to manage future acquisitions successfully could seriously harm our operating results. Also, acquisition costs could cause our quarterly operating results to vary significantly. To the extent we acquire an international operation, we will face additional risks, including:

difficulties in staffing, managing and integrating international operations due to language, cultural or other differences;

different or conflicting regulatory or legal requirements;

foreign currency fluctuations; and

diversion of significant time and attention of our management.

The consolidation of equipment vendors or carriers could adversely impact our business.

Recently, the wireless telecommunications industry has been characterized by significant consolidation activity. In particular, Cingular has recently announced plans to acquire AT&T Wireless, both of whom are significant customers of ours. The consolidation of equipment vendors or carriers could reduce the number of our current or potential customers and increase the bargaining power of our remaining customers, any or all of which may adversely impact our business.

If our customers do not receive sufficient financing or fail to pay us for services performed, our business may be harmed.

Some of our customers rely upon outside financing to pay the costs of deploying their networks. These customers may fail to obtain adequate financing or experience delays in receiving financing and they may choose the services of our competitors if our competitors are willing and able to provide project financing. Conversely, unfavorable economic conditions have caused and may in the future cause those customers with adequate financing to delay deploying or upgrading their networks as they prioritize or ration their capital resources.

In addition, we have historically taken significant write-offs of our accounts receivable. In some instances we may not receive payment for services we have already performed. If our customers do not receive adequate financing or if we are required to write off significant amounts of our accounts receivables, then our net income will decline, and our business will be harmed.

If we fail to successfully compete, our business may suffer.

Each of the vertical markets that we compete in is highly competitive. If we fail to compete successfully against current or future competitors, our business, financial condition and operating results may be harmed. We expect competition to continue and intensify in the future. We cannot be certain that we will be able to compete successfully with existing or new competitors.

Many of our current competitors have significantly greater financial, technical and marketing resources, generate greater revenues and have greater name recognition and experience than we do. This may place us at a disadvantage in responding to our competitors pricing strategies, technological advances, advertising campaigns, strategic partnerships and other initiatives. In addition, many of our competitors have well-established relationships with our potential clients and have extensive knowledge of the industries that we compete in. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, and they may be able to devote more resources to the development, promotion and sale of their services that we can.

Our quarterly results fluctuate and may cause our stock price to decline.

Our quarterly operating results have fluctuated in the past and will likely fluctuate in the future. As a result, we believe that period-to-period comparisons of our results of operations are not a good indication of our future performance. A number of factors, many of which are outside of our control, are likely to cause these fluctuations. Some of these factors include:

telecommunications market conditions and economic conditions generally;

the timing and size of network deployments by our carrier customers and the timing and size of orders for network equipment built by our vendor customers;

fluctuations in demand for our services;

changes in our effective tax rate including changes in our judgment as to the necessity of the valuation allowance recorded against our deferred tax assets;

the length of sales cycles;

the ability of certain customers to sustain capital resources to pay their trade accounts receivable balances;

reductions in the prices of services offered by our competitors;

our success in bidding on and winning new business;

changes in the actual and estimated costs and time to complete fixed-price, time-certain projects that may result in revenue adjustments for contracts where revenue is recognized under the percentage of completion method;

the timing of expansion into new markets, both domestically and internationally;

required changes to our allowance for doubtful accounts based on periodic assessments of the collectibility of our accounts receivable balances;

our sales, marketing, and administrative cost structure; and

the costs of integrating technologies or businesses that we add.

Because our operating results may vary significantly from quarter to quarter, our operating results may not meet the expectations of securities analysts and investors, and our common stock could decline significantly which may expose us to risks of securities litigation, impair our ability to attract and retain qualified individuals using equity incentives and make it more difficult to complete acquisitions using equity as consideration.

Our business is dependent upon our ability to keep pace with the latest technological changes.

The market for our services is characterized by rapid change and technological improvements. Failure to respond in a timely and cost-effective way to these technological developments will result in serious harm to our business and operating results. We have derived, and we expect to continue to derive, a substantial portion of our revenues from creating wireless networks that are based upon today s leading technologies and that are capable of adapting to future technologies. As a result, our success will depend, in part, on our ability to develop and market service offerings that respond in a timely manner to the technological advances of our customers, evolving industry standards and changing client preferences.

Failure to properly manage projects may result in costs or claims.

Our wireless network engagements often involve large scale, highly complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our customers, and to effectively manage the project and deploy appropriate resources, including third-party contractors, and our own personnel, in a timely manner. Any defects or errors or failure to meet clients expectations could result in claims for substantial damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, error, mistakes or omissions in rendering services to our clients. However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued. In addition, in certain instances, we guarantee customers that we will complete a project by a scheduled date or that the network will achieve certain performance standards. If the project or network experiences a performance problem, we may not be able to recover the additional costs we will incur, which could exceed revenues realized from a project. Finally, if we miscalculate the resources or time we need to complete a project with capped or fixed fees, our operating results could be seriously harmed.

Our failure to attract and retain key managerial, technical, selling and marketing personnel could adversely affect our business.

Our success depends upon our attracting and retaining key members of our management team. We recently announced that Masood Tayebi has transitioned from the role of the Chief Executive Officer to the role of Executive Chairman, and that Eric DeMarco has become our Chief Executive Officer effective April 1, 2004. In addition, in April 2004 we completed our search for a Chief Financial Officer and General Counsel and announced that Deanna Lund and James Edwards would assume those respective roles. We cannot assure you that these management transitions will not result in some disruption of our business. The loss of any of our key members might delay or prevent the achievement of our development and strategic objectives. Our future performance will be substantially dependent upon our ability to attract, retain and motivate key members of our management team.

We must also continue to hire and retain additional highly skilled engineering, managerial, business development and sales personnel. In an effort to manage our costs, it is our policy to hire employees on a project-by-project basis. Upon completion of an assigned project, the employees are no longer employed by us until we elect to hire them for the next project. Competition for such highly skilled personnel in our industry is intense, especially for engineers and project managers, and we can not be certain that we will be able to hire or re-hire sufficiently qualified personnel in adequate numbers to meet the demand for our services. We also believe that our success depends to a significant extent on the ability of our key personnel to operate effectively, both individually and as a group. If we are unable to identify, hire and integrate new employees in a timely and cost-efficient manner, our operating results will suffer.

Our failure to maintain appropriate staffing levels could adversely affect our business.

We can not be certain that we will be able to hire the requisite number of experienced and skilled personnel when necessary in order to service a major contract, particularly if the market for related personnel becomes competitive. Conversely, if we maintain or increase our staffing levels in anticipation of one or more projects and the projects are delayed, reduced or terminated, we may underutilize the additional personnel, which would increase our general and administrative expenses, reduce our earnings and possibly harm our results of operations. If we are unable to obtain major contracts or effectively complete such contracts due to staffing deficiencies, our revenues may decline and our business may be harmed.

Government regulation of the telecommunications industry may adversely affect our business.

The wireless networks that we design, deploy and manage are subject to various regulations issued by the U.S. Federal Communications Commission (FCC) and other regulatory bodies in the U.S. and other countries. FCC regulations require that these networks meet certain radio frequency emission standards, not create unallowable interference to other services, and in some cases accept interference from other services. These networks are also subject to government regulations and requirements of local standards bodies outside the United States, where we are less prominent than local competitors and have less opportunity to participate in the establishment of regulatory and standards policies. We are also subject to state and federal health, safety and environmental regulations, as well as regulations related to the handling of and access to classified information. Changes in the regulation of our activities, including changes in the allocation of available spectrum by the United States government and other governments or exclusion of our technology by a standards body, could have a harmful effect on our business, operating results, liquidity and financial position. Additionally, because we conduct business throughout the United States, many of our activities are subject to different state and local regulatory schemes, including those relating to licensing, taxes and employment matters, with which we are required to comply.

Government regulations could restrict our ability to hire employees or to utilize employees effectively.

As of March 31, 2004, approximately 150 or 8% of our employees in the United States were working under H-1B visas. H-1B visas are a special class of nonimmigrant working visas for qualified aliens working in specialty occupations, including, for example, radio frequency engineers. The H-1B program refers to a provision of the United States Immigration and Nationality Act that allows highly skilled foreigners to work in the United States for as long as six years. Current law limits the number of foreign workers who may be issued a visa or otherwise be provided H-1B status to 65,000 through 2004.

Immigration policies are subject to rapid change, and these policies have become more stringent since the terrorist attacks on September 11, 2001. Any additional significant changes in immigration law or regulations may further restrict our ability to continue to employ or to hire new workers on H-1B visas and otherwise restrict our ability to utilize our existing employees as we see fit, and, therefore, could harm our business.

International uncertainties and fluctuations in the value of foreign currencies could harm our profitability.

We currently have international operations, including offices in Brazil, China, Mexico, the United Kingdom, Sweden and Turkey. For the quarter ended March 31, 2004, international operations accounted for approximately 24% of our total revenues. Our international business operations are subject to a number of material risks, including, but not limited to:

- difficulties in building and managing foreign operations;

regulatory uncertainties in foreign countries, including changing regulations and delays in licensing carriers to build out their networks in various locations;

difficulties in enforcing agreements and collecting receivables through foreign legal systems and addressing other legal issues;

longer payment cycles;

foreign and U.S. taxation issues;

potential weaknesses in foreign economies, particularly in Europe, South America and Mexico;

fluctuations in the value of foreign currencies;

general economic and political conditions in the markets in which we operate; and

unexpected domestic and international regulatory, economic or political changes.

Our significant international subsidiaries (i.e., in Brazil, Mexico, Sweden and the United Kingdom) procure certain transactions that are denominated in U.S. dollars. Downward fluctuations in the value of foreign currencies, compared to the U.S. dollar, may make our services more expensive than local service offerings in international locations. This would make our service offerings less price competitive than local service offerings, which could harm our business. To date, our experience with this foreign currency risk has predominately related to the Brazilian Real and Mexican Peso. In addition, we also conduct business in British Pound Sterling, Chinese Renminbi, Euro, Swedish Krona and Turkish Lira. We do not currently engage in currency hedging activities to limit the risks of currency fluctuations. Therefore, fluctuations in foreign currencies could have a negative impact on the profitability of our global operations, which would harm our financial results.

Future changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations.

A change in accounting standards could have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. The Financial Accounting Standards Board has announced its intention to require that companies record compensation expense in the statement of operations for employee stock options using the fair value method. Implementation of this requirement could have a significant negative effect on our reported results or impair our ability to use equity compensation to attract and retain skilled personnel. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, newly enacted SEC regulations and NASDAQ Stock Market rules, are creating uncertainty for companies such as ours. We are committed to maintaining high standards of internal controls over financial reporting, corporate governance and public disclosure. As a result, we intend to invest appropriate resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

A few individuals own a significant percentage of our stock.

As of March 31, 2004, our executive officers and directors and their affiliates beneficially owned, in the aggregate, approximately 22% of our outstanding common stock, after giving effect to the conversion of Series B Convertible Preferred Stock. In particular, our current Executive Chairman, Masood K. Tayebi, beneficially owned, approximately 10% of our outstanding common stock. The remaining 12% is beneficially owned by certain of our other officers and directors and their affiliates. In addition, other members of the Tayebi family owned, incrementally and in the aggregate, approximately 19% of our outstanding common stock. As a result, the executive officers, directors and their affiliates are able to collectively exercise control over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions. These types of transactions include transactions involving an actual or potential change in control or other transactions that the non-controlling stockholders may deem to be in their best interests and in which such stockholders could receive a premium for their shares.

We may need additional capital in the future to fund the growth of our business, and financing may not be available.

We currently anticipate that our available capital resources and operating income will be sufficient to meet our expected working capital and capital expenditure requirements for at least the next 12 months. However, we cannot assure you that such resources will be sufficient to fund the long-term growth of our business. In particular, we may experience a negative operating cash flow due to billing milestones and project timelines in certain of our contracts. We may raise additional funds through public or private debt or equity financings if such financings become available on favorable terms. We also recently filed a universal shelf registration statement on Form S-3. Under this shelf registration statement, we may sell, in one or more public offerings, shares of newly issued common stock or preferred stock, warrants or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to $200 million. Such financing or offerings would likely dilute our stockholders equity ownership. In addition, we cannot assure you that any additional financing we may need will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of unanticipated opportunities, develop new products or otherwise respond to competitive pressures. In any such case, our business, operating results or financial condition could be materially adversely affected.

Litigation may harm our business or otherwise distract our management.

Substantial, complex or extended litigation could cause us to incur large expenditures and distract our management. For example, lawsuits by employees, stockholders or customers could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that that we will always be able to resolve such disputes or on terms favorable to us.

Disclosure of trade secrets could aid our competitors.

We attempt to protect our trade secrets by entering into confidentiality agreements with third parties, our employees and consultants. However, these agreements can be breached and, if they are, there may not be an adequate remedy available to us. If our trade secrets become known we may lose our competitive position.

Our stock price may be volatile, which may result in lawsuits against us and our officers and directors.

The stock market in general, and the stock prices of technology and telecommunications companies in particular, have experienced volatility that has often been unrelated to or disproportionate to the operating performance of those companies. The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future. Factors which could have a significant impact on the market price of our common stock include, but are not limited to, the following:

quarterly variations in operating results;

announcements of new services by us or our competitors;

the gain or loss of significant customers;

changes in analysts   earnings estimates;

rumors or dissemination of false information;

pricing pressures;

short selling of our common stock;

general conditions in the market;

political and/or military events associated with current worldwide conflicts; and

events affecting other companies that investors deem comparable to us.

Companies that have experienced volatility in the market price of their stock have frequently been the object of securities class action litigation. Such litigation could result in substantial costs to us and a diversion of our management s attention and resources.

Our charter documents and Delaware law may deter potential acquirers and may depress our stock price.

Certain provisions of our charter documents and Delaware law, as well as certain agreements we have with our executives, could make it substantially more difficult for a third party to acquire control of us. These provisions include:

authorizing the board of directors to issue preferred stock;

prohibiting cumulative voting in the election of directors;

prohibiting stockholder action by written consent;

establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at meetings of our stockholders;

Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in a business combination with an interested stockholder unless specific conditions are met; and

a number of our executives have agreements with us that entitle them to payments in certain circumstances following a change in control.

These provisions may discourage certain types of transactions involving an actual or potential change in control and may limit our stockholders ability to approve transactions that they deem to be in their best interests. As a result, these provisions may depress our stock price.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to foreign currency risks due to both transactions and translations between functional and reporting currencies primarily in our Mexican, Brazilian and European foreign subsidiaries. We are exposed to the impact of foreign currency fluctuations due to the operations of and net monetary asset and liability positions in our Mexico, Brazil and European foreign subsidiaries. Significant monetary assets and liabilities expected to be realized in the foreseeable future include trade receivables, trade payables and certain intercompany payables that are not denominated in their local functional currencies. As of March 31, 2004, our Mexican, Brazilian and European subsidiaries were in average net liability positions (i.e., monetary liabilities were greater than monetary assets subject to foreign currency risk) of approximately $13.2 million $8.6 million and $13.4 million, respectively. The potential foreign currency translation losses from a hypothetical 10% adverse change in the exchange rates from the net liability positions at March 31, 2004 were approximately $1.3 million, $0.9 million and $1.3 million for the Mexico, Brazil and European subsidiaries, respectively.

In addition, we estimate that an immediate 10% change in foreign exchange rates would impact reported net income by approximately $0.1 million for the quarter ended March 31, 2004. This was estimated using a 10% deterioration factor to the average monthly exchange rates applied to net income or loss for each of the related subsidiaries in the respective period.

Due to the difficulty in determining and obtaining predictable cash flow forecasts in our foreign operations based on the overall challenging economic environment and associated contract structures, we do not currently utilize any derivative financial instruments to hedge foreign currency risks.

Cash and cash equivalents as of March 31, 2004 were $53.7 million and are primarily invested in money market interest bearing accounts. Short-term investments as of March 31, 2004 were $2.0 million, comprised of corporate notes and bonds and U.S. government and agency debt securities. A hypothetical 10% adverse change in the average interest rate on our money market cash investments and short-term investments would have had an immaterial effect on net income for the quarter ended March 31, 2004. We currently do not utilize any derivative financial instruments to hedge interest rate risks.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure.

Our current management, with the participation of our principal executive officer and principal financial officer (Eric DeMarco, who became CEO on April 1, 2004, and Deanna Lund, who became CFO on May 10, 2004), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 240.13a-15(e) and 240.15d-15(e) of the Securities Exchange Act of 1934) as of March 31, 2004, which included an evaluation of disclosure controls and procedures applicable to the period covered by the filing of this periodic report. As noted below, we and our independent auditors have identified material weaknesses in our internal controls and procedures, as they existed as of December 31, 2003.

In connection with the restatment of our financial statements for the fiscal years 2001, 2002 and 2003, our independent auditors, KPMG LLP, issued a letter to our Audit Committee in which they noted certain matters involving our internal controls and operation that they consider to be reportable conditions , as defined under standards established by the American Institute of Certified Public Accountants, or AICPA. Reportable conditions are matters coming to the attention of our independent auditors that, in their judgment, relate to significant deficiencies in the design or operation of internal controls and could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, KPMG has advised us that they consider these matters to be material weaknesses that, by themselves or in combination, result in a more than remote likelihood that a material misstatement in our financial statements will not be prevented or detected by our employees in the normal course of performing their assigned functions. The material weaknesses reported by our auditors include the following: our control activities in place during the periods impacted by the restatement were insufficient to ensure (i) that various tax exposures were accrued for on a timely basis, (ii) the proper allocation of costs on a particular fixed price contract, (iii) the appropriate classification of changes in estimates of revenues and bad debt expense on various contracts; (iv) that we identified the accounting events associated with the continuation of employee stock options following termination of certain employees; (v) that the company identified the risks associated with measuring progress toward completion on particular turnkey contracts; (vi) that the carrying value of a cost method investment was reevaluated in light of changed circumstances at the investee; (vii) that a goodwill impairment charge was identified and recorded in accordance with the adoption of the new accounting standard for goodwill; (viii) that certain earn-out consideration should have been recorded as compensation expense instead of goodwill and; (ix) that identifiable intangibles purchased in a business combination should have been allocated amortizable value.

Based on the evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2003, which included an evaluation of the effectiveness of our disclosure controls and procedures applicable to the periods covered by the filing of this periodic report, and subject to the information set forth in this Item 4, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were inadequate as of December 31, 2003, as further described in this Item 4. There was no change in our internal control over financial reporting (as defined in Rules 240.13a-15(f) and 240.15d-15(f) of the Exchange Act) during the fiscal quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, except as described in the applicable following statements. Subsequent to December 31, 2003, and up to the filing date of this Form 10-Q/A, we implemented revised control activities to support improved processes under the direction of new financial management. The revised control activities and improved processes include, among other things, expanded supervisory activities and monitoring techniques.

Based on the changes and improvements made since January 1, 2004, our management, including our principal executive officer and principal financial officer (Eric DeMarco became CEO on April 1, 2004 and Deanna Lund became CFO on May 10, 2004), believes that as of the date of this filing, our disclosure controls and procedures that were designed to ensure that material information relating to our Company, including our consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within those entities. Furthermore, our management, including our principal executive officer and principal financial officer believe such controls have improved since December 31, 2003 in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. We currently are designing and implementing a new controls environment to address the deficiencies described above. Our disclosure controls and procedures are not capable of preventing all instances of error or fraud. We also note that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, our disclosure controls and procedures can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our control systems as we develop them may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our management and Audit Committee have dedicated significant resources to assist in assessing the underlying issues giving rise to the restatement and in ensuring proper steps have been and are being taken to improve our control environment. Our management and Audit Committee took these actions in consultation with KPMG. That assessment found and concluded that our finance and accounting personnel had made a number of accounting and arithmetic errors, and that there was no evidence of any fraud, intentional misconduct or concealment on the part of WFI, its officers or its employees. The Audit Committee, however, also concluded that our accounting, financial reporting and the internal control functions needed improvement, including our system of documenting transactions. The Audit Committee found that our management has proactively identified a number of these issues since December 31, 2003 and has already addressed or is appropriately taking steps to address them.

WFI believes that its disclosure controls and procedures have improved due to the scrutiny of such matters by its management and Audit Committee, its external auditors, and other persons we have engaged to assist it in assessing and improving its system of internal controls. WFI believes that its controls and procedures will continue to improve as it completes the implementation of actions identified.

Based in part upon these changes, the Company s CEO and CFO believe that as of the filing date of this Quarterly Report on Form 10-Q/A, the Company s disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC.

The certifications of our principal executive officer and principal financial officer required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 are attached as exhibits to this Amendment No. 1 on Form 10-Q/A. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures, and changes in internal control over financial reporting, referred to in paragraph 4 of the certifications. The officer certifications should be read in conjunction this Item 4 with for a more complete understanding of the topics presented.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to note 8 of our unaudited consolidated financial statements.

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company s business. The Company is currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Item 6. Exhibits and Reports on Form 8-K:

(a). *Exhibits:*

3.1	Amended and Restated Certificate of Incorporation. (2)
3.2	Bylaws in effect since November 5, 1999.(1)
3.3	Certificate of Designations, Preferences and Rights of Series A Preferred Stock.(2)
3.4	Certificate of Designations, Preferences and Rights of Series B Preferred Stock. (3)
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
4.2	Specimen Stock Certificate.(1)
31.1	Periodic Report Certification by Chief Executive Officer of Quarterly Report on Form 10-Q/A for the quarterly period ended April 2, 2004, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Periodic Report Certification by Chief Financial Officer of Quarterly Report on Form 10-Q/A for the quarterly period ended April 2, 2004, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Periodic Report Certification by Chief Executive Officer of Quarterly Report on Form 10-Q/A for the quarterly period ended April 2, 2004, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Periodic Report Certification by Chief Financial Officer of Quarterly Report on Form 10-Q/A for the quarterly period ended April 2, 2004, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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* Filed herewith.

(1) Filed as an exhibit to the Company s Registration Statement on Form S-1 (No. 333-85515), and incorporated herein by reference.

(2) Filed as an exhibit to the Company s Quarterly Report on Form 10 Q for the quarter ended September 28, 2001, filed on November 13, 2001 and incorporated herein by reference.

(3) Filed as an exhibit to the Company s Report on Form 8-K/A filed on June 5, 2002, and incorporated herein by reference.

(b). *Reports on Form 8-K:*

On January 16, 2004, we filed a report on Form 8-K Item 2 reporting that we had acquired High Technology Solutions, Inc.

On February 19, 2004, we furnished a report on Form 8-K to the SEC with our press release regarding our financial results for our fiscal year ended December 26, 2003 in accordance with SEC Release No. 33-8216.

On March 19, 2004, we filed a report on Form 8-K/A to file required financial statement information in connection with our acquisition of High Technology Solutions, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WIRELESS FACILITIES, INC.

By: /s/ ERIC M. DEMARCO
Eric M. DeMarco
Chief Executive Officer, President and Principal Financial Officer

By: /s/ DEANNA H. LUND, CPA
Deanna H. Lund
Senior Vice President, Chief Financial Officer and Chief Accounting Officer

Date: September 20, 2004