

WIRELESS FACILITIES INC

FORM 10-K (Annual Report)

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Industry	Communications Services
Sector	Services
Fiscal Year	12/31

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 30, 2005**
- 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 (State or other jurisdiction of incorporation or organization)	13-3818604 (I.R.S. Employer Identification No.)
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**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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, par value \$0.001
Rights to Purchase Shares of Series C Preferred Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act);

Large accelerated filer Accelerated Filer Non Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting stock (Common Stock) held by non-affiliates as of the last business day of most recently completed second fiscal quarter (July 1, 2005) was approximately \$289.7 million, based on the closing sale price on the NASDAQ market exchange on that date.*

The number of shares outstanding of the Registrant's Common Stock was 72,278,925 as of February 28, 2006.

* Excludes the common stock held by executive officers, directors and stockholders whose individual ownership exceeds 5% of the Common Stock outstanding on July 1, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant's proxy statement for the 2006 annual meeting of stockholders (the "Proxy Statement"), to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the Registrant's fiscal year ended December 30, 2005, are incorporated by reference into Part III of this Annual Report on Form 10-K.

WIRELESS FACILITIES, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
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PART I

Item 1. *Business*

This Annual Report on Form 10-K (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-K. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Related to Our Business" below, as well as those discussed elsewhere in this Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We file reports with the Securities and Exchange Commission ("SEC"). We make available on our website under "Investor Relations/SEC Filings," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Our website address is www.wfinet.com. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

We operate and report 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 years consist of four equal quarters of 13 weeks each, and our 53 week fiscal years will consist 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. 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 2004 fiscal year ended on December 31, 2004, however, our 2005 fiscal year ended on December 30, 2005, but we present our 2005 fiscal year as ending on December 31, 2005.

We were incorporated in the state of New York on December 19, 1994 and began operations in March 1995. We reincorporated in the state of Delaware in 1998. We consummated our initial public offering on November 5, 1999. Our principal executive office is located at 4810 Eastgate Mall, San Diego, California 92121. Our telephone number is (858) 228-2000.

Description of the Business

General

We are an independent provider of outsourced engineering and network deployment services, security systems engineering and integration services and other technical 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 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 part of our strategy, we are technology and vendor independent. We believe that this aligns our goals with those of our customers and enables us to objectively evaluate and recommend specific products or technologies. We provide network engineering and deployment services to wireless carriers including, but not limited to, (in alphabetical order) Cingular, O2, Orange, Sprint, T-Mobile, Verizon Wireless and Vodafone and equipment vendors such as Ericsson, Nortel and Siemens. Our key value proposition to our customers in addition to our vendor and technology independence is our ability to provide engineering expertise across a wide range of cellular technologies and equipment platforms. Our work for the federal government primarily involves network engineering and infrastructure development, network security, logistics automation and RFID solutions, systems engineering, systems integration, and the outsourcing of technical services such as operational testing and evaluation. Our work for enterprise customers primarily involves the design, deployment, and integration of voice, data, security and other in-building systems and is focused on opportunities to provide converged IP and wireless networks to Fortune 1000 companies, public facilities, and municipal agencies.

Operating Segments

Our three operating segments are our Wireless Network Services segment, our Enterprise Network Services segment, and our Government Network Services segment, also known as WFI Government Services, Inc.

Wireless Network Services Segment

Network Planning

We provide business consulting services for all pre-deployment planning including technology assessment, market analysis, and business plan development. We study and analyze the traffic patterns, population density, topography and propagation environment in each market under consideration. We have developed a proprietary methodology to assist customers in analysis of the competitive landscape for mobile broadband services, and we use our expertise and experience to analyze the financial, engineering, competitive and technology issues applicable to a proposed technology or network deployment project. Drawing upon the demographic analysis and preliminary network dimensioning and benchmarks for deployment-related expenditures from our various functional groups and consultants, we create new business strategies or evaluate existing deployment strategies. Business consulting projects are strategically important to us because they represent opportunities to build relationships and credibility with customers during the planning phase, and they enhance our experiences with leading edge technologies.

Network Design and Deployment Services

We provide a range of services for the full design and deployment of wireless networks. Such services include:

- *Radio Frequency Engineering.* Radio frequency engineers design each integrated wireless system to meet the customer's performance requirements. These requirements are based upon a projected level of subscriber density, traffic demand, and the coverage area. Our engineers perform the calculations, measurements and tests necessary to determine the optimal placement of the wireless equipment. In addition to meeting basic transmission requirements, the radio frequency network design must make optimal use of radio frequency and result in the highest possible signal quality for the greatest portion of subscriber usage within existing constraints. The constraints may be imposed by cost parameters, terrain, license limitations, interference with other operators, site availability, applicable zoning requirements and other factors.
- *Spectrum Relocation.* To enable customers to use the radio frequency spectrum they have licensed, it is often necessary for customers to analyze the licensed spectrum for interference from existing users, and move these incumbent users to new frequencies. We assist our customers in accomplishing this spectrum relocation by providing complete point-to-point and point-to-multipoint line-of-sight microwave and other types of engineering and support services. Engineering and support services include identifying existing microwave or other frequency uses, negotiating relocation with incumbent users, managing and tracking relocation progress and documenting the final decommissioning and replacement of the incumbent users' facilities.
- *Fixed Network Engineering.* Most wireless calls are ultimately routed through a wireline network. As a result, the traffic from wireless networks must be connected with switching centers within wireline networks. We establish the most efficient method to connect cell sites to the wireline backbone, whether by microwave radio or by landline connections. Our engineers are involved in specifying, provisioning and implementing fixed network facilities.
- *Site Development.* Site development experts acquire the rights to build wireless transmission sites, gain zoning approvals, secure building permits, and manage the deployment process.
- *Installation and Optimization Services.* WFI personnel install radio frequency equipment, including base station electronics and antennas, and recommend and implement location, software and capacity changes required to meet the customer's performance specifications. We also provide installation and initial optimization services for all major PCS, cellular and mobile broadband wireless air interface standards and equipment manufacturers.

The technology consulting practice in our EMEA (Europe, Middle East and Asia) operations leverages more than a decade of our telecommunication industry experience in designing and deploying communications networks and implementing advanced technologies. Our vendor and technology independence together with our industry experience provide the foundation for analyzing the marketplace objectively and offering customized solutions for European customers. The consulting practice focuses on risk management, program and project management, marketing consultancy, business planning and transformation, due diligence and advanced technologies. We are targeting our consulting services to existing and potential new customers across the EMEA region.

Network Management and Optimization Services

Network management services are comprised of post-deployment radio frequency optimization services and network operations and maintenance services.

- *Post-Deployment Radio Frequency Optimization.* Upon initial deployment, a network is optimized to provide wireless service based upon a set of parameters existing at that time, such as cell density, spectrum usage, base station site locations and estimated calling volumes and traffic patterns. Over time, call volumes or other parameters may change, requiring, for example, the relocation of base stations, addition of new equipment or the implementation of system enhancements. We offer ongoing radio frequency optimization services to periodically test network elements, tune the network for optimal performance and identify elements that need to be upgraded or replaced.
- *Network Operations and Maintenance.* For customers with ongoing outsourcing needs, we can assume responsibility for day-to-day operation and maintenance of their wireless networks. The relationship we develop with our customers for this type of outsourcing contract begins with a team of engineers and other professional and support staff aligned to meet the customer's specific needs. We take into account such variables as grade of service, reliability requirements, and geographic layout of the system in determining the allocation of site maintenance responsibilities between our service team and the customer's own personnel. We provide staffing to perform the necessary services for centralized network monitoring, optimization services, and maintenance and repair of critical network elements, including base station equipment, mobile switching centers and network operating centers.

Customer Value Proposition

Technology and Vendor Independence for both Mobile and Fixed Wireless Operations. We have experience in all major wireless technologies, including: CDMA, TDMA, GSM, GPRS, EDGE, EV-DO, UMTS, HSDPA, iDEN, WiMax and WiFi. The critical components of our ability to meet and exceed customer expectations are our broad scope of services, our technical expertise and our technology and vendor agnosticism. Such independence allows WFI to offer its customers the most technologically advanced, objective and appropriate suite of solutions available based solely on the customer's requirements.

Depth and Scale. Our principal asset is our staff, 92% of whom work directly on customer projects. Our technological expertise and industry knowledge have enabled us to form strong customer relationships with established carriers and equipment vendors. We believe our expertise in each of the major wireless technologies enhances our ability to customize services to meet the needs of our customer base. Our resources are available globally, allowing us the ability to respond quickly to customer needs.

Proven Methodology. Our project management process enables us to meet our customers' needs without compromising project quality. We have a dedicated staff employed to facilitate efficient feedback of information among the various specialized activities involved in the design and deployment of a network so that our project teams work quickly and effectively. Through this coordinated effort, we are able to continually optimize human resource deployment and deliver the most efficient and effective solutions on time and within budget.

Turnkey Solutions. Traditionally, carriers engaged a number of firms or used internal personnel to build and operate their wireless networks. In this case, the carrier was responsible for the coordination and integration of the various contractors. WFI's turnkey approach allows the carrier to engage a single responsible party accountable for delivering and managing the network. Through total control of staff and resources, WFI reduces the time and cost of network deployment, management, and subsequent operation. Finally, WFI's turnkey model eliminates the need for a carrier or equipment vendor to

assemble, train and retain network deployment and management staff, resulting in reduced cost and schedule efficiencies.

Fixed-Price and Time-Certain Delivery. A significant portion of our WNS services (59% during fiscal year 2005) are sold primarily on a fixed-price, time-certain basis, where our customers pay by project increments according to defined results on a per-unit basis project site (as defined in the agreement based on milestones), rather than by the hour. By selling our services primarily on a fixed-price, time-certain basis, our customers can better forecast their capital expenditures and operating expenditures more accurately.

Enterprise Network Services Segment

Our Enterprise Network Services segment provides system design, deployment, integration, monitoring and support services for enterprise networks. Enterprise networks have been traditionally segregated into systems such as voice, data, access control, video surveillance, temperature control and fire alarm. We provide services that combine such systems and offer integrated solutions on an Ethernet-based platform. We also offer solutions that combine voice, data, electronic security and building automation systems with fixed or wireless connectivity solutions. We aim to meet the needs of any business enterprise by understanding the needs of the particular entity, sifting through the multiple solutions and complex technologies available in the marketplace and designing, deploying, managing and maintaining a cost-effective and integrated solution that is capable of evolving as the needs of the client change with time. Our target markets are retail, healthcare, education, municipal government and public facilities. Our commitment to these markets and our proven ability to provide feature-rich, cost-effective solutions has allowed us to become one of the larger independent integrators for these types of systems. Enterprise Network Services ranked as the 11th largest integrator in the U.S. in 2004 according to Security Distributors Magazine and was at that time the 2nd largest independent integrator in the nation.

Historically, the largest systems integrators serving such markets have been divisions of larger companies that also manufactured proprietary security and building automation products. As security and building systems evolve from stand-alone products into integrated systems, the demand for enterprise solutions such as those offered by us are expected to increase. Fortune 1000 companies are increasingly showing a tendency to select independent “vendor agnostic” service providers, allowing our independence to become an important differentiator. As open standards and IP-based architecture continue to supplant vendor proprietary protocols and products in the marketplace, we believe our independent position will allow us to capture an increasing share of the systems integration market.

Our Enterprise Network Services segment also leverages our WiMax and certified WiFi specialists and registered communications network designers to customize wired and wireless solutions that meet the requirements of even the most sophisticated customer. A typical enterprise campus environment not only has a large number of sub-systems but also a large number of users with different and varying needs, and we are able to use both wireless and wired technologies to create a network that meets the complex requirements of our customers. For those clients who also demand the integration of licensed band wireless systems (such as cellular and PCS) within the enterprise network, we are uniquely equipped and qualified to meet these deployment challenges.

Municipal WiFi networks are becoming increasingly popular among our nation’s communities, both large and small. These communication networks vary in design and function from city to city. In some cases, the municipality may elect to own the network, and in other cases, the network may be owned and operated by a third party. Irrespective of ownership, WFI is involved in the design and deployment of these community-based communication networks. Depending on the project, we may work as the lead systems integrator in tandem with other third-party equipment manufacturers and Internet services providers (ISP’s) or we may provide standalone network design and systems integration services.

Government Network Services Segment

Our Government Network Services segment serves the federal information technology services market, which includes the design, development, deployment, integration and management of communications and information networks. According to INPUT, a government market research firm, this market is currently in excess of \$63 billion annually and includes not only spending by the Department of Defense (DoD) but also by federal civilian agencies. More importantly for us, preliminary estimates by INPUT show wireless-related spending in as much as \$43 billion worth of government information technology contracts, and industry experts expect the market for wireless related spending to grow even faster than the overall government information technology market.

The growth in the government information technology market is being driven by a number of factors, including an overall desire on the part of the federal government to upgrade communication and information systems, the aging of the federal workforce, and an increase in the use of private sector outsourcing. In addition, market growth has been driven and will continue to be driven in large part by DoD information technology spending which has been increasing over the past two years at an even faster rate than the overall government information technology market. World events, political factors, and changing DoD priorities have resulted not only in the growth of the overall DoD budget, but more importantly in the significant growth of the DoD information technology budget. The end of the cold war and the emergence of new enemies and new national security threats have caused an increased emphasis on network centric warfare, information superiority and the convergence and interoperability of information systems. These changes are also bringing a significant increase in demand for wireless related technology as the government's national security efforts focus more and more on mobility, broadband connectivity, speed, efficiency, and overall effectiveness of deployment.

Our Government Network Services segment was created to leverage our core competencies in skills that are currently in great demand—wireless radio frequency engineering, Internet protocol engineering, network design, deployment, and management, and physical and electronic security systems integration—to capitalize on the numerous contracting opportunities available to service providers.

Our Government Network Services segment also focuses on the homeland security market with products and services aimed at providing first responders to emergency situations with a real time 3D image of the incident site.

Sale and Discontinuance of Significant Subsidiaries

In December 2005, our Board of Directors made the decision to exit our Mexican operations and certain of our other deployment businesses in South America. Prior to this decision, these operations had been reported in our Wireless Network Services segment. The Company determined that these operations meet the criteria to be classified as held for sale. Accordingly, WFI has reflected these operations as discontinued in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The discontinued South American deployment operations were substantially shut down as of the end of December 2005.

On February 17, 2006, we entered into an Equity Purchase Agreement to sell all of the stock of our wholly owned subsidiaries (i) WFI de México, S. de R.L. de C.V., (ii) WFI de México, Servicios de Administración, S. de R.L. de C.V., (iii) WFI de México, Servicios de Ingeniería, S. de R.L. de C.V., (iv) WFI Services de Mexico S.A. de C.V., (v) WFI Asesoría en Administración, S.C., and (vi) WFI Asesoría en Telecomunicaciones, S.C. (the "Mexico Operations") to Sakoki LLC. The transaction closed on March 10, 2006. The operating results for these entities and the discontinued South American operations are reflected in our consolidated financial statements as discontinued operations in this Annual Report on Form 10-K.

The Equity Purchase Agreement provides that we will receive total approximate cash consideration of \$18 million, subject to adjustment, with \$1.5 million payable in cash on signing of the Equity Purchase Agreement and \$16.5 million payable by means of a secured promissory note payable in installments through December 31, 2006, subject to adjustment. The note is secured by pledges of assets and a personal guaranty. The total consideration approximated the net book value of operations, including \$13.2 million of liabilities associated with a loss contingency.

Our decision to divest the Mexican operations was prompted by the changing business climate in Mexico and a review of the strategic alternatives for our free cash flow. Unfavorable contractual terms recently proposed by our largest customers in Mexico would further increase the extensive working capital required to operate a Mexican deployment company while pricing pressure threatened to adversely affect the future profitability of the Mexican operations.

Further, the recent refinements of the cell site build plans by our largest customers resulted in the cancellation of a number of sites that we were building in Mexico and other South American locations. This resulted in a write-off of unrecoverable expenses of approximately \$5.0 million in 2005. We have not been able to negotiate any termination settlements with our customers to offset these costs.

In conjunction with the sale of the Mexico operations and based on the deteriorating business conditions in the region, we have also made the decision that in the future, our business in South America will focus on providing lower risk, higher margin engineering services in Brazil.

ISO Qualification

In November 2002, the domestic portion of our Wireless Network Services Division was awarded ISO 9001:2000 certification. This certification validates that we are among an exclusive tier of companies that possess well-defined and integrated quality measures and comprehensive programs that ensure our services are provided according to uniform standards that are considered best practices within the industry. In June 2004, we upgraded our ISO certification to a TL 9000 certification. TL 9000 is a set of quality standards specifically tailored for the telecommunications industry and focuses on measurement of service, accuracy, adherence to customer requirements and monthly submission of performance metrics to the Quality Excellence for Suppliers of Telecommunications (“QuEST”) Forum. We believe that the addition of the telecommunication-specific quality standards further proves that we are dedicated to providing a quality service to our clients.

Customers

A representative list of our customers in our Wireless Network Services segment during 2005 includes (in alphabetical order) Alltel, Cingular, O2, Orange, Sprint, T-Mobile, Verizon Wireless and Vodafone and equipment vendors such as Ericsson, Huawei, Nokia, Nortel and Siemens. In our Enterprise Network Services segment, our customers in 2005 include General Electric, the Toyota Center, and Westfield Shopping Towns. Customers in our Government Network Services segment during 2005 include the U.S. Air Force, U.S. Army, U.S. Navy, Missile Defense Agency, the Department of Homeland Security, and the U.S. Southern Command.

For the year ended December 31, 2005, we had sales to one customer, Cingular, totaling \$98.8 million, which comprised 26.3% of our total revenues. In addition, our top five customers accounted for approximately 49.0% of our total revenues. The revenues generated by these customers were from our Wireless Network Services segment and Government Network Services segment.

Competition

Our market is competitive, and includes the full range of service providers. Many of the companies that we compete against have significantly greater financial, technical and marketing resources, and generate greater revenues than WFI.

Competition in the Wireless Network Services business comes primarily from the internal engineering departments of wireless carriers and the service arms of equipment vendors, and to a lesser extent from companies such as Flextronics, LCC International, AirCom, Incode, General Dynamics and Bechtel Corporation. These companies are significant competitors given their project finance capabilities, reputations and global presence.

Competition in the Enterprise Network Services segment includes Siemens Building Technology, Johnson Controls, Ingersoll Rand and Convergent.

Competition in the Government Network Services segment includes Northrop Grumman, SAIC, Anteon International, ITT Industries, Inc., Computer Sciences Corporation, ARINC, Raytheon Corporation, BAE and CACI.

We believe that the principal competitive factors in our ability to win new business include domain and technology expertise, the ability to deliver results within budget (time and cost), reputation, accountability, staffing flexibility, and project management expertise. We believe our ability to compete also depends on a number of additional factors including the ability of our customers to perform the services themselves, and competitive pricing for similar services.

Employees

As of December 31, 2005, we employed approximately 2,300 full-time employees, consultants and contractors worldwide. None of our employees, other than our Swedish employees (three at December 31, 2005), are represented by a labor union, and we have not experienced any work stoppages.

Item 1A. Risk Factors

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 this Annual Report in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, other than 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. You should refer to the other information contained in this Annual Report, including our consolidated financial statements and the related notes.

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

Telecommunications carriers are constantly re-evaluating their network deployment plans in response to trends in the capital markets, changing perceptions regarding industry growth, the adoption of new wireless technologies, increasing pricing competition for subscribers and general economic conditions in the United States and internationally. If the rate of network deployment slows and 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.

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.

We intend to devote significant resources to developing our enterprise-based WLAN (Wireless Local Area Networks), but we cannot predict that we will achieve widespread market acceptance amongst the enterprises we identify as potential customers. It is possible that some enterprises will determine that capital constraints and other factors outweigh their need for WLAN systems. As a result, we may be affected by a significant delay in the adoption of WLAN by enterprises, which would harm our business.

Our failure to obtain new government contracts, the cancellation of our current 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 segment. Our revenues and cash flows from our Government Network Services segment 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 segment will also be sensitive to changes in national 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.

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 in foreign countries in which we have business operations, 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. Additionally, because we conduct business throughout the U.S., many of our activities are subject to different state and local regulatory schemes, including those relative to licensing, taxes and employment matters, with which we are required to comply. We are 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. Additional regulations may be adopted, including changes in the allocation of available spectrum by the U.S. government and other governments or exclusion of our technology by a standards body, which may result in additional cost to us or restrict our current business operations, which could have a harmful effect on our operating results, liquidity and financial position.

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 year ended December 31, 2005, we had two customers which comprised 26.3% and 9.0% of our revenues, respectively, and our five largest customers accounted for approximately 49.0% 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 have completed several acquisitions of complimentary business in recent years, and we continually evaluate opportunities to acquire new businesses as part of our ongoing strategy. Our integration of historical and future 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. Our failure to properly integrate businesses we acquire and to manage future acquisitions successfully could seriously harm our operating results. In addition, acquired companies may not perform as well as we expect, and we may fail to realize anticipated benefits. We may issue common stock that would dilute our current stockholders' ownership and incur debt and other costs in connection with future acquisitions which may cause our quarterly operating results to vary significantly. In February 2004, we filed an acquisition shelf registration statement on Form S-4 that, subject to the rules and regulations of the Securities and Exchange Commission, will enable us to issue up to \$200 million shares of our newly issued common stock in one or more acquisition transactions. In addition, we currently have a \$15 million senior credit facility with KeyBank National Association, which can be expanded to a \$60 million facility to fund future acquisitions.

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

Recently, the wireless telecommunications industry has been characterized by significant consolidation activity including Cingular's acquisition of AT&T Wireless, both of whom were significant customers of ours, the merger between Alltel and Western Wireless and the merger between Sprint and Nextel Communications. 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 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.

A few 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.

In addition, we have historically taken significant write-offs of our accounts receivable. While the vast majority of our customers today are tier 1 carriers, large enterprises and the federal government, it is possible that 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.

We are in highly competitive markets, face competition from large, well-established competitors with significant resources, and may not be able to compete effectively.

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 our industry. 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 than 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 and technology upgrades by our carrier customers;
- fluctuations in demand for outsourced network services;
- the timing of expansion into new markets, both domestically and internationally;
- the success of our international business operations;
- changes in our effective tax rate including changes in our judgment as to the necessity of the valuation allowance recorded against our deferred tax asset;
- the length of sales cycles;
- the ability of certain customers to sustain capital resources to pay their trade accounts receivable balances and required changes to our allowance for doubtful accounts based on periodic assessments of the collectibility of our 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;
- our sales, marketing, and administrative cost structure; and
- costs of integrating businesses that we acquire.

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 underestimate the resources or time we need to complete a project with capped or fixed fees, our operating results could be seriously harmed.

In addition, a majority of our enterprise businesses and additional significant deployment projects are located in the southeastern United States, an area which is susceptible to hurricanes. In late summer 2005, Hurricane Katrina and Hurricane Rita struck the Gulf Coast region of the United States, resulting in labor and material shortages in the area. Although we expect certain delays and increased cost estimates in our deployment business for both carriers and enterprise customers as a result of the rebuilding effort in the wake of the 2005 hurricanes, we are unable to predict with certainty the extent of the impact on our operating results.

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. The loss of any of our key members might delay or prevent the achievement of our strategic objectives. Our future performance will be substantially dependent on 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 many of our 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 cannot 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 cannot 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 more 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 regulations could restrict our ability to hire employees or to utilize employees effectively.

As of December 31, 2005, approximately 176 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, plus 20,000 additional numbers for the U.S. advanced degree exception through 2005.

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, India, the United Kingdom, Sweden and Turkey. For the year ended December 31, 2005, international operations, excluding discontinued operations, accounted for approximately 10% 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 including, without limitation, management and contracts administration processes;
- 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;
- unexpected restrictions on transferring cash from foreign operations to the U.S.;
- longer payment cycles;
- foreign and U.S. taxation issues;
- potential weaknesses in foreign economies, particularly in Europe and Latin and South America;
- 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., Brazil 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 our discontinued business). In addition, we also conduct business in British Pound Sterling, Chinese Renminbi, Indian Rupee, 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.

Payment for the sale of our operations in Mexico was made in part by a promissory note, which could be placed into default in the event of non-payment by the buyer.

As part of the sales price of the Company's subsidiaries in Mexico, the Company received a \$16.5 million promissory note from the buyer. Although the note is secured by a pledge of assets and a personal guaranty, the buyer could default on the note. If upon the execution of the pledges on the assets and the personal guaranty, there were insufficient funds for a full payment of the note, the Company would incur a loss on the transaction.

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. In December 2004, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 123 (revised 2004) "*Share-Based Payment*" (SFAS No. 123R), a revision of FASB Statement 123 *Accounting for Stock-Based Compensation*, which requires that companies record compensation expense in the statement of operations for employee stock options using the fair value method. Implementation of this statement as required during the first quarter of 2006 may have a significant negative effect on our reported results and may 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.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. We have reported material weaknesses in our internal control over financial reporting that, if we do not substantially remedy, could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our stock.

As described in Item 9A of this Report, we have restated our previously issued financial statements for the quarters ended July 1, 2005 and September 30, 2005 to reflect the accounting impact of the cancellation of sites by one of our customers in Mexico in those periods. The Public Company Accounting Oversight Board's auditing standards provide that a restatement is a strong indicator of a material weakness. Accordingly, we determined that due to the lack of time available to assess the operating effectiveness of remediated entity level controls at the Mexico operations, and the fact that full transaction details that led us to restate previously issued financial statements were not discovered until after our fiscal year end, this control deficiency constitutes a material weakness in our internal control over financial reporting as of December 31, 2005. In particular, the Company's entity level controls surrounding the

control environment at the Mexico subsidiary and the timely and accurate communication of information to executive management were not operating effectively. In connection with management's assessment of internal control over financial reporting as of December 31, 2005, management also concluded that a material weakness in internal control over financial reporting existed because we were unable to recruit and retain a sufficient number of finance and accounting personnel to support compliance with our financial reporting requirements. As a result of this weakness, we have made adjustments to our previously published unaudited operating results for the quarter and year ended December 31, 2005 in our earnings release and our Current Report on Form 8-K. The specific adjustments are disclosed in Item 9A of this Annual Report on Form 10-K. The differences from the reported numbers were substantially all related to our discontinued operations in Mexico, and were primarily related to non-cash adjustments such as an impairment for deferred tax assets as well as the impairment of accumulated foreign currency translation losses of our discontinued operations. These adjustments were primarily triggered as a result of the disposal of our operation in Mexico. A material weakness, by itself or in combination with other control deficiencies, results 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.

In addition, from time to time we acquire businesses which could have limited infrastructure and systems of internal controls. Performing assessments of internal controls, implementing necessary changes, and maintaining an effective internal controls process is costly and requires considerable management attention, particularly in the case of newly acquired entities. Internal control systems are designed in part upon assumptions about the likelihood of future events, and all such systems, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

We also cannot assure you that we will implement and maintain adequate controls over our financial processes and reporting in the future or that additional material weaknesses or significant deficiencies in our internal controls will not be discovered in the future. Any failure to remediate any future material weaknesses or implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements or other public disclosures. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

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, SEC regulations and NASDAQ Stock Market rules, are creating uncertainty for companies such as ours. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest appropriate resources to comply with evolving standards, which may continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

If our officers, directors and principal stockholders choose to act together, they may be able to exert significant influence over our management and operations, acting in their best interests and not in the best interests of other stockholders.

As of December 31, 2005, our executive officers and directors and their affiliates beneficially owned, in the aggregate, approximately 38.8% of our outstanding common stock, after giving effect to the conversion of Series B Convertible Preferred Stock. In particular, our Chairman Masood K. Tayebi, beneficially owned, approximately 9.7% of our outstanding common stock. 8.7% of our outstanding

common stock is beneficially owned by certain of our other officers and directors and their affiliates. The remaining 20.4% is beneficially owned by other members of the Tayebi family. As a result, the executive officers, directors and their affiliates are able to collectively exercise significant influence over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions. The interests of this group of stockholders may not always coincide with our interests or the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders. As a result of their actions or inactions our stock price may decline.

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 or we may expand our current \$15 million senior credit facility up to \$60 million to fund future acquisitions. We also 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 on terms favorable to us.

In addition, we and certain of our current and former officers and directors have been named defendants in class action and derivative lawsuits. While we believe that allegations lack merit and we intend to vigorously defend all claims asserted, we are unable to estimate what our liability in these matters may be. We may be required to pay judgments or settlements and incur expenses in connection with such matters in aggregate amounts that could have a material adverse effect on our business financial condition, results of operations and cash flows.

Disclosure of trade secrets could aid our competitors.

We attempt to protect our trade secrets by entering into confidentiality and intellectual property assignment 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. In addition, others may independently discover our trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such party. Enforcing a claim that a party illegally obtained and is using our trade secrets is difficult, expensive and time consuming, and the outcome is unpredictable. 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;
- impact of litigation;
- 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. We and certain of our current and former officers and directors have been named defendants in class action and derivative lawsuits. These matters, and any other securities class action litigation in which we may be involved, could result in substantial costs to us and a diversion of our management's attention and resources, which could materially harm our financial condition and results of operations.

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.

In addition, on December 16, 2004, we adopted a stockholder rights plan ("Rights Plan"). Pursuant to the Rights Plan, our Board of Directors declared a dividend distribution of one preferred share purchase

right (“Right”) on each outstanding share of our common stock. Each Right will entitle stockholders to buy one one-hundredth of a share of newly created Series C Preferred Stock at an exercise price of \$54, subject to adjustment, in the event that the Rights become exercisable. Subject to limited exceptions, the Rights will become exercisable if a person or group acquires 15% or more of our common stock or announces a tender offer for 15% or more of the common stock. If we are acquired in a merger or other business combination transaction which has not been approved by our Board of Directors, each Right will entitle its holder to purchase, at the Rights then-current exercise price, a number of the acquiring company’s common shares having a market value at the time of twice the Rights exercise price. 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 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal executive offices for all business segments are located in approximately 93,000 square feet of office space in San Diego, California. The lease for such space expires in April 2010. Other corporate resource offices are located in the following locations: Marietta, Georgia; Newport, Delaware; Houston, Texas; Reston, Virginia; Sao Paulo, Brazil; Stockholm, Sweden; City of Cordoba, Argentina; London, U.K., Haryana, India and Beijing, China. The Company also leases office space to support engineering and design and deployment services in various regions throughout the United States. The leases on these spaces expire at various times through February 2015. We continually evaluate our current and future space capacity in relation to current and projected future staffing levels. We believe that our existing facilities are suitable and adequate to meet our current business requirements.

Item 3. *Legal Proceedings*

Beginning in July 2001, the Company and certain of its former officers and directors (the “Individuals”) were named as defendants in a series of class action shareholder complaints filed in the U.S. District Court for the Southern District of New York, now consolidated into a single amended complaint captioned *In re Buy.com, Inc. Initial Public Offering Securities Litigation*, Case No. 01-CV-6323. In the amended complaint, filed in April 2002, the plaintiffs allege that the Company, the Individuals, and the underwriters of the Company’s initial public offering (“IPO”) violated Section 11 of the Securities Act of 1933 and Section 10(b) of the Exchange Act of 1934 based on allegations that the Company’s registration statement and prospectus failed to disclose material facts regarding the compensation to be received by, and the stock allocation practices of, the IPO underwriters. The complaint also contains claims against the Individuals for control person liability under Securities Act Section 15 and Exchange Act Section 20. The plaintiffs sought unspecified monetary damages and other relief. Similar complaints were filed in the same Court against hundreds of other public companies (“Issuers”) and the underwriters (“Underwriters”) that conducted IPOs of the Issuers’ common stock in the late 1990s or in the year 2000 (the “IPO Cases”).

In August 2001, all of the IPO Cases were consolidated for pretrial purposes before United States Judge Shira Scheindlin of the Southern District of New York. In July 2002, the Company joined in a global motion to dismiss the IPO Cases filed by all of the Issuers (among others). In October 2002, the Court entered an order dismissing the Individuals from the IPO Cases without prejudice, pursuant to an agreement tolling the statute of limitations with respect to the Individuals. In February 2003, the Court issued a decision denying the motion to dismiss the Securities and Exchange Act Section 11 claims against the Company and the Securities and Exchange Act Section 10(b) claims against the Company.

In June 2003, the Issuers reached a tentative settlement agreement with the plaintiffs that would result in, among other things, (a) the dismissal with prejudice of all claims in the IPO Cases against the Issuers and their officers and directors and (b) a guarantee from the insurers of the Issuers to the plaintiffs that, if the plaintiffs recover less than \$1 billion from the Underwriters in the IPO Cases, the insurers would pay the difference between the actual recovery and \$1 billion. In June 2004, the Company executed a final settlement agreement with the plaintiffs. On February 15, 2005, the Court issued a decision certifying a class action for settlement purposes, and granting preliminary approval of the settlement subject to modification of certain bar orders contemplated by the settlement. On August 31, 2005, the Court reaffirmed class certification and preliminary approval of the modified settlement in a comprehensive Order. In addition, the Court approved the form of Notice to be sent to members of the settlement classes, which was published and mailed beginning November 15, 2005. On February 24, 2006, the Court dismissed litigation filed against certain underwriters in connection with the claims to be assigned to the plaintiffs under the settlement. The Court has set a Final Settlement Fairness Hearing on the settlement for April 24, 2006. In addition, the settlement is still subject to statutory notice requirements as well as final judicial approval. The Company does not expect the settlement to have a material impact on its operations or cash flow.

In August 2004, as a result of the Company's announcement on August 4, 2004 that it intended to restate its financial statements for the fiscal years ended December 31, 2000, 2001, 2002 and 2003, the Company and certain of its current and former officers and directors were named as defendants ("Defendants") in several securities class action lawsuits filed in the United States District Court for the Southern District of California. These actions were filed on behalf of those who purchased, or otherwise acquired, the Company's common stock between April 26, 2000 and August 4, 2004. The lawsuits generally allege that, during that time period, Defendants made false and misleading statements to the investing public about the Company's business and financial results, causing its stock to trade at artificially inflated levels. Based on these allegations, the lawsuits allege that Defendants violated the Securities Exchange Act of 1934, and the plaintiffs seek unspecified damages. These actions have been consolidated into a single action in *In re Wireless Facilities, Inc. Securities Litigation*, Master File No. 04CV1589-JAH. The plaintiffs filed their consolidated complaint in January 2005 and did not name the Company a defendant in that complaint. After the individual defendants filed their motion to dismiss, the plaintiffs requested leave to amend their complaint to add the Company as a defendant. Plaintiffs filed the First Amended Consolidated Class Action Complaint on April 1, 2005. Defendants filed their motion to dismiss this first amended complaint on April 14, 2005. The plaintiffs then requested leave to amend their first amended complaint. The plaintiffs filed their second amended complaint on June 9, 2005, this time on behalf of those who purchased, or otherwise acquired, the Company's common stock between May 5, 2003 and August 4, 2004. Defendants filed their motion to dismiss this second amended complaint on July 14, 2005. The motion to dismiss was taken under submission on October 20, 2005 and on March 8, 2006, the Court granted the Company's motion. However, the plaintiffs were granted the right to amend their complaint within 45 days. The Company believes that the allegations lack merit and intends to vigorously defend all claims asserted. It is impossible at this time to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company. We have not recorded any accrual for a contingent liability associated with this legal proceeding based on our belief that a liability, while possible, is not probable and any range of potential future charge cannot be reasonably estimated at this time.

Two derivative lawsuits have been filed in the United States District Court for the Southern District of California against certain of the Company's current and former officers and directors: *Pedicini v. Wireless Facilities, Inc.*, Case No. 04CV1663; and *Roth v. Wireless Facilities, Inc.*, Case No. 04CV1810. These actions have been consolidated into a single action in *In re Wireless Facilities, Inc. Derivative Litigation*, Lead Case No 04CV1663-JAH. The factual allegations in these lawsuits are substantially similar to those in the class action lawsuits, but the plaintiffs in these lawsuits assert claims for breach of fiduciary duty, gross mismanagement, abuse of control, waste of corporate assets, violation of Sarbanes Oxley Act Section 304,

unjust enrichment and insider trading. The plaintiffs in these lawsuits seek unspecified damages and equitable and/or injunctive relief. The lead plaintiff filed a consolidated complaint on March 21, 2005. On May 3, 2005, the defendants filed motions to dismiss this action, to stay this action pending the resolution of the consolidated non-derivative securities case pending in the Southern District of California, and to dismiss the complaint against certain non-California resident defendants. The parties have agreed to postpone any hearing on these motions until after limited discovery is completed regarding the motion to dismiss the action against certain individual defendants based on lack of personal jurisdiction. This discovery is currently expected to be completed by the end of March 2006, although the parties are currently negotiating an extension of this time period until June 14, 2006. The Company believes that the allegations lack merit and intends to vigorously defend all claims asserted. It is impossible at this time to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company. We have not recorded any accrual for a contingent liability associated with this legal proceeding based on our belief that a liability, while possible, is not probable and any range of potential future charge cannot be reasonably estimated at this time.

In August and September 2004, two virtually identical derivative lawsuits were filed in California Superior Court for San Diego County against certain of the Company's current and former officers and directors. These actions contain factual allegations similar to those of the federal lawsuits, but the plaintiffs in these cases assert claims for violations of California's insider trading laws, breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. The plaintiffs in these actions seek unspecified damages, equitable and/or injunctive relief and disgorgement of all profits, benefits and other compensation obtained by defendants. These lawsuits have been consolidated into one action in *In re Wireless Facilities, Inc. Derivative Litigation*, California Superior Court, San Diego County, Lead Case No. GIC 834253. The plaintiffs filed a Consolidated Shareholder Derivative Complaint on October 14, 2004. This action has been stayed pending a decision in federal court on a motion to dismiss the federal derivative lawsuits and there will be a hearing in April 2006 to evaluate the status of this case. The Company believes that the allegations lack merit and intends to vigorously defend all claims asserted. It is impossible at this time to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company. We have not recorded any accrual for a contingent liability associated with this legal proceeding based on our belief that a liability, while possible, is not probable and any range of potential future charge cannot be reasonably estimated at this time.

On January 19, 2005, the Company and a selling shareholder in a Company subsidiary in the ENS division initiated an arbitration proceeding regarding the termination of employment of that individual from ENS. The amount in controversy was approximately \$1.8 million. On April 20, 2005, the arbitrator, upon motion by the selling shareholder, permitted the arbitration proceeding to expand to allow the selling shareholder to seek early payment of the sums which may be due under the selling shareholder's earn-out agreement. In this arbitration proceeding, the selling shareholder is claiming he is entitled to approximately \$5.0 million. The arbitration is currently expected to occur during the second quarter of 2006. The Company is disputing the selling shareholder's right to further compensation, his entitlement to an earn-out payment and, if a payment is due, the early payment of any such amounts. On March 10, 2006, the arbitrator in the case ruled that if the selling shareholder were to prevail, his share of the earn-out will be limited to the amount calculated based on the actual earnings of the Company subsidiary. The Company estimates the total potential exposure to be approximately \$1.3 million, which includes among other things, contingent consideration, salary, and attorney's fees. The Company has accrued approximately \$0.8 million as of December 30, 2005 and does not believe any additional adjustment will be necessary. Refer to Note 5 for further discussion regarding contingent consideration.

In addition to the foregoing 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 4. *Submission of Matters to a Vote of Security Holders*

None.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our Common Stock is listed on the NASDAQ National Market System, under the symbol "WFII" and has traded since November 5, 1999.

The following table sets forth the high and low sales prices for our Common Stock for the periods indicated, as reported by NASDAQ. Such quotation represents inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2005:		
Fourth Quarter	\$ 6.86	\$ 5.10
Third Quarter	\$ 6.67	\$ 4.95
Second Quarter	\$ 6.43	\$ 5.13
First Quarter	\$ 9.54	\$ 6.25
Year Ended December 31, 2004:		
Fourth Quarter	\$ 10.00	\$ 6.83
Third Quarter	\$ 9.74	\$ 4.61
Second Quarter	\$ 11.86	\$ 8.58
First Quarter	\$ 18.44	\$ 10.41

On March 30, 2006, the last sale price of our Common Stock as reported by NASDAQ was \$4.06 per share. On March 30, 2006, there were 269 shareholders of record of our Common Stock.

We have not declared any cash dividends since becoming a public company. We currently intend to retain any future earnings to finance the growth and development of the business and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will be dependent upon the future financial condition, results of operations, capital requirements, general business conditions and other relevant factors as determined by our Board of Directors.

On December 16, 2004, we adopted a stockholder rights plan ("Rights Plan"). Pursuant to the Rights Plan, our Board of Directors declared a dividend distribution of one preferred share purchase right ("Right") on each outstanding share of our common stock. Each Right will entitle stockholders to buy one one-hundredth of a share of newly created Series C Preferred Stock at an exercise price of \$54, subject to adjustment, in the event that the Rights become exercisable. Subject to limited exceptions, the Rights will become exercisable if a person or group acquires 15% or more of our common stock or announces a tender offer for 15% or more of the common stock. If we are acquired in a merger or other business combination transaction which has not been approved by our Board of Directors, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of the acquiring company's common shares having a market value at the time of twice the Right's exercise price.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about our equity compensation plans as of December 31, 2005 was as follows:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance</u>
Equity Compensation Plans Approved by Shareholders(1)	10,012,709	\$ 6.46	5,199,658(3)
Equity Compensation Plans Not Approved by Shareholders(2)	3,195,167	\$ 5.54	347,654
	13,207,876		5,547,312

(1) Includes 1997 Stock Option Plan, 1999 and 2005 Equity Incentive Plan and 1999 Employee Stock Purchase Plan

(2) Includes 2000 Non-Statutory Stock Option Plan

(3) Includes 351,811 shares reserved for issuance under the suspended Employee Stock Purchase Plan

For more detailed information regarding our equity compensation plans, see Note 10 to our consolidated financial statements.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" which are incorporated in Item 7 or included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of operating results to be expected in the future.

In December 2005, our Board of Directors made the decision to exit the Company's Mexican and South American deployment businesses. Accordingly, all results of operations for these businesses have been reflected as discontinued operations for all years presented.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
(All amounts except per share data in millions)					
Consolidated Statements of Operations					
Financial Data:					
Revenues	\$ 162.7	\$ 170.4	\$ 228.5	\$ 334.2	\$ 375.3
Gross profit	\$ 50.7	\$ 54.7	\$ 66.6	\$ 71.2	\$ 84.3
Operating income (loss)	\$ (68.8)	\$ (27.9)	\$ 13.7	\$ (1.9)	\$ 17.1
Provision (benefit) for income taxes	\$ (19.0)	\$ 11.0	\$ (0.4)	\$ 0.1	\$ 5.4
Income (loss) from continuing operations	\$ (57.7)	\$ (40.3)	\$ 14.3	\$ (4.4)	\$ 11.4
Income (loss) from discontinued operations	\$ (12.1)	\$ (17.4)	\$ (4.8)	\$ 9.4	\$ (7.7)
Net income (loss)	\$ (69.8)	\$ (73.8)	\$ 9.5	\$ 5.0	\$ 3.7
Income (loss) from continuing operations per common share					
Basic	\$ (1.26)	\$ (0.84)	\$ 0.21	\$ (0.07)	\$ 0.15
Diluted	\$ (1.26)	\$ (0.84)	\$ 0.20	\$ (0.07)	\$ 0.15
Income (loss) from discontinued operations per common share					
Basic	\$ (0.26)	\$ (0.36)	\$ (0.07)	\$ 0.14	\$ (0.10)
Diluted	\$ (0.26)	\$ (0.36)	\$ (0.07)	\$ 0.14	\$ (0.10)
Net income (loss) per common share					
Basic	\$ (1.52)	\$ (1.53)	\$ 0.14	\$ 0.07	\$ 0.05
Diluted	\$ (1.52)	\$ (1.53)	\$ 0.13	\$ 0.07	\$ 0.05
Weighted average shares:					
Basic	45.9	48.1	68.4	67.7	74.0
Diluted	45.9	48.1	73.3	67.7	75.3

	As of December 31,				
	2001	2002	2003	2004	2005
(All amounts in millions)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 60.9	\$ 98.1	\$ 76.8	\$ 52.0	\$ 12.9
Short-term investments	\$ —	\$ —	\$ 35.1	\$ 7.6	\$ —
Working capital	\$ 85.2	\$ 115.1	\$ 145.9	\$ 99.7	\$ 73.7
Total assets	\$ 264.9	\$ 220.3	\$ 279.3	\$ 330.7	\$ 336.3
Total debt	\$ 42.1	\$ 2.9	\$ 0.7	\$ 0.2	\$ 0.7
Total stockholders' equity	\$ 178.5	\$ 153.7	\$ 205.3	\$ 220.7	\$ 230.3

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

Overview

We are an independent provider of outsourced communications and security systems engineering and integration services for the wireless communications industry through our Wireless Network Services division ("WNS"), the U.S. government through our Government Network Services division ("GNS"), and enterprise customers through our Enterprise Network Services division ("ENS"). 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. Our 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. 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.

In December 2005, our Board of Directors made the decision to exit our Mexican operations and certain of our other deployment businesses in South America. Prior to this decision, these operations had been reported in our Wireless Network Services segment. We determined that these operations meet the criteria to be classified as held for sale. Accordingly, we have reflected these operations as discontinued in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Our South American deployment operations were substantially shut down as of the end of December 2005.

On February 17, 2006, we entered into a definitive agreement to divest all of our operations in Mexico for total approximate cash consideration of \$18 million, payable in installments, subject to adjustment, which approximates the net book value of the operations, including \$13.2 million of liabilities associated with a loss contingency. The transaction occurred on March 10, 2006. The transaction is structured as a sale of our subsidiaries in Mexico, and the purchase price consists of \$1.5 million in cash paid on February 17, 2006, plus a secured promissory note in the principal amount of \$16.5 million payable in installments through December 31, 2006, subject to adjustment. The note is secured by pledges of assets and a personal guaranty.

In making this decision, our Board of Directors considered a number of business factors occurring in the region to arrive at the conclusion that the divestiture was in the best interests of the shareholders. The benefits associated with this transaction will improve our free cash flow, improve overall liquidity, and allow us to focus more of our resources on our domestic operations, including investing in the growth of our government business.

The decision to divest the Mexican operations was prompted by the changing business climate in Mexico and a review of the strategic alternatives for our free cash flow. Unfavorable contractual terms recently proposed by our largest customer in Mexico would further increase the extensive working capital required to operate a Mexican deployment company while pricing pressure threatens to adversely affect the future profitability of the Mexican operations. Further, the recent refinements of the cell site build plans by our largest customers have resulted in the cancellation of a number of sites that we were building in Mexico and certain South American locations. This resulted in a write-off of unrecoverable expenses of approximately \$5.0 million in 2005, for which we have not been able to negotiate any termination settlements with our customers to offset these costs.

The purchaser, Sakoki LLC, is a newly-formed entity controlled by Massih Tayebi. Although Massih Tayebi has no current role with us, he was one of our co-founders, having served as Chief Executive Officer from inception in 1994 through September 2000, and as a director from inception through April 2002. In addition, Massih Tayebi owns or controls approximately 11% of the total voting power of our capital stock. He is also the brother of Masood Tayebi, our Chairman of the Board of Directors. Masood Tayebi has no personal financial interest in the transaction and will have no role with the entity that is purchasing the Mexico operations. The transaction was approved by the disinterested members of our Board of Directors after consideration of other expressions of interest and a valuation analysis by an independent firm.

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.

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

- We believe there remain significant opportunities for us to grow our Wireless Network Services business in the United States. These opportunities include 3G technology upgrades by the major U.S. carriers, network integration activities related to the AT&T/Cingular merger, spectrum clearing and frequency realignment activities related to the reallocation of licenses in the 800 megahertz frequencies, continued progress on new site deployment contracts already in backlog, and continued diversification into the market for engineering services related to new technologies such as Internet Protocol (IP) and WiMAX.
- Revenues and profit in the short term will also be negatively impacted by delays and increased cost estimates in our domestic deployment business for both carrier and enterprise customers, in part as a result of the effects of labor and material shortages in the southeastern U.S. stemming from the

recent hurricanes. We are seeing significant short-term impacts to our business from higher costs of both raw materials and subcontracted construction related labor.

- We believe technology upgrades in our Government Network Services segment as a result of increased homeland security and military transformation efforts combined with continued momentum in our logistics and RFID business should continue to fuel demand for our services.
- We also believe our enterprise network services segment will continue to be a driver for growth. We believe the rapidly growing municipal wireless market should provide us with new revenue opportunities.
- Our tax provision for the year ended December 31, 2005 was a provision of \$5.4 million, or an effective rate of 32%, on income from continuing operations of \$16.8 million. The effective tax rate for the year ended December 31, 2005 was negatively impacted by certain losses from foreign operations for which no tax benefit has been recorded and the \$2.1 million reduction of our contingent acquisition accrual which were more than offset by the reduction of our valuation allowance accounts related to the Company's U.S. deferred tax assets. Since the contingent acquisition accrual has been classified as a capital transaction for tax purposes, no tax expense has been recognized with respect to the reduction in the accrual.

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. We explain these accounting policies in the notes to the 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 59% of our revenues for the year ended December 31, 2005. Revenue on fixed price contracts generally 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, which the Company believes is the best measure of progress toward completion. 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. In our wireless network services business, the estimated contract value and costs are impacted by the estimated number and mix of site types that we may be assigned. 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 estimated 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, schedule delay 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, delayed 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, a schedule delay or modifications can result in an increase in estimated cost to complete the project, which would also result in an impact to our gross margin.

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, based upon the specific termination clauses of the contract, which would affect our revenue and gross margin in the period in which the contract is terminated or the scope is changed.

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. Changes to estimates of contract value are recorded as adjustments to revenue and not as a component of the allowance for doubtful accounts. We write-off accounts receivable when they become uncollectible and payments subsequently received on such receivables are credited to the allowance 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 \$144.0 million as of December 31, 2005.

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. Through December 31, 2001, goodwill was amortized on a straight-line basis over lives ranging from 5 to 20 years, and intangibles were amortized on a straight-line basis over lives ranging from 2 to 5 years. In lieu of amortization, we were required to perform an initial impairment review of our goodwill and intangible assets with indefinite lives in 2002 and, at a minimum, an annual impairment review thereafter unless specific evidence identified as a triggering event would warrant an accelerated review. The first step of the goodwill impairment test required the Company to determine and compare the fair value of its defined reporting units to their carrying values as of January 1, 2002. The fair value for each reporting unit was determined using a discounted cash flow valuation analysis. The carrying values of each reporting unit were 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. The estimated fair values exceeded the carrying values for each reporting unit, except for one reporting unit in our design and deployment segment which had indications requiring measurement of impairment.

During the fourth quarters of 2004 and 2005, we evaluated the carrying value of all related goodwill for impairment in accordance with SFAS No. 142. Upon completion of step one of the annual impairment tests, no indication of impairment was present at the evaluation dates of December 31, 2004 and 2005.

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 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 as a result of taking future deductions against future taxable income. To the extent we believe it is more likely than not that we will not recover the deferred tax assets, 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 known tax cases, and information provided to us by our tax advisors and our legal advisors. 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 recorded a valuation allowance of \$23.0 million as of December 31, 2005, which was a reduction of \$5.1 million from the December 31, 2004 balance of \$28.1 million, 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 certain net operating losses, carry forward temporary differences and future tax deductions resulting from certain types of stock option exercises, before they expire. The assessed adequacy of our valuation allowance is based on our current estimates of combined future adjusted taxable income by each tax jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable, including the expected reversal of temporary differences. 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. Net deferred tax assets as of December 31, 2005 were \$12.3 million, which is comprised of deferred tax assets of \$51.1 million, a valuation allowance of \$23.0 million and deferred tax liability of \$15.8 million. For U.S. purposes, the Company is in a cumulative book profit position as of December 31, 2005, and consideration is given to future taxable income, namely 2006 projected income, in evaluating the recoverability of its U.S. deferred tax assets and the corresponding valuation allowance placed on the assets. Unlike the Company's U.S. position, its foreign operations are in a cumulative book loss position. Therefore, pursuant to the provisions of SFAS No. 109, "Accounting for Income Taxes," limited consideration is given to the Company's future foreign income in determining the recoverability of its foreign deferred tax assets and the related valuation allowance. Accordingly, management believes the current valuation allowance on deferred tax assets is sufficient and properly stated at December 31, 2005.

The 2006 effective tax rate for annual and interim reporting periods could be impacted if we achieve the resolution of certain tax items that are reserved for at December 31, 2005. Finally, during 2006, if our valuation allowance as of December 31, 2005 is impacted by a change in judgment regarding the realization of deferred tax assets beyond December 31, 2006, 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 the 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 December 31, 2005, the accrual for our partial self-insurance programs approximated \$2.6 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 annual claim limits are \$150,000 and \$250,000, respectively. For the year ending December 31, 2005, we experienced no claims that exceeded the limits for medical and one claim that exceeded the limits for workers compensation.

Contingencies and litigation. We are currently involved in certain legal proceedings. We estimate the range of liability related to pending litigation where the amount and range of loss can be estimated. We record our estimate of a loss when the loss is considered probable and estimable. Where a liability is probable and there is a range of estimated loss, and no amount in the range is more likely than any other number in the range, we record the minimum estimated liability related to the claim in accordance with SFAS No. 5, "Accounting for Contingencies". As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of potential liability could materially impact our results of operations. See Item 3 "Legal Proceedings" for additional information.

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. The timing of recognition of the liabilities and associated expenses for future year contingent payments for certain acquisitions the Company made in 2003 was accelerated in September 2004 when two of the earn-out agreements were modified to remove continuous employment as a condition to receiving the payments. The removal of this provision was accounted for as a vesting of the Company's obligation under the agreement. Accordingly, the Company recorded a charge of \$12.4 million in the third quarter of 2004 for future earn-out consideration for certain shareholders of these two companies. At December 31, 2005, the

contingent consideration accrual for ENS entities of \$7.7 million consists of \$5.8 million for the ENS selling shareholders with continuous employment clauses, for which the accrual was recorded as compensation expense in our statements of operations in 2004, and additional contingent consideration of \$1.9 million recorded to goodwill related to certain shareholders of ENS who had met the performance targets for 2005 and did not have continuous employment clauses in connection with the purchase agreements. As of March 28, 2006, approximately \$6.8 million of these earn-out payments have been made to the selling stockholders. Assuming the acquired entities reach the minimum base performance targets in 2006, the aggregate future contingent payments related to the measurement period of 2006, including the balance accrued as of December 31, 2005, would approximate a cumulative total of \$9.7 million. If the acquired entities exceed the defined annual performance targets based on the most recent performance, the aggregate remaining future contingent payments could range from \$9.7 to \$11.7 million inclusive of the amounts accrued as of December 31, 2005 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.

Discontinued Operations. In December 2005, our Board of Directors made the decision to exit its Mexican and South American deployment business. Accordingly, all results for these operations for all periods presented have been reflected as discontinued operations. All operating results discussed in results of operations relate to our continuing operations.

Results of Operations

Comparison of Results for the Year Ended December 31, 2004 to the Year Ended December 31, 2005

Revenues. Revenues by operating segment for the years ended December 31, 2004 and 2005 are as follows (in millions):

	<u>2004</u>	<u>2005</u>	<u>\$ change</u>	<u>% change</u>
Wireless Network Services	\$ 217.3	\$ 223.0	\$ 5.7	2.6%
Enterprise Network Services	65.3	67.3	2.0	3.1%
Government Network Services	51.6	85.0	33.4	64.7%
Total revenues	\$ 334.2	\$ 375.3	\$ 41.1	12.3%

Revenues generated by geographic area for the years ended December 31, 2004 and 2005 are as follows (in millions):

	<u>2004</u>	<u>2005</u>	<u>\$ change</u>	<u>% change</u>
United States	\$ 296.1	\$ 337.7	\$ 41.6	14.0%
EMEA	34.9	27.1	(7.8)	(22.3)%
Latin America	3.2	10.5	7.3	228.1%
Total revenues	\$ 334.2	\$ 375.3	\$ 41.1	12.3%

Revenues increased 12.3% from \$334.2 million for the year ended December 31, 2004 to \$375.3 million for the year ended December 31, 2005. The \$41.1 million increase was attributable to an increase in domestic revenues of \$41.6 million, offset partially by a slight decrease in international revenues of \$0.5 million. Our domestic revenues increased as a result of internal growth across each of our operating segments as well as due to our acquisition of TLA in January 2005. Our continuing Latin America operations experienced growth of \$7.3 million from the prior year due primarily to certain significant contracts that were awarded in 2005 to perform deployment services in Brazil, which were substantially completed during 2005. Revenue in our EMEA operations decreased by \$7.8 million between periods due to the completion of a certain project. The acquisition of TLA that we made in 2005 resulted in \$28.6 million of increased revenues recorded in our GNS business.

Cost of Revenues. Cost of revenues increased 11% from \$263.0 million for the year ended December 31, 2004 to \$291.0 million for the year ended December 31, 2005 primarily due to the corresponding increase in total revenues. The increase in cost of revenues during the 2005 period attributable to acquisitions was approximately \$20.8 million. Gross margin during the year ended December 31, 2005 of 22.5% of total revenues increased from 2004 gross margin of 21.3% of total revenues. The overall increase in gross margin percentage is primarily attributable to a gross margin reduction of \$9.8 million in 2004 resulting from increases in estimated costs for contracts signed in 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 17% from \$59.2 million to \$69.3 million for the years ended December 31, 2004 and 2005, respectively. As a percentage of revenues, selling, general and administrative expenses remained constant at approximately 18% in 2004 and 2005. In 2005, the Company experienced increased accounting and contract administration costs primarily incurred due to changes we have made related to compliance with the Sarbanes Oxley Act and increased infrastructure costs necessary to support the revenue growth.

Contingent Acquisition Consideration and Restatement Fees. In September 2004, we amended the purchase agreements related to two of the companies acquired in our ENS division in 2003 to more accurately reflect the intent of the transactions, resulting in a rescission of the continuous employment clauses from the earn-out arrangements. These amendments constituted a triggering event which resulted in a one-time charge of \$12.4 million in the third quarter of 2004. In addition, the Company incurred approximately \$1.5 million of costs related to the restatement of its financial statements during the third quarter of 2004, primarily due to legal and accounting fees incurred. In September 2005, we reduced \$2.5 million of our contingent acquisition earn-out accruals that was determined to be excess based on the projected performance of the division compared to the minimum performance targets as defined in the earn-out arrangements. In December 2005, we increased our contingent acquisition earn-out accruals by \$0.4 million, to reflect the financial performance of one of the acquired entities that exceeded its previously projected performance.

Other Income (Expense), Net. For the year ended December 31, 2004, net other expense was \$2.4 million compared to net other expense of \$0.3 million for the year ended December 31, 2005. The decrease in expense of \$2.1 million was primarily attributable to an impairment charge of \$3.1 million recorded in 2004 related to our investment in a privately held company.

Provision (benefit) for Income Taxes. Our effective income tax rate for the year ended December 31, 2004 represented a 2% income tax provision compared to a 32% income tax provision for the year ended December 31, 2005. The tax provision of \$5.4 million for the year ended December 31, 2005 included a decrease to the valuation allowance on deferred tax assets based upon the Company's projections of taxable income for 2006, including the reversal of temporary differences. The reduction in the valuation allowance was primarily a result of our projected forecasts of 2006 taxable income, the estimated timing of reversal of temporary differences and the expected utilization of net operating loss carryforwards. The effective tax rate of 2% for 2004 was impacted by the \$12.4 million contingent earn-out consideration which was treated as a capital transaction for tax purposes therefore no tax benefit was recognized for that expense.

Income (Loss) from Discontinued Operations. Income (loss) from discontinued operations decreased from income of \$9.4 million in 2004 to a loss of \$7.7 million during 2005. Included in the income from discontinued operations of \$9.4 million for the year ended December 31, 2004, is an asset impairment charge of \$0.4 million and a \$1.7 million charge for estimated employee termination costs related to our Scandinavia operations as well as income from discontinued operations for our Mexico operations of \$11.8 million. There was no tax benefit provided for the Scandinavia net operating losses due to no estimated future realizability of tax assets. Included in the loss from discontinued operations of \$7.7 million for the year ended December 31, 2005 is an approximate \$5.0 million of a write off of unrecoverable contract costs incurred on sites we were building for our customers in Mexico and South

America which were cancelled prior to the completion of the sites. Although we were under contractual arrangement with these customers to build these sites, these costs were contractually unrecoverable from our customers due to the termination clauses in the contracts, which do not provide for reimbursement for in process cancelled sites, unless agreed upon by the customer. Also included in our loss from discontinued operation in 2005 is an impairment charge of \$0.9 million related to accumulated foreign currency translation losses as well as a \$3.4 million impairment related to the deferred tax assets of our discontinued operations. There was no tax benefit provided for certain of our net operating losses generated in our South American businesses due to no estimated future realizability of tax assets. Revenues generated by our discontinued Mexican and South American operations were \$42.1 million in 2005 compared to \$62.8 million in 2004.

Comparison of Results for the Year Ended December 31, 2003 to the Year Ended December 31, 2004

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

	<u>2003</u>	<u>2004</u>	<u>\$ change</u>	<u>% change</u>
Wireless Network Services	\$ 187.4	\$ 217.3	\$ 29.9	16.0%
Enterprise Network Services	41.1	65.3	24.2	58.9%
Government Network Services	—	51.6	51.6	—
Total revenues	\$ 228.5	\$ 334.2	\$ 105.7	46.3%

Revenues generated by geographic area for the years ended December 31, 2003 and 2004 are as follows (in millions):

	<u>2003</u>	<u>2004</u>	<u>\$ change</u>	<u>% change</u>
United States	\$ 205.2	\$ 296.1	\$ 90.9	44.3%
EMEA	13.9	34.9	21.0	151.1%
Latin America	9.4	3.2	(6.2)	(66.0)%
Total revenues	\$ 228.5	\$ 334.2	\$ 105.7	46.3%

Revenues increased 46.3% from \$228.5 million for the year ended December 31, 2003 to \$334.2 million for the year ended December 31, 2004. The \$105.7 million increase was attributable to an increase in domestic revenues of \$90.9 million and an increase in international revenues of \$14.8 million. The increase in our Enterprise Solutions segment was primarily attributable to reporting a full year's operating results in 2004 compared to a portion of fiscal 2003 from the period when the companies were acquired, resulting in an increase of \$24.2 million of which \$7.9 million was organic growth in these acquired businesses and our existing WiFi technology operations. Revenue in our EMEA operations also increased by \$21.0 million between periods. The increase was primarily as a result of the roll out of new third generation wireless services by several major European carriers. The acquisitions of HTS and DSI that we made in 2004 resulted in the \$51.6 million of revenues recorded in our GNS business.

During the reporting periods contained herein, we did experience revenue and margin adjustments of certain projects, 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 62% from \$161.9 million for the year ended December 31, 2003 to \$263.0 million for the year ended December 31, 2004 primarily due to the corresponding increase in total revenues. The increase in cost of revenues during the 2004 period attributable to acquisitions was approximately \$57.4 million. Gross margin during the year ended December 31, 2004 decreased from 2003 gross margin of 29% to 21% of total revenues. The overall decrease in gross margin percentage is primarily attributable to a reduction of \$9.8 million recorded in the third quarter of 2004 resulting primarily from increases in estimated costs for contracts signed in 2003.

Certain of these contracts did not contain the change order clauses necessary to ensure recovery of the costs that were incurred for out of scope work or costs incurred due to changes in schedule or scope. Gross margin was also impacted by an increasing trend by carriers in the U.S. to request turnkey contracts which generally require us to utilize third-party vendors, thus reducing gross margin.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 12% from \$52.8 million to \$59.2 million for the years ended December 31, 2003 and 2004, respectively. As a percentage of revenues, selling, general and administrative expenses decreased from 23% in 2003 to 18% in 2004. The increase in selling, general and administrative expenses was impacted by compliance costs incurred for the Sarbanes Oxley Act, increased sales commission costs driven by the increase in revenues and increased amortization of purchased intangibles resulting from the Company's acquisitions in 2003 and 2004, offset in part by a reduction of stock compensation from 2003 and a reduction in depreciation expense resulting from assets being fully depreciated or written off in 2003.

Contingent Acquisition Consideration and Restatement Fees. In September 2004, we amended the purchase agreements related to two of the companies acquired in our ENS division in 2003 to more accurately reflect the intent of the transactions, resulting in a rescission of the continuous employment clauses from the earn-out arrangements. These amendments constituted a triggering event which resulted in a one-time charge of \$12.4 million in the third quarter of 2004. In addition, the Company incurred approximately \$1.5 million of costs related to the restatement of its financial statements during the third quarter of 2004, primarily due to legal and accounting fees incurred.

Other Income (Expense), Net. For the year ended December 31, 2003, net other income was \$0.2 million compared to net other expense of \$2.4 million for the year ended December 31, 2004. The increase in expense of \$2.6 million was primarily attributable to an impairment charge of \$3.1 million recorded in 2004 related to our investment in a privately held company and a decrease in net interest income of \$0.6 million in 2004.

Provision (benefit) for Income Taxes. Our effective income tax rate for the year ended December 31, 2003 represented a 3% income tax benefit compared to a 2% income tax provision for the year ended December 31, 2004. The tax provision of \$0.1 million for the year ended December 31, 2004 included a decrease to the valuation allowance on deferred tax assets based upon the Company's refinement of its projections of taxable income for 2005, including the reversal of temporary differences. The decrease in the valuation allowance pertained primarily to U.S., state and foreign net operating loss carryforwards and cumulative temporary differences that were accumulated in the prior reporting periods. The reduction in the valuation allowance was primarily a result of the refinement of our projected forecasts of taxable income, the associated tax rate forecasts for 2005, the estimated timing of reversal of temporary differences and the expected utilization of net operating loss carryforwards on the 2004 tax return. The effective tax rate for 2004 was impacted by the \$12.4 million of contingent earn-out consideration which is treated as a capital transaction for tax purposes therefore no tax benefit has been recognized for this expense. During 2003 we realized a 3% income tax benefit as a result of a reduction of the related valuation allowance associated with net deferred tax assets.

Income (Loss) from Discontinued Operations. Loss from discontinued operations improved from a loss of \$4.8 million in 2003 to income from discontinued operations of \$9.4 million during 2004. Included in the income from discontinued operations for 2004 is income of \$11.8 million from our Latin American operations primarily due to the award of a significant contract in Mexico, which resulted in an increase of revenues from \$27.4 million in 2003 to \$62.8 million in 2004, offset partially by charges of \$2.4 million related to our operations in Scandinavia, resulting from an asset impairment charge of \$0.4 million and a \$1.7 million charge for estimated employee termination costs. There was no tax benefit provided for these losses due to no estimated future realizability of tax assets resulting from net operating losses in Scandinavia.

Liquidity and Capital Resources

Working Capital and Cash Flows

Our sources of liquidity include cash and cash equivalents and short-term investments, cash from operations and other sources of funds. As of December 31, 2005, we had cash and cash equivalents totaling \$12.9 million.

Our operating cash flow is used to finance trade accounts receivable, fund capital expenditures, and make selective 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 continuing operations is primarily derived from our customer contracts in progress and associated changes in working capital components. Cash provided by continuing operations was \$1.3 million and \$19.1 million for the years ended December 31, 2004 and 2005, respectively. The change between periods of \$17.8 million is primarily derived from our customer contracts in progress and associated working capital components. Our days sales outstanding (DSO) increased from 102 at December 31, 2004 to 105 at December 31, 2005, primarily due to the timing of achievement of certain construction milestones on our large turnkey deployment projects in accordance with contractual terms.

Cash used in investing activities from continuing operations was \$43.4 million and \$51.1 million for the years ended December 31, 2004 and 2005, respectively. Investing activities for the year ended December 31, 2004 consisted primarily of capital expenditures of \$7.7 million, net consideration paid for acquisitions of \$53.9 million, cash paid for contingent acquisition consideration of \$8.3 million, investments in unconsolidated affiliates of \$1.0 million offset in part by proceeds from the sale of short-term investments of \$27.5 million. Investing activities for the year ended December 31, 2005 included \$8.0 million of capital expenditures, net cash paid for acquisitions of \$33.6 million, \$17.1 million related to cash paid for contingent acquisition consideration, partially offset by \$7.6 million of proceeds from the sale of short term investments. See also Note 5 to our consolidated financial statements for further discussion of our acquisitions during 2004 and 2005.

Cash provided by financing activities was \$10.2 million for the year ended December 31, 2004 and included proceeds of \$7.3 million from the issuance of common stock associated with exercises of employee stock options and proceeds of \$3.4 million resulting from purchases of common stock under our Employee Stock Purchase Plan, partially offset by the \$0.5 million repayment of capital lease obligations. Cash provided by financing activities was \$4.6 million for the year ended December 31, 2005 and included proceeds from the issuance of common stock associated with exercises of employee stock options of \$2.6 million, proceeds of \$2.4 million resulting from purchases of common stock under our Employee Stock Purchase Plan, partially offset by the \$0.4 million repayment of capital lease obligations.

Cash provided by discontinued operations was \$7.2 million for the year ended December 31, 2004 and included cash provided by operating activities of \$7.4 million and cash used in investing activities for capital expenditures of \$0.2 million. Cash used by discontinued operations was \$12.8 million for the year ended December 31, 2005 and included cash used in operating activities of \$11.8 million and cash used in investing activities for capital expenditures of \$1.0 million.

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, short-term investments and our credit facility (as discussed in Contractual Obligations and Commitments below) will be sufficient to satisfy cash requirements for at least the next twelve months based on the current level of operations and the Company's plans for future acquisitions. Although we cannot accurately anticipate the effect of inflation

on our operations, we do not believe that inflation or foreign currency fluctuation has had, or is likely in the foreseeable future to have, a material impact on our net or foreign currency fluctuation revenues or results of operations.

Our decision to divest the Mexican and other Latin American operations was prompted by the changing business climate in Mexico and a review of the strategic alternatives for our free cash flow. Unfavorable contractual terms recently proposed by our largest customers in Mexico would further increase the extensive working capital required to operate a Mexican deployment company while pricing pressure threatens to adversely affect the future profitability of the Mexican operations. We believe that the divestiture of our Mexican operations and the wind-down of our other discontinued deployment businesses in South America will result in increased cash flow available for our remaining operations since our Latin American operations used \$12.8 million of cash for operating and investing activities in 2005.

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 2006. Assuming the acquired entities of our Enterprise Network Services segment reach the minimum base performance targets, the aggregate future contingent payments related to 2006, including the balance accrued as of December 31, 2005, would approximate a cumulative total of \$9.7 million, which are due in the first and second quarters of 2006. Subsequent to December 31, 2005, approximately \$6.8 million of these earn-out payments have been made to the selling stockholders. If the acquired entities exceed the defined annual performance targets based on current performance, the aggregate future contingent payments could likely range from \$9.7 million to \$11.7 million. The contingent consideration is calculated based on a certain multiple of defined annual earnings targets as stated in the respective purchase agreements. In addition, we may pay additional consideration of up to \$3.2 million related to our acquisition of DSI if certain contract milestones are achieved. As of December 31, 2005, approximately \$2.5 million additional consideration has been earned related to the contract milestones achieved by DSI of which \$2.0 million has been paid and \$0.5 million has been accrued as additional consideration based on the attainment of certain milestones.

Any amounts earned by shareholders of those acquired companies for which there were no continuous employment clauses will result in additional goodwill recorded for those acquisitions when the earn-out consideration is earned.

In connection with future acquisitions, we may agree to make additional payments to sellers contingent upon achievement of performance milestones by the acquired entities.

On March 16, 2005, we entered into a credit agreement with KeyBank National Association (“KeyBank”) to provide a \$15 million senior credit facility. KeyBank is designated as the sole arranger and sole book manager. The facility has a 3-year term and can be expanded to a \$60 million facility. The Company intends to use the facility to fund acquisitions. At December 31, 2005, we did not have any borrowings drawn on our line of credit. As of March 30, 2006, we have drawn \$7.0 million on this line for purposes of paying the acquisition earn-out payments of \$6.8 million in the first quarter of 2006.

The following table summarizes our currently existing contractual obligations and other commitments at December 31, 2005, and the effect such obligations could have on our liquidity and cash flow in future periods (in millions):

	<u>Total</u>	<u>Payments due by Period</u>			<u>More than 5 years</u>
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	
Capital leases	\$ 0.2	\$ 0.1	\$ 0.1	\$ —	\$ —
Operating leases	23.9	5.4	9.7	7.2	1.6
	\$ 24.1	\$ 5.5	\$ 9.8	\$ 7.2	\$ 1.6

Other than our normal recurring trade payables, expense accruals, accrued earn-out liabilities and operating and capital leases which are currently expected to be funded through existing working capital and future cash flows from operations, we have no other material cash commitments. Aside from these recurring operating expenses, future capital expenditures and overall expansion including potential future acquisitions, our future capital needs will depend upon many factors, including the timing of payments under existing contracts and technology requirements within the wireless telecommunications industry. Other future cash requirements may include the payment of certain tax contingencies, as discussed in Note 15 of our consolidated financial statements and potential future acquisitions. We continue to evaluate and use new technology including electronic equipment and software in our business operations. Additional capital expenditures may be required as deemed necessary, in order to stay competitive and effectively service our customers.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R. SFAS No. 123R requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the equity instrument. The grant date fair value is recognized as compensation expense over the vesting period of the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. The Company has not completed its analysis of the estimated impact of adopting the provisions of SFAS No. 123R. This Statement is effective for interim or annual reporting periods beginning after June 15, 2005 (January 1, 2006 for the Company).

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

On March 29, 2005, the SEC issued Staff Accounting bulletin No. 107 (SAB 107) regarding the Staff's interpretation of SFAS No. 123R. This SAB provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R and disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations subsequent to the adoption of SFAS No. 123R. The Company will adopt SAB 107 in connection with its adoption of SFAS No. 123R in the first quarter of 2006.

In December 2004 the FASB issued Statement of Financial Accounting Standards No. 153 "Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29." The amendments made

by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 153 will have a material impact on its operating results and its financial position.

In May 2005, the FASB issued Statement of Financial Standard No. 154, "Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was affected by a change in accounting principle, and (2) correction of errors in previously issued financial statements shall be termed a "restatement." SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe the adoption of SFAS No. 154 will have a material impact on its operating results and its financial position.

Related Party Transactions

For detailed information regarding related party transactions, see Notes 14 and 18 to our consolidated financial statements.

Item 7A. 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 in our Mexican, Argentinean, Indian, 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 Mexican, Argentinean, Indian, Brazilian 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 December 31, 2005, our Mexican, Argentinean, Indian, 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 \$12.7 million, \$2.3 million, \$0.3 million, \$12.2 million and \$13.0 million, respectively. The potential foreign currency translation losses from a hypothetical 10% adverse change in the exchange rates from the net liability positions at December 31, 2005 were approximately \$1.3 million, \$0.2 million, zero, \$1.2 million and \$1.3 million for the Mexican, Argentinean, Indian, Brazilian and European subsidiaries, respectively. In the event that the functional currency of China does not continue to be based on the U.S. dollar, we may be exposed to foreign currency fluctuations due to the activities of our corporate resource center in China.

In addition, we estimate that an immediate 10% change in foreign exchange rates would impact reported net income or loss by approximately \$1.2 million for the year ended December 31, 2005. 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 December 31, 2005 were \$12.9 million and are primarily invested in money market interest bearing accounts. A hypothetical 10% adverse change in the average interest rate on our money market cash investments and short-term investments would have had no material effect on

net income for the year ended December 31, 2005. We currently do not utilize any derivative financial instruments to hedge interest rate risks.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is included in Part IV Item 15(a)(1) and (2) of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

1) Disclosure 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, (the “Exchange Act”) 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 Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision of, and with the participation of, our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, (as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e)), as they existed on December 31, 2005. In light of material weaknesses in our internal control over financial reporting as of December 31, 2005, which are discussed below, and the fact that this Annual Report on Form 10-K was not filed within the time limits prescribed by the Exchange Act, our Principal Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable level in a timely manner alerting them to material information that is required to be included in our periodic filing with the Securities and Exchange Commission as of December 31, 2005.

2) Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, principal executive officers and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework). Based on this evaluation, our management identified material weaknesses in our internal control over financial reporting as of December 31, 2005 as described below. A material weakness is defined in Public Company Accounting Oversight Board Standard No. 2 as a significant deficiency, or combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As described in more detail in “Changes in Internal Control Over Financial Reporting” below, we have restated our previously issued unaudited consolidated financial statements for the quarters ended July 1, 2005 and September 30, 2005, to reflect the accounting impact of site cancellations by a customer of our Mexico operations during those quarters. The Public Company Accounting Oversight Board’s auditing standards provide that a restatement is a strong indicator of a material weakness.

Based on its assessment, management concluded that the restatement resulted from a material weakness in our internal controls over financial reporting. In particular, the Company’s entity level controls surrounding the control environment at the Mexico subsidiary and the timely and accurate

communication of information to executive management were not operating effectively. As a result of this deficiency, a material error in the Company's interim financial statements for the second and third quarters of 2005 related to the accounting for site cancellations during those quarters occurred and was not detected. Accordingly, we concluded that the most appropriate way to correct these errors was to restate previously issued unaudited interim consolidated financial statements. The correction of this misstatement resulted in a reduction of \$4.8 million in revenues and \$1.3 million in net income for the combined prior two quarters. The full year impact of these revisions has been reflected in discontinued operations in this Annual Report as this business has been discontinued. As a result of the restatement and the fact that the full transaction details that led to the restatement were not discovered until after our fiscal year end as well as the lack of time available to assess the operating effectiveness of entity level controls that were remediated during the fourth quarter of 2005, management has concluded that this control deficiency constitutes a material weakness in internal control over financial reporting on the basis that there is more than a remote likelihood that a material misstatement in our interim or annual financial statements due to errors in the accounting treatment related to canceled sites could occur and would not be prevented or detected by our internal control over financial reporting.

In connection with management's assessment of internal control over financial reporting as of December 31, 2005, management also concluded that a material weakness in internal control over financial reporting existed because we were unable to recruit and retain a sufficient number of finance and accounting personnel to support compliance with our financial reporting requirements. Specifically, due to attrition of key positions such as the Corporate Controller position as well as vacancies of other key positions, and the difficult labor market in which the pool of qualified and experienced candidates is limited, we were unable to permanently fill key positions in a timely manner, but we were able to supplement in part by the services of outside consultants to support our internal control objectives. We intend to continue to actively recruit and hire additional accounting personnel to meet these requirements. The personnel shortages were further complicated by a large volume of non-routine, and complex transactions. As a result of this weakness, we have made adjustments to our previously published unaudited operating results for the quarter and year ended December 31, 2005 in our earnings release and our Current Report on Form 8-K. Specifically, we reported that our income from continuing operations for the year ended December 31, 2005 was \$11.7 million, which should have been \$11.4 million; our loss from discontinued operations for the quarter and year ended December 31, 2005 which were reported as \$5.0 million and \$2.8 million, respectively, should have been reported as \$9.9 million and \$7.7 million, respectively; we reported a net loss of \$3.4 million for the quarter ended December 31, 2005, which should have been \$8.4 million, and we reported net income of \$8.9 million for the year ended December 31, 2005 which should have been \$3.7 million. The differences from the reported numbers were substantially all related to our discontinued operations in Mexico, and were primarily related to non-cash adjustments including an impairment charge for deferred tax assets of our discontinued operation as well as an impairment charge resulting from accumulated foreign currency translation losses. These adjustments were primarily triggered as a result of our disposal of our Mexican operation.

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

Conclusion

Our management has discussed the material weaknesses described above with our audit committee. Because of these material weaknesses, management has concluded that our company did not maintain effective internal control over financial reporting as of December 31, 2005, based on the COSO Framework.

Grant Thornton LLP, an independent registered public accounting firm, has audited management's assessment of the Company's internal control over financial reporting as stated in its report which appears below in Item 9A(4).

3) Changes in Internal Control Over Financial Reporting

During the three months ended September 30, 2005, we identified the following conditions that indicated that our internal control over financial reporting and our disclosure controls and procedures in certain of our Latin American operations were not effective and required improvements due to the following deficiencies: (i) contracts: a thorough review of all existing contractual documents was required to ensure that we have the proper formal contractual documentation necessary to support the project estimate at completion computation, and (ii) project costs: additional procedures were required to ensure that certain expenditures have been properly classified as project direct costs.

To address the control deficiencies and required improvements to the entity level control environment in certain of our Latin American operations identified in the third quarter of 2005, we implemented additional review and approval procedures and replaced several managers in our Latin American operations.

During the fourth quarter of 2005, shortly after we made the change in management of these operations, information that in June, July and August of 2005, a customer in Mexico had canceled sites that the Mexico subsidiary was building was brought for the first time to the attention of our executive management team who then commenced an investigation and analysis of such information under the oversight of the Audit Committee. Although we had an agreement with our customer to build these sites, the terms and conditions of the agreement did not provide for recovery by us of costs incurred on in-process sites in the event of site cancellation, unless agreed to by the customer. During the in-depth review of this matter by our executive management team, it was discovered that the information concerning these sites, as reported by the former managers of these operations, was inconsistent with facts revealed in documents discovered by executive management conducting the investigation. Also during the investigation, it became apparent that certain former managers had, in prior 2005 interim periods, reported the status of the cancelled sites to executive management in a manner which was inconsistent with the documents in possession of the former managers.

On March 10, 2006, at the conclusion of this investigation and analysis, we determined that the unrecoverable costs associated with the cancelled sites should have been recognized in the second and third fiscal quarters of 2005. As a result, we have filed amendments to our previously filed Quarterly Reports on Form 10-Q for the quarters ended July 1, 2005 and September 30, 2005 to effect revisions reflecting the appropriate recognition of the unrecoverable costs in those periods. As mentioned above, management has determined that these required revisions resulted from a material weakness in the entity level control environment at our Mexican subsidiary. In addition to the management changes made as a result of the control deficiencies noted in the third quarter of 2005, management also engaged external consultants to assist in the evaluation and remediation of all deficiencies in the internal control structure at the Mexico subsidiary in the third and fourth quarters of 2005. Management believes that all transaction level control deficiencies were remediated and tested for operating effectiveness successfully by December 31, 2005. However, because of the lack of time available to assess the operating effectiveness of the remediated entity level controls and the fact the full transaction details that led us to restate previously issued financial statements were not discovered until after our fiscal year end, management has concluded that a material weakness in entity level internal controls at the Mexico subsidiary existed as of December 31, 2005. As a result of all the measures undertaken by the Company to remediate the third and fourth quarter deficiencies as discussed above, as well as the additional analyses and other post-closing procedures performed by management and our external consultants through February 17, 2006, when we entered into an Equity Purchase Agreement to sell all of the stock of the Mexico operations, we have concluded that the material weakness described above was fully remediated as of February 17, 2006.

The Principal Executive Officer and Principal Financial Officer have concluded that, other than the specific changes identified in this Item 9A, there have been no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

4) Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Wireless Facilities, Inc.

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting," that Wireless Facilities, Inc. (the Company) and its subsidiaries did not maintain effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Wireless Facilities, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment as of December 31, 2005:

During the fourth quarter of 2005, Company management was made aware that cancellation notices were received in June, July and August 2005 by the Company's subsidiary in Mexico on a

significant contract. The Company discovered that the information concerning these sites, as reported by the former managers of these operations, was inconsistent with facts revealed in documents discovered by executive management. It became apparent that certain former managers had, in prior periods, reported the status of the cancelled sites to executive management in a manner which was inconsistent with the documents in possession of the former managers. This ineffective communication in Mexico resulted in material errors in the recognition of revenues for the quarters ended June 30, 2005 and September 30, 2005.

The volume of routine and non-routine transactions entered into by the Company has continued to grow. Additionally, the Company has a number of complex accounting issues, including; discontinued operation of foreign subsidiaries, contingent consideration, deferred tax asset valuation, and accounting for claims and change orders; which all require specialized skills and place increased burdens on the financial and accounting staff. The Company has had difficulty in retaining and recruiting a sufficient number of finance and accounting personnel to support compliance with all of its financial reporting requirements. Significant adjustments were required to the Company's previously published unaudited operating results for the year ended December 31, 2005. We believe that since the Company does not presently have sufficient resources in its accounting and finance departments to adequately monitor significant, non-routine, and certain routine transactions and to implement and maintain adequate controls there is a material weakness in the Company's internal control structure.

In our opinion, management's assessment that Wireless Facilities, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, because of the effects of the material weakness described above, Wireless Facilities, Inc. has not maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Wireless Facilities, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2005, and our report dated March 30, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ Grant Thornton LLP
Irvine, California
March 30, 2006

Item 9B. Other Information

On March 28, 2006, the Company amended and restated its Change in Control Agreements with Deanna Lund, the Company's Senior Vice President and Chief Financial Officer and James R. Edwards, the Company's Senior Vice President and General Counsel to provide (i) a severance payment of two years of such employee's base salary plus the employee's maximum bonus amount for that period in the event of termination or resignation as a result of certain triggering events and (ii) a severance payment of one year of such employee's base salary in the event the employee is terminated without cause, plus a vesting of all unvested stock options and stock appreciation rights.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this item is incorporated by reference to the information under the captions “Election of Directors”, “Compliance with Section 16(a) of the Exchange Act” and “Code of Ethics” of the Registrant’s Proxy Statement, which we will file with the SEC within 120 days after the end of fiscal 2005.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the information under the caption “Executive Compensation” of the Registrant’s Proxy Statement, which we will file with the SEC within 120 days after the end of fiscal 2005.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference to the information under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” of the Registrant’s Proxy Statement, which we will file with the SEC within 120 days after the end of fiscal 2005.

Item 13. *Certain Relationships and Related Transactions*

The information required by this item is incorporated by reference to the information under the caption “Certain Relationships and Related Transactions” of the Registrant’s Proxy Statement, which we will file with the SEC within 120 days after the end of fiscal 2005.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to the information under the caption “Fees Paid to Grant Thornton LLP and KPMG LLP” of the Registrant’s Proxy Statement, which we will file with the SEC within 120 days after the end of fiscal 2005.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

(1) Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2004 and 2005

Consolidated Statements of Operations for the Years Ended December 31, 2003, 2004 and 2005

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2003, 2004 and 2005

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2004 and 2005

Notes to Consolidated Financial Statements

(2) Schedule II: Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) Exhibits

Exhibit Number	Description of Document
2.1	Agreement of Plan of Reorganization by and among Wireless Facilities, Inc., WFI Government Services, Inc., Horseshoe Merger Sub, Inc., High Technology Solutions, Inc. and the major holders of High Technology Solutions, Inc., dated as of December 22, 2003.(5)
2.2	Stock Purchase Agreement by and among the Company, JMA Associates, Inc. d/b/a TLA Associates, and the Stockholders of JMA Associates, Inc., dated as of January 27, 2005.(7)
2.3	Equity Purchase Agreement, dated February 17, 2006, by and between Sakoki LLC and the Company.(12)
3.1	Amended and Restated Certificate of Incorporation.(3)
3.2	Bylaws in effect since November 5, 1999.(1)
3.3	Certificate of Designations, Preferences and Rights of Series A Preferred Stock.(3)
3.4	Certificate of Designations, Preferences and Rights of Series B Preferred Stock.(8)
3.5	Certificate of Designation of Series C Preferred Stock.(9)
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Specimen Stock Certificate.(1)
4.3	Rights Agreement, dated as of December 16, 2004, between the Company and Wells Fargo, N.A.(9)
10.1	1997 Stock Option Plan.(1)
10.2	Form of Stock Option Agreement pursuant to the 1997 Stock Option Plan and related terms and conditions.(1)

- 10.3 1999 Equity Incentive Plan.(1)
- 10.4 Form of Stock Option Agreement pursuant to the 1999 Equity Incentive Plan.(1)
- 10.5 1999 Employee Stock Purchase Plan and related offering documents.(1)
- 10.10 Form of Indemnity Agreement by and between the Company and certain officers and directors of the Company.(1)
- 10.14 Form of Warrant Agreement by and between the Company and each of Scott Anderson and Scot Jarvis dated as of February 28, 1997.(1)
- 10.15 Form of Subscription and Representation Agreement by and between the Company and each of Scott Anderson and Scot Jarvis dated as of February 28, 1997.(1)
- 10.16 Form of Warrant Agreement by and between the Company and each of Scott Anderson and Scot Jarvis dated as of February 1, 1998.(1)
- 10.33 2000 Nonstatutory Stock Option Plan.(2)
- 10.34 Form of Stock Option Agreement and Grant Notice used in connection with the 2000 Nonstatutory Stock Option Plan.(2)
- 10.40 Technical Services Subcontract Agreement by and between the Company and Bechtel Corporation dated as of February 8, 2002. (4)‡
- 10.43 Executive Employment Agreement by and between the Company and Eric DeMarco effective November 14, 2003.(6)
- 10.44 Nonqualified Deferred Compensation Plan.(13)
- 10.45 Severance Agreement dated March 28, 2006 between the Company and Deanna Lund.*
- 10.46 Severance Agreement dated March 28, 2006 between the Company and James Edwards.*
- 10.47 2005 Equity Incentive Plan.(11)
- 10.48 Form of Stock Option Agreement pursuant to the 2005 Equity Incentive Plan.(11)
- 10.49 Credit Agreement, dated as of March 16, 2005, by and among Wireless Facilities, Inc., Keybank National Association and Keybank Capital Markets.*
- 21.1 List of subsidiaries.(6)
- 23.1 Consent of Independent Registered Public Accounting Firm.*
- 23.2 Consent of Independent Registered Public Accounting Firm.*
- 24.1 Power of Attorney.(6)
- 31.1 Certification of Chief Executive Officer, Eric M. DeMarco, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.*
- 31.2 Certification of Chief Financial Officer, Deanna Lund, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.*

- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Eric M. DeMarco.*
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Deanna Lund.*
-

- (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 30, 2000, filed on November 14, 2000 and incorporated herein by reference.
- (3) Filed as an exhibit to the Company's Report on Form 8-K filed on October 11, 2001 and incorporated herein by reference.
- (4) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed on August 13, 2002 and incorporated herein by reference.
- (5) Filed as an exhibit to the Company's report on Form 8-K, filed on January 16, 2004 and incorporated herein by reference.
- (6) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 8, 2004 and incorporated herein by reference.
- (7) Filed as an exhibit to the Company's Report on Form 8-K filed on February 2, 2005 and incorporated herein by reference.
- (8) Filed as an exhibit to the Company's Report on Form 8-K/A filed on June 5, 2002 and incorporated herein by reference.
- (9) Filed as an exhibit to the Company's Report on Form 8-K filed on December 17, 2004 and incorporated herein by reference.
- (10) Filed as an exhibit to the Company's Report on Form 8-K filed on November 18, 2004 and incorporated herein by reference.
- (11) Filed as an exhibit to the Company's Registration Statement of Form S-8 (No. 333-127060) filed on August 1, 2005 and incorporated herein by reference.
- (12) Filed as an exhibit to the Company's Report on form 8-K filed on February 23, 2006 and incorporated herein by reference.

* Filed herewith.

† Certain confidential matters deleted pursuant to Order Granting Application for Confidential Treatment, issued in connection with the Registration Statement on Form S-1 (No. 333-85515) dated November 10, 1999.

‡ Certain confidential matters deleted pursuant to Order Granting Application for Confidential Treatment pursuant to rule 14b-2 under the Securities Exchange Act of 1934 dated August 13, 2002.

Certain confidential matters deleted pursuant to Order Granting Application for Confidential Treatment pursuant to rule 14b-2 under the Securities Exchange Act of 1934 dated November 13, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 3, 2006

Wireless Facilities, Inc.

By: /s/ ERIC M. DEMARCO

Eric M. DeMarco
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ERIC M. DEMARCO</u> Eric M. DeMarco	President and Chief Executive Officer	April 3, 2006
<u>/s/ MASOOD K. TAYEBI, PH.D</u> Masood K. Tayebi, Ph.D	Chairman and Director	April 3, 2006
<u>/s/ DEANNA H. LUND</u> Deanna H. Lund	Senior Vice President, Chief Financial Officer and Principal Accounting Officer	April 3, 2006
<u>/s/ SCOTT ANDERSON</u> Scott Anderson	Director	April 3, 2006
<u>/s/ BANDEL CARANO</u> Bandel Carano	Director	April 3, 2006
<u>/s/ SCOT JARVIS</u> Scot Jarvis	Director	April 3, 2006
<u>/s/ WILLIAM HOGLUND</u> William Hogleund	Director	April 3, 2006
<u>/s/ ANDREW M. LEITCH</u> Andrew M. Leitch	Director	April 3, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Wireless Facilities, Inc.

We have audited the accompanying consolidated balance sheet of Wireless Facilities, Inc. and subsidiaries (the Company) as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Wireless Facilities, Inc. and subsidiaries as of December 31, 2005, and the results of their consolidated operations and their cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II attached to the consolidated financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Wireless Facilities, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 30, 2006 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

/s/ Grant Thornton LLP

Irvine, California
March 30, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wireless Facilities, Inc.:

We have audited the accompanying consolidated balance sheet of Wireless Facilities, Inc. and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2003. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule II for the years ended December 31, 2004 and 2003. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wireless Facilities, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2003, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement Schedule II for the years ended December 31, 2004 and 2003, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

San Diego, California

March 24, 2005, except for

Note 3(c), which is as of March 30, 2006

WIRELESS FACILITIES, INC.

Consolidated Balance Sheets

December 31, 2004 and 2005

(in millions, except par value and number of shares)

	<u>2004</u>	<u>2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 52.0	\$ 12.9
Short-term investments	7.6	—
Accounts receivable, net	99.4	109.6
Prepaid expenses	2.9	2.3
Employee loans and advances	0.6	0.4
Deferred tax asset	1.0	—
Other current assets	2.2	4.6
Current assets of discontinued operations	40.7	46.7
Total current assets	<u>206.4</u>	<u>176.5</u>
Property and equipment, net	12.5	14.6
Goodwill	82.6	119.9
Other intangibles, net	6.4	7.4
Deferred tax assets	16.4	13.2
Investments in unconsolidated affiliates	2.1	2.1
Other assets	0.6	0.9
Non current assets of discontinued operations	3.7	1.7
Total assets	<u>\$ 330.7</u>	<u>\$ 336.3</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 26.9	\$ 22.9
Accrued expenses	5.9	18.0
Accrued compensation	13.2	13.0
Accounts payable—related party	1.0	0.8
Billings in excess of costs on completed contracts	7.6	4.3
Deferred tax liabilities	—	0.9
Tax contingencies	1.7	1.8
Accrual for contingent acquisition consideration	14.5	8.2
Accrual for unused office space	0.9	0.5
Income taxes payable	3.5	2.0
Capital lease obligations and other short-term debt	0.2	0.3
Current liabilities of discontinued operations	31.3	30.1
Total current liabilities	<u>106.7</u>	<u>102.8</u>
Capital lease obligations and debt, net of current portion	—	0.4
Accrual for unused office space, net of current portion	1.7	1.2
Other liabilities	1.3	1.3
Other long term liabilities of discontinued operations	0.3	0.3
Total liabilities	<u>110.0</u>	<u>106.0</u>
Commitments and contingencies (Notes 1, 5, 15 and 16)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized Series B Convertible Preferred Stock, \$.001 par value, 25,483 shares outstanding at December 31, 2004 and 2005 (liquidation preference \$12.7)	—	—
Common stock, \$.001 par value, 195,000,000 shares authorized; 71,103,301 and 72,188,449 shares issued and outstanding at December 31, 2004 and 2005, respectively	0.1	—
Additional paid-in capital	319.8	324.9
Accumulated deficit	(95.4)	(91.7)
Accumulated other comprehensive loss	(3.8)	(2.9)
Total stockholders' equity	<u>220.7</u>	<u>230.3</u>
Total liabilities and stockholders' equity	<u>\$ 330.7</u>	<u>\$ 336.3</u>

See accompanying notes to consolidated financial statements.

WIRELESS FACILITIES, INC.
Consolidated Statements of Operations
Years ended December 31, 2003, 2004 and 2005
(in millions, except per share amounts)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues	\$ 228.5	\$ 334.2	\$ 375.3
Cost of revenues	161.9	263.0	291.0
Gross profit	<u>66.6</u>	<u>71.2</u>	<u>84.3</u>
Selling, general and administrative expenses	52.8	59.2	69.3
Contingent acquisition consideration and restatement fees	—	13.9	(2.1)
Other asset impairment and other charges, net	0.1	—	—
Operating income (loss)	<u>13.7</u>	<u>(1.9)</u>	<u>17.1</u>
Other income (expense):			
Interest income, net	0.8	0.2	0.1
Foreign currency gain (loss)	(0.3)	0.3	(0.2)
Impairment of investment in unconsolidated affiliate and other expenses, net	<u>(0.3)</u>	<u>(2.9)</u>	<u>(0.2)</u>
Total other income (expense)	<u>0.2</u>	<u>(2.4)</u>	<u>(0.3)</u>
Income (loss) from continuing operations before income taxes	<u>13.9</u>	<u>(4.3)</u>	<u>16.8</u>
Provision (benefit) for income taxes	<u>(0.4)</u>	<u>0.1</u>	<u>5.4</u>
Income (loss) from continuing operations	<u>14.3</u>	<u>(4.4)</u>	<u>11.4</u>
Income (loss) from discontinued operations	<u>(4.8)</u>	<u>9.4</u>	<u>(7.7)</u>
Net income	<u>\$ 9.5</u>	<u>\$ 5.0</u>	<u>\$ 3.7</u>
Net income (loss) from continuing operations			
Basic	\$ 0.21	(\$0.07)	\$ 0.15
Diluted	\$ 0.20	(\$0.07)	\$ 0.15
Income (loss) from discontinued operations			
Basic	\$ (0.07)	\$ 0.14	\$ (0.10)
Diluted	\$ (0.07)	\$ 0.14	\$ (0.10)
Net income, per share			
Basic	\$ 0.14	\$ 0.07	\$ 0.05
Diluted	\$ 0.13	\$ 0.07	\$ 0.05
Weighted average common shares outstanding:			
Basic	68.4	67.7	74.0
Diluted	73.3	67.7	75.3

See accompanying notes to consolidated financial statements.

WIRELESS FACILITIES, INC.
Consolidated Statements of Stockholders' Equity
Years ended December 31, 2003, 2004 and 2005
(in millions)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2002	0.2	—	48.8	—	\$ 266.6	\$ (109.9)	\$ (3.0)		\$ 153.7
Conversion of Series A convertible preferred stock	(0.1)	—	7.0	—	—	—	—		—
Exercise of stock options	—	—	6.4	0.1	27.8	—	—		27.9
Issuance of common stock under employee stock purchase plan	—	—	0.4	—	1.5	—	—		1.5
Employee stock compensation	—	—	—	—	6.3	—	—		6.3
Employee note receivable	—	—	—	—	0.1	—	—		0.1
Tax benefit from exercise of stock options	—	—	—	—	7.3	—	—		7.3
Net income	—	—	—	—	—	9.5	—	9.5	9.5
Foreign currency translation loss	—	—	—	—	—	—	(1.0)	(1.0)	(1.0)
Total comprehensive loss	—	—	—	—	—	—	—	8.5	8.5
Balance, December 31, 2003	0.1	—	62.6	\$ 0.1	\$ 309.6	\$ (100.4)	\$ (4.0)		\$ 205.3
Conversion of Series B convertible preferred stock	(0.1)	—	6.4	—	—	—	—		—
Exercise of stock options	—	—	1.5	—	7.3	—	—		7.3
Issuance of common stock under employee stock purchase plan	—	—	0.6	—	3.4	—	—		3.4
Employee stock compensation	—	—	—	—	0.2	—	—		0.2
Adjustment of tax benefit from exercise of stock options	—	—	—	—	(0.7)	—	—		(0.7)
Net income	—	—	—	—	—	5.0	—	5.0	5.0
Foreign currency translation gain	—	—	—	—	—	—	0.2	0.2	0.2
Total comprehensive income	—	—	—	—	—	—	—	5.2	5.2
Balance, December 31, 2004	—	—	71.1	\$ 0.1	\$ 319.8	\$ (95.4)	\$ (3.8)		\$ 220.7
Exercise of stock options	—	—	0.6	(0.1)	2.7	—	—		2.6
Issuance of common stock under employee stock purchase plan	—	—	0.5	—	2.3	—	—		2.3
Employee stock compensation	—	—	—	—	0.1	—	—		0.1
Net income	—	—	—	—	—	3.7	—	3.7	3.7
Foreign currency translation loss	—	—	—	—	—	—	0.9	0.9	0.9
Total comprehensive income	—	—	—	—	—	—	—	4.6	4.6
Balance, December 31, 2005	—	—	72.2	\$ —	\$ 324.9	\$ (91.7)	\$ (2.9)		\$ 230.3

See accompanying notes to consolidated financial statements.

WIRELESS FACILITIES, INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2003, 2004 and 2005
(in millions)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating activities:			
Income (loss) from continuing operations	\$ 14.3	\$ (4.4)	\$ 11.4
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by continuing operations:			
Depreciation and amortization	9.1	7.2	8.0
Provision (credit) for doubtful accounts	0.6	(0.7)	0.5
Asset impairment charges and net loss on disposition of assets	2.3	0.2	0.7
Deferred income taxes	1.0	(1.4)	5.5
Equity loss in unconsolidated affiliates	0.1	3.1	—
Tax benefit (provision) from stock options	7.3	(0.7)	—
Stock compensation	6.3	0.2	0.1
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(8.9)	(21.2)	(2.9)
Prepaid expenses	(0.1)	(0.6)	0.9
Other assets	1.0	(0.5)	(2.3)
Accounts payable	(0.6)	13.4	(4.9)
Accrued expenses	1.3	(7.4)	9.6
Tax contingencies	0.5	(1.2)	0.4
Accrual for contingent acquisition consideration and working capital adjustment	3.8	14.4	(2.1)
Accounts payable—related party	—	1.0	—
Billings in excess of costs on completed contracts	(1.7)	(1.0)	(3.3)
Accrual for unused office space	(5.4)	(1.0)	(0.9)
Income tax payable	(11.6)	2.1	(1.5)
Other liabilities	1.7	(0.2)	(0.1)
Net cash provided by continuing operations	<u>21.0</u>	<u>1.3</u>	<u>19.1</u>
Investing activities:			
Purchase of short-term investments	(37.3)	—	—
Sale/maturity of short-term investments	2.2	27.5	7.6
Investment in unconsolidated subsidiary	—	(1.0)	—
Cash paid for contingent acquisition consideration	—	(8.3)	(17.1)
Cash paid to acquire businesses, net of cash received	(10.9)	(53.9)	(33.6)
Capital expenditures	(7.0)	(7.7)	(8.0)
Net cash used in investing activities from continuing operations	<u>(53.0)</u>	<u>(43.4)</u>	<u>(51.1)</u>
Financing activities:			
Proceeds from issuance of common stock	29.4	7.3	2.6
Issuance of common stock under employee stock purchase plan	1.5	3.4	2.4
Repayment of capital lease obligations	(2.5)	(0.5)	(0.4)
Repayment of notes payable	(0.7)	—	—

WIRELESS FACILITIES, INC.
Consolidated Statements of Cash Flows (Continued)
Years ended December 31, 2003, 2004 and 2005
(in millions)

Net cash provided by financing activities	27.7	10.2	4.6
Cash flows of discontinued operations (Revised—see Note 1(s))			
Operating cash flows	(15.4)	7.4	(11.8)
Investing cash flows	(0.4)	(0.2)	(1.0)
Financing cash flows	—	—	—
Net cash flows of discontinued operations	<u>(15.8)</u>	<u>7.2</u>	<u>(12.8)</u>
Effect of exchange rate on cash and cash equivalents	(1.2)	(0.1)	1.1
Net decrease in cash and cash equivalents	<u>(21.3)</u>	<u>(24.8)</u>	<u>(39.1)</u>
Cash and cash equivalents at beginning of year	98.1	76.8	52.0
Cash and cash equivalents at end of year	<u>\$ 76.8</u>	<u>\$ 52.0</u>	<u>\$ 12.9</u>
Supplemental disclosure of cash flow information:			
Net cash received during the year for interest	\$ 1.0	\$ 0.2	\$ 0.2
Net cash (paid) during the year for income taxes	\$ (1.2)	\$ (0.9)	\$ (1.1)
Supplemental disclosures of non-cash investing and financing transactions:			
Fair value of assets acquired in acquisitions	\$ 20.1	\$ 62.1	\$ 40.0
Cash paid for acquisitions	(11.7)	(55.0)	(33.6)
Liabilities assumed in acquisitions	\$ 8.4	\$ 7.1	\$ 6.4
Fixed assets financed	—	—	\$ 0.6

See accompanying notes to consolidated financial statements.

WIRELESS FACILITIES, INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2003, 2004 and 2005

Note 1. Organization and Summary of Significant Accounting Policies

(a) Description of Business

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

(b) Principles of Consolidation

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

In 2003, the Company acquired three privately-held companies as part of its Enterprise Network Solutions segment (now Enterprise Network Services) that provides voice, data, security, system design, deployment, integration and monitoring for enterprise networks. In 2004, the Company acquired two privately-held companies as part of its Government Network Services segment that provides systems engineering, systems integration and the outsourcing of technical services such as operational test and evaluation and program management. In 2005, the Company acquired one privately-held company as part of its Government Network Services segment that provides services including network engineering, network infrastructure support, information assurance, application development, and managed services, including network maintenance and monitoring, to government agencies. See Note 5 for additional details regarding these acquisitions.

All inter-company transactions have been eliminated in consolidation. Investments in unconsolidated affiliates are accounted for using the cost method and equity method. The cost method is used for companies in which the Company owns less than 20% and for which the Company has no significant influence.

(c) Fiscal Calendar

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. The Company’s 52 week fiscal years consist of four equal quarters of 13 weeks each, and its 53 week fiscal years consist of three 13 week quarters and one 14 week quarter. The financial results for its 53 week fiscal years and its 14 week fiscal quarters will not be exactly comparable to its 52 week fiscal years and its 13 week fiscal quarters. However, the fiscal periods presented in this Annual Report on Form 10-K are comparable. 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, its 2004 fiscal year ended on December 31, 2004, however, its 2005 fiscal year ended on December 30, 2005, but we present its 2005 fiscal year as ending on December 31, 2005.

(d) Cash Equivalents and Short-Term Investments

The Company’s cash equivalents consist of its highly liquid investments with an original maturity of three months or less when purchased by the Company. At December 31, 2004, the Company’s short-term

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

investments consisted of corporate notes and bonds and U.S. government and agency securities. At December 31, 2005, the Company did not have any short-term investments. 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 and board-approved investment policy and its ability to liquidate debt securities maturing after one year, 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 within the caption "Accumulated Other Comprehensive 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), net. 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). Interest and dividends on securities classified as available-for-sale are included in interest income. The cash and cash equivalents at December 31, 2005 were as follows (in millions):

	<u>December 31, 2005</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
	<u>Basis</u>	<u>Basis</u>
<i>Cash and cash equivalents:</i>		
Cash	\$ 7.9	\$ 7.9
Money market	5.0	5.0
Cash and cash equivalents	<u>\$ 12.9</u>	<u>\$ 12.9</u>
	<u>December 31, 2004</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
	<u>Basis</u>	<u>Basis</u>
<i>Cash and cash equivalents:</i>		
Cash	\$ 16.6	\$ 16.6
Money market	28.0	28.0
U.S. Government and agency securities	5.2	5.2
Corporate Securities	2.2	2.2
Cash and cash equivalents	<u>52.0</u>	<u>52.0</u>
<i>Short-term investments:</i>		
Corporate notes and bonds	6.3	6.3
U.S. Government and agency securities	1.3	1.3
Short-term investments	<u>7.6</u>	<u>7.6</u>
Cash and cash equivalents and short-term investments	<u>\$ 59.6</u>	<u>\$ 59.6</u>
Debt securities recorded at fair value, maturing:		
Within one year		\$ 7.6
After one year through five years		—
Debt securities recorded at fair value		<u>\$ 7.6</u>

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Net unrealized gains and realized gains recorded during the year ended December 31, 2004 and December 31, 2005 were immaterial.

(e) Inventory

Inventories are stated at the lower of cost or market and is included in other current assets in the accompanying balance sheets. Cost typically includes materials. The Company regularly reviews inventory quantities on hand, future purchase commitments with its suppliers, and the estimated utility of its inventory. If the Company review indicates a reduction in utility below carrying value, it reduces its inventory to a new cost basis.

(f) Property and Equipment, Net

Property and equipment consists primarily of computer, field testing and office-related equipment and is recorded at cost. Equipment acquired under capital leases is recorded at the present value of the future minimum lease payments. Depreciation is calculated using the straight-line method over the estimated useful life of each asset, which is one to three years for computer equipment, five years for furniture and office equipment, purchased software for the Company's enterprise system of ten years and fifteen years for the Company's Local Area Network infrastructure. Equipment acquired under capital leases is amortized over the shorter of the lease term or the estimated useful life of the asset. Improvements, which significantly improve and extend the useful life of an asset, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred.

(g) Goodwill and Other Intangible Assets, Net

Goodwill represents the excess of the purchase price over the fair value of net assets from acquired companies.

The Company typically engages a valuation consultant to assist in the determination of the carrying value and amortizable life of its intangible assets related to its acquisitions. The estimated useful life for its intangible assets is approximately two to eight years depending on the nature of the asset.

The Company adopted SFAS No. 142, on January 1, 2002. SFAS No. 142 superseded Accounting Principles Board Opinion No. 17, "Intangible Assets," and discontinued the amortization of goodwill and intangible assets with indefinite useful lives associated with purchase business combinations. In addition, SFAS No. 142 includes provisions regarding the reclassification between goodwill and identifiable intangible assets in accordance with the new definition of intangible assets set forth in SFAS No. 141, "Business Combinations," the reassessment of the useful lives of existing finite-life intangible assets, and the annual testing for impairment of existing goodwill and other intangible assets with indefinite lives. In accordance with the adoption of SFAS No. 142 on January 1, 2002, the Company ceased the amortization of goodwill, and completed the required transitional impairment test. The Company also re-evaluated the classifications of its existing intangible assets and goodwill in accordance with SFAS No. 141. In accordance with SFAS No. 142, the Company conducts, at a minimum, an annual impairment test of goodwill in the fourth quarter of each fiscal year, or earlier if triggering events or circumstances warrant an accelerated review for potential impairment.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

(h) Revenue Recognition

The Company provides services for three primary types of contracts: fixed-price long-term turnkey; time and materials; and contract management and out of pocket reimbursables. The Company realizes a significant portion of its revenue from long-term contracts and accounts for these contracts under the provisions of Statement of Position (SOP) 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Revenue on fixed-price contracts is recognized using the percentage-of-completion method of accounting based on the ratio of total costs incurred to date compared to estimated total costs to complete the contract. Estimates of costs to complete include materials, direct labor, overhead, and allowable general and administrative expenses (for 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 financial reporting period depends on (1) the costs the Company has incurred for individual projects, (2) the Company's then current estimate of the total remaining costs to complete the individual projects and (3) current estimated contract value associated with the projects. In the Company's wireless network services business, the estimated contract value and costs are impacted by the estimated number and mix of site types that we may be assigned. If, in any period, we significantly increase or decrease its estimate of the total costs to complete a project, and/or reduce or increase the associated contract value, revenue for that period would be impacted. To the extent that the Company's estimates fluctuate over time or differ from actual results, gross margins in subsequent periods may vary significantly from its estimates. Material differences may result in the amount and timing of the Company's revenue for any period if management made different judgments or utilized different estimates. In the event the Company is unable to provide reliable cost estimates on a given project, the Company records revenue on the completed contract method. There are no contracts for which the Company utilized the completed contract method in 2005.

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 agreements are typically segmented into multiple projects to account for revenue under the guidelines of SOP 81-1. These contractual arrangements with the Company's customers typically include milestone billings. The milestone billing clauses relate specifically to the timing of customer billings and payment schedules, and are independent of the Company's right to payment and the timing of when revenue is recognized. Under the terms of substantially all of the Company's contracts, if a contract is terminated without proper cause by the customer, if the customer creates unplanned/unreasonable time delays, or if the customer modifies the contract tasks/scope, the Company has contractual rights to reimbursement in accordance with the terms and conditions regarding payment for work performed, but not yet billed (i.e., unbilled trade accounts receivable) at a gross profit margin that is consistent with the overall project margin. Furthermore, certain additional provisions compensate the Company for additional or excess costs incurred, whereby any scope reductions (i.e., reduction in original number of sites) or other

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

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. Total net unbilled accounts receivable at December 31, 2004 and 2005 were \$36.5 million and \$51.0 million, respectively. The Company periodically performs work under authorizations to proceed or work orders from its customers for which a formal purchase order may not be received until after the work has commenced. As of December 31, 2005, approximately \$14.1 million of the Company’s unbilled accounts receivable balance were under unapproved change orders or claims. Through March 30, 2006, approximately \$10.3 million was received in customer purchase orders related to these amounts, the majority of which has been invoiced to the customer. The Company expects that substantially all of the unbilled balances as of December 31, 2005 will be billed within one year as billing and performance milestones are achieved.

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

The Company’s government network services business with the U.S. government and prime contractors is generally performed under cost reimbursable plus fixed fee, fixed price or time and material contracts. Cost reimbursable contracts for the government provide for reimbursement of costs plus the payment of a fee, for which the fee is recorded as costs are incurred. Under fixed-price contracts, the Company agrees to perform certain work for a fixed price.

Under time and materials contracts, the Company is reimbursed for labor hours at negotiated hourly billing rates and is reimbursed for travel and other direct expenses at actual costs plus applied general and administrative expenses. Under certain of the Company’s contractual arrangements, the Company may also recognize revenue for out-of-pocket expenses in accordance with EITF 01-14 “Income Statement Characterization of Reimbursements Received for “Out-of-Pocket” Expenses Incurred.” Depending on the contractual arrangement, these expenses may be reimbursed with or without a fee.

Under certain of its contracts, the Company provides supplier procurement and material purchases for its customers. The Company records revenue on these arrangements on a gross or net basis in accordance with EITF 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent,” depending on the specific circumstances of the arrangement. The Company considers the following criteria, among others, for recording revenue on a gross or net basis:

- (1) Whether the Company acts as a principal in the transaction;
- (2) Whether the Company takes title to the products;
- (3) Whether the Company assumes risks and rewards of ownership, such as risk of loss for collection, delivery or returns;
- (4) Whether the Company serves as an agent or broker, with compensation on a commission or fee basis; and

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

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

(i) Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, which results in bad debt expense. Management periodically determines the adequacy of this allowance by evaluating the comprehensive risk profiles of all individual customer receivable balances including, but not limited to, the customer's financial condition and overall current economic conditions. Additionally, on certain contracts whereby the Company performs services for a prime/general contractor, a specified percentage of the invoiced trade accounts receivable may be retained by the customer until the project is completed. The Company periodically reviews all retainages for collectibility and records allowances for doubtful accounts when deemed appropriate, based on its assessment of the associated credit risks. Total retainages included in accounts receivable were \$1.4 million and \$1.7 million at December 31, 2004 and 2005, respectively. Changes to estimates of contract value are recorded as adjustments to revenue and not as a component of the allowance of doubtful accounts. Allowances for doubtful accounts on billed accounts receivable as of December 31, 2004 and December 31, 2005 were \$1.3 million and \$1.5 million, respectively.

(j) Income Taxes

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

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

In assessing the realizability of deferred tax assets, management considers, on a periodic basis, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. For U.S. purposes, the Company is in a cumulative book profit position as of December 31, 2004 and December 31, 2005, and consideration is given to future taxable income, including the reversal of temporary differences and 2006 projected taxable income, in evaluating the recoverability of its U.S. deferred tax assets and the corresponding valuation allowance related to the assets. Unlike the Company's U.S. tax position, its foreign operations are in a cumulative book loss position. Pursuant to the provisions of SFAS No. 109, "Accounting for Income Taxes," limited consideration is given to the Company's future foreign income in determining the recoverability of its foreign deferred tax assets and the related valuation allowance. Accordingly, management believes the current valuation allowance on deferred tax assets is sufficient and properly stated at December 31, 2005.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

(k) Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting as 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 only if the then current market price of the underlying stock exceeded the exercise price and 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."

Under SFAS No. 123, the weighted average fair value of stock options granted during 2003, 2004 and 2005 was \$9.95, \$8.49 and \$6.22 respectively, on the date of grant. The weighted average estimated fair values of shares granted under the Employee Stock Purchase Plan (see Note 10(c)) during 2003, 2004, and 2005 was \$6.01, \$6.00, and \$4.78 respectively. Fair value under SFAS No. 123 is determined using the Black-Scholes option-pricing model with the following assumptions:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Expected term:			
Stock options	3 years	4 years	4 years
Employee Stock Purchase plan	6 months	6 months	6 months
Interest rate	2.11%	3.43%	4.05%
Volatility	105%	96%	76%
Dividends	—	—	—

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Had compensation expense been recognized for stock-based compensation plans 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):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net income	\$ 9.5	\$ 5.0	\$ 3.7
Actual stock-based compensation expense included in net earnings	6.3	0.2	0.1
Total stock-based employee compensation expense determined under fair value based method for all awards	(20.7)	(16.3)	(42.8)
Pro forma net loss	\$ (4.9)	\$ (11.1)	\$ (39.0)
Earnings (loss) per common share:			
Basic—as reported	\$ 0.14	\$ 0.07	\$ 0.05
Basic—pro forma	\$ (0.07)	\$ (0.16)	\$ (0.53)
Diluted—as reported	\$ 0.13	\$ 0.07	\$ 0.05
Diluted—pro forma	\$ (0.07)	\$ (0.16)	\$ (0.53)
Weighted average shares:			
Basic—as reported	68.4	67.7	74.0
Basic—pro forma	68.4	67.7	74.0
Diluted—as reported	73.3	67.7	75.3
Diluted—pro forma	68.4	67.7	74.0

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

(l) Net Income per Common Share

The Company calculates net income per share in accordance with SFAS No. 128, "Earnings Per Share". Under SFAS No. 128, basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the reporting period. The increase in the expected term of stock options in 2004 is a result of an increase in the vesting period of new stock options granted by the Company. The Company adopted EITF No. 03-6 "Participating Securities and the Two-Class Method Under FASB Statement No. 128" on January 1, 2005. In accordance with EITF No. 03-6, the Company determined that its Series B Convertible Preferred Stock were participating securities and therefore required to be included in the weighted average basic shares if dilutive. Accordingly, all prior year amounts presented have been restated to conform to the current year presentation. Diluted net income per common share reflects the effects of potentially dilutive securities. Weighted average shares used to compute basic and diluted net income per share are presented below (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net income	\$ 9.5	\$ 5.0	\$ 3.7
Shares used in basic per share amounts:			
Weighted average common shares outstanding	68.4	67.7	74.0
Shares used in diluted per share amounts:			
Dilutive effect of stock options	4.9	—	1.3
Dilutive weighted average shares	73.3	67.7	75.3
Basic net income per share	\$ 0.14	\$ 0.07	\$ 0.05
Diluted net income per share	\$ 0.13	\$ 0.07	\$ 0.05
Anti-dilutive weighted shares from stock options excluded from calculation	1.5	8.0	7.4
Anti-dilutive weighted shares from preferred stock excluded from calculation	—	5.1	—
Average per share market value of common stock	\$ 10.57	\$ 9.80	\$ 6.33
Average outstanding stock option price per share	\$ 9.22	\$ 9.30	\$ 6.28

The 2004 dilutive weighted average shares does not include 8.0 million of dilutive effect of stock options and 5.1 million of dilutive effect of Series B convertible preferred stock as such shares were antidilutive.

(m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

On January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", it retains many of the fundamental provisions of SFAS No. 121, including the recognition and measurement of the impairment of long-lived assets to be held and used, and the measurement of long-lived assets to be disposed of by sale. Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

During the fourth quarter of fiscal 2003, the Company assessed the utilization of its project equipment and determined that certain equipment was idle and technologically impaired. These were primarily older assets which could no longer effectively nor efficiently be utilized on existing or upcoming domestic and international customer contracts. Due to the nature of this equipment and its dependence on current technology, the salvage value associated with such equipment was deemed to be nominal. Based on these combined facts and circumstances, the Company concluded that impairment existed and, therefore, recorded an impairment charge totaling \$2.2 million in the fourth quarter of 2003.

(n) Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires that fair values be disclosed for the Company's financial instruments. The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, income taxes receivable, accounts payable, accounts payable-related party, accrued expenses and income taxes payable approximate fair value due to the short-term nature of these instruments.

(o) Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income," establishes rules for the reporting of comprehensive income (loss) and its components. Comprehensive income (loss) for the years ended December 31, 2003, 2004 and 2005 includes net income (loss) and foreign currency translation adjustments.

(p) Foreign Currency Translation

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

(q) Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, short-term investments, trade accounts receivable and contract management receivables. At times, cash and short-term investment balances held in financial institutions are in excess of federally insured limits. The Company performs periodic evaluations of the relative credit standing of financial institutions and limits the amount of risk by selecting financial institutions with a strong relative credit standing.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

(r) 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. Such estimates include 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 on the deferred tax asset, accruals for partial self-insurance, contingencies and litigation and contingent acquisition consideration. In the future, the Company may realize actual results that differ from the current reported estimates and if the estimates that we have used change in the future, such changes could have a material impact.

(s) Reclassifications

The accompanying statements of cash flows separately reflect the operating, investing and financing portions of the cash flows attributable to its discontinued operations for each of the years presented. These amounts were reported on a combined basis as a single amount in prior statements of cash flows. In addition, the balance sheets and statements of operations have been reclassified to present the discontinued operations.

(t) Recent Accounting Pronouncements

In November 2004, the FASB Emerging Issues Task Force (EITF) released Issue 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in Determining Whether to Report Discontinued Operations." To qualify as a discontinued operation, paragraph 42 of Statement 144 requires that the cash flows of the disposed component be eliminated from the operations of the ongoing entity and that the ongoing entity not have any significant continuing involvement in the operations of the disposed component after the disposal transaction. EITF Issue 03-13 provides guidance on how to interpret and apply the criteria in paragraph 42A (elimination of cash flows) and paragraph 42B (no significant continuing involvement) of Statement 144. EITF Issue 03-13 was effective for all periods beginning after December 15, 2004. The Company adopted EITF Issue 03-13 effective January 1, 2005.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This Statement is effective for interim or annual reporting periods beginning after June 15, 2005 (January 1, 2006 for the Company). SFAS No. 123R has several methods for adopting this provision at the effective date and the Company has chosen the modified prospective method. The Company has not completed its analysis of the estimated impact of adopting the provisions of SFAS No. 123R.

Moreover, the fair value of share-based payment awards (including employee stock option grants) will be recognized as expense in the statements of operations over the requisite service period of each award.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

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FAS 123R also changes the manner in which deferred taxes are recognized on share-based payment awards, as well as the accounting for award modifications.

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

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

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

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Note 2. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill and other intangible assets by operating segment for the year ended December 31, 2005, are as follows (in millions):

	Wireless Network Services	Enterprise Network Services	Government Network Services	Total
Goodwill				
Balance as of January 1, 2004	\$ 25.5	\$ 5.5	\$ —	\$ 31.0
Acquisitions	—	—	44.6	44.6
Adjustments	—	(0.2)	0.8	0.6
Earn-out consideration	—	5.9	0.5	6.4
Balance as of December 31, 2004	25.5	11.2	45.9	82.6
Acquisitions	—	—	29.4	29.4
Adjustments	—	0.2	(0.6)	(0.4)
Earn-out consideration	—	6.9	1.4	8.3
Balance as of December 31, 2005	\$ 25.5	\$ 18.3	\$ 76.1	\$ 119.9
Other intangibles, net				
Balance as of January 1, 2004	\$ —	\$ 1.9	\$ —	\$ 1.9
Acquisitions	—	—	5.5	5.5
Amortization expense	—	(0.5)	(0.5)	(1.0)
Balance as of December 31, 2004	—	1.4	5.0	6.4
Acquisitions	—	—	2.7	2.7
Amortization expense	—	(0.3)	(1.4)	(1.7)
Balance as of December 31, 2005	\$ —	\$ 1.1	\$ 6.3	\$ 7.4
Total goodwill and other intangibles, net	\$ 25.5	\$ 19.4	\$ 82.4	\$ 127.3

	As of December 31, 2005			
	Gross Value	Accumulated		Weighted Average
		Amortization	Net Value	Amortization Period (years)
Acquired Intangible Assets				
Customer relationships	\$ 3.4	(0.9)	2.5	8.2
Contracts and Backlog	6.0	(1.8)	4.2	2.4
Non-compete agreements	1.3	(0.7)	0.6	3.3
Trade names	0.4	(0.3)	0.1	3.3
Total	\$ 11.1	\$ (3.7)	\$ 7.4	4.3
Aggregate Amortization Expense	\$ 1.7			
Estimated amortization expense:				
For year ended 12/31/06	\$ 1.8			
For year ended 12/31/07	\$ 1.6			
For year ended 12/31/08	\$ 0.9			
For year ended 12/31/09	\$ 0.7			
For year ended 12/31/10	\$ 0.5			

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Notes to Consolidated Financial Statements (Continued)

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In accordance with the adoption of the provisions of SFAS No. 142, the first step of the goodwill impairment transitional test required the Company to determine and compare the fair value of its defined reporting units to their carrying values as of January 1, 2002. The fair value for each reporting unit was determined using a discounted cash flow valuation analysis. The carrying values of each reporting unit was 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. Management believes that the assumptions made for these analyses are reasonable and consistent. During the Company's step one of the test for impairment, the estimated fair values exceeded the carrying value for each reporting unit. In 2004, the Company re-organized its operating segments to reflect its current operations and strategic direction.

The Company completed its annual impairment test as required under the provisions of SFAS No.142 during the fourth quarters of 2003, 2004 and 2005 and determined that there was no indication of impairment as of December 31, 2003, 2004 and 2005. If the Company is required to record an impairment charge in the future, it could have an adverse impact on its results of operations.

Note 3. Significant Transaction

(a) Loss/Benefit on Unused Office Space

In 2001, the Company recorded an accrual for \$1.4 million related to an estimated loss on unused office space based on management's assessment of the existing market conditions, sublease rental rates and recoverability of operating lease expenses for the Company's vacant properties.

During the first quarter of 2002, the Company's operating results reflected a continued lack of improvement in the financial markets and economic environment of the telecommunications industry. Management re-assessed the market conditions surrounding its unused office space, the likelihood of achieving certain sublease rates and the overall recoverability of its related operating lease expenses. As a result, the Company calculated the estimated loss on unused office space to increase by approximately \$10.0 million during the quarter ended March 31, 2002. The accrual for loss on unused office space as of December 31, 2002 was \$8.9 million, net of approximately \$1.6 million of lease payments that were charged to the accrual for unused office space.

During 2003, the Company reevaluated its accrual for unused office space and determined that a significant portion of its corporate facility was expected to be utilized commencing in 2004. This change in estimate was primarily attributable to the Company's acquisition of HTS that was announced in December 2003 and consummated in January 2004. 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 accrual for loss on unused office space as of December 31, 2005 was \$1.7 million, net of approximately \$0.9 million of lease payments that were charged to the accrual of unused office space. The Company estimates that the remaining accrual will be paid through 2010.

(b) Discontinued Operations—Scandinavia

During the second quarter of 2004, the Company made the decision to sell or otherwise divest its Network Management business in Scandinavia, which had previously been reported in its Wireless Network Services segment. WFI determined that this entity met the criteria to classify it as held for sale.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Accordingly, WFI has reflected this operation as discontinued in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." After actively marketing to sell this business for one quarter, the Company made the decision to wind-down this operation in the third quarter of 2004. As of December 31, 2004 operations had been substantially wound-down. For the year ended December 31, 2004, the Network Management business in Scandinavia generated revenues of \$2.7 million and net loss of \$2.4 million for the same period. Included in the net loss for the year ended December 31, 2004 is an asset impairment loss of \$0.4 million and a \$1.7 million charge for estimated employee termination costs. A total of \$0.9 million was paid in cash during the year ended December 31, 2004, and the remaining balance of the accrued liability at December 31, 2004 was \$0.8 million related to employee termination costs. These amounts were paid during 2005. There was no tax benefit provided for these losses due to the uncertain future realizability of tax assets resulting from net operating losses in Scandinavia. All prior period amounts have been restated to reflect these operations as discontinued.

During 2005, the Scandinavian operation had a net loss of \$0.3 million. As of December 31, 2004 and 2005, there were zero assets of discontinued operations, and \$0.8 million and \$0.1 million of liabilities of discontinued operations for December 31, 2004 and 2005, respectively, associated with the Scandinavia operation.

(c) Discontinued Operations—Latin American Operations

In December 2005, the Company's Board of Directors made the decision to exit the Company's Mexican operations and certain of its other deployment businesses in South America. Prior to this decision, these operations had been reported in its Wireless Network Services segment. The Company determined that these operations meet the criteria to be classified as held for sale. Accordingly, WFI has reflected these operations as discontinued in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The discontinued South American deployment operations were substantially shut down as of the end of December 2005.

For the year ended December 31, 2005, these operations had revenues of \$42.1 million and net loss of \$7.4 million. Included in the loss from discontinued operations of \$7.4 million for the year ended December 31, 2005 is approximately \$5.0 million of a pre-tax write-off of contract costs incurred on sites the Company was building for its customers in Mexico and South America which were cancelled prior to the completion of the sites. Although the Company was under contractual arrangement with these customers to build these sites, these costs were contractually unrecoverable from its customers due to the termination clauses in the contracts, which do not provide for reimbursement for in process cancelled sites. Also included in the loss from discontinued operations for 2005 is a pre-tax impairment charge of approximately \$0.9 million of accumulated foreign currency translation losses written off in the fourth quarter of 2005 in accordance with EITF Issue 01-05 "Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment that will be Disposed Of". The net loss from discontinued operations for 2005 includes a tax provision of approximately \$3.6 million or an effective 88% provision rate, which was the result of an impairment charge related to the deferred tax assets of the discontinued operations. For the year ended December 31, 2004, these operations had revenues of \$62.8 million and net income of \$11.8 million.

On February 17, 2006, the Company announced that it had entered into a definitive agreement to divest all of its operations in Mexico. Refer to Note 18 to the consolidated financial statements for further discussion.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

The components of the current and non-current assets and liabilities for the Latin American operations are included in the accompanying balance sheet as discontinued operations as of December 31, 2004 and 2005 (in millions):

	<u>2004</u>	<u>2005</u>
Cash	\$ 2.4	\$ 3.2
Restricted cash	—	0.6
Accounts receivable, net	34.0	34.5
Prepaid expenses	0.1	0.2
Income tax receivable	—	2.3
Other current assets	4.2	5.9
Current assets of discontinued operations	<u>\$ 40.7</u>	<u>\$ 46.7</u>
Property, plant and equipment	\$ 0.9	\$ 1.5
Deferred tax asset	2.7	—
Other assets	0.1	0.2
Non-current assets of discontinued operations	<u>\$ 3.7</u>	<u>\$ 1.7</u>
Accounts payable	\$ 4.8	\$ 3.9
Accrued expenses	10.6	6.6
Tax contingencies	12.9	13.2
Billings in excess of cost	0.1	0.6
Income taxes payable	2.1	—
Deferred tax liability	—	0.1
Other current liabilities	—	5.6
Current liabilities of discontinued operations	<u>\$ 30.5</u>	<u>\$ 30.0</u>
Non-current liabilities of discontinued operations	<u>\$ 0.3</u>	<u>\$ 0.3</u>

The restricted cash of \$0.6 million, is a one-year fixed account at zero interest as a result of a 2005 regulation in Argentina which requires the maintenance of cash balances as a percentage of foreign loans advanced by the Company to its foreign subsidiary.

Note 4. Investments in Unconsolidated Affiliates

(a) Diverse Networks, Inc (“DNI”)

On May 24, 2000, the Company paid \$4.0 million in cash to acquire a 16.67% interest in DNI, a private company that provides network management and data center services. Through December 31, 2002, this investment was accounted for under the equity method of accounting due to the presence of significant influence that was deemed to exist based on the significant number of contracts that WFI had entered into with DNI and the presence of a WFI employee on DNI’s board of directors. The contracts constituted a substantial portion of the business conducted by DNI. By the end of fiscal 2002, the majority of the contracts between the Company and DNI had been completed. This resulted in the Company concluding effective January 1, 2003, that significant influence no longer existed. Accordingly, the investment in DNI no longer met the conditions for the use of equity method of accounting and accordingly, the investment has been accounted for under the cost method since January 1, 2003. The equity in earnings from this investment during the period this investment was accounted for under the

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

equity method of accounting were classified within other income (expense) in the Company's consolidated statements of operations. The balance of the Company's investment in DNI at December 31, 2003, totaled \$3.1 million and is classified on the consolidated balance sheet under the caption investment in unconsolidated affiliates. During June 2004, the Company determined, based upon events occurring in the second quarter of 2004 at Diversified Networks, Inc. ("DNI"), that there was an other than temporary impairment of its investment in DNI. Specifically, DNI reported that it was losing a significant customer and that such loss would result in reduced gross margins and profitability. Additionally, DNI reported that it would need a cash infusion before the end of the year to fund operations and working capital requirements. Accordingly, the Company concluded that the full carrying value of \$3.1 million was impaired. The write-off of \$3.1 million is reflected in impairment of investment in unconsolidated affiliate and other income (expenses), net in the accompanying consolidated statements of operations.

On December 1, 2005, The Jackson Rivers Company entered into an Agreement and Plan of Merger ("Agreement") with Diverse Networks, Inc. The Agreement provides for each share the right to receive \$0.21 million in the form of a promissory note payable within one year of the closing date, bearing interest at 8% per annum, with installments of principal and interest payable on a quarterly basis. As of the time the certificate of merger is filed, all shares will no longer be outstanding and shall automatically be cancelled. The Company received a promissory note in the amount of \$0.2 million payable in quarterly installments through December 2006. This amount was recorded in "Other income and expense" as of December 2005 in the accompanying Consolidated Statement of Operations as consideration for its equity interest in Diverse Networks, Inc.

(b) CommVerge Solutions, Inc.

On July 21, 2000, the Company acquired 1,184,835 shares of Class B convertible Preferred Stock (1.2% interest) of CommVerge Solutions, Inc., a privately-held wireless network planning and deployment company. The investment totaled \$5.0 million in cash and is accounted for using the cost method of accounting. In 2001, an adjustment was required to reflect an impairment charge of \$4.1 million as a result of a variety of factors including the capital raised in the investee's financing transaction in January 2002, which indicated that the value of the Company's investment had significantly declined. The balance of the Company's investment in CommVerge Solutions, Inc. at December 31, 2004 and 2005 totals \$0.9 million and has been classified on the consolidated balance sheet under the caption investment in unconsolidated affiliates. One of the Company's Directors is also a Director of CommVerge Solutions, Inc.

(c) Tactical Survey Group, Inc.

On February 23, 2004, the Company paid \$1.0 million in cash to acquire an 11% interest in Tactical Survey Group, Inc. (TSG), a privately-held company that provides expertise in developing, deploying and integrating tactical survey systems for use in government and commercial applications. Pursuant to the provisions of APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" (APB 18), this investment is accounted for under the equity method of accounting due to the presence of significant influence deemed to exist based on the significant number of contracts that the Company has entered into with TSG and the presence of a Company employee on TSG's board of directors. The equity in earnings from this investment is classified within Other income (expense) in the Company's consolidated statements of operations. As of December 31, 2005, the Company has recorded zero equity earnings related to this investment. The balance of the Company's investment in TSG at

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

December 31, 2004 and 2005, totaled \$1.2 million and has been classified on the consolidated balance sheet under the caption "Investments in unconsolidated affiliates."

Note 5. Acquisitions

Enterprise Network Services Segment

On February 13, 2003, the Company acquired all of the outstanding capital stock of Suntech Systems, Inc (Suntech), a company that provides subcontracting services primarily for general contractors and enterprise customers for the design and installation of commercial electrical systems. This acquisition was the first in the Company's diversification strategy into the enterprise market. Initial purchase consideration consisted of a cash payment totaling \$1.8 million, of which \$1.0 million was allocated to goodwill and \$0.6 million was allocated to the fair value of identifiable intangible assets. Purchased intangible assets primarily consisted of customer relationships and are being amortized over their 5-year estimated useful life. The acquisition was accounted for under the provisions of purchase method accounting in accordance with Statement of Financial Accounting Standards No. 141 (SFAS No. 141) "Business Combinations". Included in the stock purchase agreement is a provision whereby the Company has agreed to pay the selling shareholders additional earn-out consideration that is contingent upon the acquired entity's successful achievement of specific annual earnings targets for each of the years ending December 31, 2003, 2004 and 2005 and the continued employment of certain individuals. As of December 31, 2005, \$2.6 million of additional purchase consideration was recorded as goodwill, bringing the total purchase consideration to \$4.4 million.

On April 15, 2003, the Company acquired all of the outstanding capital stock of Delmarva Systems Corporation, a company that provides various commercial electrical systems integration services. This acquisition was a continuation of the Company's diversification strategy. Initial purchase consideration consisted of a cash payment totaling \$6.2 million, of which \$1.3 million was allocated to goodwill and \$2.1 million was allocated to the fair value of identifiable intangible assets. Purchased intangible assets consisted primarily of customer relationships that are being amortized over their 7-year estimated useful life. The acquisition was accounted for under the provisions of the purchase method of accounting in accordance with SFAS No. 141. The stock purchase agreement included a provision whereby the Company agreed to pay the selling shareholders additional consideration that is contingent upon the acquired entity's successful achievement of specific earnings targets for each of the twelve month periods ended March 31, 2004, 2005 and 2006. As of December 31, 2005, \$10.9 million of additional purchase consideration was recorded as goodwill, bringing the total purchase consideration to \$15.8 million.

On August 7, 2003, the Company acquired all of the outstanding equity interests of Enco Systems, Inc. (Enco), a company that provides full-service security systems and building technologies integration. This acquisition was a continuation of the Company's diversification strategy. The initial purchase consideration consisted of a cash payment totaling \$3.7 million, of which \$0.1 million was allocated to goodwill and \$0.1 million was allocated to identifiable intangible assets. The acquisition was accounted for under the provisions of the purchase method of accounting in accordance with SFAS No. 141. The stock purchase agreement included a provision whereby the Company has agreed to pay the selling equity holders additional consideration that is contingent upon the acquired entity's successful achievement of specific annual earnings targets for the six month period ended December 31, 2003 and the years ending December 31, 2004, 2005 and 2006, and the continued employment of certain individuals. All additional contingent consideration earned by Enco was classified as compensation expense. The stock purchase

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

agreement contained a provision whereby either party could terminate the earn-out provision at the end of 2005 and the Company has chosen to exercise this option.

In connection with the acquisitions of Suntech and Enco, certain selling shareholders had continued employment provisions as a condition to receiving additional earn-out consideration. In accordance with EITF 95-8 "Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination," such payments were recorded as compensation expense. During 2003, the Company recorded \$2.9 million of associated compensation expense. In September 2004, the Company amended these purchase agreements to more accurately reflect the intent of the transaction, resulting in a rescission of the continuous employment clauses from the earn-out arrangements. These amendments constituted a triggering event which resulted in a one-time charge of \$12.4 million in the third quarter of 2004, which represents estimated payments to be made to certain ENS selling shareholders based on the original continuous employment clauses. During the third quarter of 2005, the Company reduced \$2.5 million of this accrual when it became probable that the total earn-out consideration earned would be less than originally estimated based upon the performance of the acquired entities. During the fourth quarter of 2005, the Company recorded an additional net increase of \$0.4 million accrual that was recorded to selling, general and administrative expense of contingent acquisition consideration as a result of one of the entities financial performance exceeding previously estimated performance, which was comprised of an increase of \$1.1 million, net of a further reduction of \$0.7 million for one of the entities that did not meet the estimated performance.

Assuming the ENS entities reach the minimum base performance targets in 2006, the aggregate future contingent payments, including the balance accrued and earned as of December 31, 2005, would approximate a cumulative total of \$9.7 million. If the acquired entities exceed the defined annual performance targets through estimated annual growth as projected by the Company based on its current operating forecasts, the aggregate future contingent payments could likely range from \$9.7 million to \$11.7 million inclusive of the amounts accrued as of December 31, 2005 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 company paid \$6.8 million of this earn-out consideration in the first quarter of 2006.

The results of operations of these acquired entities are included in the Company's consolidated financial statements for fiscal 2003 and are a component within the Enterprise Network Services operating segment.

A summary of the accrual for contingent acquisition consideration for the year ended December 31, 2005 is summarized in the table below (in millions):

	<u>Suntech</u>	<u>Delmarva</u>	<u>Enco</u>	<u>DSI</u>	<u>TLA</u>	<u>Total</u>
Balance as of December 31, 2004	\$ 9.1	\$ —	\$ 4.9	\$ 0.5	\$ —	\$ 14.5
Accrual for (reduction of) contingent consideration	3.2	5.0	(3.4)	1.9	—	6.7
Accrual for working capital adjustment	—	—	—	—	3.3	3.3
Payments	(5.4)	(5.0)	(0.7)	(1.9)	(3.3)	(16.3)
Balance as of December 31, 2005	<u>\$ 6.9</u>	<u>\$ —</u>	<u>\$ 0.8</u>	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ 8.2</u>

WIRELESS FACILITIES, INC.**Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2003, 2004 and 2005***Government Network Services Segment.*

On January 5, 2004, the Company acquired 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 of HTS was a part of the Company's strategy to enter into the government sector and its overall diversification and long-term growth strategy. The excess purchase price paid over the fair value of tangible net assets acquired of \$43.5 million to goodwill in the amount of \$39.6 million, and to identifiable finite-life intangible assets in the amount of \$3.9 million. The identified intangible assets consist of \$3.2 million allocated to contracts and backlog, \$0.2 million for intellectual property and \$0.5 million for a non-compete agreement. The allocation of the purchase price is subject to adjustments within a one-year period of the acquisition date based on the resolution of pre-acquisition contingencies, which is comprised primarily of certain incentive arrangements. 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 of \$1.5 million for the normal industry profit on its effort to complete such contracts. The Company reflected this allowance as an increase to goodwill and a corresponding increase to billings in excess of costs (deferred profit). During 2005 and 2004, \$0.7 million and \$0.4 million, respectively, of this allowance was amortized into income. The remaining amount of \$0.3 million at December 31, 2005 is estimated to reduce costs through 2006. The results of operations of HTS since the acquisition date are included in the Company's accompanying consolidated financial statements and are a component of the government network services operating segment.

The following table summarizes the final purchase price, including transaction costs (in millions):

At January 5, 2004	
Current assets	\$ 7.8
Property, plant, and equipment	0.5
Intangible assets	3.9
Goodwill	39.6
Deferred tax asset (net of valuation allowance)	4.1
Other assets	0.4
Total assets	<u>56.3</u>
Current liabilities	\$ (3.6)
Deferred profit	(1.5)
Deferred tax liability	(1.5)
Long-term debt	(0.2)
Total liabilities assumed	<u>(6.8)</u>
Net assets acquired	<u>\$ 49.5</u>

On August 4, 2004, the Company completed its acquisition of Defense Systems, Incorporated (DSI), a company that provides a full range of information technology and logistics automation services to federal government and commercial clients, with a strategic focus on providing the end-to-end total radio frequency identification ("RFID") solutions. The initial purchase consideration consisted of a cash payment of \$6.6 million, of which \$5.8 million was allocated to goodwill and \$1.6 million was allocated to identifiable finite-lived intangible assets. The identified intangible assets consist of \$0.8 million backlog,

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

\$0.7 million of customer relationships and \$0.1 million non-compete agreement, which are being amortized over their useful lives of 5, 10 and 3 years, respectively. Additional consideration of up to \$3.2 million can be earned by the former major stockholders of DSI over an 18 month period based upon performance milestones related to certain specified contracts. The additional consideration if any, will be recorded as goodwill as earned. As of December 31, 2005, approximately \$0.5 million has been accrued of the additional consideration based upon the attainment of certain milestones. The operating results for DSI for the year ended December 31, 2003, are not included in the proforma results presented below as the results were immaterial.

On January 27, 2005, the Company acquired all of the issued and outstanding shares of capital stock of JMA Associates, Inc d/b/a TLA Associates (TLA) for \$37.3 million in cash. TLA provides services including network engineering, network infrastructure support, information assurance, application development, and managed services, including network maintenance and monitoring, to government agencies. The acquisition was a continuation of the Company's strategy to expand its government services business. The intangible assets consist of backlog of \$1.3 million amortized over a 3 year period, customer relationships of \$0.8 million being amortized over a 10 year period and non-compete agreements of \$0.6 million being amortized over a 3 year period.

The purchase price, including transaction costs of \$0.6 million, was accounted for as follows (in millions):

Current assets	\$ 8.4
Property, plant, and equipment	0.8
Intangible assets	2.7
Goodwill	29.0
Total assets	<u>40.9</u>
Accrual for loss contracts	\$ (0.6)
Deferred profit	(0.2)
Other current liabilities	(2.2)
Total liabilities assumed	<u>(3.0)</u>
Net assets acquired	<u>\$ 37.9</u>

Pro Forma Financial Information

The results of operations of these acquired entities since the acquisition date are included in the Company's consolidated financial statements for fiscal 2004 and 2005 and are a component within the Government Network Services segment.

The following summary presents pro forma consolidated results of operations for the year ended December 31, 2004 as if the acquisitions described above had occurred January 1, 2004 and includes adjustments that were directly attributable to the transaction or were not expected to have a continuing impact on the Company. The pro forma adjustment amount for the year ending December 31, 2005, for the period from January 1, 2005 to January 27, 2005, related to the acquisition of TLA is immaterial. The pro forma results are unaudited and for illustrative purposes only for the applicable period and do not purport to be indicative of the actual results which would have occurred had the transactions been

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

completed as of the beginning of the period, nor are they indicative of results of operations which may occur in the future (all unaudited amounts, except per share amounts, are in million):

	<u>2004</u> <u>As Reported</u>	<u>Pro forma</u> <u>Adjustments</u>	<u>2004</u> <u>Pro forma</u>
Revenue	\$ 334.2	\$ 31.6	\$ 365.8
Net income	\$ 5.0	\$ 2.8	\$ 7.8
Diluted earnings per share	\$ 0.07		\$ 0.12

Note 6. Balance Sheet Details

The consolidated balance sheets consist of the following at December 31, 2004 and 2005 (in millions):

	<u>2004</u>	<u>2005</u>
Accounts receivable, net:		
Billed	\$ 64.2	\$ 60.1
Unbilled	36.5	51.0
	<u>100.7</u>	<u>111.1</u>
Allowance for doubtful accounts	(1.3)	(1.5)
Total accounts receivable, net	\$ 99.4	\$ 109.6
Property and equipment, net:		
Computer equipment	\$ 29.9	\$ 29.8
Furniture and office equipment	3.3	4.7
Construction in progress	2.0	4.2
Leasehold improvements	1.4	1.6
Accumulated depreciation and amortization	(24.1)	(25.7)
Total property and equipment, net	\$ 12.5	\$ 14.6
Other intangibles, net:		
Customer relationships	\$ 2.6	\$ 3.4
Contracts and Backlog	4.6	6.0
Trade name	0.4	0.4
Noncompete agreements	0.7	1.3
Accumulated amortization	(1.9)	(3.7)
Total other intangibles, net	\$ 6.4	\$ 7.4
Investments in unconsolidated affiliates:		
CommVerge, Inc.	\$ 0.9	\$ 0.9
Tactical Survey Group, Inc.	1.2	1.2
Total investments in unconsolidated affiliates	\$ 2.1	\$ 2.1

Note 7. Notes Payable and Other Financing Arrangements

(a) Credit Agreement

On March 16, 2005, the Company entered into a credit agreement with KeyBank National Association (“KeyBank”) to provide a \$15 million senior credit facility, secured by all of the Company’s assets.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

KeyBank is designated as the sole arranger and sole book manager. The facility has a 3-year term and can be expanded to a \$60 million facility. The Company intends to use the facility to fund acquisitions. As part of the Company's acquisition strategy, the Company may choose to expand its new credit facility up to \$60 million to fund future acquisitions. As of December 31, 2005, there was no balance drawn on this credit facility. As of March 30, 2006, the Company has drawn \$7.0 million on this line for purposes of paying the acquisition earn-out payments of \$6.8 million in the first quarter of 2006.

The terms of the credit agreement require the Company to provide certain customary covenants for a credit agreement, including certain financial covenants. These financial covenants are computed as defined by the terms of the agreement. These financial covenants include a maximum senior leverage ratio of 1.5 to 1.0, a maximum total leverage ratio of 3.0 to 1.0, a minimum liquidity ratio of 1.35 to 1.0, and a minimum fixed charge coverage ratio of 1.25 to 1.0. As of December 31, 2005, the Company was in compliance with all covenants under this agreement.

(b) Financing

In February 2005, the Company entered into an agreement with National City Vendor Finance, LLC to finance \$0.59 million in software, maintenance and support fees of one of its IT systems. The interest rate for the financing is at 4.2% per annum. Principal and interest payments of \$0.05 million are payable quarterly through January 2008. As of December 31, 2005, \$0.45 million was outstanding on this financing.

Note 8. Lease Commitments

The Company leases certain equipment under capital leases with a weighted average interest rate of approximately 7.08% that expire at various dates through 2007. The Company also leases certain facilities and equipment under operating leases having terms expiring at various dates through 2011. Future minimum lease payments under capital and operating leases as of December 31, 2005 are as follows (in millions):

	Capital Leases	Net Operating Leases
Year ending December 31,		
2006	\$ 0.1	\$ 5.4
2007	0.1	5.1
2008	—	4.6
2009	—	4.5
2010	—	2.7
Thereafter	—	1.6
Total future minimum lease payments	0.2	\$ 23.9
Less amount representing interest	—	" "
Present value of capital lease obligations	0.2	" "
Less current portion	—	" "
Long-term capital lease obligations	\$ 0.2	" "

Equipment recorded under capital leases approximated \$1.6 million as of December 31, 2004 and \$0.7 million as of December 31, 2005, with accumulated depreciation of \$1.3 million and \$0.5 million as of December 31, 2004 and 2005, respectively. The reduced accumulated depreciation balance as of December 31, 2005 is a result of the the expiration of leases related to fully depreciated assets during 2005.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Pursuant to the terms of sublease agreements as of December 31, 2005, approximately \$2.2 million of sublease income will offset future minimum lease payments as of December 31, 2005. Gross rent expense under operating leases for the years ended December 31, 2003, 2004 and 2005 were \$5.6 million, \$5.9 million and \$6.9 million, respectively. Total sublease income for the years ended December 31, 2004 and 2005 totaling \$1.0 million and \$0.8 million, respectively, has been netted against rent expense. Based on management's assessment of existing assumptions as described in Note 3, a reversal totaling \$3.2 million related to a portion of the accrual for unused office space was recorded during the fourth quarter of fiscal 2003. Such amount is included in asset impairment and other charges on the Company's statement of operations. The lease on certain office facilities includes scheduled base rent increases over the term of the lease. The total amount of the base rent payments is being charged to expense on the straight-line method over the term of the lease. In addition to the base rent payment, the Company pays a monthly allocation of the building's operating expenses. The Company has recorded deferred rent, included in accrued expenses, of \$1.3 million and \$1.2 million at December 31, 2004 and 2005, respectively, to reflect the excess of rent expense over cash payments since inception of the respective lease.

Note 9. Income Taxes

Income (loss) from continuing operations and before provision (benefit) for income taxes for the years ended December 31, 2003, 2004 and 2005 is comprised of the following (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Domestic	\$ 15.1	\$ (7.8)	\$ 20.6
Foreign	(1.2)	3.5	(3.8)
	<u>\$ 13.9</u>	<u>\$ (4.3)</u>	<u>\$ 16.8</u>

The provision (benefit) for income taxes from continuing operations for the years ended December 31, 2003, 2004 and 2005 is comprised of the following (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Current:			
Federal	\$ —	\$ —	\$ (0.1)
State	0.8	0.6	0.9
Foreign	(0.3)	1.6	(0.4)
	<u>0.5</u>	<u>2.2</u>	<u>0.4</u>
Deferred:			
Federal	0.8	(2.6)	4.7
State	(1.7)	0.5	0.4
Foreign	—	—	(0.1)
	<u>(0.9)</u>	<u>(2.1)</u>	<u>5.0</u>
	<u>\$ (0.4)</u>	<u>\$ 0.1</u>	<u>\$ 5.4</u>

Additionally, the Company recognized net tax benefits (adjustments) from exercise of stock options of \$7.3 million, \$(0.7) million and zero for the years ended December 31, 2003, 2004 and 2005, respectively, which were recorded in stockholder's equity.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

A reconciliation of total income tax provision (benefit) to the amount computed by applying the statutory federal income tax rate of 35% to income (loss) before income tax provision (benefit) for the years ended December 31, 2003, 2004 and 2005 is as follows (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Income tax expense (benefit) at federal statutory rate	\$ 4.8	\$ (1.5)	\$ 5.9
State taxes, net of federal tax benefit and valuation allowance	(0.6)	0.8	1.3
Foreign tax expense net of valuation allowance	0.4	0.4	0.6
Decrease in federal valuation allowance	(7.7)	(4.6)	(4.6)
Increase in deferred tax asset due to foreign tax credit conversion	2.6	—	—
Contingent acquisition consideration	—	4.3	(0.7)
Tax basis difference on subsidiaries	—	—	0.8
Nondeductible expense	0.9	0.8	0.7
Revision of prior year estimates	—	—	1.4
Other, net	(0.8)	(0.1)	—
	<u>\$ (0.4)</u>	<u>\$ 0.1</u>	<u>\$ 5.4</u>

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of December 31, 2004 and 2005 are as follows (in millions):

	<u>2004</u>	<u>2005</u>
Deferred tax assets:		
Allowance for doubtful accounts	\$ 1.7	\$ 1.2
Sundry accruals	2.4	1.2
Vacation accrual	1.0	1.0
Property and equipment, principally due to differences in depreciation	1.9	0.4
Investments	—	0.7
Goodwill and other intangibles	4.1	2.4
Net operating loss carryforwards	37.0	39.1
Capital loss carryforward	—	1.5
Tax credit carryforwards	0.2	0.3
Deferred revenue	1.1	0.7
Reserves and other	11.0	8.4
	<u>60.4</u>	<u>56.9</u>
Valuation allowance	(28.1)	(27.4)
Total deferred tax assets, net of allowance	<u>32.3</u>	<u>29.5</u>
Deferred tax liabilities:		
Unearned revenue	(6.4)	(13.3)
Foreign deferred tax liability	(3.3)	—
Other intangibles	(2.5)	(2.2)
Property and equipment, principally due to differences in depreciation	—	(1.4)
Other liabilities	—	(0.4)
Total deferred tax liabilities	<u>(12.2)</u>	<u>(17.3)</u>
Net deferred tax asset	<u>\$ 20.1</u>	<u>\$ 12.2</u>

Included in the valuation allowance of \$27.4 million above as of December 31, 2005 is approximately \$4.4 million of valuation allowance related to our discontinued operations.

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

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At December 31, 2005, the Company had federal tax loss carryforwards of \$84.5 million (including stock option net operating loss carryforwards) which expire beginning in 2020 and California tax loss carryforwards of \$19.7 million which expire beginning in 2012. Federal and state tax laws impose restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an "ownership change" for tax purposes as defined by Section 382 of the Internal Revenue Code. The Company has determined that any potential ownership changes under Section 382 will not materially impact the Company's ability to utilize its net operating loss and tax credit carryforwards. In addition, the Company has foreign tax loss carryforwards of \$0.4 million in the United Kingdom, \$6.8 million in Sweden and \$13.5 million in Brazil.

In assessing the realizability of deferred tax assets, management considers, on a periodic basis, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. During fiscal 2005, the Company recorded a net decrease to the allowance for deferred tax assets of \$5.1 million resulting in a net 32% income tax provision for the year ended December 31, 2005. For U.S. purposes, the Company is in a cumulative book profit position as of December 31, 2005, and consideration is given to future taxable income, including the reversal of temporary differences and 2006 projected taxable income, in evaluating the recoverability of its U.S. deferred tax assets and the corresponding valuation allowance related to the assets. Unlike the Company's U.S. tax position, its foreign operations are in a cumulative book loss position. Pursuant to the provisions of SFAS No. 109, "Accounting for Income Taxes," limited consideration is given to the Company's future foreign income in determining the recoverability of its foreign deferred tax assets and the related valuation allowance. Accordingly, management believes the current valuation allowance on deferred tax assets is sufficient and properly stated at December 31, 2005.

The following table summarizes the components of valuation allowance and its allocation among continuing operations, purchase price accounting and stockholder's equity as of December 31, 2005:

	<u>Purchase</u>	<u>Continuing</u>		
	<u>Price Accounting</u>	<u>Operations</u>	<u>Stockholders' Equity</u>	<u>Total</u>
Domestic	\$ 3.0	\$ 7.6	\$ 6.3	\$ 16.9
Foreign	—	6.1	—	6.1
Total	<u>\$ 3.0</u>	<u>\$ 13.7</u>	<u>\$ 6.3</u>	<u>\$ 23.0</u>

The classification of the valuation allowance between continuing operations and additional paid in capital depicts the manner whereby any reversal would be reflected in the Company's financial statements. Specifically, any reversal of valuation allowance in continuing operations would be reflected in the Company's statements of operations and any reversal of the purchase price accounting and stockholder's equity would not be reflected in the Company's statements of operations. The Company has undistributed earnings from continuing operations of non-U.S. subsidiaries for which deferred taxes have not been provided. Such earnings are considered indefinitely reinvested in the non-U.S. subsidiaries. If these earnings were repatriated, additional tax expense may result, although the calculation of such amounts is not practicable.

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Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Note 10. Stockholders' Equity

(a) Preferred Stock

On October 29, 2001, the Company issued an aggregate of 63,637 shares of Series A Convertible Preferred Stock, at an aggregate purchase price of \$35.0 million, for a common stock conversion price of \$5.50 per share (which was the fair market value of the Common Stock at the closing) in a private placement to entities affiliated with a director of the Company. The holders of the Series A Convertible Preferred Stock elected to convert such stock into 7,000,070 shares of the Common Stock of the Company in the fourth quarter of 2003, and as a result, no shares of Series A Convertible Preferred Stock remained outstanding at December 31, 2004 and 2005, respectively. The number of shares of common stock issued upon conversion reflects the additional shares issuable under the anti-dilution protection clause which was triggered as a result of the lower price per share of the subsequent sale of Series B Convertible Preferred Stock (see below). The shares of Common Stock issued on conversion of the Series A Convertible Preferred Stock were subject to a lock-up provision, which expired 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 converted or convertible shares were released from lock-up and available for resale at the option of the Series A Convertible Preferred Stock holder(s), until the lock-up's final expiration on April 29, 2004.

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 Executive Chairman and former 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. Each share of Series B Convertible Preferred Stock is initially convertible into 100 shares of Common Stock for a common stock conversion price of \$5.00 per share (which was the fair market value of the Common Stock at the closing) at the option of the holder at any time subject to certain provisions in the Series B Preferred Stock Purchase Agreement. After November 2004, the Series B Convertible Preferred Stock will automatically convert into shares of the Company's Common Stock if and when the Company's Common Stock trades at or above \$11.00 per share for 30 consecutive trading days after that date. Additionally, the Series B Convertible Preferred Stock agreement had a lock-up provision, which expired over time, such that at the end of each of the three-month periods that commence on the 18-month anniversary of the closing date, 20% of the converted or convertible shares were released from lock-up and available for resale at the option of the Series B Convertible Preferred Stock holder(s), until the lock-up's final expiration on November 30, 2004. Upon any liquidation event, as defined in the agreement, and including a change in control of the Company discussed below, each outstanding share of Series B Convertible Preferred Stock is entitled to receive \$500.00 per share (or a common stock conversion price of \$5.00 per share) as a liquidation preference, in preference to any amounts paid to holders of Common Stock. Subject to certain exceptions, the Series B Convertible Preferred Stock has anti-dilution protection, whereby any future new issuances of securities by the Company before November 30, 2003 below \$5.00 per share would trigger the anti-dilution protection for the Series B Convertible Preferred Stock. If triggered, this protection would decrease the conversion price of the Series B Convertible Preferred Stock to the lowest price per share received by the Company for such issuance of securities. However, the conversion price may not be decreased to less than \$4.17 per share. As of December 31, 2003, there were no shares converted to common shares.

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The Company's outstanding shares of Series B Convertible Preferred Stock are convertible into common stock at any time at the election of the holder of such shares and do not require the payment of cash dividends. However, in the event that the Company's Board of Directors declare a dividend or distribution payable with respect to the then-outstanding shares of Common Stock, the holders of the Series B Preferred Stock shall be entitled to the amount of dividends per share in the same form as such Common Stock dividends that would be payable on the largest number or whole shares of Common Stock. Outstanding and unconverted shares of Series B Preferred Stock are entitled to the payment of a liquidation preference equal to the original purchase price (\$5.00 per common equivalent) upon a change of control of the Company, including the acquisition by a person or group of beneficial ownership of more than 50.0% of its voting power. Under Delaware state law, the Company's Board of Directors is required to approve any such transaction. The Company's authorized capital includes unissued "blank check" preferred stock, the issuance of which may be approved by the Company's Board of Directors without the prior consent of the Company's stockholders and which may be used, either alone or in combination with other takeover defense mechanisms available to the Board of Directors, to deter a change of control that is not approved by the Board of Directors. As a result, the Company does not expect to enter into any transaction in which the liquidation preference of the Series B Convertible Preferred Stock would be applicable in the foreseeable future. However, in the event the Company's Board of Directors approves a merger or does not otherwise act to prevent a change of control through the use of takeover defense mechanisms, including the Company's authorized and unissued preferred stock, the liquidation preference provisions could be triggered if a transaction resulting in proceeds of less than \$5.00 per common equivalent share to the holders of outstanding shares of Series B Convertible Preferred Stock were consummated. As of December 31, 2003, the total liquidation preference equaled \$45.0 million.

Through December 31, 2004, the Company has received notices from the holders to convert an aggregate number of 64,517 shares of Series B Convertible Preferred Stock into an aggregate 6,451,700 shares of the Company's Common Stock. On December 31, 2004 and 2005, the total liquidation preference equaled \$12.7 million. In accordance with EITF No. 03-06 "Participating Securities and the Two-Class Method under FASB Statement No. 128", the Company's Series A and B Preferred Stock was considered a participating security for purposes of computing basic earnings per share as further discussed in Note 1(I).

(b) Stock Option Plans

During the years ended 1997, 1999 and 2000, the Board of Directors approved the 1997 Stock Option Plan (the "1997 Plan"), the 1999 Equity Incentive Plan (the "1999 Plan") and the 2000 Non-statutory Stock Option Plan (the "2000 Plan"), respectively. Further, in February 2005, the Board of Directors approved the 2005 Equity Incentive Plan (the "2005 Plan"). The 2005 Plan was subsequently approved by a majority of the Company's stockholders on May 18, 2005. Stock options granted under the 1997 Plan and 1999 Plan may be incentive stock options or non-statutory stock options and are exercisable for up to ten years following the date of grant. The Company ceased making grants under, and subsequently terminated the 1997 Plan upon completion of its initial public offering. The 2000 Plan permits the grant of non-statutory stock options, which are exercisable for a period following the date of grant as determined by the Board of Directors (generally ten years). Additionally, in July 2004, the Board of Directors resolved that all future stock option grants under all of the Company's stock option plans would be non-statutory stock options, until such further determination by the Board of Directors. Stock option exercise prices for the 1997 Plan, 1999 Plan, 2000 Plan and 2005 Plan must be equal to or greater than the fair market value of the common

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

stock on the date of grant. A cumulative total of 7.5 million, 15.9 million, 6.5 million and 3.5 million shares of common stock have been authorized for issuance under the 1997 Plan, 1999 Plan, 2000 Plan and 2005 Plan, respectively. There remains approximately 2.0 million shares of common stock authorized for the 1997 Plan which are no longer issuable due to the termination of the plan. In accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its 1997 Plan, 1999 Plan and 2000 Plan. All options granted in 2002, 2003 and 2004, except as noted below, were at or above fair market value on the date of grant.

For the year ended December 31, 2003, the Company recorded \$6.3 million of non-cash stock-based compensation expense related to the change in status of certain stock option holders, in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation."

Stock option transactions are summarized below:

	<u>1997 Plan</u>	<u>Weighted Average Exercise Price</u>	<u>1999 Plan</u>	<u>Weighted Average Exercise Price</u>	<u>2000 Plan</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2002	2,157,372	\$ 7.37	6,925,239	\$ 10.46	4,311,492	\$ 6.09
Granted	—	—	4,848,085	10.46	523,015	5.31
Exercised	(1,025,866)	5.32	(3,319,286)	4.04	(2,009,241)	4.45
Cancelled	(68,277)	13.28	(487,470)	14.20	(314,210)	6.92
Outstanding at December 31, 2003	<u>1,063,229</u>	\$ 7.81	<u>7,966,568</u>	\$ 10.08	<u>2,511,056</u>	\$ 6.99
Granted	—	—	2,968,627	8.98	838,140	6.74
Exercised	(135,137)	4.72	(961,306)	4.85	(437,846)	4.49
Cancelled	(161,761)	13.0	(1,365,948)	11.9	(290,998)	8.82
Outstanding at December 31, 2004	766,331	\$ 7.96	8,607,941	\$ 9.97	2,620,352	\$ 7.00
Granted	—	—	7,596,240	6.13	2,619,698	6.47
Exercised	(41,912)	2.40	(381,634)	4.46	(169,312)	4.46
Cancelled	(27,742)	12.82	(6,513,324)	10.83	(1,878,672)	8.86
Outstanding at December 31, 2005	696,677	\$ 10.00	9,309,223	\$ 6.26	3,192,066	\$ 5.50
Balance Exercisable at December 31, 2005	696,677	\$ 8.10	6,703,523	\$ 6.38	2,215,627	\$ 5.28
Balance Exercisable at December 31, 2004	766,331	\$ 7.96	3,545,300	\$ 10.08	1,700,579	\$ 7.30
Balance Exercisable at December 31, 2003	1,063,229	\$ 7.81	2,754,931	\$ 10.34	1,928,345	\$ 7.06

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Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

The following table summarizes information as of December 31, 2005 concerning options outstanding and exercisable:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$1.33-4.23	1,644,977	5.55	\$ 3.94	1,640,318	\$ 3.94
4.28-5.20	1,394,698	6.54	4.65	1,212,070	4.57
5.23-6.05	2,584,218	8.79	5.77	717,118	5.89
6.09-6.18	98,097	8.06	6.15	77,393	6.16
6.19-6.19	6,258,705	8.17	6.19	4,850,291	6.19
6.22-42.63	1,155,796	5.73	9.97	1,057,162	10.12
44.94-57.00	61,475	4.46	51.30	61,475	51.30
\$1.33-57.00	<u>13,197,966</u>	7.56	\$ 6.18	<u>9,615,827</u>	\$ 6.27

On May 18, 2005, the Compensation Committee of the Company's Board of Directors approved the acceleration of vesting of all unvested options to purchase shares of the Company's common stock that are held by current employees, including executive officers, and which have an exercise price per share equal to or greater than \$10.00. Options to purchase 2,044,487 shares of common stock are subject to this acceleration. The options subject to acceleration had a weighted average exercise price of \$12.02. The exercise prices and number of shares subject to the accelerated options were unchanged.

On September 19, 2005, the Compensation Committee of the Company's Board of Directors approved the acceleration of vesting of all unvested options to purchase shares of the Company's common stock that are held by current employees, including executive officers, and excluding Directors and which have an exercise price per share equal to or greater than \$8.00. Options to purchase 1,026,197 shares of common stock are subject to this acceleration. The options subject to acceleration had a weighted average exercise price \$9.06. The exercise prices and number of shares subject to the accelerated options were unchanged.

On December 21, 2005, the Company's Board of Directors approved, subject to certain limited conditions, the acceleration of vesting of all unvested options to purchase shares of common stock of the Company that are held by employees, and which have an exercise price per share equal to or greater than \$6.50. The acceleration is effective as of December 30, 2005, provided that holders of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, will be given the election to decline the acceleration of an option if such acceleration would have the effect of changing the status of such option for federal income tax purposes from an incentive stock option to a non-qualified stock option. Options to purchase approximately 316,239 shares of common stock will be subject to this acceleration. The options subject to acceleration had a weighted average exercise price of \$6.82. The number of shares subject to the accelerated options will remain unchanged.

The acceleration of these options was undertaken to avoid recognition of future compensation expense that the Company would otherwise recognize in its consolidated statement of operations with respect to these options once the Financial Accounting Standards ("FASB") No. 123 (revised 2004) "Share-Based Payment", issued by the Financial Accounting Standards Board, becomes effective. As originally issued by the FASB, SFAS No. 123 was to be implemented as of the beginning of the first interim

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Years ended December 31, 2003, 2004 and 2005

or annual period beginning after June 15, 2005. In April, 2005, the SEC announced it will permit companies to implement SFAS No. 123R at the beginning of the next fiscal year. The future expense that is eliminated as a result of the acceleration of the vesting of these options is approximately \$18.4 million, (of which approximately \$7.8 million is attributable to options held by executive officers and \$0.4 million is attributable to options held by directors).

In addition, on December 21, 2005, the Board of Directors of the Company approved, subject to certain limited conditions, the amendment of all outstanding stock option grants under the Company's 1999 Equity Incentive Plan and 2000 Nonstatutory Stock Option Plan (collectively, the "*Option Plans*"), with an exercise price per share greater than 120% of the closing market price of the Company's common stock on December 29, 2005 to provide that, as of December 30, 2005, the exercise price of each outstanding stock option under the Option Plans shall be reduced to 120% of the closing price of the Company's common stock as reported on the NASDAQ National Market on December 29, 2005; *provided, however*, that the holder of such outstanding stock option is an employee of the Company on December 30, 2005, but excluding (i) employees of the Company that are categorized as project staff associates and (ii) employees who have, prior to December 30, 2005, given notice to, or received notice from, the Company terminating their employment on a date or time period after December 30, 2005. There was no financial impact related to this amendment.

The repricing of these options was undertaken to eliminate the future compensation expense that the Company would otherwise recognize in its consolidated statement of operations with respect to these options once the Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment", issued by the Financial Accounting Standards Board ("*FAS 123*"), becomes effective for reporting periods beginning in January 2006. Assuming that no holders of incentive stock options elect to decline the acceleration, the future expense that is eliminated as a result of the acceleration of the vesting of these options is approximately \$1.3 million (none of which is attributable to options held by executive officers). In addition, because the repricing will occur in lieu of additional option grants in 2006 of approximately 2.5 million shares for certain of the Company's employees (the "*2006 Option Grants*"), the repricing enables the Company to significantly offset the dilutive impact of the 2006 Option Grants by reducing both the FAS 123 compensation expense for future option grants as well as the dilution to the Company's outstanding share amount.

(c) Employee Stock Purchase Plan

In August 1999, the Board of Directors approved the 1999 Employee Stock Purchase Plan (the "Purchase Plan"). A total of 2.9 million shares of Common Stock have been authorized for issuance under the Purchase Plan. The Purchase Plan qualifies as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Service Code. The Purchase Plan commenced in November 1999 upon completion of the Company's initial public offering. On November 16, 2005, the Compensation Committee of the Board of Directors elected to suspend all future offerings under the Purchase Plan effective January 1, 2006.

Unless otherwise determined by the Compensation Committee of the Board of Directors, all employees were eligible to participate in the Purchase Plan so long as they are employed by the Company (or a subsidiary designated by the board) for at least 20 hours per week and were customarily employed by the Company (or a subsidiary designated by the board) for at least 5 months per calendar year.

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Employees who actively participated in the Purchase Plan were eligible to have up to 15% of their earnings for each purchase period withheld pursuant to the Purchase Plan. The amount that was withheld was used at various purchase dates within the offering period to purchase shares of Common Stock. The price paid for Common Stock at each such purchase date was then equal the lower of 85% of the fair market value of the Common Stock at the commencement date of that offering period or 85% of the fair market value of the Common Stock on the relevant purchase date. Employees were also able to end their participation in the offering at any time during the offering period, and participation ended automatically upon termination of employment. From the Purchase Plan's inception through December 31, 2005, the cumulative number of shares of Common Stock that have been issued under the Purchase Plan is 2,005,899.

(d) Shelf Registration

On February 19, 2004 the Company filed a universal shelf Registration statement on Form S-3 and an acquisition shelf Registration on Form S-4 with the Securities and Exchange Commission (SEC). The Company has no immediate plans to raise capital under the shelf Form S-3 or to utilize the shelf Form S-4 for acquisition transactions. The universal shelf registration statement on Form S-3 will permit the Company 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 will permit certain stockholders who purchased the Company's Series A and Series B Convertible Preferred Stock, to sell up to 5.4 million shares of common stock, all of which are currently included in the Company's December 31, 2005 weighted average diluted common shares outstanding. The acquisition shelf registration statement on Form S-4 will enable the Company to issue up to \$200 million of its common stock in one or more acquisition transactions that the Company 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.

(e) Stockholder Rights Agreement

On December 16, 2004, the Company entered into a Stockholder Right Agreement (the "Rights Agreement"). Under the terms of the Rights Agreement, initially, the Rights will attach to all certificates representing shares of outstanding Company common stock and no separate Rights Certificates will be distributed. Subject to the provisions of the Rights Agreement the Rights will separate from the Company common stock and the "Distribution Date" will occur upon the earlier of (i) ten business days following a public announcement (the date of such announcement being the "Stock Acquisition Date") that person or group of affiliated or associated persons has acquired or obtained the right to acquire beneficial ownership of 15% or more of the then-outstanding Common Stock (an "Acquiring Person"), or (ii) ten business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person. An Acquiring Person does not include certain persons specified in the Rights Agreement.

On December 16, 2004, the Company's Board of Directors authorized and declared a dividend of one right (a "Right") to purchase on one-hundredth of a share of the Company's Series C Preferred Stock ("Series C Preferred") for each outstanding share of Common Stock, par value \$0.001 ("Common Stock"), to stockholders of record as of the close of business December 27, 2004 (the "Record Date"). Each Right

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Notes to Consolidated Financial Statements (Continued)

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entitles the registered holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-hundredth of a share of Series C Preferred at a purchase price of \$54.00, subject to adjustment (the "Purchase Price").

The Rights are not exercisable until the Distribution Date and will expire at the close of business on the tenth anniversary of the Rights Agreement unless earlier redeemed or exchanged by the Company.

Note 11. Employee Benefit Plan

In 1996, the Company implemented a 401(k) savings plan pursuant to Section 401(k) of the Internal Revenue Code (the "Code"), covering substantially all employees. Participants in the plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code (\$14,000 of eligible compensation for 2005). The Company may make contributions at the discretion of its Board of Directors. The Company made no contributions in 2003 and made contributions of \$0.3 million in 2004 and \$2.1 million in 2005.

On November 18, 2004, the Board of Directors adopted the Wireless Facilities, Inc. Nonqualified Deferred Compensation Plan, effective as of January 1, 2005 (the "Plan"). The Plan provides executive officers and other eligible highly compensated employees with the opportunity to enter into agreements to defer up to eighty percent (80%) of their cash compensation derived from base salary, bonus awards and/or commissions. In addition, the Company may, in its sole and absolute discretion, award any participant under the Plan an additional employer contribution. Deferrals are adjusted for gain or loss based on the performance of one or more investment options selected by the participant from among investment funds chosen by the committee appointed to administer the Plan. Participants may elect that distribution of deferred amounts be paid in the form of either a lump sum or in annual installments if the participant terminates employment as a result of his or her retirement. However, all other distributions under the Plan will be made in a single lump sum. Distributions occur upon termination of service or upon such other dates that may be elected by the participant in accordance with the terms of the Plan. The Company, in its sole discretion, may suspend or terminate the Plan or revise or amend it in any respect whatsoever; provided, however, that no such action may reduce amounts credited to deferral accounts and such accounts will continue to be owed to the participants or beneficiaries and will continue to be a liability of the Company.

Note 12. Significant Customers

The Company had sales to one customer totaling \$98.8 million, which comprised 26.3% of the Company's total revenues for the year ended December 31, 2005. The Company's top five customers accounted for approximately 49.0% of its total revenues for the year ended December 31, 2005. The Company's Wireless Network Services segment generated 40.0% of this revenue and the Company's Government Network Services segment generated 9.0% of this revenue.

The Company had sales to one customer totaling \$67.9 million, which comprised 20.3% and another customer totaling \$30.6 million, which comprised 9.1% of the Company's total revenues for the year ended December 31, 2004. The Company's top five customers accounted for approximately 48.4% of its total revenues for the year ended December 31, 2004. The Company's Wireless Network Services segment generated 39.3% of this revenue and the Company's Government Network Services segment generated 9.1% of this revenue.

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Notes to Consolidated Financial Statements (Continued)

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The Company had sales to one customer totaling \$63.4 million, which comprised 28% of the Company's total revenues for the year ended December 31, 2003. The revenues generated by this customer were from the Company's Wireless Network Services segment.

Note 13. Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources.

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 (loss) provided by the Company's segments for the years ended December 31, 2003, 2004 and 2005 are as follows (in millions). All prior period amounts have been reclassified in order to conform with the current period presentation.

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:			
Wireless Network Services	\$ 187.4	\$ 217.3	\$ 223.0
Enterprise Network Services	41.1	65.3	67.3
Government Network Services	—	51.6	85.0
Total revenues	<u>\$ 228.5</u>	<u>\$ 334.2</u>	<u>\$ 375.3</u>
Operating income (loss):			
Wireless Network Services	\$ 13.0	\$ 1.6	\$ 2.7
Enterprise Network Services	0.7	(7.9)	6.3
Government Network Services	—	4.4	8.1
Total operating income (loss)	<u>\$ 13.7</u>	<u>\$ (1.9)</u>	<u>\$ 17.1</u>

The operating loss of Enterprise Network Services for 2004 was impacted by a charge for contingent acquisition consideration of \$12.4 million resulting from the Company's amendment of the purchase agreements related to two of the companies acquired in the ENS division. The operating income of Enterprise Network Services for 2005 was impacted by a \$2.1 million credit to reduce an excess contingent acquisition accrual.

Revenues generated by geographic area for the years ended December 31, 2003, 2004 and 2005 are as follows (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
United States	\$ 205.2	\$ 296.1	\$ 337.7
EMEA	13.9	34.9	27.1
Latin America	9.4	3.2	10.5
Total revenues	<u>\$ 228.5</u>	<u>\$ 334.2</u>	<u>\$ 375.3</u>

WIRELESS FACILITIES, INC.**Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2003, 2004 and 2005**

Assets of the Company's corporate headquarters and other corporate related assets have been included in the assets of the Wireless Network Services segment.

Total assets by segment for the years ended December 31, 2003, 2004 and 2005 are as follows (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Wireless Network Services	\$ 223.4	\$ 184.2	\$ 132.4
Enterprise Network Services	23.6	40.3	45.3
Government Network Services	—	61.8	110.2
Discontinued operations	31.8	44.4	48.4
Total assets	<u>\$278.8</u>	<u>\$ 330.7</u>	<u>\$336.3</u>

Long-lived assets by geographic area for the years ended December 31, 2003, 2004 and 2005, which include property and equipment, goodwill, other intangibles and investments in unconsolidated affiliates, are as follows (in millions):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
United States	\$ 46.5	\$ 101.1	\$ 142.1
EMEA	0.5	2.5	1.4
Latin America	—	—	0.5
Total long-lived assets	<u>\$ 47.0</u>	<u>\$ 103.6</u>	<u>\$ 144.0</u>

See Note 6 and Note 2 for detail of long-lived assets.

Note 14. Related Party Transactions

In August 2001, WFI and GlobTel Holdings, Ltd. ("GlobTel") executed a Master Service Agreement (MSA) whereby WFI or its designated affiliates would perform telecommunications outsourcing services. GlobTel is substantially owned by Massih Tayebi, a brother of Masood K. Tayebi, and former Chairman of the Company. During 2003, the Company recorded approximately \$0.9 million in total net revenues and received approximately \$0.7 million from GlobTel for services provided under the MSA. Such revenues are a component of total revenues in the Company's consolidated statements of operations. As of December 31, 2003 and 2004, the Company had an outstanding accounts receivable balance with Globtel of approximately \$0.2 million and \$0, respectively. Such accounts receivables are reflected as accounts receivable—related party in the Company's consolidated balance sheet. At December 31, 2003, 2004 and 2005, no future commitments or guarantees exist between GlobTel and the Company.

In June 2001, WFI received a payment of \$0.5 million from BridgeWest LLC, a privately-held investment group, representing a prepayment for future engineering services to be provided by WFI to BridgeWest LLC. BridgeWest LLC is substantially owned by Masood K. Tayebi, the Executive Chairman and the former Chief Executive Officer of the Company, Massih Tayebi, a brother of Masood K. Tayebi and former Chairman of the Company, and Sean Tayebi, also a brother of Masood K. Tayebi. The Company has recorded approximately \$0.2 million total revenues for services provided under this agreement for each of the years ended December 31, 2003 and 2004. Such revenues are a component of

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

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total revenues in the Company's consolidated statements of operations and the Wireless Network Services operating segment. During the second quarter of 2003, approximately \$0.2 million of the payment received from BridgeWest LLC was applied towards billings for cumulative engineering services provided by WFI and the residual balance of \$0.3 million was refunded to BridgeWest LLC. At December 31, 2003, 2004 and 2005, no commitments or guarantees exist between BridgeWest LLC and the Company.

On May 30, 2002, the Company issued an aggregate of 90,000 shares of Series B Convertible Preferred Stock, with aggregate proceeds 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 Executive Chairman and the former 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 net proceeds. Each share of Series B Convertible Preferred Stock is initially convertible into 100 shares of Common Stock for a common stock conversion price of \$5.00 per share, which was the fair market value of the Common Stock at the closing, 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 commence on the 18-month anniversary of the closing date, 20% of the shares are released from lock-up and available for resale upon conversion. On March 5, 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 lapsed, 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 August 2003, a brother of Masood K. Tayebi, the Chairman and the former Chief Executive Officer of the Company, changed his employment status from employee to consultant and the exercise period of the stock option items was extended. This change in status resulted in a modification of the terms of stock options that had previously been granted to him. In accordance with the provisions of FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," a stock-based non-cash compensation charge of \$3.8 million was in the Company's 2003 statements of operations to reflect the re-measurement of these options.

In 2003, in conjunction with two companies that the Company acquired in its Enterprise Network Services business, the Company assumed certain facility lease obligations for which the facilities were owned by the previous shareholders. The lease expense, which approximates \$0.3 million for the year ended December 31, 2004 is reflected in the statement of operations.

In connection with the Company's acquisition of TLA in January 2005, the Company assumed certain facility lease obligations for a facility owned by the previous shareholders. The lease expense, which approximates \$0.7 million for the year ended December 31, 2005, respectively, is reflected in the statement of operations.

On March 28, 2005, the Company entered into Change in Control Agreements with the following employees: Deanna Lund, the Company's Senior Vice President and Chief Financial Officer and James R. Edwards, the Company's Senior Vice President and General Counsel. The Agreements provide that, among other things, upon a change of control each employee is entitled to (i) the immediate vesting of fifty percent (50%) of all stock options and stock appreciation rights granted to such employee as of the date of the change in control and (ii) the vesting of the remaining stock options and stock appreciation rights on

WIRELESS FACILITIES, INC.

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the earlier of the one year anniversary date of the change of control or the resignation by such employee as a result of certain triggering events following the change in control. On March 28, 2006, these agreements were amended and restated to provide (i) a severance payment of two years of such employee's base salary plus the employee's maximum bonus amount for that period in the event of termination or resignation as a result of certain triggering events and (ii) a severance payment of one year of such employee's base salary in the event the employee is terminated without cause, plus a vesting of all unvested stock options and stock appreciation rights.

On February 17, 2006, the Company entered into a definitive agreement to divest all of its operations in Mexico for total approximate cash consideration of \$18 million, payable in installments through December 2006, subject to adjustment, which approximates the net book value of the operations. The purchaser, Sakoki LLC, is a newly-formed entity controlled by Massih Tayebi. Although Massih Tayebi has no current role with the Company, he was a co-founder of the Company, having served as Chief Executive Officer from inception in 1994 through September 2000 and as a director from inception through April 2002. In addition, Massih Tayebi owns or controls approximately 11% of the total voting power of the Company's capital stock. He is also the brother of Masood Tayebi, the Company's current Chairman of the Board of Directors. Masood Tayebi has no personal financial interest in the transaction and will have no role with the entity that is purchasing the Mexico Operations. The transaction was approved by the disinterested members of the Company's Board of Directors after consideration of other expressions of interest and a valuation analysis by an independent audit firm. Refer to Note 18 for further discussion.

Note 15. Commitments and Contingencies

The Company periodically evaluates all pending or threatened contingencies and any 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 was determined that accruals of \$0.9 million and \$0.8 million for VAT tax contingencies was required as of December 31, 2004 and December 31, 2005, respectively. A sales and use tax contingency of \$0.8 million and \$1.0 million were required for December 31, 2004 and December 31, 2005, respectively. The Company has accrued additional amounts for certain income tax contingencies for fiscal years 2001 through 2005.

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The Company maintains an accrual for the Company's 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 the Company's historical experience and trends related to both medical and workers compensation claims and payments, information provided to the Company by the Company's insurance broker, industry experience and the average lag period in which claims are paid. If such information indicates that the Company's accruals require adjustment, the Company will, correspondingly, revise the assumptions utilized in the Company's methodologies and reduce or provide for additional accruals as deemed appropriate. As of December 31, 2005, the accrual for the Company's partial self-insurance programs approximated \$2.6 million. The Company also carries stop-loss insurance that provides coverage limiting the Company's total exposure related to each medical and workers compensation claim incurred, as defined in the applicable insurance policies. The medical and workers compensation annual claim limits are \$150,000 and \$250,000, respectively. For the year ending December 31, 2005, the Company experienced no claims that exceeded the limits for medical and one claim that exceeded the limits for workers compensation. As of December 31, 2005, the Company had \$1.5 million letters of credit outstanding issued from the Company's insurance carrier to cover a performance bond and liabilities in connection with the Company's workers' compensation partial self-insurance.

Note 16. Legal Matters

Beginning in July 2001, the Company and certain of its former officers and directors (the "Individuals") were named as defendants in a series of class action shareholder complaints filed in the U.S. District Court for the Southern District of New York, now consolidated into a single amended complaint captioned *In re Buy.com, Inc. Initial Public Offering Securities Litigation*, Case No. 01-CV-6323. In the amended complaint, filed in April 2002, the plaintiffs allege that the Company, the Individuals, and the underwriters of the Company's initial public offering ("IPO") violated section 11 of the Securities Act of 1933 and section 10(b) of the Exchange Act of 1934 based on allegations that the Company's registration statement and prospectus failed to disclose material facts regarding the compensation to be received by, and the stock allocation practices of, the IPO underwriters. The complaint also contains claims against the Individuals for control person liability under Securities Act section 15 and Exchange Act section 20. The plaintiffs sought unspecified monetary damages and other relief. Similar complaints were filed in the same Court against hundreds of other public companies ("Issuers") and the underwriters ("Underwriters") that conducted IPOs of the Issuers' common stock in the late 1990s or in the year 2000 (the "IPO Cases").

In August 2001, all of the IPO Cases were consolidated for pretrial purposes before United States Judge Shira Scheindlin of the Southern District of New York. In July 2002, the Company joined in a global motion to dismiss the IPO Cases filed by all of the Issuers (among others). In October 2002, the Court entered an order dismissing the Individuals from the IPO Cases without prejudice, pursuant to an agreement tolling the statute of limitations with respect to the Individuals. In February 2003, the Court issued a decision denying the motion to dismiss the Securities Act section 11 and Exchange Act section 10(b) claims against the Company.

In June 2003, the Issuers reached a tentative settlement agreement with the plaintiffs that would result in, among other things, (a) the dismissal with prejudice of all claims in the IPO Cases against the Issuers and their officers and directors and (b) a guarantee from the insurers of the Issuers to the plaintiffs that, if the plaintiffs recover less than \$1 billion from the Underwriters in the IPO Cases, the insurers would pay

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the difference between the actual recovery and \$1 billion. In June 2004, the Company executed a final settlement agreement with the plaintiffs. On February 15, 2005, the Court issued a decision certifying a class action for settlement purposes, and granting preliminary approval of the settlement subject to modification of certain bar orders contemplated by the settlement. On August 31, 2005, the Court reaffirmed class certification and preliminary approval of the modified settlement in a comprehensive Order. In addition, the Court approved the form of Notice to be sent to members of the settlement classes, which was published and mailed beginning November 15, 2005. On February 24, 2006, the Court dismissed litigation filed against certain underwriters in connection with the claims to be assigned to the plaintiffs under the settlement. The Court has set a Final Settlement Fairness Hearing on the settlement for April 24, 2006. In addition, the settlement is still subject to statutory notice requirements as well as final judicial approval. The Company does not expect the settlement to have a material impact on its operations or cash flow.

In August 2004, as a result of the Company's announcement on August 4, 2004 that it intended to restate its financial statements for the fiscal years ended December 31, 2000, 2001, 2002 and 2003, the Company and certain of its current and former officers and directors were named as defendants ("Defendants") in several securities class action lawsuits filed in the United States District Court for the Southern District of California. These actions were filed on behalf of those who purchased, or otherwise acquired, the Company's common stock between April 26, 2000 and August 4, 2004. The lawsuits generally allege that, during that time period, Defendants made false and misleading statements to the investing public about the Company's business and financial results, causing its stock to trade at artificially inflated levels. Based on these allegations, the lawsuits allege that Defendants violated the Securities Exchange Act of 1934, and the plaintiffs seek unspecified damages. These actions have been consolidated into a single action in *In re Wireless Facilities, Inc. Securities Litigation*, Master File No. 04CV1589-JAH. The plaintiffs filed their consolidated complaint in January 2005 and did not name the Company a defendant in that complaint. After the individual defendants filed their motion to dismiss, the plaintiffs requested leave to amend their complaint to add the Company as a defendant. Plaintiffs filed the First Amended Consolidated Class Action Complaint on April 1, 2005. Defendants filed their motion to dismiss this first amended complaint on April 14, 2005. The plaintiffs then requested leave to amend their first amended complaint. The plaintiffs filed their second amended complaint on June 9, 2005, this time on behalf of those who purchased, or otherwise acquired, the Company's common stock between May 5, 2003 and August 4, 2004. Defendants filed their motion to dismiss this second amended complaint on July 14, 2005. The motion to dismiss was taken under submission on October 20, 2005 and on March 8, 2006, the Court granted the Company's motion. However, the plaintiffs were granted the right to amend their complaint within 45 days. The Company believes that the allegations lack merit and intends to vigorously defend all claims asserted. It is impossible at this time to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company. We have not recorded any accrual for a contingent liability associated with this legal proceeding based on the Company's belief that a liability, while possible, is not probable and any range of potential future charge cannot be reasonably estimated at this time.

Two derivative lawsuits have been filed in the United States District Court for the Southern District of California against certain of the Company's current and former officers and directors: *Pedicini v. Wireless Facilities, Inc.*, Case No. 04CV1663; and *Roth v. Wireless Facilities, Inc.*, Case No. 04CV1810. These actions have been consolidated into a single action in *In re Wireless Facilities, Inc. Derivative Litigation*, Lead Case

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Years ended December 31, 2003, 2004 and 2005

No 04CV1663-JAH. The factual allegations in these lawsuits are substantially similar to those in the class action lawsuits, but the plaintiffs in these lawsuits assert claims for breach of fiduciary duty, gross mismanagement, abuse of control, waste of corporate assets, violation of Sarbanes Oxley Act section 304, unjust enrichment and insider trading. The plaintiffs in these lawsuits seek unspecified damages and equitable and/or injunctive relief. The lead plaintiff filed a consolidated complaint on March 21, 2005. On May 3, 2005, the defendants filed motions to dismiss this action, to stay this action pending the resolution of the consolidated non-derivative securities case pending in the Southern District of California, and to dismiss the complaint against certain non-California resident defendants. The parties have agreed to postpone any hearing on these motions until after limited discovery is completed regarding the motion to dismiss the action against certain individual defendants based on lack of personal jurisdiction. The discovery is now expected to be completed by the end of March 2006, although the parties are currently negotiating an extension of this time period until June 14, 2006. The Company believes that the allegations lack merit and intends to vigorously defend all claims asserted. It is impossible at this time to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company. We have not recorded any accrual for a contingent liability associated with this legal proceeding based on the Company's belief that a liability, while possible, is not probable and any range of potential future charge cannot be reasonably estimated at this time.

In August and September 2004, two virtually identical derivative lawsuits were filed in California Superior Court for San Diego County against certain of the Company's current and former officers and directors. These actions contain factual allegations similar to those of the federal lawsuits, but the plaintiffs in these cases assert claims for violations of California's insider trading laws, breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. The plaintiffs in these actions seek unspecified damages, equitable and/or injunctive relief and disgorgement of all profits, benefits and other compensation obtained by defendants. These lawsuits have been consolidated into one action and *In re Wireless Facilities, Inc. Derivative Litigation*, California Superior Court, San Diego County, Lead Case No. GIC 834253. The plaintiffs filed a Consolidated Shareholder Derivative Complaint on October 14, 2004. This action has been stayed pending a decision in federal court on a motion to dismiss the federal derivative lawsuits and there will be a hearing in April 2006 to evaluate the status of this case. The Company believes that the allegations lack merit and intends to vigorously defend all claims asserted. It is impossible at this time to assess whether or not the outcome of these proceedings will or will not have a material adverse effect on the Company. We have not recorded any accrual for a contingent liability associated with this legal proceeding based on the Company's belief that a liability, while possible, is not probable and any range of potential future charge cannot be reasonably estimated at this time.

On January 19, 2005, the Company and a selling shareholder in a Company subsidiary in the ENS division initiated an arbitration proceeding regarding the termination of employment of that individual from ENS. The amount in controversy was approximately \$1.8 million. On April 20, 2005, the arbitrator, upon motion by the selling shareholder, permitted the arbitration proceeding to expand to allow the selling shareholder to seek early payment of the sums which may be due under the selling shareholder's earn-out agreement. In this arbitration proceeding, the selling shareholder is claiming he is entitled to approximately \$5.0 million. The arbitration is currently expected to occur during the second quarter of 2006. The Company is disputing the selling shareholder's right to further compensation, his entitlement to an earn-out payment and, if a payment is due, the early payment of any such amounts. On March 10, 2006, the arbitrator in the case ruled that if the selling shareholder were to prevail, his share of the earn-out will

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

be limited to the amount calculated based on the actual earnings of the Company subsidiary. The Company estimates the total potential exposure to be approximately \$1.3 million which includes among other things, the contingent consideration, salary, and attorney's fees. The Company has accrued approximately \$0.8 million as of December 31, 2005 and does not believe any additional adjustment will be necessary. See Note 5 for discussion regarding contingent acquisition consideration.

In addition to the foregoing 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 the Company's business, financial condition or operating results.

Note 17. Quarterly Financial Data (Unaudited)

The following financial information reflects all normal and recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for the years ended December 31, 2004 and 2005, is as follows (in millions, except per share data):

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<i>Fiscal year 2004</i>				
Revenues	\$ 82.2	\$ 85.8	\$ 77.8	\$ 88.4
Gross profit	\$ 19.0	\$ 20.5	\$ 9.6	\$ 22.1
Operating income (loss)	\$ 5.3	\$ 6.9	\$ (19.0)	\$ 4.9
Provision (benefit) for income taxes	\$ 1.3	\$ 1.5	\$ 8.0	\$ (10.7)
Net income (loss)	\$ 5.9	\$ 1.7	\$ (14.9)	\$ 12.3
Net income (loss) per common share:				
Basic	\$ 0.08	\$ 0.02	\$ (0.22)	\$ 0.17
Diluted	\$ 0.08	\$ 0.02	\$ (0.22)	\$ 0.16
	<u>First Quarter</u>	<u>Second Quarter (Restated)</u>	<u>Third Quarter (Restated)</u>	<u>Fourth Quarter</u>
<i>Fiscal year 2005</i>				
Revenues	\$ 90.7	\$ 95.3	\$ 94.5	\$ 94.8
Gross profit	\$ 20.7	\$ 21.9	\$ 20.2	\$ 21.5
Operating income	\$ 4.3	\$ 4.3	\$ 5.5	\$ 3.0
Provision for income taxes	\$ 1.7	\$ 1.5	\$ 0.7	\$ 1.5
Net income (loss)	\$ 3.6	\$ 3.3	\$ 5.2	\$ (8.4)
Net income (loss) per common share:				
Basic	\$ 0.05	\$ 0.04	\$ 0.07	\$ (0.11)
Diluted	\$ 0.05	\$ 0.04	\$ 0.07	\$ (0.11)

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Quarterly Results in 2004

The Company's third quarter of 2004 operating loss and net loss were impacted by a \$13.9 million charge comprised of contingent acquisition consideration of \$12.4 million and \$1.5 million of general and administrative costs related to the Company's financial statement restatement. The \$12.4 million charge was a result of the Company's amendment of the purchase agreements related to two of the companies acquired in the ENS divisions, resulting in a rescission of the continuous employment clauses from the earn-out arrangements. These amendments constituted a triggering event which resulted in the charge of \$12.4 million. In addition, operating loss was impacted by a \$9.8 million reduction in gross margin resulting primarily from increases in estimated costs for contracts signed in 2003.

The Company's fourth quarter of 2004 net income was impacted by the benefit for income taxes of \$10.7 million, or an effective 214 percent benefit rate. The tax benefit was a result of the Company's reduction of certain tax valuation accounts resulting from the Company's refinement of its projected adjusted taxable income by each tax jurisdiction.

Quarterly Results in 2005

The Company's second and third quarter results required revision of previously issued financial statements to reflect the accounting impact of the cancellation of sites by one of its customers in Mexico in those periods. Senior management as well as the Audit Committee became aware of communications regarding these cancellations after the replacement of certain managers in these operations in the fourth quarter of 2005. Although the Company had an agreement with its customer to build these sites, the terms and conditions of the agreements did not provide for recovery by the Company of costs incurred on in-process sites in the event of site cancellation, unless agreed to by the customer. The financial impact of these adjustments aggregate to a reduction of \$4.8 million in revenues and \$1.6 million in net income for the combined prior two quarters.

The Company's fourth quarter of 2005 net loss was impacted by a loss from discontinued operations of \$9.9 million, which was primarily driven by the cancellation of a number of sites that the Company was building in Latin America locations which resulted in a loss of approximately \$3.0 million. In addition, an impairment charge of \$0.9 million related to the accumulated currency translation losses was recorded in accordance with EITF Issue 01-5 "Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment that Will Be Disposed Of." Also, included in loss from discontinued operations was a \$3.4 million impairment related to certain of the discontinued operation's deferred tax assets. Both of these impairments were triggered by the sale of the Company's operations in Mexico.

Note 18. Subsequent Event

As discussed in Note 3(c), in December 2005, the Company's Board of Directors made the decision to exit its Mexican operations and certain of its other deployment businesses in South America. Prior to this decision, these operations had been reported in the Company's Wireless Network Services segment. On February 17, 2006, the Company entered into an Equity Purchase Agreement to sell all of the stock of its wholly owned subsidiaries (i) WFI de México, S. de R.L. de C.V., (ii) WFI de México, Servicios de Administración, S. de R.L. de C.V., (iii) WFI de México, Servicios de Ingeniería, S. de R.L. de C.V., (iv) WFI Services de Mexico S.A. de C.V., (v) WFI Asesoría en Administración, S.C.; and (vi) WFI

WIRELESS FACILITIES, INC.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2003, 2004 and 2005

Asesoria en Telecomunicaciones, S.C. (the "Mexico Operations") to Sakoki LLC. The transaction closed on March 10, 2006.

The Equity Purchase Agreement provides that the Company will receive total approximate cash consideration of \$18 million, subject to adjustment, with \$1.5 million payable in cash on signing of the Equity Purchase Agreement and \$16.5 million payable by means of a secured promissory note payable in installments through December 31, 2006, subject to adjustments. The note is secured by pledges of assets and a personal guaranty. The total consideration approximates the net book value of operations, including \$13.2 million of contingent liabilities.

The Company's decision to divest the Mexican operations was prompted by the changing business climate in Mexico and a review of the strategic alternatives for its free cash flow. Unfavorable contractual terms recently proposed the Company's largest customers in Mexico would further increase the extensive working capital required to operate a Mexican deployment company while pricing pressure threatens to adversely affect the future profitability of the Mexican operations. Further, the recent refinements of the cell site build plans by the Company's largest customers have resulted in the cancellation of a number of sites that the Company was building in Mexico and other South American locations. This resulted in a write-off of unrecoverable expenses of approximately \$5.0 million in 2005. The Company has not yet been able to negotiate any termination settlements with its customers to offset these costs.

Sakoki, is a newly-formed entity controlled by Massih Tayebi. Although Massih Tayebi has no current role with the Company, he was a co-founder of the Company, having served as Chief Executive Officer from inception in 1994 through September 2000 and as a director from inception through April 2002. In addition, Massih Tayebi owns or controls approximately 11% of the total voting power of the Company's capital stock. He is also the brother of Masood Tayebi, the Company's current Chairman of the Board of Directors. Masood Tayebi has no personal financial interest in the transaction and will have no role with the entity that is purchasing the Mexico Operations. The transaction was approved by the disinterested members of the Company's Board of Directors after consideration of other expressions of interest and a valuation analysis by an independent audit firm. The transaction closed on March 10, 2006.

WIRELESS FACILITIES, INC.
Schedule II: Valuation and Qualifying Accounts
(in millions)

Years Ended December 31, 2003, 2004 and 2005

	Balance at Beginning of		Write-offs/ Recoveries	Balance at End of Year
	Year	Provision		
<u>Allowance for Doubtful Accounts</u>				
Year ended December 31, 2003	\$ 0.9	\$ 0.6	\$ —	\$ 1.5
Year ended December 31, 2004	\$ 1.5	\$ 0.5	\$ (0.7)	\$ 1.3
Year ended December 31, 2005	\$ 1.3	\$ 0.9	\$ (0.7)	\$ 1.5

	Balance at Beginning of		Provisions (Reduction)	Balance at End of Year
	Year			
<u>Valuation Allowance on Deferred Tax Assets</u>				
Year ended December 31, 2003	\$ 35.7		\$ (8.4)	\$ 27.3
Year ended December 31, 2004	\$ 27.3		\$ 0.8	\$ 28.1
Year ended December 31, 2005	\$ 28.1		\$ (5.1)	\$ 23.0

See accompanying Reports of Independent Registered Public Accounting Firms.

**AMENDED AND RESTATED SEVERANCE AND
CHANGE OF CONTROL AGREEMENT**

This Amended and Restated Severance and Change of Control Agreement (“Agreement”) is effective as of March 28, 2006, between Wireless Facilities, Inc. (“WFI”) and Deanna Lund (“Lund”), as approved by WFI’s Board Compensation Committee.

A. Lund is presently employed as Chief Financial Officer pursuant to an offer letter dated March 15, 2004 (the “Offer Letter”).

B. On March 28, 2005, WFI and Lund entered into a Change of Control Agreement (the “Original Agreement”), which memorialized in writing their understanding regarding the vesting of stock options and stock appreciation rights granted to Lund under WFI’s equity incentive plans in the event of a Change of Control.

C. As consideration for Lund’s agreement to undertake and continue her duties and responsibilities in her role as Chief Financial Officer in light of the changed circumstances at the Company since the date of the Original Agreement, WFI and Lund desire to enter into this Agreement to (i) amend and restate paragraph 2 of the Original Agreement to provide for the payment of severance compensation to Lund upon a termination without Cause, (ii) revise the definition of Cause in paragraph 3(c) of the Original Agreement, and (iii) add a new paragraph 6 to address compliance with Section 409A of the Internal Revenue Code of 1986 (the “Code”).

Therefore, in consideration of the promises and the mutual covenants contained below, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. *Vesting Upon Change of Control.* Upon the closing of a transaction that constitutes a Change of Control (as defined in paragraph 3(a) below), the vesting of 50% of all stock options and stock appreciation rights granted to Lund under WFI’s equity incentive plans that as of the date of such Change of Control remain unvested shall accelerate, to the extent permissible by law, notwithstanding and in addition to any existing vesting provisions set forth in such stock option, stock appreciation right and/or WFI equity incentive plan. On the one year anniversary of such Change of Control or upon a Triggering Event (as defined in paragraph 3(b) below), whichever occurs sooner, the remaining unvested portion of any stock options and stock appreciation rights shall immediately vest.

2. *Severance Payments.* If Lund is (a) terminated without Cause (as defined in paragraph 3(c) below) or (b) voluntarily resigns from WFI as a result of a Triggering Event (as defined in paragraph 3(b) below) after a Change of Control (as defined in paragraph 3(a) below), then Lund will be entitled to receive in satisfaction of all obligations (other than as provided in paragraph 1 above) that WFI may have to Lund: (i) in the case of 2(a) hereof, severance compensation equal to one year of her base salary then in effect; or in the case of 2 (b) hereof, severance compensation equal to two years of her base salary plus her maximum potential bonus amount for two years; in either case, less applicable taxes and withholding; and, if needed by Lund, (ii) her then-current health insurance coverage, at the then current employee cost, during the twelve (12) month period following a termination in the case of 2 (a); or during the twenty-four (24) month period following a resignation in the case of 2(b). In addition, in the event that Lund is terminated without Cause, the vesting of 100% of all stock options and stock appreciation rights granted to Lund under WFI’s equity incentive plans that as of the date of such termination remain unvested shall accelerate, to the extent permissible by law, notwithstanding and in addition to any existing vesting provisions set forth in such stock option, stock appreciation right

and/or WFI equity incentive plan. The foregoing severance compensation, health insurance coverage and acceleration of vesting will be conditioned upon Lund's execution of a separation agreement with a release of claims reasonably satisfactory to WFI and such severance compensation shall be paid in a single lump sum payment promptly after Lund's execution of such separation agreement.

3. *Definition of Change of Control and Triggering Event.*

(a) A Change of Control means: (i) the acquisition by an individual person or entity or a group of individuals or entities acting in concert, directly or indirectly, through one transaction or a series of transactions, of more than 50% of the outstanding voting securities of WFI; (ii) a merger or consolidation of WFI with or into another entity after which the stockholders of WFI immediately prior to such transaction hold less than 50% of the voting securities of the surviving entity; (iii) any action or event that results in the Board of Directors consisting of fewer than a majority of Incumbent Directors ("Incumbent Directors" shall mean directors who either (A) are directors of WFI as of the date hereof, or (B) are elected or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination); or (iv) a sale of all or substantially all of the assets of WFI.

(b) A Triggering Event means (i) Lund's termination from employment; (ii) a material change in the nature of Lund's role or job responsibilities so that Lund's job duties and responsibilities after the Change of Control, when considered in their totality as a whole, are substantially different in nature from the job duties Lund performed immediately prior to the Change of Control; or (iii) the relocation of Lund's principal place of work to a location of more than thirty (30) miles from the location Lund was assigned to immediately prior to the Change of Control.

(c) "Cause" means (i) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of Lund with respect to Lund's obligations or otherwise relating to the business of WFI; (ii) Lund's material breach of this Agreement or WFI's standard form of confidentiality agreement; (iii) Lund's conviction or entry of a plea of *nolo contendere* for fraud, misappropriation or embezzlement, or any felony or crime of moral turpitude; (iv) Lund's failure to perform her duties and responsibilities as Chief Financial Officer to the reasonable satisfaction of the Board after being provided with notice thereof and thirty (30) days opportunity to remedy such failure; and (v) Lund's willful neglect of duties or poor performance. Notwithstanding the foregoing, a termination under subsection (v) shall not constitute a termination for "Cause" unless WFI has first given Lund written notice of the offending conduct (such notice shall include a description of remedial actions that WFI reasonably deems appropriate to cure such offending conduct) and a thirty (30) day opportunity to cure such offending conduct. In the event WFI terminates Lund's employment under subsection (v), WFI agrees to participate in binding arbitration, if requested by Lund, to determine whether the cause for termination was willful neglect of duties or poor performance as opposed to some other reason that does not constitute Cause under this Agreement.

4. *General Provisions.* Except as set forth in this Agreement, the terms of the Offer Letter remain unchanged. Nothing in this Agreement is intended to change the at-will nature of Lund's employment with WFI. This Agreement and the Offer Letter, including the Additional Terms and Conditions attached thereto and the Proprietary Information and Innovations Agreement signed by Lund, constitute the entire agreement between Lund and WFI with respect to Lund's employment with WFI, and supersedes and replaces the Original Agreement in its

entirety. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties.

5. *Compliance with Section 409A of the Code* . This Agreement is intended to comply with Section 409A of the Code (or any regulations or rulings thereunder), and shall be construed and interpreted in accordance with such intent. Notwithstanding anything to the contrary in this Agreement, WFI, in the exercise of its sole discretion and without the consent of Lund, (a) may amend or modify this Agreement in any manner in order to meet the requirements of Section 409A of the Code as amplified by any Internal Revenue Service or U.S. Treasury Department guidance and (b) shall have the authority to delay the payment of any amounts or the provision of any benefits under this Agreement to the extent it deems necessary or appropriate to comply with Section 409A(a)(2)(B)(i) of the Code (relating to payments made to certain "key employees" of certain publicly-traded companies) as amplified by any Internal Revenue Service or U.S. Treasury Department guidance as WFI deems appropriate or advisable. In such event, any amounts or benefits under this Agreement to which Lund would otherwise be entitled during the six (6) month period following Lund's termination of employment will be paid on the first business day following the expiration of such six (6) month period. Any provision of this Agreement that would cause the payment of any benefit to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Code Section 409A (which amendment may be retroactive to the extent permitted by the Code or any regulations or rulings thereunder).

Deanna H. Lund

Dated: March 28, 2006

/s/ Deanna H. Lund

Wireless Facilities, Inc.

Dated: March 28, 2006

By: /s/ Eric DeMarco

Eric DeMarco, Chief Executive Officer

**AMENDED AND RESTATED SEVERANCE AND
CHANGE OF CONTROL AGREEMENT**

This Amended and Restated Severance and Change of Control Agreement (“Agreement”) is effective as of March 28, 2006, between Wireless Facilities, Inc. (“WFI”) and James Edwards (“Edwards”), as approved by WFI’s Board Compensation Committee.

A. Edwards is presently employed as Senior Vice President, General Counsel pursuant to an offer letter dated March 29, 2004 (the “Offer Letter”).

B. On March 28, 2005, WFI and Edwards entered into a Change of Control Agreement (the “Original Agreement”), which memorialized in writing their understanding regarding the vesting of stock options and stock appreciation rights granted to Edwards under WFI’s equity incentive plans in the event of a Change of Control.

C. As consideration for Edwards’ agreement to undertake and continue his duties and responsibilities in his role as Senior Vice President, General Counsel in light of the changed circumstances at the Company since the date of the Original Agreement, WFI and Edwards desire to enter into this Agreement to (i) amend and restate paragraph 2 of the Original Agreement to provide for the payment of severance compensation to Edwards upon a termination without Cause, (ii) revise the definition of Cause in paragraph 3(c) of the Original Agreement, and (iii) add a new paragraph 6 to address compliance with Section 409A of the Internal Revenue Code of 1986 (the “Code”).

Therefore, in consideration of the promises and the mutual covenants contained below, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. *Vesting Upon Change of Control.* Upon the closing of a transaction that constitutes a Change of Control (as defined in paragraph 3(a) below), the vesting of 50% of all stock options and stock appreciation rights granted to Edwards under WFI’s equity incentive plans that as of the date of such Change of Control remain unvested shall accelerate, to the extent permissible by law, notwithstanding and in addition to any existing vesting provisions set forth in such stock option, stock appreciation right and/or WFI equity incentive plan. On the one year anniversary of such Change of Control or upon a Triggering Event (as defined in paragraph 3(b) below), whichever occurs sooner, the remaining unvested portion of any stock options and stock appreciation rights shall immediately vest.

2. *Severance Payments.* If Edwards is (a) terminated without Cause (as defined in paragraph 3(c) below) or (b) voluntarily resigns from WFI as a result of a Triggering Event (as defined in paragraph 3(b) below) after a Change of Control (as defined in paragraph 3(a) below), then Edwards will be entitled to receive in satisfaction of all obligations (other than as provided in paragraph 1 above) that WFI may have to Edwards: (i) in the case of 2(a) hereof, severance compensation equal to one year of his base salary then in effect; or in the case of 2 (b) hereof, severance compensation equal to two years of his base salary plus his maximum potential bonus amount for two years; in either case, less applicable taxes and withholding; and, if needed by Edwards, (ii) his then-current health insurance coverage, at the then current employee cost, during the twelve (12) month period following a termination in the case of 2 (a); or during the twenty-four (24) month period following a resignation in the case of 2(b). In addition, in the event that Edwards is terminated without Cause, the vesting of 100% of all stock options and stock appreciation rights granted to Edwards under WFI’s equity incentive plans that as of the date of such termination remain unvested shall accelerate, to the extent permissible by law,

notwithstanding and in addition to any existing vesting provisions set forth in such stock option, stock appreciation right and/or WFI equity incentive plan. The foregoing severance compensation, health insurance coverage and acceleration of vesting will be conditioned upon Edwards' execution of a separation agreement with a release of claims reasonably satisfactory to WFI and such severance compensation shall be paid in a single lump sum payment promptly after Edwards' execution of such separation agreement.

3. *Definition of Change of Control and Triggering Event.*

(a) A Change of Control means: (i) the acquisition by an individual person or entity or a group of individuals or entities acting in concert, directly or indirectly, through one transaction or a series of transactions, of more than 50% of the outstanding voting securities of WFI; (ii) a merger or consolidation of WFI with or into another entity after which the stockholders of WFI immediately prior to such transaction hold less than 50% of the voting securities of the surviving entity; (iii) any action or event that results in the Board of Directors consisting of fewer than a majority of Incumbent Directors ("Incumbent Directors" shall mean directors who either (A) are directors of WFI as of the date hereof, or (B) are elected or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination); or (iv) a sale of all or substantially all of the assets of WFI.

(b) A Triggering Event means (i) Edwards' termination from employment; (ii) a material change in the nature of Edwards' role or job responsibilities so that Edwards' job duties and responsibilities after the Change of Control, when considered in their totality as a whole, are substantially different in nature from the job duties Edwards performed immediately prior to the Change of Control; or (iii) the relocation of Edwards' principal place of work to a location of more than thirty (30) miles from the location Edwards was assigned to immediately prior to the Change of Control.

(c) "Cause" means (i) acts or omissions constituting gross negligence, recklessness or willful misconduct on the part of Edwards with respect to Edwards' obligations or otherwise relating to the business of WFI; (ii) Edwards' material breach of this Agreement or WFI's standard form of confidentiality agreement; (iii) Edwards' conviction or entry of a plea of *nolo contendere* for fraud, misappropriation or embezzlement, or any felony or crime of moral turpitude; (iv) Edwards' failure to perform his duties and responsibilities as Senior Vice President, General Counsel to the reasonable satisfaction of the Board after being provided with notice thereof and thirty (30) days opportunity to remedy such failure; and (v) Edwards' willful neglect of duties or poor performance. Notwithstanding the foregoing, a termination under subsection (v) shall not constitute a termination for "Cause" unless WFI has first given Edwards written notice of the offending conduct (such notice shall include a description of remedial actions that WFI reasonably deems appropriate to cure such offending conduct) and a thirty (30) day opportunity to cure such offending conduct. In the event WFI terminates Edwards' employment under subsection (v), WFI agrees to participate in binding arbitration, if requested by Edwards, to determine whether the cause for termination was willful neglect of duties or poor performance as opposed to some other reason that does not constitute Cause under this Agreement.

4. *General Provisions.* Except as set forth in this Agreement, the terms of the Offer Letter remain unchanged. Nothing in this Agreement is intended to change the at-will nature of Edwards' employment with WFI. This Agreement and the Offer Letter, including the Additional Terms and Conditions attached thereto and the Proprietary Information and Innovations Agreement signed by Edwards, constitute the entire agreement between Edwards and WFI with

respect to Edwards' employment with WFI, and supersedes and replaces the Original Agreement in its entirety. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties.

5. *Compliance with Section 409A of the Code*. This Agreement is intended to comply with Section 409A of the Code (or any regulations or rulings thereunder), and shall be construed and interpreted in accordance with such intent. Notwithstanding anything to the contrary in this Agreement, WFI, in the exercise of its sole discretion and without the consent of Edwards, (a) may amend or modify this Agreement in any manner in order to meet the requirements of Section 409A of the Code as amplified by any Internal Revenue Service or U.S. Treasury Department guidance and (b) shall have the authority to delay the payment of any amounts or the provision of any benefits under this Agreement to the extent it deems necessary or appropriate to comply with Section 409A(a)(2)(B)(i) of the Code (relating to payments made to certain "key employees" of certain publicly-traded companies) as amplified by any Internal Revenue Service or U.S. Treasury Department guidance as WFI deems appropriate or advisable. In such event, any amounts or benefits under this Agreement to which Edwards would otherwise be entitled during the six (6) month period following Edwards' termination of employment will be paid on the first business day following the expiration of such six (6) month period. Any provision of this Agreement that would cause the payment of any benefit to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Code Section 409A (which amendment may be retroactive to the extent permitted by the Code or any regulations or rulings thereunder).

James R. Edwards

Dated: March 28, 2006

/s/ James R. Edwards

Wireless Facilities, Inc.

Dated: March 28, 2006

By: /s/ Eric DeMarco
Eric DeMarco, Chief Executive Officer

Credit Agreement

among

WIRELESS FACILITIES, INC.,

KEYBANK NATIONAL ASSOCIATION,

**AS ADMINISTRATIVE AGENT,
LENDER AND**

LETTER OF CREDIT ISSUING LENDER

and

**THE OTHER FINANCIAL
INSTITUTIONS PARTIES HERETO**

with

KEYBANC CAPITAL MARKETS,

**AS DESIGNATED SOLE ARRANGER AND
SOLE BOOK MANAGER**

Dated as of March 16, 2005

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 - C Form of Note
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CREDIT AGREEMENT

This CREDIT AGREEMENT (“ *Agreement* ”) is entered into as of March 16, 2005, by and among WIRELESS FACILITIES, INC., a Delaware corporation (“ *Borrower* ”), KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, as a Lender and as Issuing Lender hereunder, such other lenders as shall from time to time be party hereto with KEYBANC CAPITAL MARKETS as designated Sole Arranger and Sole Book Manager hereunder.

RECITAL

Borrower has requested that Lenders and Issuing Lender provide a revolving line of credit, and Lenders, Issuing Lender and Administrative Agent are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

SECTION I DEFINITIONS AND ACCOUNTING TERMS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

“ Acquisition ” means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any line of business or any division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests or equity of any Person, or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary).

“ Administrative Agent ” means KeyBank National Association, in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“ Administrative Agent’s Office ” means Administrative Agent’s address and, as appropriate, account as set forth on Schedule 10.2, or such other address or account as Administrative Agent hereafter may designate by written notice to Borrower and Lenders.

“ Administrative Agent-Related Persons ” means Administrative Agent (including any successor agent), together with its Affiliates (including, in the case of KeyBank, the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

“ Affiliate ” means any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with another Person. A Person shall be deemed to be “controlled by” any other Person if such other Person possesses, directly or indirectly, power (a) to vote 10% or more of the securities (on a fully diluted basis) having ordinary voting power for the election of directors or managing general partners; or (b) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

“Agreement” means this Credit Agreement, as amended, restated, extended, supplemented or otherwise modified in writing from time to time.

“Applicable Margin” means the following amounts per annum (expressed in basis points per annum), based upon the Total Leverage Ratio:

<u>Total Leverage Ratio</u>	<u>Offshore Rate Margin (bps)</u>	<u>Base Rate Margin (bps)</u>	<u>Commitment Fee (bps)</u>
X \geq 2.25	250.0	25.0	45.0
X is \geq 1.25 but $<$ 2.25	200.0	0.0	40.0
X is \geq 0.5 but $<$ 1.25	150.0	0.0	32.5
X $<$ 0.5	125.0	0.0	25.0

For purposes of Borrower’s payment of interest in accordance with Section 2.6 and the commitment fee specified in Section 2.7(a), each Applicable Margin calculated in accordance with the most recent Compliance Certificate received by Administrative Agent shall be in effect from the date such Compliance Certificate is received by Administrative Agent to but excluding the date the next Compliance Certificate is received; provided, however, that the Applicable Margin from the Closing Date until Administrative Agent’s receipt of Borrower’s first Compliance Certificate shall be the amounts set forth above as applying when the Total Leverage Ratio is [X $<$ 0.5].

“Applicable Payment Date” means, (a) as to any Offshore Rate Loan, the last day of the relevant Interest Period or every ninety days, whichever is earlier, any date that such Loan is prepaid or converted in whole or in part and the Maturity Date; and (b) as to any other Obligations, the last Business Day of each calendar quarter and the Maturity Date; provided, further, that interest accruing at the Default Rate shall be payable from time to time upon demand of Administrative Agent.

“Arranger” means KeyBanc Capital Markets, in its capacity as “Sole Arranger” and “Sole Book Manager.”

“Assignment and Acceptance” means an Assignment and Acceptance substantially in the form of Exhibit D.

“Attorney Costs” means and includes all reasonable attorney’s and other fees and disbursements of any law firm or other external counsel and the allocated cost of internal legal services and all disbursements of internal counsel.

“Audited Financial Statements” means the audited consolidated balance sheet, income statement and cash flows of Borrower and its Subsidiaries for each 52 or 53 week year, as applicable, on or about December 31.

“Base Rate” means a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by KeyBank as its “prime rate.” Such prime rate is a rate set by KeyBank based upon various factors including KeyBank’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such prime rate announced by KeyBank shall take effect at the opening of business on the day specified in the public announcement of such change. If KeyBank ceases to establish or publish a prime rate, the applicable Base Rate thereafter shall be instead the prime rate reported in The Wall Street Journal (or the average prime rate if a high and a low prime rate are therein reported).

“Base Rate Loan” means a Loan made in not less than the Minimum Amount pursuant to Requisite Notice to Administrative Agent by delivering a Request for Extension of Credit not later than the Requisite Time and specified to be a Base Rate Loan or if not designated otherwise. Interest on each Base Rate Loan shall be calculated using the Applicable Margin for the Base Rate effective as of the date of the advance of such Base Rate.

“Borrower” has the meaning set forth in the introductory paragraph hereto.

“Borrowing” and “Borrow” each mean a borrowing of Loans hereunder.

“Borrowing Date” means the date that a Loan is made, which shall be a Business Day.

“Business Day” means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banks in Cleveland, Ohio; New York, New York; San Francisco, California; or (if interest is being determined by reference to the Offshore Rate) London, England are generally authorized or obligated, by law or executive order, to close.

“Capital Leases” means any and all leases under which certain obligations are required to be capitalized on the books of a lessee in accordance with GAAP.

“Cash Acquisition Consideration” means the amount of cash paid or payable prior to the Maturity Date in connection with an Acquisition including, without limitation, (a) all amounts recorded on the books of Borrower or any Subsidiary as deferred liabilities (whether or not characterized as an earn-out) determined as of the Acquisition date, (b) contingent liabilities (whether or not characterized as an earn-out) determined as of the date paid, (c) Indebtedness assumed or incurred in connection with such Acquisition and (d) Indebtedness of such Persons as are acquired in such Acquisition.

“Change of Control” means (a) the acquisition of, or, if earlier, the shareholder or director approval of the acquisition of, ownership or voting control, directly or indirectly, beneficially or of record, on or after the Closing Date, by any Person or group (within the meaning of Rule 13d-3 of the SEC under the Securities Exchange Act of 1934, as then in effect), of shares representing more than forty-five percent 45% of the aggregate ordinary Voting Power represented by the issued and outstanding capital stock of Borrower; (b) during any period of twelve (12) consecutive months, the occupation of a majority of the seats (other than vacant seats) on the board of directors or other governing body of Borrower by Persons who were neither (i) nominated by the board of directors or other governing body of Borrower nor

(ii) appointed by directors so nominated; or (c) the occurrence of a change in control, or other similar provision, as defined in any Material Indebtedness Agreement (triggering a default or mandatory prepayment, which default or mandatory prepayment has not been waived in writing).

“Closing Date” means the date all the conditions precedent in Section 4.1 are satisfied or waived in accordance with Section 4.1.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute thereto.

“Comerica Letters of Credit” means (i) Letter of Credit No. 575012 issued by Comerica Bank on June 13, 2002 in favor of Safety National Casualty Corporation in the original amount of \$100,000 (and since increased to \$700,000) for the account of Borrower; (ii) Letter of Credit No. 598836-44 issued by Comerica Bank on January 26, 2005 in favor of Insurance Company of North America, Pacific Employers Insurance Company, Westchester Fire Insurance Company, and Indemnity Insurance Company of North America in the original amount of \$500,000 for the account of Borrower; and (iii) Letter of Credit No. 593737-44 issued by Comerica Bank on July 19, 2004 in favor of Nortel Networks Israel (Sales and Marketing) Ltd. in the original amount of \$300,000 for the account of Wireless Facilities International Limited.

“Commitment” means, for each Lender, the amount set forth opposite such Lender’s name on Schedule 2.1. as such amount may be reduced or adjusted from time to time in accordance with the terms of this Agreement (collectively, the “combined Commitments”).

“Commitment Fee” has the meaning set forth in Section 2.7 hereof.

“Compliance Certificate” means a certificate substantially in the form of Exhibit B, properly completed and signed by a Responsible Officer of Borrower.

“Consolidated EBITDA” means the sum of the following, provided that the items contained in clauses (b)-(f) below shall be added to (a) only to the extent they have been deducted in the calculation of Consolidated Net Income and consolidated statement of cash flows and provided, further, that for the quarter ended September 30, 2004 Consolidated EBITDA shall mean the sum of Consolidated Net Income, Consolidated Interest Charges, the amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income, the amount of depreciation and amortization expense deducted in determining such Consolidated Net Income and \$23,100,000.

(a) Consolidated Net Income, provided that, all items of gain, income, loss or expense that are properly classified as extraordinary in accordance with GAAP or are unusual or non-recurring (but do not fall within clauses (b)-(f) below), the cash portion of which items shall be limited to a maximum of \$7,500,000 in net expense over the prior four fiscal quarter period, shall be excluded from such Consolidated Net Income;

(b) Consolidated Interest Charges;

(c) The amount of taxes, based on or measured by income, used or included in the determination of such Consolidated Net Income;

(d) The amount of depreciation and amortization expense deducted in determining such Consolidated Net Income, including any impairment of goodwill or other purchased intangibles as defined under FAS 141 or FAS 142;

(e) The amount non-cash or non-recurring costs from discontinued operations; and

(f) the amount of earn-out or similar payments required to be reported as compensation expense instead of goodwill be excluded from such Consolidated Net Income.

“Consolidated Interest Charges” means, for any period, for Borrower and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, fees, charges and related expenses payable by Borrower and its Subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, (b) the portion of rent payable by Borrower and its Subsidiaries with respect to such period under Capital Leases that is treated as interest in accordance with GAAP and (c) the portion of rent under any Synthetic Lease Obligation that would be treated as interest in accordance with GAAP if the Synthetic Lease Obligation were treated as a Capital Lease under GAAP.

“Consolidated Net Income” means, for any period, for Borrower and its Subsidiaries on a consolidated basis, net income of Borrower and its Subsidiaries in accordance with GAAP adjusted to include (a) the net income of TLA and DSI, together with each other Person (or business division, business unit or substantially all of the assets of another Person), in each case acquired in connection with a Permitted Acquisition, as if the acquisition of TLA, DSI and any such Permitted Acquisition, had been consummated on the first day of the applicable measuring period and (b) all pro-forma cost savings in connection with any such Permitted Acquisition is approved by the Administrative Agent at the time of Acquisition, such approval not to be unreasonably withheld.

“Continuation” and “Continue” mean, with respect to any Offshore Rate Loan, the continuation of such Offshore Rate Loan as an Offshore Rate Loan on the last day of the Interest Period for such Loan.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

“Conversion” and “Convert” mean, with respect to any Loan, the conversion of such Loan from or into another type of Loan.

“Credit Party” means Borrower and each Guarantor.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief

Laws of the United States of America or other applicable jurisdictions from time to time in effect affecting the rights of creditors generally.

“Default” means any event that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate equal to the Base Rate plus the applicable margin specified in the definition of Applicable Margin, if any, applicable to Base Rate Loans, plus 2% per annum; provided, however, that with respect to an Offshore Rate Loan, the Default Rate shall be an interest rate equal to the interest rate otherwise applicable to such Loan, plus the Applicable Margin specified for Offshore Rate Loans, plus 2% per annum, in each case to the fullest extent permitted by applicable Laws.

“Delmarva” means Delmarva Systems Corporation.

“Disclosure Letter” means that Disclosure Letter of even date herewith and delivered to Administrative Agent together with this Agreement.

“Disposition” or “Dispose” mean the sale, transfer, License Disposition or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal with or without recourse of any notes or accounts receivable or any rights and claims associated therewith; provided, however, that an issuance by Borrower of its Equity Securities shall not be a Disposition.

“Dollar,” “USD” and “\$” mean lawful money of the United States of America.

“Domestic Subsidiary” means a Subsidiary that is not a Foreign Subsidiary.

“DSI” means Defense Systems, Incorporated.

“Eligible Assignee” means (a) a financial institution organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$100,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$ 100,000,000, provided that such bank is acting through a branch or agency located in the United States; (c) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of a Lender, (ii) a Subsidiary of a Person of which a Lender is a Subsidiary, or (iii) a Person of which a Lender is a Subsidiary; (d) another Lender; (e) any other entity which is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) which extends credit or buys loans as one of its businesses, including but not limited to, insurance companies, mutual funds and lease financing companies; or (f) other lenders or institutional investors consented to in writing in advance by Administrative Agent and Borrower. Neither Borrower nor any Affiliate of Borrower shall be an Eligible Assignee.

“Employee Benefits Plan” means a 401k plan, employee stock purchase program, deferred compensation program or similar programs from time to time maintained by Borrower or any of its Subsidiaries.

“ENCO Systems” means collectively ENCO Systems, Inc. and ENCO Systems Partnership, Ltd.

“Environmental Laws” means all Laws relating to environmental, health, safety and land use matters applicable to any property of Borrower.

“Equity Securities” of any Person means (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing, other than convertible debt securities which have not been converted into common stock, preferred stock, participations, shares, partnership interests or other equity interests in any such Person.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor Federal statute.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with Borrower within the meaning of Sections 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001 (a) (2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing with the PBGC of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate.

“Escrowed Securities” means Thomas Collateral, the Cuculic/Horn Collateral, and the Suntech Collateral, as such terms are defined in Section 1 of the General Security Agreement.

“Eurodollar Reserve Percentage” means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day, whether or not applicable to any Lender, under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as “Eurocurrency liabilities”).

“Event of Default” means any of the events specified in Section 8.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor federal statute.

“Extension of Credit” means (a) a Borrowing, Conversion or Continuation of Loans and (b) a Letter of Credit Action wherein a new Letter of Credit is issued or which has the effect of increasing the amount of, extending the maturity of, or making a material modification to an outstanding Letter of Credit or the reimbursement of drawings thereunder.

“Federal Funds Rate” means, for any day, the rate per annum (rounded upwards to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to KeyBank on such day on such transactions as determined by Administrative Agent.

“First-Tier Material Foreign Subsidiary” means a direct Foreign Subsidiary of either Borrower or a Domestic Subsidiary that is also a Material Subsidiary.

“Fixed Charge Coverage Ratio” means as of any date of determination the ratio of (a) Borrower’s Consolidated EBITDA for the preceding four fiscal quarters most recently ended plus consolidated operating lease expenses (as determined in accordance with GAAP) during such period to (b) the sum of Borrower’s consolidated capital expenditures, Consolidated Interest Charges, and consolidated operating lease expenses and consolidated cash income taxes paid (less cash income tax refunds actually received) (all as determined in accordance with GAAP) for the four fiscal quarters most recently ended.

“Foreign Subsidiary” shall mean a Subsidiary that is organized outside of the United States of America.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination, consistently applied, provided, however, that for purposes of calculating the Senior Leverage Ratio, the Total Leverage Ratio, the Liquidity Ratio and the Fixed Charge Coverage Ratio (and in each case the components thereof), GAAP shall mean GAAP as in effect and applied on the Closing Date, without giving effect to any subsequent change in such principles.

“General Security Agreement” means that certain Security Agreement dated as of the date hereof, in favor of Administrative Agent (for the account of each Lender in accordance with its Pro Rata Share) by Borrower and each Guarantor in the form of Exhibit E-1 hereto.

“Governmental Authority” means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-

governmental agency, authority, board, bureau, commission, department, instrumentality, central bank or public body, or (c) any court, administrative tribunal or public utility.

“Guaranty Obligation” means, as to any Person, any (a) guaranty by such Person of Indebtedness of, or other obligation payable or performable by, any other Person or (b) assurance, agreement, letter of responsibility, letter of awareness, undertaking or arrangement given by such Person to an obligee of any other Person with respect to the payment or performance of an obligation by, or the financial condition of, such other Person, whether direct, indirect or contingent, including any purchase or repurchase agreement covering such obligation or any collateral security therefor, any agreement to provide funds (by means of loans, capital contributions or otherwise) to such other Person, any agreement to support the solvency or level of any balance sheet item of such other Person or any “keep-well” or other arrangement of whatever nature, in each such case, given for the purpose of assuring or holding harmless such obligee against loss with respect to any obligation of such other Person; provided, however, that the term Guaranty Obligation shall not include performance bond guarantees or endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guaranty Obligation shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, covered by such Guaranty Obligation or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the Person in good faith.

“Guarantor” shall mean each Person signatory as an obligor under the Multi-Party Guaranty or any other Person that shall become an obligor thereunder after the Closing Date.

“Hazardous Substance” means any substance, material or waste, including asbestos and petroleum (including crude oil or any fraction thereof), which is or becomes designated, classified or regulated as “toxic,” “hazardous,” a “pollutant” or similar designation under any Laws.

“Indebtedness” means:

- (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (b) any direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), banker’s acceptances, bank guaranties, surety bonds and similar instruments, but excluding performance bonds and guaranties thereof (whether in the form of a letter of credit or otherwise) entered into in the ordinary course of business;
- (c) net obligations under any Swap Contract in an amount equal to the Swap Termination Value of such Swap Contract;
- (d) with or without recourse, all obligations of such Person to pay the deferred purchase price of property or services, and indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements);

(e) Capital Leases or Synthetic Lease Obligations, where (i) the amount of Indebtedness in the case of Capital Leases shall be the amount of the capitalized lease liability appearing on Borrower's financial statements delivered in accordance with Sections 6.1 (a) and (b) of this Agreement and (ii) the amount of Indebtedness in the case of Synthetic Lease Obligations shall be the sum of all outstanding principal advances and any other sums advanced and outstanding pursuant to the Synthetic Lease Obligations;

(f) all obligations under asset securitization financing transactions, including recourse sales of receivables but exclusive of nonrecourse sales of receivables; and

(g) all Guaranty Obligations of such Person in respect of any of the foregoing obligations of any other Person.

For all purposes of this Agreement, the Indebtedness of any Person shall include, the Indebtedness of any partnership or joint venture (to the extent the joint venture consists of a legal entity where a joint venturer has pass-through liability for all of the debts of the joint venture) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person (subject to customary recourse exceptions acceptable to Requisite Lenders).

“Indemnified Liabilities” has the meaning set forth in Section 10.14.

“Indemnitees” has the meaning set forth in Section 10.14.

“Interest Period” means for each Offshore Rate Loan, (i) initially, the period commencing on the date such Offshore Rate Loan is disbursed or Continued or Converted into such Offshore Rate Loan, and (ii) thereafter, the period commencing on the last day of the preceding Interest Period, and ending, in each case, on the earlier of (x) the scheduled Maturity Date, or (y) one, two, three or six months thereafter, as elected by Borrower; provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) unless Administrative Agent otherwise consents, there may not be more than five (5) Interest Periods for Offshore Rate Loans in effect at any time.

“Intellectual Property Security Agreement” means that certain Intellectual Property Security Agreement dated as of the date hereof, in favor of Administrative Agent (for the account of each Lender in accordance with its Pro Rata Share) by Borrower and each Guarantor in the form attached to the Form of General Security Agreement in Exhibit E-2 hereto

“Investment” means, as to any Person, any investment by such Person, whether by means of the purchase or other acquisition of stock or other securities of any other Person or by means of a loan, creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“IRS” means the United States Internal Revenue Service.

“Issuing Lender” means KeyBank National Association, or any other Lender, who from time to time effects a Letter of Credit Action in accordance with the terms of this Agreement.

“KeyBank” means KeyBank National Association.

“Laws” or “Law” means all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“Lender” means each lender from time to time party hereto and, as the context requires, Issuing Lender.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such on Schedule 10.2, or such other office or offices as a Lender may from time to time notify Administrative Agent.

“Letter of Credit” means any standby letter of credit issued or outstanding hereunder. A Letter of Credit may be a performance letter of credit or a financial letter of credit.

“Letter of Credit Action” means the issuance, supplement, amendment, renewal, extension, modification or other action relating to a Letter of Credit hereunder.

“Letter of Credit Application” means an application for a Letter of Credit Action from time to time in use by Issuing Lender.

“Letter of Credit Expiration Date” means the scheduled Maturity Date.

“Letter of Credit Sublimit” means an amount equal to \$12,500,000. The Letter of Credit Sublimit is part of, and not in addition to, the combined Commitments.

“Letter of Credit Usage” means, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate amount of all drawings under the Letters of Credit not reimbursed by Borrower or converted into Loans.

“License Disposition” means, in respect of any patent, trademark, copyright, mask work, trade secret or other intellectual property right owned or held by Borrower or any of its Subsidiaries (the “**IP Holder**”) which is material to Borrower or any of its Subsidiaries (together, “**Material IP**”), (i) the granting by the IP Holder of an exclusive license across all or substantially all fields, uses or regions to any Person other than Borrower or another Subsidiary, (ii) the granting of any license by the IP Holder that conveys directly or indirectly to any Person other than Borrower or its Subsidiaries all or substantially all of the economic value of such Material IP, or (iii) the abandonment by the IP Holder of such Material IP.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement (including in the nature of, cash collateral accounts or security interests), encumbrance, lien (statutory or other), fixed or floating charge, or other security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable Laws of any jurisdiction), including the interest of a purchaser of accounts receivable.

“Liquidity Ratio” means as of any date of determination, for Borrower and its Subsidiaries on a consolidated basis and in accordance with GAAP, the ratio of (a) the sum of cash on hand, cash equivalents, marketable securities, and billed and unbilled accounts receivable (excluding accounts receivable owing from any Affiliate, shareholder or employee of Borrower or any of its Subsidiaries) to (b) current liabilities; provided that for all periods ending in the four fiscal quarter period prior to the Maturity Date, current liabilities shall exclude the Obligations.

“Loan” means any advance made by any Lender to Borrower as provided in Section 2 (collectively, the “Loans”).

“Loan Documents” means this Agreement and each Note, the Multi-Party Guaranty, the Security Documents, each Letter of Credit Application, each Request for Extension of Credit, each certificate, each fee letter, and each other instrument or agreement from time to time executed by Borrower or any of its Subsidiaries or any Responsible Officer and delivered in connection with this Agreement.

“Material Adverse Effect” means any set of circumstances or events which (a) has any material adverse effect upon the validity or enforceability of any Loan Document or the rights and remedies of Administrative Agent and Lenders hereunder or thereunder, (b) is material and adverse to the prospects, financial condition, business, assets or operations of Borrower and its Subsidiaries, taken as a whole, (c) has any material adverse effect upon the value or condition of the Collateral, or (d) materially impairs the ability of and Credit Party to perform the Obligations.

“Material Indebtedness Agreement” shall mean any debt instrument, lease (capital, operating or otherwise), guaranty, contract, commitment, agreement or other arrangement evidencing any Indebtedness of any Company or the Companies in excess of the Threshold Amount.

“Material Subsidiary” means each Subsidiary of Borrower that has (a) assets as of the end of most recent fiscal year of Borrower in excess of \$2,000,000 or (b) net revenues in excess of \$5,000,000 for the most recent fiscal year of Borrower.

“Maturity Date” means (a) March 16, 2008, or (b) such earlier date upon which the combined Commitments may be terminated in accordance with the terms of this Agreement.

“Mexican Pledge Agreement” means that certain Pledge Agreement dated as of the date hereof, in favor of Administrative Agent (for the account of each Lender in accordance with its Pro Rata Share) by Borrower in the form of Exhibit E-4 hereto.

“Minimum Amount” means, with respect to each of the following actions, the minimum amount and any multiples in excess thereof set forth opposite such action:

<u>Type of Action</u>	<u>Minimum Amount</u>	<u>Multiples in excess thereof</u>
Borrowing or prepayment of, or Conversion into, Base Rate Loans	\$ 1,000,000	\$ 500,000
Borrowing, prepayment or Continuation of, or Conversion into, Offshore Rate Loans	\$ 1,000,000	\$ 500,000
Letter of Credit Action	\$ 100,000	None
Reduction or Increase in Commitment	\$ 5,000,000	\$ 1,000,000

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA.

“Multi-Party Guaranty” means that Multi-Party Guaranty in the form attached hereto as Exhibit F.

“Note” means a promissory note made by Borrower in favor of a Lender evidencing the Loans made by such Lender, substantially in the form of Exhibit C (collectively, the “Notes”).

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, Borrower arising under any Loan Document, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest that accrues after the commencement of any proceeding under any Debtor Relief Laws by or against Borrower or any Subsidiary or Affiliate of Borrower.

“Offshore Rate” means for any Interest Period with respect to each Offshore Rate Loan comprising part of the same Borrowing, a rate per annum determined by Administrative Agent as the offered rate for Dollar deposits in the approximate amount of the requested Offshore Rate Loan and having a maturity comparable to such Interest Period, which rate appears (i) on the

British Bankers' Association internet web page (<http://www.bba.org.uk/public/libor/>), or via (ii) Reuters (BBALIBORS), Bloomberg, Moneyline Telerate (Page 3750) or any other information provider of the British Bankers' Association daily Libor rates as of 11:00 A.M., London time, on the date (an "Interest Determination Date") which is the second day on which banks are open for interbank deposits in London prior to the commencement of such Interest Period. If, on the Interest Determination Date for such Interest Period, the Administrative Agent is unable to obtain any quotation as provided above, the Offshore Rate for the relevant Interest Period shall be the rate per annum that the Administrative Agent determines in good faith to be the arithmetic mean (rounded, if necessary, to the nearest sixth decimal place) of all the per annum rates of interest at which deposits in Dollars in an amount comparable to the requested Offshore Rate Loan in Dollars in respect of which the Offshore Rate is then being determined for a period comparable to such Interest Period are offered by Administrative Agent to prime banks in the London interbank market at approximately 11:00 A.M., London time on such Interest Determination Date. The Administrative Agent shall provide to Borrower, upon request, details as to the manner in which the Offshore Rate is calculated, but such calculation shall be conclusive and binding absent manifest error. The Offshore Rate for each outstanding Offshore Rate Loan shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage by dividing (i) the Offshore Rate by (ii) one minus the Eurodollar Reserve Percentage. The determination of the Eurodollar Reserve Percentage and the Offshore Rate by Administrative Agent shall be conclusive in the absence of manifest error.

"Offshore Rate Loan" means a Loan made in not less than the Minimum Amount pursuant to Requisite Notice to Administrative Agent and by deliverance of a Request for Extension of Credit not later than the Requisite Time and specified to be a Offshore Rate Loan. Interest on each Offshore Rate Loan shall be calculated using the Applicable Margin for the Offshore Rate effective as of the date of the advance of such Offshore Rate.

"Ordinary Course Dispositions" means:

- (a) Dispositions of surplus equipment or damaged, obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;
- (b) Dispositions of cash, cash equivalents or inventory in the ordinary course of business;
- (c) Dispositions of property to the extent that such property is exchanged for credit against the purchase price of similar replacement property, or the proceeds of such sale are reasonably promptly applied to the purchase price of such replacement property or where Borrower or its Subsidiary determine in good faith that the failure to replace such equipment will not be detrimental to the business of Borrower or such Subsidiary;
- (d) Dispositions of assets or property by any Subsidiary of Borrower to Borrower or another Subsidiary of Borrower, or by Borrower to any Subsidiary of Borrower;
- (e) Dispositions which constitute the making or liquidating of Permitted Investments; and

(f) Dispositions which constitute the incurrence (but not the enforcement) of Permitted Liens;

provided, however, that, other than with respect to Dispositions of the types described in clauses (a) and (c) of this definition, no such Disposition shall be for significantly less than the fair market value of the property being disposed of.

“Ordinary Course Indebtedness” means:

- (a) Intercompany Guaranty Obligations of Borrower or any of its Subsidiaries guarantying Indebtedness otherwise permitted hereunder of Borrower or any Subsidiary of Borrower;
- (b) Indebtedness arising from the honoring of a check, draft or similar instrument against insufficient funds or from the endorsement of instruments for collection in the ordinary course of Borrower’s or any Subsidiary’s Subsidiary’s business;
- (c) Permitted Swap Obligations;
- (d) Indebtedness of Borrower or any of its Subsidiaries with respect to surety, appeal, indemnity, performance or other similar bonds in the ordinary course of business with respect to agreements providing for indemnification, adjustment of purchase price, earnest money or similar obligations in connection with Acquisitions or Dispositions otherwise permitted by this Agreement; and
- (e) Indebtedness with respect to cash deposited by customers to obtain the right to delivery of future goods or services.

“Ordinary Course Investments” means Investments consisting of:

- (a) Investments in other assets properly classified as “marketable securities” or “cash” or “cash equivalents” under GAAP, and which conform to the investment policies adopted by the Board of Directors of Borrower from time to time;
- (b) Advances to officers, directors and employees of Borrower and its Subsidiaries for travel, entertainment, relocation and analogous ordinary business purposes;
- (c) Investments of Borrower in any of its Subsidiaries and Investments of any Subsidiary of Borrower in Borrower or another Subsidiary of Borrower;
- (d) Extensions of credit to customers or suppliers of Borrower and its Subsidiaries in the ordinary course of business and any Investments received in satisfaction or partial satisfaction thereof;
- (e) Guaranty Obligations permitted by Section 7.1.

(f) Investments received by Borrower or any of its Subsidiaries as distributions on claims in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(g) Investments of any Subsidiary existing at the time it becomes a Subsidiary of Borrower, provided that such Investments were not made in anticipation of such Person becoming a Subsidiary of Borrower; and

(h) Investments consisting of loans to employees, officers and directors, the proceeds of which shall be used to purchase Equity Securities of Borrower or its Subsidiaries and other loans to non-executive officers and employees.

“Ordinary Course Liens” means:

(a) Liens pursuant to any Loan Document;

(b) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(c) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s, landlord’s or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith and by appropriate proceedings, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(d) pledges or deposits in connection with worker’s compensation, unemployment insurance and other social security legislation;

(e) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business (including, without limitation, Liens securing all those obligations described in clause (d) of the definition of Ordinary Course Indebtedness);

(f) easements, rights-of-way, restrictions, Liens granted by a third-party lessor to any Person and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of any Person;

(g) attachment, judgment or other similar Liens arising in connection with litigation or other legal proceedings (and not otherwise an Event of Default hereunder) in the ordinary course of business that is currently being contested in good faith by appropriate proceedings, adequate reserves have been set aside, and no material property is subject to a material risk of loss or forfeiture;

(h) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties and in connection with the importation of goods in the ordinary course of Borrower's and its Subsidiaries' businesses;

(i) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; provided that (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by Borrower in excess of those set forth by regulations promulgated by the Federal Reserve Board, and (ii) such deposit account is not intended by Borrower or any Subsidiary to provide collateral to the depository institution;

(j) Liens on insurance proceeds in favor of insurance companies with respect to the financing of insurance premiums; and

(k) purported Liens evidenced by the filing of UCC precautionary financing statements relating to operating leases entered into in the ordinary course of business.

"Organization Documents" means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws; (b) with respect to any limited liability company, the articles of formation and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership or joint venture agreement and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation with the secretary of state or other department in the state of its formation, in each case as amended from time to time.

"Outstanding Obligations" means, as of any date, and giving effect to making any Extensions of Credit requested on such date and all payments, repayments and prepayments made on such date, (a) when reference is made to all Lenders, the sum of (i) the aggregate outstanding principal amount of all Loans, and (ii) all Letter of Credit Usage, and (b) when reference is made to one Lender, the sum of (i) the aggregate outstanding principal amount of all Loans made by such Lender, and (ii) such Lender's ratable risk participation in all Letter of Credit Usage.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto established under ERISA.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by Borrower or any ERISA Affiliate or to which Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan years.

"Permitted Acquisition" has the meaning specified in Section 7.5(e).

"Permitted Indebtedness" has the meaning specified in Section 7.1.

“Permitted Investments” has the meaning specified in Section 7.5.

“Permitted Liens” has the meaning specified in Section 7.2.

“Permitted Swap Obligations” means all obligations (contingent or otherwise) of Borrower or any of its Subsidiaries existing or arising under Swap Contracts, provided that such obligations are (or were) entered into by such Person for the purpose of: (i) directly mitigating risks associated with liabilities, commitments or assets held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person in conjunction with a securities repurchase program not otherwise prohibited hereunder; or (ii) directly mitigating the dilution associated with the issuance of convertible securities by Borrower, and not for purposes of speculation or taking a “market view.”

“Person” means any individual, trustee, corporation, general partnership, limited partnership, limited liability company, joint stock company, trust, unincorporated organization, bank, business association, firm, joint venture, Governmental Authority, or otherwise.

“Plan” means any employee benefit plan maintained or contributed to by Borrower or by any trade or business (whether or not incorporated) under common control with Borrower as defined in Section 4001(b) of ERISA and insured by the Pension Benefit Guaranty Corporation under Title IV of ERISA.

“Pro Rata Share” means, with respect to each Lender, the percentage of the combined Commitments set forth opposite the name of such Lender on Schedule 2.1, as such share may be adjusted as contemplated herein.

“PT” means Pacific Time.

“Reportable Event” means any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a cessation of operations described in Section 4062(c) of ERISA.

“Request for Extension of Credit” means, unless otherwise specified herein, (a) with respect to a Borrowing, Conversion or Continuation of Loans, a written request substantially in the form of Exhibit A, and (b) with respect to a Letter of Credit Action, a Letter of Credit Application; in each case duly completed and signed by a Responsible Officer of Borrower and

“Requisite Lenders” means, as of any date of determination: (a) if the Commitments are then in effect, Lenders having in the aggregate more than 50% of the combined Commitments then in effect and (b) if the Commitments have then been terminated and there are Outstanding Obligations, Lenders holding Outstanding Obligations aggregating more than 50% of such Outstanding Obligations; provided, however, that the voting rights of any Lender that has failed to fund any amounts when required to do so hereunder shall be limited to the Outstanding Obligations with respect to such Lender.

“Requisite Notice” means, unless otherwise provided herein, (a) irrevocable written notice to the intended recipient or (b) except with respect to Letter of Credit Actions (which must be in writing), irrevocable telephonic notice to the intended recipient, promptly followed by a

written notice to such recipient. Such notices shall be (i) delivered to such recipient at the address or telephone number specified on Schedule 10.2 or as otherwise designated by such recipient by Requisite Notice to Administrative Agent, and (ii) if made by Borrower, given or made by a Responsible Officer of Borrower. Any written notice delivered in connection with any Loan Document shall be in the form, if any, prescribed herein or therein. Any notice sent by other than hardcopy shall be promptly confirmed by a telephone call to the recipient and, if requested by Administrative Agent, by a manually-signed hardcopy thereof.

“Requisite Time” means, with respect to any of the actions listed below, the time and date set forth below opposite such action:

Type of Action	Applicable Time	Date of Action
Delivery of Request for Extension of Credit for, or notice for:		
• Borrowing or prepayment of, or Conversion into, Base Rate Loans	10:00 a.m. PT	Same date as such Borrowing, prepayment or Conversion
• Borrowing, prepayment or Continuation of, or Conversion into, Offshore Rate Loans or Termination of Commitment	10:00 a.m. PT	3 Business Days prior to such Borrowing, prepayment Continuation or Conversion
• Letter of Credit Action	10:00 a.m. PT	2 Business Days prior to such action (or such lesser time which is acceptable to Issuing Lender)
• Payments by Lenders or Borrower to Administrative Agent	10:00 a.m. PT	On date payment is due

“Responsible Officer” means the chief executive officer, president, the chief financial officer, any vice president of finance, the treasurer or the assistant treasurer of Borrower. Any document or certificate hereunder that is signed by a Responsible Officer of Borrower shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of Borrower.

“Restricted Payment” means:

- (a) the declaration or payment of any dividend or distribution by Borrower or any Subsidiary, either in cash or property, on any shares of Equity Securities of any class of Borrower or any Subsidiary; and
- (b) any other payment or distribution by Borrower or any Subsidiary in respect of its Equity Securities, either directly or indirectly.

“Security Documents” means the General Security Agreement, the Intellectual Property Security Agreement, the UK Pledge Agreement and the Mexican Pledge Agreement.

“Senior Debt” means all Indebtedness excluding Subordinated Debt.

“Senior Leverage Ratio” means as of any date of determination, for Borrower and its Subsidiaries on a consolidated basis, the ratio of (a) the principal amount of Senior Debt as of such date (but excluding Indebtedness with respect to earn-out payments incurred pursuant to the Delmarva Acquisition, the ENCO Systems Acquisition, the Suntech Acquisition, the TLA Acquisition, the DSI Acquisition or other Permitted Acquisitions) to (b) Consolidated EBITDA for the period of the four fiscal quarters ending on, or ending most recently prior to, such date.

“Shareholders’ Equity” means, as of any date of determination for Borrower and its Subsidiaries on a consolidated basis, shareholders’ equity as of that date determined in accordance with GAAP.

“Solvent” means, as to any Person at any time, that (i) the fair value of the property of such Person is greater than the amount of such Person’s liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated for purposes of Section 101(32) of the Bankruptcy Code; (ii) the present fair saleable value of the property of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (iii) such Person is able to realize upon its property and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business; (iv) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s ability to pay as such debts and liabilities mature; and (v) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person’s property would constitute unreasonably small capital.

“Subordinated Debt” means any Indebtedness of Borrower or its Subsidiaries in form and substance satisfactory to Requisite Lenders in their sole and absolute discretion and expressly approved by Requisite Lenders after the date hereof.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned or controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of Borrower.

“Suntech” means Suntech Systems, Inc.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward

foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., or any other master agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include any Lender).

“Synthetic Lease Obligations” means all monetary obligations of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations which do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as secured debt of such Person (without regard for accounting treatment).

“Threshold Amount” means \$5,000,000.

“TLA” means TLA Associates.

“To the best knowledge of” means, when modifying a representation, warranty or other statement of any Person, that the fact or situation described therein is known by such Person (or, (i) in the case of Borrower, known by any Responsible Officer or executive officer of Borrower, or, (ii) in the case of any other Person other than a natural Person, known by any officer of such Person) making the representation, warranty or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable Person in similar circumstances would have done) would have been known by such Person (or, (i) in the case of Borrower, would have been known by any Responsible Officer or executive officer of Borrower, or, (ii) in the case of any other Person other than a natural Person, would have been known by any executive officer of such Person).

“Total Commitments” means an amount equal to the aggregate amount of all Commitments (i.e., initially \$15,000,000), as the same may increase pursuant to Section 2.12 or decrease pursuant to section 2.5.

“Type” of Loan means (a) a Base Rate Loan and (b) an Offshore Rate Loan.

“Total Leverage Ratio” means, as of any date of determination, for Borrower and its Subsidiaries on a consolidated basis, the ratio of (a) the principal amount of Indebtedness as of such date (but excluding Indebtedness with respect to earn-out payments incurred pursuant to the Delmarva Acquisition, the ENCO Systems Acquisition, the Suntech Acquisition, the TLA

Acquisition, the DSI Acquisition or other Permitted Acquisitions) to (b) Consolidated EBITDA for the period of the four fiscal quarters ending on, or ending most recently prior to, such date.

“UK Agreement” means that certain Charge over Shares dated as of the date hereof, in favor of Administrative Agent (for the account of each Lender in accordance with its Pro Rata Share) by Borrower in the form of Exhibit E-3 hereto.

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“Voting Power” shall mean, with respect to any Person, the exclusive ability to control, through the ownership of shares of capital stock, partnership interests, membership interests or otherwise, the election of members of the board of directors or other similar governing body of such Person. The holding of a designated percentage of Voting Power of a Person means the ownership of shares of capital stock, partnership interests, membership interests or other interests of such Person sufficient to control exclusively the election of that percentage of the members of the board of directors or similar governing body of such Person.

1.2 Use of Certain Terms.

(a) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto or thereto, unless otherwise defined therein.

(b) As used herein, unless the context requires otherwise, the masculine, feminine and neuter genders and the singular and plural include one another.

(c) The words “herein” and “hereunder” and words of similar import when used in any Loan Document shall refer to the Loan Documents as a whole and not to any particular provision thereof. The term “including” is by way of example and not limitation. References herein to a Section, subsection or clause shall, unless the context otherwise requires, refer to the appropriate Section, subsection or clause in this Agreement.

(d) The term “or” is disjunctive; the term “and” is conjunctive. The term “shall” is mandatory; the term “may” is permissive.

1.3 Accounting Terms. All accounting terms not specifically or completely defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, and applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

1.4 Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other

component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a round-up if there is no nearest number), to the number of places by which such ratio is expressed in this Agreement.

1.5 Exhibits and Schedules. All exhibits and schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference.

1.6 References to Agreements and Laws. Unless otherwise expressly provided herein, (a) references to agreements (including the Loan Documents) and other contractual instruments shall include all amendments, restatements, extensions, supplements and other modifications thereto (unless prohibited by any Loan Document), and (b) references to any Law shall include all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such Law.

SECTION II THE COMMITMENTS AND EXTENSIONS OF CREDIT

2.1 Loans; Maximum Amounts.

(a) Subject to the terms and conditions set forth in this Agreement, each Lender severally agrees to make, Convert and Continue Loans until the Maturity Date in such amounts as Borrower may from time to time request; provided, however, that the Outstanding Obligations of all Lenders shall not exceed at any time the combined Commitments, as the same may be from time to time adjusted in accordance with this Agreement and there shall be no more than five (5) Offshore Rate Loans outstanding at any one time. The amount of the combined Commitments initially totals \$15,000,000. Following the date of this Agreement, the amount of the combined Commitments may be increased by up to \$45,000,000 to a total not to exceed \$60,000,000 in the event Administrative Agent, acting in its sole and absolute discretion, elects to secure additional commitments from the Existing Lenders or from New Lenders as otherwise provided herein. This is a revolving credit and, subject to the terms and conditions hereof, Borrower may borrow, Convert, Continue, prepay and reborrow Loans as set forth herein without premium or penalty.

(b) Loans made by each Lender shall be evidenced by one or more Notes. The date, amount and maturity of each Lender's Loans and payments and other particulars with respect thereto may be endorsed on schedule(s) attached to its Note by each Lender and/or recorded on one or more loan accounts or records maintained by such Lender in the ordinary course of business. Such Notes, loan accounts and records shall be conclusive absent manifest error of the amount of such Loans and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower to pay any amount owing with respect to the Loans.

2.2 Borrowings, Conversions and Continuations of Loans.

(a) Borrower may irrevocably request a Borrowing, Conversion or Continuation of Loans in a Minimum Amount therefor by delivering a Request for Extension of Credit therefor by Requisite Notice to Administrative Agent not later than the Requisite Time therefor. All Borrowings, Conversions and Continuations of Loans shall constitute Base Rate Loans unless properly and timely otherwise designated as set forth in the prior sentence.

(b) Following receipt of a Request for Extension of Credit, Administrative Agent shall promptly notify each Lender of its Pro Rata Share thereof by Requisite Notice. In the case of a Borrowing of Loans, each Lender shall make the funds for its Loan available to Administrative Agent at Administrative Agent's Office not later than the Requisite Time therefor on the Business Day specified in such Request for Extension of Credit. Upon satisfaction of the applicable conditions set forth in Section 4.2 (and, in the case of an initial Extension of Credit hereunder, Section 4.1), all funds so received shall be made available to Borrower in Dollars. Administrative Agent shall promptly notify Borrower and Lenders of the interest rate applicable to any Loan other than a Base Rate Loan upon determination of same.

(c) Except as otherwise provided herein, an Offshore Rate Loan may be Continued or Converted only as of the last day of the Interest Period for such Offshore Rate Loan. During the existence of a Default or Event of Default, no Loans may be requested as, Converted into or Continued as Offshore Rate Loans without the consent of Requisite Lenders, and Requisite Lenders may demand that any or all of the then outstanding Offshore Rate Loans be Converted immediately into Base Rate Loans.

(d) If a Loan is to be made on the same date that another Loan is due and payable, Borrower or Lenders, as the case may be, shall, unless Administrative Agent otherwise requests, make available to Administrative Agent the net amount of funds giving effect to both such Loans and the effect for purposes of this Agreement shall be the same as if separate transfers of funds had been made with respect to each such Loan.

(e) The failure of any Lender to make any Loan on any date shall not relieve any other Lender of any obligation to make a Loan on such date, but no Lender shall be responsible for the failure of any other Lender to so make its Loan.

2.3 Letters of Credit.

(a) **The Letter of Credit Sublimit.** Subject to the terms and conditions set forth in this Agreement, until the Letter of Credit Expiration Date, Issuing Lender shall take such Letter of Credit Actions as Borrower may from time to time request; provided, however, that (i) the Outstanding Obligations of each Lender shall not at any time exceed such Lender's Commitment; (ii) the Outstanding Obligations of all Lenders shall not at any time exceed the combined Commitments; and (iii) Letter of Credit Usage shall not at any time exceed the Letter of Credit Sublimit. Subject to subsection (g) below and unless

consented to by Issuing Lender and Requisite Lenders, no Letter of Credit may expire more than 12 months after the date of its issuance or last renewal.

(b) Letter of Credit Actions. Subject to the terms and conditions set forth in this Agreement, until the Letter of Credit Expiration Date, Issuing Lender shall take such Letter of Credit Actions as Borrower may from time to time request; provided, however, that the Outstanding Obligations of each Lender shall not exceed such Lender's Commitment and the Outstanding Obligations of all Lenders shall not exceed the combined Commitments at any time. Subject to subsection (g) below and unless consented to by Issuing Lender and Requisite Lenders, no Letter of Credit may expire more than twelve (12) months after the date of its issuance or last renewal; provided, however, that no Letter of Credit shall expire after the Letter of Credit Expiration Date unless Borrower shall post cash collateral with respect to such Letter of Credit in such manner as is reasonably satisfactory to Lender and the amount of the Letter of Credit does not exceed the Letter of Credit Sublimit.

(c) Requesting Letter of Credit Actions. Borrower may irrevocably request a Letter of Credit Action in a Minimum Amount therefor by delivering a Letter of Credit Application therefor to Issuing Lender, with a copy to Administrative Agent (who shall notify Lenders) by Requisite Notice not later than the Requisite Time therefor. Each Letter of Credit Action shall be in a form acceptable to Issuing Lender in its sole discretion. Unless Administrative Agent notifies Issuing Lender that such Letter of Credit Action is not permitted hereunder, or Issuing Lender notifies Administrative Agent that it has determined that such Letter of Credit Action is contrary to any Laws or policies of Issuing Lender, Issuing Lender shall, upon satisfaction of the applicable conditions set forth in Section 4.2 with respect to any Letter of Credit Action constituting an Extension of Credit, effect such Letter of Credit Action. This Agreement shall control in the event of any conflict with any Letter of Credit Application. Upon the issuance of a Letter of Credit, each Lender shall be deemed to have purchased from Issuing Lender a risk participation therein in an amount equal to such Lender's Pro Rata Share times the amount of such Letter of Credit.

(d) Reimbursement of Payments Under Letters of Credit. Borrower shall reimburse Issuing Lender through Administrative Agent for any payment that Issuing Lender makes under a Letter of Credit on or before the date of such payment; provided, however, that if the conditions precedent set forth in Section 4.2 can be satisfied, Borrower may request a Borrowing of Loans pursuant to Section 2.2 to reimburse Issuing Lender for such payment, or, failing to make such request, Borrower shall be deemed to have requested a Borrowing of Base Rate Loans on such payment date pursuant to subsection (e) below.

(e) Funding by Lender When Issuing Lender Not Reimbursed. Upon any drawing under a Letter of Credit, Issuing Lender shall notify Administrative Agent and Borrower. If Borrower fails to timely make the payment required pursuant to subsection (d) above, Issuing Lender shall notify Administrative Agent of such fact and the amount of such unreimbursed payment. Administrative Agent shall promptly notify each Lender of its Pro Rata Share of such amount by Requisite Notice. Each Lender shall make funds

in an amount equal its Pro Rata Share of such amount available to Administrative Agent at Administrative Agent's Office not later than the Requisite Time therefor on the Business Day specified by Administrative Agent, Administrative Agent shall remit the funds so received to Issuing Lender. The obligation of each Lender to so reimburse Issuing Lender shall be absolute and unconditional and shall not be affected by the occurrence of a Default or Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of Borrower to reimburse Issuing Lender for the amount of any payment made by Issuing Lender under any Letter of Credit, together with interest as provided herein.

(f) Nature of Lenders' Funding. If the conditions precedent set forth in Section 4.2 can be satisfied (except for the giving of a Request for Extension of Credit) on any date Borrower is obligated to, but fails to, reimburse Issuing Lender for a drawing under a Letter of Credit, the funding by Lenders pursuant to the previous subsection shall be deemed to be a Borrowing of Base Rate Loans (without regard to the Minimum Amount therefor) deemed requested by Borrower. If the conditions precedent set forth in Section 4.2 cannot be satisfied on the date Borrower is obligated to, but fails to, reimburse Issuing Lender for a drawing under a Letter of Credit, the funding by Lenders pursuant to the previous subsection shall be deemed to be a funding by each Lender of its risk participation in such Letter of Credit, and each Lender making such funding shall thereupon acquire a pro rata participation, to the extent of its reimbursement, an interest in the claim of Issuing Lender against Borrower in respect of such payment and shall share in accordance with that pro rata participation, in any payment made by Borrower with respect to such claim. Any amounts made available by a Lender under its risk participation shall be payable by Borrower upon demand of Administrative Agent, and shall bear interest at a rate per annum equal to the Default Rate.

(g) Obligations Absolute. The obligation of Borrower to pay to Issuing Lender the amount of any payment made by Issuing Lender under any Letter of Credit shall be absolute, unconditional, and irrevocable. Without limiting the foregoing, Borrower's obligation shall not be affected by any of the following circumstances:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) any amendment or waiver of or any consent to departure from such Letter of Credit, this Agreement, or any other agreement or instrument relating hereto or thereto;

(iii) the existence of any claim, setoff, defense, or other rights which Borrower may have at any time against Issuing Lender, Administrative Agent or any Lender, any beneficiary of such Letter of Credit (or any persons or entities for whom any such beneficiary may be acting) or any other Person, whether in connection with such Letter of Credit, this Agreement, or any other agreement or instrument relating thereto, or any unrelated transactions;

(iv) any demand, statement, or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever so long as any such document appeared to comply with the terms of the Letter of Credit;

(v) any payment made by Issuing Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Laws;

(vi) the existence, character, quality, quantity, condition, packing, value or delivery of any property purported to be represented by documents presented in connection with such Letter of Credit or for any difference between any such property and the character, quality, quantity, condition, or value of such property as described in such documents;

(vii) the time, place, manner, order or contents of shipments or deliveries of property as described in documents presented in connection with such Letter of Credit or the existence, nature and extent of any insurance relative thereto;

(viii) the solvency or financial responsibility of any party issuing any documents in connection with such Letter of Credit;

(ix) any failure or delay in notice of shipments or arrival of any property;

(x) any error in the transmission of any message relating to such Letter of Credit not caused by Issuing Lender, or any delay or interruption in any such message;

(xi) any error, neglect or default of any correspondent of Issuing Lender in connection with such Letter of Credit;

(xii) any consequence arising from acts of God, wars, insurrections, civil unrest, terrorist action, disturbances, labor disputes, emergency conditions or other causes beyond the control of Issuing Lender;

(xiii) so long as Issuing Lender in good faith determines that the document appears to comply with the terms of the Letter of Credit, the form, accuracy, genuineness or legal effect of any contract or document referred to in any document submitted to Issuing Lender in connection with such Letter of Credit; and

(xiv) any other circumstances whatsoever where Issuing Lender has acted in good faith.

In addition, Borrower will promptly examine a copy of each Letter of Credit and amendments thereto delivered to it and, in the event of any claim of noncompliance with Borrower's instructions or other irregularity, Borrower will immediately notify Issuing Lender in

writing. Borrower shall be conclusively deemed to have waived any such claim against Issuing Lender and its correspondents unless such notice is given as aforesaid.

(h) Role of Issuing Lender. Each Lender and Borrower agree that, in paying any drawing under a Letter of Credit, Issuing Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. No Administrative Agent-Related Person nor any of the respective correspondents, participants or assignees of Issuing Lender shall be liable to any Lender for any action taken or omitted in connection herewith at the request or with the approval of Lenders or Requisite Lenders, as applicable; any action taken or omitted in the absence of gross negligence or willful misconduct; or the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit. Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. No Administrative Agent-Related Person, nor any of the respective correspondents, participants or assignees of Issuing Lender, shall be liable or responsible for any of the matters described in subsection (g) above. In furtherance and not in limitation of the foregoing, Issuing Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and Issuing Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(i) Applicability of ISP98 and UCP. Unless otherwise expressly agreed by Issuing Lender and Borrower when a Letter of Credit is issued and subject to applicable laws, performance under Letters of Credit by Issuing Lender, its correspondents, and beneficiaries will be governed by, with respect to standby Letters of Credit, the rules of the "International Standby Practices 1998" (ISP98) or such later revision as may be published by the International Chamber of Commerce (the "*ICC*").

(j) Letter of Credit Fee. On each Applicable Payment Date, Borrower shall pay to Administrative Agent in arrears, for the account of each Lender in accordance with its Pro Rata Share, a Letter of Credit fee equal to the Applicable Margin for Offshore Rate Loans on a per annum basis times the actual daily maximum amount available to be drawn under each Letter of Credit for the period since the later of the Closing Date and the previous Applicable Payment Date. If there is any change in the Applicable Margin during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Margin separately for each period during such quarter that such Applicable Margin was in effect.

(k) Fronting Fee and Documentary and Processing Charges Payable to Issuing Lender. On each Applicable Payment Date, Borrower shall pay to

Administrative Agent for the sole account of Issuing Lender a fronting fee in an amount equal to 0.150% per annum on the daily average face amount of all outstanding Letters of Credit, payable in arrears. In addition, Borrower shall pay directly to Issuing Lender, upon demand, for its sole account its customary documentary and processing charges in accordance with its standard schedule, as from time to time in effect, for any Letter of Credit Action or other occurrence relating to a Letter of Credit for which such charges are customarily made. Such fees and charges are nonrefundable.

2.4 Prepayments.

(a) Upon Requisite Notice to Administrative Agent not later than the Requisite Time therefor, Borrower may at any time and from time to time voluntarily prepay Loans in part in the Minimum Amount therefor or in full without premium or penalty. Administrative Agent will promptly notify each Lender thereof and of such Lender's Pro Rata Share of such prepayment. Any prepayment of a Loan shall be accompanied by all accrued interest thereon and any prepayment of an Offshore Rate Loan shall be made together with the amounts set forth in Section 3.5.

(b) If for any reason the Outstanding Obligations exceed the combined Commitments as in effect or as reduced because of any limitation set forth in this Agreement or otherwise, Borrower shall immediately prepay Loans in an aggregate amount equal to such excess.

2.5 Reduction or Termination of Commitments. Upon Requisite Notice to Administrative Agent not later than the Requisite Time therefor, Borrower may at any time and from time to time, without premium or penalty, permanently and irrevocably reduce the Commitments in a Minimum Amount therefor to an amount not less than the Outstanding Obligations at such time or terminate the Commitments. Any such reduction or termination shall be accompanied by payment of all accrued and unpaid commitment fees with respect to the portion of the Commitments being reduced or terminated. Administrative Agent shall promptly notify Lenders of any such request for reduction or termination of the Commitments. Each Lender's Commitment shall be reduced by an amount equal to such Lender's Pro Rata Share times the amount of such reduction.

2.6 Principal and Interest.

(a) Except as otherwise provided hereunder, if not sooner paid, Borrower agrees to pay the outstanding principal amount of each Loan on the Maturity Date.

(b) Subject to subsection (c) below, and unless otherwise specified herein, Borrower shall pay interest on the unpaid principal amount of each Loan (before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Laws) from the date borrowed until paid in full (whether by acceleration or otherwise) on each Applicable Payment Date at a rate per annum equal to the interest rate determined in accordance with the definition of such type of Loan, plus the Applicable Margin specified in the definition in this Agreement of Applicable Margin with respect to such type of Loan.

(c) Notwithstanding subsection (b) of this Section, while any Event of Default exists or after acceleration, Borrower shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all outstanding Obligations, at the Default Rate.

2.7 Fees.

(a) **Commitment Fee.** Borrower shall pay to Administrative Agent (for the account of each Lender according to its Pro Rata Share) the respective commitment fee (the “*Commitment Fee*”) set forth in the definition of Applicable Margin, calculated on the average unused amount of the combined Commitments. The commitment fee shall be calculated and payable quarterly in arrears on each Applicable Payment Date. The Commitment Fee shall continue to accrue at all times, including at any time during which one or more conditions in Section 4 are not met.

(b) **Agency and Arrangement Fees.** Borrower shall pay to Administrative Agent and Arranger an administrative agency fee and a structuring and arrangement fee, respectively, in such amounts and on the Closing Date as set forth in a separate letter agreement dated March 16, 2005 among Borrower, Administrative Agent and Arranger (the “*Fee Letter*”). Such fees are for the services to be performed by Administrative Agent in acting as Administrative Agent and for the services of Arranger in structuring and arranging the credit facilities under this Agreement, respectively, and are fully earned on the date paid. The Fee Letter may be modified to reflect the mutual agreement of Borrower, Administrative Agent and Arranger to reflect those additional fees associated with any increase of the Total Commitment as may be agreed pursuant to the terms of Section 2.12 hereof. All fees payable under the Fee Letter are solely for Administrative Agent’s and Arranger’s own account and are nonrefundable.

(c) **Lenders’ Upfront Fee.** On the Closing Date, Borrower shall pay to Administrative Agent for the account of each Lender the balance due of an upfront fee in the amount set forth in the Fee Letter. Such upfront fees are consideration for the Commitments by each Lender under this Agreement and is fully earned on the date paid. The upfront fee paid to each Lender is solely for its own account and is nonrefundable.

2.8 Computation of Interest and Fees. Computation of interest on Base Rate Loans when the Base Rate is determined by KeyBank’s “prime rate” shall be calculated on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed. Computation of other types of interest and all fees shall be calculated on the basis of a year of 360 days and the actual number of days elapsed, which results in a higher yield to Lenders than a method based on a year of 365 or 366 days. Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall bear interest for one day.

2.9 Making Payments.

(a) Except as otherwise provided herein, all payments by Borrower or any Lender hereunder shall be made to Administrative Agent at Administrative Agent's Office not later than the Requisite Time for such type of payment. All payments received after such Requisite Time shall be deemed received on the next succeeding Business Day. All payments shall be made in immediately available funds in lawful money of the United States of America. All payments by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff.

(b) Upon satisfaction of any applicable terms and conditions set forth herein, Administrative Agent shall promptly pay amounts received in accordance with the prior subsection available in like funds as received, as follows: (i) if payable to Borrower, by crediting such account as Borrower may designate in writing to Administrative Agent from time to time, and (ii) if payable to any Lender, by wire transfer to such Lender at its Lending Office. In the case of amounts held by Administrative Agent that are payable to Borrower, if any applicable terms and conditions are not so satisfied, Administrative Agent shall return any funds it is holding that would otherwise be payable to Borrower to the Lenders making such funds available, without interest.

(c) Subject to the definition of "Interest Period," if any payment to be made by Borrower shall come due on a day other than a Business Day, payment shall instead be considered due on the next succeeding Business Day, and such extension of time shall be reflected in computing interest and fees.

(d) Unless Borrower or any Lender has notified Administrative Agent prior to the date any payment to be made by it is due, that it does not intend to remit such payment, Administrative Agent may, in its sole and absolute discretion, assume that Borrower or Lender, as the case may be, has timely remitted such payment and may, in its sole and absolute discretion and in reliance thereon, make available such payment to the Person entitled thereto. If such payment was not in fact remitted to Administrative Agent in immediately available funds, then:

(i) if Borrower failed to make such payment, each Lender shall forthwith on demand repay to Administrative Agent the amount of such assumed payment made available to such Lender, together with interest thereon in respect of each day from and including the date such amount was made available by Administrative Agent to such Lender to the date such amount is repaid to Administrative Agent at the Federal Funds Rate; and

(ii) if any Lender failed to make such payment, Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon Administrative Agent's demand therefor, Administrative Agent promptly shall notify Borrower, and Borrower shall pay such corresponding amount to Administrative Agent. Administrative Agent also shall be entitled to recover from such Lender interest on such corresponding amount in respect of each day from the date such corresponding amount was made

available by Administrative Agent to Borrower to the date such corresponding amount is recovered by Administrative Agent, (A) from such Lender at a rate per annum equal to the daily Federal Funds Rate, and (B) from Borrower, at a rate per annum equal to the interest rate applicable to such Borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Commitment or to prejudice any rights which Administrative Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

(e) If Administrative Agent or any Lender is required at any time to return to Borrower, or to a trustee, receiver, liquidator, custodian, or any official under any proceeding under Debtor Relief Laws, any portion of a payments made by Borrower, each Lender shall, on demand of Administrative Agent, return its share of the amount to be returned, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the daily Federal Funds Rate.

2.10 Funding Sources. Nothing in this Agreement shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.11 Collateral. Borrower's Obligations are secured by or will be secured by the Security Agreement Documents.

2.12 Additional Loan Commitments.

(a) Provided that no Default of Event of Default shall have occurred and be continuing, Borrower shall have the option from time to time, by giving written notice (an "**Increase Notice**"), to the Administrative Agent on or before the Maturity Date subject to the terms and conditions set forth in this Agreement, to increase the Total Commitments by an amount up to \$45,000,000 (the amount of the requested increase to be set forth in the Increase Notice) (which, assuming no previous reduction in the Commitments, would result in a maximum Total Commitment of \$60,000,000). The increase in the Total Commitment pursuant to any such particular request shall be at least in the Minimum Amount but in no event greater than \$45,000,000 less any previous increase in the Total Commitment pursuant to this Section and less any reduction pursuant to Section 2.5 (a "**Requested Increase**"). The Increase Notice shall contain such other details with respect to such Requested Increase as the Administrative Agent shall reasonably request.

(b) Upon receipt of Increase Notice, from Borrower, Administrative Agent shall promptly send a copy of the Increase Notice to each Lender. In the event Requisite Lenders, acting in their respective sole and absolute discretion, instruct Administrative Agent to do so, Administrative Agent shall act to facilitate the Requested Increase as expressly set forth in this Section 2.12. Following such instruction of Requisite Lenders, Administrative Agent shall send a request to each Lender that each such Lender increase its Commitment by an amount equal to its Pro Rata Share of the Requested Increase (the "**First Request**"). Each Lender shall have the right, but not the obligation, acting in its

sole and absolute discretion, to increase its Commitment by an amount equal to its Pro Rata Share of the Requested Increase, and shall have a period of fifteen (15) days from the First Request to notify Administrative Agent whether or not such Lender elects so to increase its Commitment. Any Lender that fails to respond to the First Request within such fifteen (15)-day period will be deemed to have elected not to increase their respective Commitment. If all Lenders elect to increase their respective Commitments by amounts equal to their respective Pro Rata Share of the Requested Increase, Administrative Agent shall so notify Borrower and Lenders, and Borrower shall proceed in accordance with Section (c) below. If any Lender (any such Lender, a “**Declining Lender**”) shall not elect or shall be deemed to have elected not to increase its Commitment as aforesaid, (i) the amount of such Declining Lender’s Commitment shall remain unchanged, (ii) Administrative Agent shall notify Borrower and each of the other Lenders as to which Lenders have elected to increase their Commitments and by what amounts and (iii) if Borrower so requests, Administrative Agent shall either (A) solicit from the Lenders that elected to increase their respective Commitments a further increase in their Commitments in an aggregate amount equal to all or any portion of the aggregate amount of the Declining Lender’s Pro Rata Share of the Requested Increase (the “**Shortfall**”) or (B) submit a list of proposed lenders that are not then a party to this Credit Agreement to Borrower for its review and approval (such approval not to be unreasonably withheld or delayed) in order to obtain additional Commitments in an amount equal to the Shortfall.

(c) In connection with the Requested Increase in the Commitments of some or all of the Lenders as provided in Section 2.12 (b) above, Borrower shall execute a modification to its Notes (each a “**Modified Note**”) evidencing such increase, as well as such other modifications to this Credit Agreement as Administrative Agent shall reasonably request. In connection with the addition of new lenders as a result of solicitations by Administrative Agent pursuant to 2.12(b) above (the “**New Lenders**”), Borrower, Administrative Agent and each New Lender shall execute an Acceptance Letter in the form of Exhibit G, Borrower shall execute a Note to each New Lender in the amount of the New Lender’s Commitment (a “**New Note**”) and Borrower, Administrative Agent and the Lenders shall execute such modifications to this Credit Agreement (including, without limitation, modifications of the financial covenants contained in Sections 7.12(a) and 7.12(b) hereof) as Administrative Agent shall reasonably request, whereupon the New Lender shall become, and have the rights and obligations of a “Lender”, with a Commitment in the amount set forth in such Acceptance Letter. Each Modified Note and New Note shall constitute a “Note” for all purposes of this Credit Agreement. Borrower shall also execute and deliver to Administrative Agent and the Lenders such additional documents, instruments, certifications and opinions as the Administrative Agent may require in its sole and absolute discretion, including, without limitation, a Compliance Certificate, demonstrating compliance with all covenants, representations and warranties set forth in the Loan Documents after giving effect to the increase, and any amendments to Security Documents, as Administrative Agent may request, and Borrower shall pay any updated UCC searches, all filing costs and fees, Attorney Costs and any and all intangible taxes or other taxes, assessments or charges or any similar fees, taxes or expenses arising in connection with such increase.

(d) If at the time a New Lender becomes a Lender (or a Lender increases its Commitment) pursuant to this Section 2.12 there is any principal outstanding under the existing Notes of the previously admitted Lenders (the “*Existing Lenders*”), such New Lenders (or Lender increasing its Commitment) shall remit to Administrative Agent an amount equal to the Outstanding Percentage (as defined below) multiplied by the Commitment of the New Lenders (or the amount of the increase in the Commitment of a Lender increasing its Commitment), which amount shall be deemed advanced under the Loan of the New Lender (or the Lender increasing its Commitment). Administrative Agent shall pay such amount to the Existing Lenders in accordance with the Existing Lenders’ respective Pro Rata Shares (as calculated immediately prior to the admission of the New Lenders (or the increase in a Lender’s Commitment), and such payment shall effect an automatic reduction of the outstanding principal balance under the respective Notes of the Existing Lenders. For purposes of this Section, the term “*Outstanding Percentage*” means the ratio of (i) the aggregate outstanding principal amount under the Notes of the Existing Lenders, immediately prior to the admission of the New Lender (or the increase in the Commitment of a Lender), to (ii) the aggregate of the Commitments of the Existing Lenders (as increased pursuant to this Section, if applicable) and the New Lenders. Administrative Agent shall distribute an amended Schedule 2.1, which shall thereafter be incorporated into this Agreement, to reflect adjustments to Lenders and their Commitments.

(e) Notwithstanding anything in this Section 2.12 to the contrary, making the Requested Increase is subject to the approval of Administrative Agent and the Lenders or New Lenders, as applicable, acting in their sole and absolute discretion, and additional conditions and fees may be required by them in connection therewith .

SECTION III TAXES, YIELD PROTECTION AND ILLEGALITY

3.1 Taxes.

(a) Any and all payments by Borrower to or for the account of Administrative Agent or any Lender under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of Administrative Agent and each Lender, (i) taxes imposed on or measured by its net income, (ii) franchise taxes imposed on it (in lieu of net income taxes) by the jurisdiction (or any political subdivision thereof) under the Laws of which Administrative Agent or such Lender, as the case may be, is organized or maintains a lending office; (iii) any branch profits tax imposed by the United States of America or any similar tax imposed by another jurisdiction in which Borrower is located; (iv) applicable withholding tax imposed by Sections 1441 and 1442 of the Code that is withheld by Administrative Agent from a payment to any Foreign Lender (as defined in Section 10.21 of this Agreement) pursuant to Section 10.21; and (v) any penalties, interest, costs and expenses (including Attorney Costs) imposed on Administrative Agent

or any Lender arising from the assertion by any Governmental Authority that Administrative Agent did not properly withhold any tax or other amount from payments made in respect of any Foreign Lender (all such non-excluded taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and liabilities being hereinafter referred to as “*Taxes*”). If Borrower shall be required by any Laws to deduct any Taxes from or in respect of any sum payable under any Loan Document to Administrative Agent or any Lender (other than as a result of a breach by a Foreign Lender of its obligations under Section 10.22 of this Agreement, (A) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section), Administrative Agent and such Lender receives an amount equal to the sum it would have received had no such deductions been made, (B) Borrower shall make such deductions, (C) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable Laws, and (D) within 30 days after the date of such payment, Borrower shall furnish to Administrative Agent (who shall forward the same to such Lender) the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, Borrower agrees to pay any and all present or future stamp, court or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, any Loan Document (hereinafter referred to as “*Other Taxes*”).

(c) If Borrower shall be required by the Laws of any jurisdiction outside the United States to deduct any Taxes from or in respect of any sum payable under any Loan Document to Administrative Agent or any Lender, Borrower shall also pay to such Lender or Administrative Agent (for the account of such Lender), at the time interest is paid, such additional amount that the respective Administrative Agent or such Lender specifies as necessary to preserve the after tax yield (after factoring in United States (federal and state) taxes imposed on or measured by net income) such Lender would have received if such deductions (including deductions applicable to additional sums payable under this Section) had not been made.

(d) Borrower agrees to indemnify, defend and hold Administrative Agent and each Lender harmless for (i) the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by Administrative Agent and such Lender; and (ii) any liability (including penalties, interest and expenses) arising therefrom or with respect thereto; provided that (A) Borrower shall not be obligated to indemnify the Administrative Agent or any Lender for any penalties described in clause (ii) above to the extent the Administrative Agent or such Lender, as applicable, (1) had actual knowledge of the existence of the tax, interest, or expense, the non-payment of which gave rise to such penalties, and (2) failed to give Borrower notice of such tax, interest or expense within ten (10) Business Days after the Administrative Agent or such Lender received actual knowledge of the existence thereof; and (B) except to the extent contemplated in clause (A) of this Section 3.1(d), nothing contained in this subsection (d) shall be deemed to imply any obligation on the part of the Administrative Agent or any Lender to provide

Borrower with the notice of any such tax, penalty, interest or expense. Payment under this subsection (d) shall be made within 30 days after the date the Lender or the Administrative Agent makes a demand therefor.

3.2 Illegality. If any Lender determines that any Laws have made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Offshore Rate Loans, or materially restricts the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the applicable offshore Dollar market, or to determine or charge interest rates based upon the Offshore Rate, then, on notice thereof by Lender to Borrower through Administrative Agent, any obligation of such Lender to make Offshore Rate Loans shall be suspended until such Lender notifies Administrative Agent and Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, Borrower shall, upon demand from such Lender (with a copy to Administrative Agent), prepay or Convert all Offshore Rate Loans of such Lender, either on the last day of the Interest Period thereof, if such Lender may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if Lender may not lawfully continue to maintain such Offshore Rate Loans. Each Lender agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender.

3.3 Inability to Determine Rates. If, in connection with any Request for Extension of Credit involving any Offshore Rate Loan, Administrative Agent determines that (a) Dollar deposits are not being offered to banks in the applicable offshore dollar market for the applicable amount and Interest Period of the requested Offshore Rate Loan, (b) adequate and reasonable means do not exist for determining the underlying interest rate for such Offshore Rate Loan, or (c) such underlying interest rate does not adequately and fairly reflect the cost to Lender of funding such Offshore Rate Loan, Administrative Agent will promptly notify Borrower and all Lenders. Thereafter, the obligation of all Lenders to make or maintain such Offshore Rate Loan shall be suspended until Administrative Agent revokes such notice. Upon receipt of such notice, Borrower may revoke any pending request for a Borrowing of Offshore Rate Loans or, failing that, be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

3.4 Increased Cost and Reduced Return; Capital Adequacy.

(a) If any Lender determines that any Laws announced after the date hereof:

(i) impose on such Lender any Tax, duty, or other charge with respect to any Offshore Rate Loans or its obligation to make Offshore Rate Loans (other than as a result of any change in the rate of applicable taxes imposed on or measured by the net income of Agent or any Lender);

(ii) change the basis on which Taxes are imposed on any amounts payable to such Lender under this Agreement in respect of any Offshore Rate Loans;

(iii) impose or modify any reserve, special deposit, or similar requirement (other than the reserve requirement utilized in the determination of the

Offshore Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender (including its Commitment); or

(iv) impose on such Lender or on the offshore Dollar interbank market any other condition affecting this Agreement or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender of making, Converting into, Continuing, or maintaining any Offshore Rate Loans or to reduce any sum received or receivable by such Lender under this Agreement with respect to any Offshore Rate Loans, then from time to time upon demand of such Lender (with a copy of such demand to Administrative Agent), Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such increased cost or reduction (except to the extent that such increased cost or reduction is an amount subject to Section 3.1, in which case the sum received or receivable by such Lender shall be increased in accordance with the provisions of Section 3.1).

(b) If any Lender determines that any change in or the interpretation of any Laws announced after the date hereof have the effect of reducing the rate of return on the capital of such Lender or compliance by such Lender (or its Lending Office) or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder (taking into consideration its policies with respect to capital adequacy and such Lender's desired return on capital), then from time to time upon demand of such Lender (with a copy of such demand to Administrative Agent), Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such reduction; provided, however, that Borrower shall not be required to pay additional amounts to compensate any Lender for (i) any applicable withholding tax imposed by Sections 1441 and 1442 of the Code that is withheld by Administrative Agent from a payment to any Foreign Lender pursuant to Section 10.22, (ii) any reduction in connection with any penalties, interest, costs and expenses (including Attorney Costs) arising from the assertion by any Governmental Authority that Administrative Agent did not properly withhold any tax or other amount from payments made in respect of any Foreign Lender; or (iii) any change in the rate of applicable taxes imposed on or measured by net income.

3.5 Breakfunding Costs. Upon demand of any Lender (with a copy to Administrative Agent) from time to time, Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any Continuation, Conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or

(b) any failure by Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, Continue or Convert any Loan other than a Base Rate Loan on the date or in the amount notified by Borrower;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

3.6 Matters Applicable to all Requests for Compensation.

(a) The Administrative Agent or any Lender claiming compensation under this Section 3, Lender shall deliver to Borrower a certificate setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder, which shall be conclusive in the absence of clearly demonstrable error. In determining such amount, Lenders may use any reasonable averaging and attribution methods. For purposes of this Section 3, a Lender shall be deemed to have funded each Offshore Rate Loan at the Offshore Rate for such Loan by a matching deposit or other borrowing in the offshore Dollar interbank market, whether or not such Offshore Rate Loan was in fact so funded.

(b) Borrower shall not be obligated to pay any amount under this Section 3 which arose prior to the date which is 180 days preceding the date of such demand or is attributable to periods prior to the date which is 180 days preceding the date of such demand; provided, however, that in the event any Law is enacted that retroactively imposes any cost or charge upon the Administrative Agent or any Lender that would otherwise be a basis for compensation under Sections 3.1 through 3.5, the Administrative Agent or such Lender may make a demand for such compensation through and including the date which is 180 days after the date upon which such Law takes effect.

(c) Upon any Lender making a claim for compensation under Section 3.1 or 3.4, Borrower may remove and replace such Lender in accordance with Section 10.22.

3.7 Survival. All of Borrower's obligations under this Section 3 shall survive for a period of one (1) year after the later of termination of the Commitments, and payment in full of all Obligations; provided, however, that the obligation of Borrower to make any payment under this Section 3 is contingent upon the receipt by Borrower of the certificate described in Section 3.6(a) within the later of (a) 180 days after the later of the repayment of all Loans, the termination of all Letters of Credit and the termination of the Commitment, or (b) in the case of any Law retroactively imposing any cost or charge upon the Administrative Agent or any Lender, 180 days after the date upon which such Law takes effect.

SECTION IV CONDITIONS PRECEDENT TO EXTENSIONS OF CREDIT

4.1 Conditions of Initial Extension of Credit. The obligation of each Lender to make its initial Extension of Credit hereunder is subject to satisfaction of the following conditions precedent:

(a) Unless waived by Administrative Agent and Lenders, Administrative Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the applicable Credit Party, each dated on, or in the case of third-party

certificates, recently before the Closing Date and each in form and substance satisfactory to Administrative Agent, Lenders and their legal counsel:

- (i)** executed counterparts of this Agreement, sufficient in number for distribution to Administrative Agent, Lenders and Borrower;
- (ii)** the Notes executed by Borrower in favor of each Lender, each in a principal amount equal to such Lender's Commitment;
- (iii)** the Multi-Party Guaranty;
- (iv)** the General Security Agreement, together with such certificates, stock powers, registrations and other supporting documents as Administrative Agent shall reasonably require;
- (v)** the Intellectual Property Security Agreement together with such certificates, stock powers, registrations and other supporting documents as Administrative Agent shall reasonably require;
- (vi)** the UK Pledge Agreement together with such certificates, stock powers, registrations and other supporting documents as Administrative Agent shall reasonably require;
- (vii)** the Mexican Pledge Agreement together with such certificates, stock powers, registrations and other supporting documents as Administrative Agent shall reasonably require;
- (viii)** the original Fee Letter;
- (ix)** such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of Borrower as Administrative Agent may require to establish the identities of and verify the authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer thereof;
- (x)** such evidence as Administrative Agent and any Lender may reasonably require to verify that each Credit Party is duly organized or formed, validly existing, in good standing and qualified to engage in business in such jurisdiction(s) as specified in Section 5.1, including certified copies of Borrower's certificates of good standing and/or qualification to engage in business, tax clearance certificates, and the like;
- (xi)** a certificate signed by a Responsible Officer of each Credit Party (A) that the representations and warranties made by Borrower herein are true and correct on and as of the Closing Date (except to the extent such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date), (B) that Borrower is in compliance with all the terms and provisions of the Loan Documents to which it is a party, and no Default or Event of Default shall have

occurred and be continuing, and (C) that there has been no event or circumstance since the date of the Audited Financial Statements which has a Material Adverse Effect;

(xii) opinions of counsel to Borrower in substantially the form of Exhibit H;

(xiii) with respect to the property owned or leased by Borrower and each Guarantor Borrower shall have caused to be delivered to Administrative Agent (i) the results of Uniform Commercial Code lien searches for the states of California and Delaware and any other state where a Guarantor is organized or has its chief executive office, satisfactory to Agent and the Lenders, and (ii) Uniform Commercial Code termination statements reflecting termination of all financing statements previously filed by any Person except as expressly permitted hereunder; and

(xiv) such other assurances, certificates, documents, consents or opinions as Administrative Agent, Issuing Lender or Requisite Lenders reasonably may require.

(b) Any fees required to be paid on or before the Closing Date shall have been paid.

(c) Unless waived by Administrative Agent, Borrower shall have paid all Attorney Costs of Administrative Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between Borrower and Administrative Agent).

(d) Administrative Agent and its counsel shall have reviewed any and all outstanding litigation involving Borrower or its Subsidiaries and shall be satisfied with the same, in its sole and absolute discretion.

4.2 Conditions to all Extensions of Credit. In addition to any applicable conditions precedent set forth elsewhere in this Section 4 or in Section 2, the obligation of each Lender to honor any Request for Extension of Credit other than a Conversion or Continuation is subject to the following conditions precedent:

(a) the representations and warranties of Borrower contained in Section 5 shall be correct on and as of the date of such Extension of Credit, except to the extent that such representations and warranties specifically refer to an earlier date;

(b) no Default or Event of Default exists, or would result from such proposed Extension of Credit;

(c) Administrative Agent shall have timely received a Request for Extension of Credit by Requisite Notice by the Requisite Time;

(d) The sum of the Outstanding Obligations plus the advances requested pursuant to the Request for Extension of Credit shall not exceed the amount available for borrowing in accordance with the most recent financial statements delivered by Borrower pursuant to Sections 6.1(a) and (b) of this Agreement; and

(e) Administrative Agent shall have received, in form and substance satisfactory to it, such other assurances, certificates, documents or consents related to the foregoing as Administrative Agent and Requisite Lenders reasonably may require.

Each Request for Extension of Credit by Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.2(a) and (b) have been satisfied on and as of the date of such Extension of Credit.

SECTION V REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Administrative Agent and Lenders that:

5.1 Existence and Qualification; Power; Compliance with Laws. Each Credit Party is a corporation duly incorporated, validly existing and in good standing under the Laws of the state of its incorporation, has the corporate power and authority and the legal right to own, lease and operate its properties and to conduct its business as currently conducted, is duly qualified and in good standing under the Laws of its state of incorporation and in all other jurisdictions where it is required to be so qualified, except where the failure to be so qualified could not be reasonably expected to have a Material Adverse Effect, and is in compliance with all Laws except to the extent that noncompliance could not be reasonably expected to have a Material Adverse Effect.

5.2 Power; Authorization; Enforceable Obligations. Each Credit Party has the corporate power and authority and the legal right to make, deliver and perform each Loan Document to which it is a party and Borrower has the corporate power and authority to borrow hereunder and has taken all necessary action to authorize the borrowings on the terms and conditions of this Agreement and to authorize the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party. No consent or authorization of, filing with, or other act by or in respect of any Governmental Authority or any other Person, is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any of the other Loan Documents. The Loan Documents have been duly executed and delivered by Borrower, and constitute a legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms.

5.3 No Legal Bar. The execution, delivery, and performance by each Credit Party of the Loan Documents to which it is a party and compliance with the provisions thereof have been duly authorized by all requisite action on the part of such Credit Party and do not and will not (a) violate or conflict with, or result in a breach of, or require any consent under (i) any Organization Documents of the Credit Parties, (ii) any material applicable Laws, rules, or regulations or any order, writ, injunction, or decree of any Governmental Authority or arbitrator, or (iii) any

material Contractual Obligation of such Credit Party or any of its Subsidiaries or by which any of them or any of their property is bound or subject, (b) constitute a default under any such material agreement or instrument, or (c) result in, or require, the creation or imposition of any Lien on any of the properties of such Credit Party or any of its Subsidiaries (other than the Liens granted in connection herewith).

5.4 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present in all material respects the financial condition of Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) to the extent required by GAAP, show all material indebtedness and other liabilities, direct or contingent, of Borrower and its Subsidiaries as of the date thereof.

(b) Since the date of the Audited Financial Statements, there has been no event or circumstance which has a Material Adverse Effect except as disclosed in the Disclosure Letter.

5.5 Litigation. Except as disclosed in the Disclosure Letter, there are (a) no lawsuits, investigations or proceedings of or before an arbitrator or Governmental Authority pending or, to the best of knowledge of Borrower, threatened by or against Borrower or any of its Subsidiaries or against any of their properties or revenues which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (b) no orders, writs, injunctions, judgments, or decrees of any court or government agency or instrumentality to which the Borrower or any of its Subsidiaries is a party or by which the property or assets of them are bound, or (c) no grievances, disputes, or controversies outstanding with any union or other organization of the employees of Borrower or any of its Subsidiaries, or, to the knowledge of each Company, threats of work stoppage, strike, or pending demands for collective bargaining, which could reasonably be expected to cause or result in a Material Adverse Effect.

5.6 No Default; Continued Business. Neither Borrower nor any of its Subsidiaries are in default under or with respect to any Contractual Obligation which could reasonably be expected to have a Material Adverse Effect, and no Default or Event of Default has occurred and is continuing or will result from the consummation of this Agreement or any of the other Loan Documents, or the making of the Extensions of Credit hereunder. There exists no actual, pending, or, to Borrower's knowledge, any threatened termination, cancellation or limitation of, or any modification or change in the business relationship of any Company and any customer or supplier, or any group of customers or suppliers, whose purchases or supplies, individually or in the aggregate, could reasonably be expected to cause or result in a Material Adverse Effect, and there exists no present condition or state of facts or circumstances that would have a Material Adverse Effect or prevent a Company from conducting such business or the transactions contemplated by this Agreement in substantially the same manner in which it was previously conducted.

5.7 Ownership of Property; Liens. Borrower and its Subsidiaries have valid fee or leasehold interests in all real property which they use in their respective businesses, and Borrower and its respective Subsidiaries have good and marketable title to all their other property, and none of such property is subject to any Lien, except as permitted in Section 7.2.

5.8 Taxes. Borrower and its Subsidiaries have filed all material tax returns which are required to be filed, and have paid, or made provision for the payment of, all taxes with respect to the periods, property or transactions covered by said returns, or pursuant to any assessment received by Borrower or its respective Subsidiaries, except (a) such taxes, if any, as are being contested in good faith by appropriate proceedings and as to which adequate reserves have been established and maintained, and (b) immaterial taxes; provided, however, that in each case no material item or portion of property of Borrower or any of its Subsidiaries is in jeopardy of being seized, levied upon or forfeited.

5.9 Margin Regulations; Investment Company Act; Public Utility Holding Company Act.

(a) Neither Borrower for any of its Subsidiaries is engaged nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of “purchasing” or “carrying” “margin stock” within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any Extensions of Credit hereunder will be used for “purchasing” or “carrying” “margin stock” as so defined or for any purpose which violates, or which would be inconsistent with, the provisions of Regulations U or X of such Board of Governors.

(b) Neither Borrower nor any of its Subsidiaries (i) is a “holding company,” or a “subsidiary company” of a “holding company,” or an “affiliate” of a “holding company” or of a “subsidiary company” of a “holding company,” within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

5.10 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other applicable Laws. Each Plan or other employee benefit plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination or opinion letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan. There has been no prohibited transaction (which is not otherwise exempt under Section 4975 of the Code) or violation of the fiduciary responsibility rules under ERISA with respect to any Plan that has or could reasonably be expected to have a Material Adverse Effect.

(b) (i) No ERISA Event has occurred or, to the best of knowledge of Borrower or any ERISA Affiliate, is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither Borrower nor any ERISA Affiliate has incurred, or, to the best of knowledge of Borrower or any ERISA Affiliate, reasonably expects to incur, any liability (and, to the best of knowledge of Borrower or any ERISA Affiliate, no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.11 Intangible Assets. Borrower and its Subsidiaries own, or possess the right to use, all trademarks, trade names, copyrights, patents, patent rights, franchises, licenses and other intangible assets that are used in the conduct of their respective businesses as now operated or could obtain such right without causing a Material Adverse Effect, and none of such items, to the best knowledge of Borrower, conflicts with the valid trademark, trade name, copyright, patent, patent right or intangible asset of any other Person to the extent that such conflict has or could reasonably be expected to have a Material Adverse Effect.

5.12 Compliance With Laws. Borrower and its Subsidiaries are in compliance in all material respects with all material Laws that are applicable such Person.

5.13 Environmental Compliance. Borrower and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof Borrower has reasonably concluded that such Environmental Laws and claims do not, individually or in the aggregate, have a Material Adverse Effect.

5.14 Insurance. The properties of Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where Borrower or such Subsidiary operates.

5.15 Swap Obligations. Neither Borrower nor any of its Subsidiaries has incurred any outstanding obligations under any Swap Contracts, other than Permitted Swap Obligations. Borrower has undertaken its own independent assessment of its consolidated assets, liabilities and commitments and has considered appropriate means of mitigating and managing risks associated with such matters and has not relied on any swap counterparty or any Affiliate of any swap counterparty in determining whether to enter into any Swap Contract.

5.16 Solvency. Borrower has received consideration that is the reasonable equivalent value of the obligations and liabilities Borrower has incurred in favor of Administrative Agent and the Lenders. Each Credit Party is Solvent and no Credit Party will not be Solvent after

giving effect to the execution and delivery of the Loan Documents to Administrative Agent and the Lenders.

5.17 Disclosure. No statement, information, report, representation, or warranty made by Borrower in any Loan Document or furnished to Lender in connection with any Loan Document contains any untrue statement of a material fact or, when viewed together with Borrower's periodic reports filed under the Exchange Act and the rules and regulations promulgated thereunder, omits to state any material fact necessary to make the statements herein or therein not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time. After due inquiry by Borrower, there is no known fact that any Credit Party has not disclosed to Agent and the Lenders that has or is reasonably likely to have a Material Adverse Effect.

SECTION VI AFFIRMATIVE COVENANTS

So long as any Obligation (excluding inchoate indemnity obligations) remains unpaid or unperformed, or any portion of the Commitments remain outstanding, Borrower shall, and shall (except in the case of Borrower's reporting covenants set forth in Sections 6.1 and 6.2(a)-(c), cause each Subsidiary, to:

6.1 Financial Statements. Deliver to Administrative Agent and each Lender, in form and detail satisfactory to Administrative Agent and Requisite Lenders:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of Borrower (except for the fiscal year ending December 2004 for which Borrower shall have 120 days after the end of such fiscal year), a consolidated balance sheet, a consolidated statement of income and a consolidated cash flow statement of Borrower and its Subsidiaries as at the end of such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing, which report and opinion shall be prepared in accordance with GAAP and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any qualifications and exceptions not reasonably acceptable to Requisite Lenders;

(b) as soon as available, but in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Borrower, a consolidated balance sheet, a consolidated statement of income and a consolidated cash flow statement of Borrower and its Subsidiaries as at the end of such fiscal quarter, and the for such fiscal quarter and for the portion of Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of Borrower as fairly presenting in all material respects the financial condition, results of operations and cash flows of Borrower and its

Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes; and

(c) Reports required to be delivered pursuant to clauses (a) and (b) of this Section 6.1 shall be deemed to have been delivered on the date on which Borrower posts such reports on Borrower's internet website at the website address listed on Schedule 10.2 hereof or when such report is posted on the Securities and Exchange Commission's website at www.sec.gov; provided that (x) Borrower shall notify Administrative Agent of the posting of any such new material, and (y) in every instance Borrower shall provide paper copies of the Compliance Certificates required by clause (a) of Section 6.2 to Administrative Agent and each Lender. Except for the Compliance Certificates referred to in such clause (a) of Section 6.2, Administrative Agent shall have no obligation to request the delivery or to maintain copies of the reports referred to in clauses (a) and (b) of this Section 6.1, and in any event shall have no responsibility to monitor compliance by Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such reports.

6.2 Certificates, Notices and Other Information. Deliver to Administrative Agent and each Lender, in form and detail satisfactory to Administrative Agent and Requisite Lenders:

(a) within five (5) days after the delivery of the financial statements referred to in Sections 6.1 (a) and (b), a duly completed Compliance Certificate signed by a Responsible Officer of Borrower;

(b) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of Borrower, and copies of all annual, regular, periodic and special reports and registration statements which Borrower may file or be required to file with the Securities and Exchange Commission under Sections 13 or 15(d) of the Exchange Act, and not otherwise required to be delivered to Administrative Agent pursuant hereto;

(c) promptly after the occurrence thereof, notice of any Default or Event of Default;

(d) notice of any change in accounting policies or financial reporting practices by Borrower or any Subsidiary that is material to Borrower or to Borrower and its Subsidiaries on a consolidated basis;

(e) promptly after the commencement thereof, notice of any litigation, investigation or proceeding affecting Borrower where the reasonably expected damages to Borrower exceed the Threshold Amount, or in which injunctive relief or similar relief is sought, which relief, if granted, could reasonably be expected to have a Material Adverse Effect;

(f) promptly after the occurrence thereof, notice of any Reportable Event with respect to any Plan or the intent to terminate any Plan, or the institution of proceedings or the taking or expected taking of any other action to terminate any Plan or withdraw from any Plan;

- (g) promptly after the occurrence thereof, notice of any Material Adverse Effect; and
- (h) promptly, such other data and information as from time to time may be reasonably requested by Lender.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of Borrower setting forth details of the occurrence referred to therein and stating what action Borrower has taken and proposes to take with respect thereto. The annual reports, proxies, financial statements or other communications required by Section 6.2(c) above shall be deemed to have been delivered on the date on which Borrower posts such reports on Borrower's website on the Internet at the website address listed on Schedule 10.2 hereof or when such report is posted on the Securities and Exchange Commission's website at www.sec.gov; provided that Borrower shall notify Administrative Agent of the posting of any such new material. Lender shall have no obligation to request the delivery or to maintain copies of the reports and communications referred to in Section 6.2(c), and in any event shall have no responsibility to monitor compliance by Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such reports and communications.

6.3 Payment of Taxes. Pay and discharge when due all material taxes, assessments, and governmental charges, except for any such tax, assessment, charge, or levy which is an Ordinary Course Lien under subsection (b) of the definition of such term.

6.4 Preservation of Existence. Preserve and maintain its existence, licenses, permits, rights, franchises and privileges necessary or desirable in the normal conduct of its business, except (i) as permitted by Section 7.3, or (ii) where failure to do so would not reasonably be expected to have a Material Adverse Effect.

6.5 Maintenance of Properties. Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good order and condition, subject to wear and tear in the ordinary course of business, and not permit any waste of its properties, except where failure to do so would not reasonably be expected to have a Material Adverse Effect.

6.6 Maintenance of Insurance. Maintain liability and casualty insurance with responsible insurance companies reasonably satisfactory to Lender in such amounts and against such risks as is customary for similarly situated businesses.

6.7 Compliance With Laws.

- (a) Comply with the requirements of all applicable Laws and orders of any Governmental Authority, noncompliance with which would reasonably be expected to have a Material Adverse Effect.
- (b) Conduct its operations and keep and maintain its property in material compliance with all Environmental Laws.

6.8 Inspection Rights. At any time during regular business hours and as often as reasonably requested upon reasonable notice, permit Administrative Agent or any Lender, or any employee, agent or representative thereof, to examine, audit and make copies and abstracts from Borrower's records and books of account and to visit and inspect its properties and to discuss its affairs, finances and accounts with any of its officers and key employees, and, upon request, furnish promptly to Administrative Agent or any Lender true copies of all financial information and internal management reports made available to their senior management. Notwithstanding any provision of this Agreement to the contrary, so long as no Default or Event of Default shall have occurred and be continuing, neither Borrower nor any of its Subsidiaries shall be required to disclose, permit the inspection, examination, photocopying or making extracts of, or discuss, any document, information or other matter that (i) constitutes non-financial trade secrets or non-financial proprietary information, or (ii) the disclosure of which to any Lender, or their designated representative, is then prohibited by law or any agreement binding on Borrower or any of its Subsidiaries that was not entered into by Borrower or any such Subsidiary for the purpose of concealing information from the Lenders. Borrower shall, however, furnish to Administrative Agent such information concerning Borrower's intellectual property (including, without limitation, application and registration numbers for any filings in connection with such intellectual property) as is reasonably necessary to permit Administrative Agent (on behalf of itself and the other Lenders) to perfect a security interest in such intellectual property.

6.9 Keeping of Records and Books of Account. Keep records and books of account adequate to prepare financial statements in conformity with GAAP, consistently applied, and in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over Borrower or any applicable Subsidiary.

6.10 Compliance with ERISA. Cause, and cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other applicable Laws; (b) to take all actions to cause each Plan which is qualified under Section 401 (a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

6.11 Compliance With Agreements. Promptly and fully comply with all Contractual Obligations to which any one or more of them is a party, except for any such Contractual Obligations (a) the nonperformance of which would not cause a Default or Event of Default, (b) then being contested by any of them in good faith by appropriate proceedings, or (c) if the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.12 Subsidiary Guaranties and Pledge of Ownership Interests.

(a) **Domestic Subsidiaries.** In the event that the aggregate gross revenues or assets for any fiscal year, commencing with the fiscal year ending nearest December 31, 2005, of Borrower and Guarantors, when taken together with the aggregate gross revenues and assets of Borrower's Foreign Subsidiaries as to which 65% of the ownership interests thereof have been pledged in favor of Administrative Agent for the benefit of Lenders, is less than 90% of the aggregate gross revenues or assets of Borrower and its Subsidiaries on a consolidated basis for such fiscal year, Borrower will, within 90 days after the end of such fiscal year, cause one or more additional Domestic

Subsidiaries to execute and deliver to Administrative Agent a joinder to the Multi-Party Guaranty and to the General Security Agreement along with any such other supporting documentation, certificates (accompanied by irrevocable undated stock powers, duly endorsed in blank), corporate governance and authorization documents as may be deemed reasonably necessary or advisable by Administrative Agent such that the aggregate gross revenues and assets for such fiscal year of Borrower and Guarantors, when taken together with the aggregate gross revenues and assets of Borrower's Foreign Subsidiaries as to which 65% of the ownership interests thereof have been pledged in favor of Administrative Agent for the benefit of Lenders, equal to at least 90% of the aggregate gross revenues and assets of Borrower and its Subsidiaries on a consolidated basis for such fiscal year. In addition, in the event that (i) any Domestic Subsidiary becomes a Material Subsidiary after the date hereof, and such Domestic Subsidiary has not previously executed the Multi-Party Guaranty and General Security Agreement, or (ii) any Domestic Subsidiary of Company that has not previously executed a joinder to Multi-Party Guaranty and General Security Agreement becomes a guarantor in respect of the obligations of Borrower or any Subsidiary under any Material Indebtedness Agreement, Borrower will promptly cause such Domestic Subsidiary to execute and deliver to Administrative Agent a joinder to the Multi-Party Guaranty and the General Security Agreement along with any such other supporting documentation, certificates (accompanied by irrevocable undated stock powers, duly endorsed in blank), corporate governance and authorization documents as may be deemed necessary or advisable by Administrative Agent. Notwithstanding anything in this Section 6.12(a) to the contrary, Borrower will not be required to deliver to Administrative Agent share or stock certificates evidencing Escrowed Securities until such time as such Escrowed Securities are eligible for release from the escrow to Borrower.

(b) Foreign Subsidiary Stock Pledge. In addition, with respect to each First-Tier Material Foreign Subsidiary as to which 65% of the ownership interests therein have not previously been pledged to Administrative Agent, Borrower shall and shall cause its Domestic Subsidiaries to, within 90 days after the end of such fiscal year (unless a longer period is agreed to by Administrative Agent), (i) pledge to Administrative Agent, for the benefit of the Lenders, 65% of the ownership interest owned by a Credit Party pursuant to the General Security Agreement, and (ii) deliver to Agent, for the benefit of the Lenders, the outstanding shares certificates (or other evidence of equity), as applicable, evidencing such pledged ownership interest.

(c) Perfection or Registration of Interest in Foreign Shares Pledged. With respect to any ownership interests of Borrower's Foreign Subsidiaries pledged to Administrative Agent, for the benefit of the Lenders, Agent shall at all times, in the discretion of Agent or the Required Lenders, have the right to perfect, at Borrower's sole cost, payable upon request therefor (including, without limitation, any foreign counsel, or foreign notary, filing, registration or similar, fees, costs or expenses), its security interest in such shares in the respective foreign jurisdiction; provided, however, that, if Administrative Agent, in its reasonable discretion after consultation with Borrower, determines that the cost of perfecting, in a foreign jurisdiction, the security interest of Administrative Agent, for the benefit of the Lenders, in the such ownership interests relating to any First-Tier Material Foreign Subsidiary is impractical or cost-prohibitive,

then Administrative Agent may agree to forego the foreign perfection of such security interest.

6.13 Use of Proceeds. Use the proceeds of Extensions of Credit for lawful general corporate purposes including working capital and general corporate purposes, including Acquisitions, not otherwise in contravention of this Agreement.

6.14 Restrictive Agreements. Except as set forth in this Agreement, Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (a) make, directly or indirectly, any dividend, return of capital or other distribution to Borrower or to any other Subsidiary, (b) make, directly or indirectly, loans or advances or capital contributions to Borrower or (c) transfer, directly or indirectly, any of the properties or assets of such Subsidiary to Borrower; except for such encumbrances or restrictions existing under or by reason of (i) applicable law, (ii) customary non-assignment provisions in leases or other agreements entered in the ordinary course of business and consistent with past practices, or (iii) customary restrictions in security agreements or mortgages securing Indebtedness or capital leases, of a Company to the extent such restrictions shall only restrict the transfer of the property subject to such security agreement, mortgage or lease.

6.15 Guaranty Under Material Indebtedness Agreement. No Domestic Subsidiary of Borrower shall be or become liable as an obligor under any Material Indebtedness Agreement unless such Subsidiary shall also be a Guarantor under this Agreement prior to or concurrently therewith. No Foreign Subsidiary of Borrower shall be or become liable as an obligor under any Material Indebtedness Agreement unless 65% of the ownership interests thereof have been pledged in favor of Administrative Agent for the benefit of Lenders.

SECTION VII NEGATIVE COVENANTS

So long as any Obligations remain unpaid or unperformed, or any portion of the Commitments remain outstanding, Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

7.1 Indebtedness. Create, incur, assume or suffer to exist any Indebtedness except for the following (“*Permitted Indebtedness*”):

(a) Indebtedness under the Loan Documents;

(b) Indebtedness outstanding on the date hereof and listed on Schedule 7.1 hereto and any refinancings, refundings, renewals or extensions thereof, provided that (i) the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to the premium or other amount paid, and fees and expenses incurred, in connection with such refinancing and by an amount equal to any utilized commitments thereunder, and (ii) the weighted average life of the principal payments pursuant to such refinanced, refunded, renewed or extended Indebtedness shall be no shorter than the weighted average life of such payments

pursuant to such Indebtedness immediately prior to such refinancing, refunding, renewal or extension;

(c) Ordinary Course Indebtedness;

(d) Indebtedness of Borrower and its Subsidiaries under loans and Capital Leases incurred by Borrower or any of its Subsidiaries to finance the acquisition by such Person of real property, improvements, fixtures, equipment or other fixed assets (together with attachments, ascensions, additions, "soft costs" and proceeds thereof), provided that in each case, (i) such Indebtedness is incurred by such Person at the time of, or not later than six (6) months after, the acquisition by such Person of the property so financed, (ii) such Indebtedness does not exceed the purchase price of the property so financed, and (iii) the aggregate of all such Indebtedness at any time outstanding does not exceed the Threshold Amount;

(e) Indebtedness of Borrower and its Subsidiaries under initial or successive refinancings, refundings, renewals or extensions of any Indebtedness permitted by subsections (c) and (d) above, provided that (i) the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to the premium or other amount paid, and fees and expenses incurred, in connection with such refinancing, and (ii) the weighted average life of the principal payments pursuant to such refinanced, refunded, renewed or extended Indebtedness shall be no shorter than the weighted average life of such payments pursuant to such Indebtedness immediately prior to such refinancing, refunding, renewal or extension;

(f) Indebtedness of Borrower to any of Borrower's Subsidiaries, Indebtedness of any of Borrower's Subsidiaries to Borrower or Indebtedness of any of Borrower's Subsidiaries to any of Borrower's other Subsidiaries;

(g) Subordinated Debt as the same shall have been approved by Requisite Lenders;

(h) Indebtedness which may arise as a result of any invalidity of receivables sold as described in Section 7.4(b), or in similar transactions as approved by Administrative Agent, provided (i) the aggregate of all such Indebtedness at any time outstanding does not exceed \$15,000,000 and (ii) such Indebtedness is subordinated to the Obligations hereunder pursuant to a subordination agreement in form and substance satisfactory to Administrative Agent;

(i) Indebtedness incurred in favor of sellers in connection with Permitted Acquisitions, but only to the extent permitted in the definition thereof; and

(j) Other Indebtedness not included in (a) through (i) above and not exceeding, in the aggregate at any one time the Threshold Amount;

provided, however, that in no event shall Permitted Indebtedness include any replacement letters of credit with Comerica Bank or any other financial institution (other than Issuing Lender) upon expiration of the Comerica Letters of Credit. Borrower shall not permit Comerica Bank to

automatically extend or automatically renew any of the Comerica Letters of Credit, and each Comerica Letter of Credit shall expire at the end of its current expiry date.

7.2 Liens . Incur, assume or suffer to exist, any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for the following (“ *Permitted Liens* ”):

- (a) Liens existing on the date hereof and listed on Schedule 7.1 and any renewals or extensions thereof, provided that the property covered thereby is not increased and any renewal or extension of the obligations secured or benefited thereby is permitted by Section 7.1 (a);
- (b) Ordinary Course Liens;
- (c) Liens on the property or assets of any Person which becomes a Subsidiary of Borrower after the date of this Agreement or acquired after the date of this Agreement, provided that (i) such Liens exist at the time such Person became a Subsidiary or the assets were acquired, and (ii) such Liens were not created in contemplation of the acquisition of such Person or assets;
- (d) Rights of vendors or lessors under conditional sale agreements, Capital Leases or other agreements relating to Indebtedness described in Section 7.1(d) or other title retention agreements, provided that in each case, (i) such rights secure or otherwise relate to Permitted Indebtedness, (ii) such rights do not extend to any property other than property acquired with the proceeds of such Permitted Indebtedness (together with accessions, additions, replacements and proceeds thereof), and (iii) such rights do not secure any Indebtedness other than Permitted Indebtedness;
- (e) Liens incurred in connection with leases, subleases, licenses and sublicenses granted to Persons not interfering in any material respect with the business of Borrower and its Subsidiaries and any interest or title of a lessee or licensee under any such leases, subleases, licenses or sublicenses;
- (f) Liens arising in connection with judgments not constituting an Event of Default pursuant to Section 8.1(h);
- (g) Liens securing Indebtedness permitted under Section 7.1(h) on selected assets as shall be reasonably necessary, in the judgment of Administrative Agent, to support the sale receivables of Foreign Subsidiaries to the extent permitted under Section 7.4(b);
- (h) Liens not otherwise permitted hereunder on the property or assets of Borrower and any of its Subsidiaries securing Indebtedness, provided the aggregate Indebtedness secured thereby does not exceed the Threshold Amount;

provided, however, that in no event shall any Lien be permitted to exist on, or in respect of, any depositary or investment account containing any cash or cash equivalent of Borrower or any of its Domestic Subsidiaries, except for Liens in favor of the entity (and its affiliates) with which

any such depository or investment account is maintained; and provided further, however, that in no event shall Permitted Liens include any liens on any cash collateral account to secure the reimbursement obligations of Borrower or any of its Subsidiaries with respect to replacement letters of credit with Comerica Bank or any other financial institution (other than Issuing Lender) upon expiration of the Comerica Letters of Credit.

7.3 Fundamental Changes. Merge or consolidate with or into any Person or liquidate, wind-up or dissolve itself, or permit or suffer any liquidation or dissolution or sell all or substantially all of its assets, except that:

(a) any Subsidiary may merge with (i) Borrower, provided that Borrower shall be the continuing or surviving corporation, (ii) any Guarantor Subsidiary or, if such Subsidiary is not a Guarantor, with any other Subsidiary, and (iii) any joint venture, partnership or other Person, so long as such joint venture, partnership and other Person will, as a result of making such merger and all other contemporaneous related transactions, become a Subsidiary;

(b) any Subsidiary may sell or transfer all or substantially all of its assets (through voluntary liquidation, dissolution or winding up or otherwise), to Borrower or to another Subsidiary that is a Guarantor or, if the selling or transferring Subsidiary is not a Guarantor, to any other Subsidiary;

(c) Borrower may merge into or consolidate with any other Person, provided that (i) Borrower is the surviving corporation, and (ii) immediately after giving effect to such merger or consolidation, no Default or Event of Default shall have occurred and be continuing; and

(d) any Subsidiary may merge or consolidate with or into any other Person or sell all or substantially all of its assets to the extent such transaction is a Disposition otherwise permitted under Section 7.4 or an Investment otherwise permitted under Section 7.5 and immediately after giving effect to such merger or consolidation, no Default or Event of Default shall have occurred and be continuing.

7.4 Dispositions. Make any Dispositions, except:

(a) Ordinary Course Dispositions;

(b) True sales of the accounts receivable of Foreign Subsidiaries, or similar arrangements approved by Administrative Agent, entered into to finance the operations of Borrower's Foreign Subsidiaries; and

(c) Dispositions permitted by Section 7.3; and

(d) Other Dispositions of Property having an aggregate net book value from the date hereof not exceeding the Threshold Amount.

7.5 Investments. Make any Investments, except for the following (“*Permitted Investments*”):

- (a) Investments existing on the Closing Date;
- (b) Ordinary Course Investments;
- (c) Investments permitted by Section 7.1 or Section 7.3;
- (d) Investments arising from rights received by Borrower and its Subsidiaries upon the required payment of any permitted contingent obligations of Borrower and its Subsidiaries;

(e) Investments constituting Acquisitions, provided that (i) in the case of a merger, amalgamation or other combination including Borrower, Borrower shall be the surviving entity, (ii) in the case of a merger, amalgamation or other combination including a Credit Party (other than Borrower), a Credit Party shall be the surviving entity; (iii) the business to be acquired shall be similar to the lines of business of the Borrower and its Subsidiaries, (iv) no Default or Event of Default shall exist prior to or after giving effect to such Acquisition, (v) if the consideration paid for such Acquisition is in excess of \$5,000,000 Borrower shall have provided to Agent and each of the Lenders, at least ten (10) Business Days prior to such Acquisition a certificate of a Responsible Officer of Borrower showing pro forma compliance with Section 7.12 hereof, both before and after the proposed Acquisition, (vi) either (a) such Acquisition is not actively opposed by the board of directors (or similar governing body) of the selling Persons or the Persons whose equity interests are to be acquired, or (b) the number of shares of the target Person tendered in response to a tender offer by a Company shall represent at least ninety percent (90%) of the Voting Power of such Person, (vii) the Cash Acquisition Consideration associated with the DSI Acquisition shall not exceed \$10,000,000, and (viii) the aggregate Cash Acquisition Consideration of the Acquisition, when taken together with the Cash Acquisition Consideration of all other Acquisitions occurring after the date hereof, shall not exceed \$65,000,000, unless otherwise approved by the Requisite Lenders (each such Acquisition being a “ *PermittedAcquisition* ”).

- (f) Investments of Borrower and its Subsidiaries in Permitted Swap Obligations; and
- (g) Other Investments not exceeding the Threshold Amount in the aggregate at any time outstanding.

7.6 Restricted Payments. Make any Restricted Payments, except as follows:

- (a) Borrower or any Subsidiary, as applicable, may pay dividends or other distributions (i) payable solely in shares of capital stock of Borrower or (ii) payable by a Subsidiary to Borrower or to a Guarantor Subsidiary;
- (b) Borrower may distribute rights pursuant to a shareholder rights plan or redeem such rights, provided that such redemption is in accordance with the terms of such shareholder rights plan;

(c) Borrower may make Restricted Payments or purchase its own Equity Securities in connection with or pursuant to any of its Employee Benefits Plans or in connection with the employment, termination or compensation of its employees, officers or directors;

(d) Borrower may purchase its own Equity Securities pursuant to one or more stock repurchase programs, provided that (i) no Default or Event of Default shall have occurred and be continuing, (ii) after giving effect to any such repurchases Borrower shall be in compliance with Section 7.12; and (iii) when combined with the amount of all dividends, purchases or redemptions made under Section 7.6(e), the total of all such purchases of Equity Securities shall not exceed the sum of \$10,000,000 in the aggregate over the life of this Agreement;

(e) Borrower or any Subsidiary of Borrower may declare or pay any dividends in respect of its Equity Securities or purchase or redeem shares of its Equity Securities or make distributions to shareholders not otherwise permitted hereunder, provided that (i) the aggregate amount paid or distributed in any period of four consecutive quarters (excluding any amounts covered by subsection (b) above) does not exceed 5% of consolidated assets as determined as of the fiscal quarter immediately preceding the date of determination; and (ii) when combined with the amount of all purchases of Equity Securities made under Section 7.6(d) but excluding those made under Section 7.6(c), the total of all such dividends, purchases or redemptions shall not exceed the sum of \$ 10,000,000 in the aggregate in the aggregate over the life of this Agreement; and

(f) Borrower may repurchase fractional shares of capital stock arising out of stock dividends, splits or combinations, business combinations or conversion of convertible securities.

7.7 ERISA. At any time engage in a transaction which could be subject to Section 4069 or 4212(c) of ERISA, or permit any Pension Plan to (a) engage in any non-exempt “prohibited transaction” (as defined in Section 4975 of the Code); (b) fail to comply with ERISA or any other applicable Laws; or (c) incur any material “accumulated funding deficiency” (as defined in Section 302 of ERISA), which, with respect to each event listed above, when combined with any other event listed above, has a Material Adverse Effect.

7.8 Change in Nature of Business. Engage, either directly or indirectly through Affiliates or Acquisitions in any line of business other than the enterprise software business, any other business incidental or reasonably related thereto, or any businesses that are, as determined by the Board of Directors of Borrower, appropriate extensions thereof.

7.9 Transactions with Affiliates. Enter into any transaction of any kind with any Affiliate (other than transactions among Borrower or any of its Subsidiaries and any Subsidiary) of Borrower other than arm’s-length transactions with Affiliates that are otherwise permitted hereunder and except as follows:

(a) reasonable and customary fees in Borrower's industry paid to members of the board of directors (or similar governing body) of Borrower; and

(b) reasonable compensation arrangements and benefit plans for officers and other employees of Borrower and its Subsidiaries entered into or maintained in the ordinary course of business; provided that such transactions do not have a Material Adverse Effect on Borrower or any Subsidiary.

7.10 Use of Proceeds. Borrower's use of the proceeds of the Loans shall be solely for working capital and other general corporate purposes of the Companies, for the refinancing of existing Indebtedness and for Acquisitions, all to the extent permitted hereunder.

7.11 Certain Indebtedness Payments, Etc. Neither Borrower nor any of its Subsidiaries shall (a) pay, prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled payment thereof any Subordinated Debt or (b) amend, modify or otherwise change the terms of any document, instrument or agreement evidencing Subordinated Debt such that such amendment, modification or change would (i) cause the outstanding aggregate principal amount of all such Subordinated Debt so amended, modified or changed to be increased (except as a consequence of the deferral of cash interest payments by adding such payments to the principal amount thereof) as a consequence of such amendment, modification or change, (ii) increase the interest rate applicable thereto, or (iii) accelerate the scheduled payment thereof.

7.12 Financial Covenants.

(a) **Maximum Senior Leverage Ratio.** Borrower shall not permit the Senior Leverage Ratio, determined as of the last day of any fiscal quarter of Borrower (measured on a rolling four quarter basis) to be greater than 1.50 to 1.00.

(b) **Maximum Total Leverage Ratio.** Borrower shall not permit the Total Leverage Ratio, determined as of the last day of any fiscal quarter of Borrower (measured on a rolling four quarter basis) to be greater than 3.00 to 1.00.

(c) **Minimum Liquidity Ratio.** Borrower shall not permit the Liquidity Ratio at any time to be less than 1.35 to 1.00.

(d) **Minimum Fixed Charge Coverage Ratio.** Borrower shall not permit the Fixed Charge Coverage Ratio, determined as of the last day of any fiscal quarter of Borrower (measured on a rolling four quarter basis) to be less than 1.25 to 1:00.

7.13 Accounting Changes. Change (i) its fiscal year (currently a 52 or 53 week year, as applicable, ending on or about December 31), or (ii) its accounting practices except as permitted by GAAP.

SECTION VIII
EVENTS OF DEFAULT AND REMEDIES

8.1 Events of Default. Any one or more of the following events shall constitute an Event of Default:

- (a) Borrower fails to pay any principal on the date when due; or
- (b) Borrower fails to pay interest on any Outstanding Obligation, the Commitment Fee or any other fees due hereunder within three (3) Business Days after the date when due; or fails to pay any other fees or amount payable to Administrative Agent or any Lender under any Loan Document within five (5) Business Days after the date due; or
- (c) Any default occurs in the observance or performance of any agreement contained in Section 7; or
- (d) Any default occurs in the observance or performance of any agreement contained in Section 6.1 and such default continues for three (3) days; or
- (e) The occurrence of an Event of Default (as such term is or may hereafter be specifically defined in any other Loan Document) under any other Loan Document; or Borrower fails to perform or observe any other covenant or agreement (not specified in subsections (a), (b) (c) or (d) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days; or
- (f) Any representation or warranty in any Loan Document proves to have been incorrect in any material respect when made or deemed made; or
- (g) Any Credit Party (x) defaults on any payment when due, which remains uncured beyond any applicable cure period, of principal or interest on any Indebtedness (other than Indebtedness hereunder) having an aggregate principal amount in excess of the Threshold Amount, or (y) defaults in the observance or performance of any other agreement or covenant relating to any Indebtedness (other than Indebtedness hereunder) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, any Indebtedness in excess of the Threshold Amount to become payable or cash collateral in respect thereof to be demanded on account of such default or other event; or (ii) the occurrence under any Swap Contract of an Early Termination Date (as defined in such Swap Contract) resulting from (x) any event of default under such Swap Contract as to which Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (y) any termination event under any Swap Contract (as defined therein) as to which Borrower or any Subsidiary is an affected party (as so defined) (other than termination events resulting solely from changes in the value of Borrower's stock price or other rates, prices or indices underlying any such Swap Contract), and as to which, in

either event, the Swap Termination Value owed by Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(h) Any Loan Document, at any time after its execution and delivery and for any reason other than the agreement of all Lenders or satisfaction in full of all the Obligations, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect; or any Credit Party denies that it has any or further liability or obligation under any Loan Document to which it is a party, or purports to revoke, terminate or rescind any such Loan Document; or

(i) A final judgment (to the extent not covered by insurance from a solvent insurer who has accepted tender of defense and is defending such action) against Borrower or any Material Subsidiary is entered for the payment of money in excess of the Threshold Amount and such judgment remains unpaid, unvacated, unbonded or unstayed by appeal or otherwise for a period of thirty (30) days from the date of its entry, or any non-monetary final judgment is entered against Borrower that has a Material Adverse Effect and such judgment remains unvacated, unbonded or unstayed by appeal or otherwise for a period of thirty (30) days from the date of its entry.

(j) Borrower or any of its Material Subsidiaries institutes or consents to the institution of any proceeding under Debtor Relief Laws, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under Debtor Relief Laws relating to any such Person or to all or any part of its property is instituted without the consent of that Person and continues undismissed or unstayed for 45 calendar days, or an order for relief is entered in any such proceeding; or

(k) (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower or its Subsidiaries under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount; (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds the Threshold Amount; (iii) Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or (iv) the events listed in clauses (i), (ii) and (iii) in the aggregate have resulted or could reasonably be expected to result in liability of Borrower in excess of the Threshold Amount; or

(l) There occurs (i) any Change of Control, or (ii) any event relating to a change in the corporate ownership, control or governance of Borrower or any Subsidiary

as issuer (“*Issuer*”) of any notes, bonds, debentures, Subordinated Debt or other debt securities, the result of which is to cause Indebtedness evidenced by any such notes, bonds, debentures, Subordinated Debt or other debt securities to be subject to mandatory redemption or repurchase by Issuer, provided the outstanding amount of such outstanding Indebtedness exceeds the Threshold Amount; or

(m) There occurs a change in the assets, liabilities, financial condition, operations, affairs or prospects of Borrower and its Subsidiaries, taken as a whole, which in the reasonable determination of Requisite Lenders has had a Material Adverse Effect.

8.2 Certain Financial Covenant Defaults. In the event that Borrower determines to restate any of its financial statements and announces the same or delivers such restated financial statements to Administrative Agent or any Lender and, after giving effect to such restatement, as of the end of any fiscal period of Borrower there would exist an Event of Default by virtue of such restatement due to breach of Section 7.12 as of such fiscal period end date, such Event of Default shall be deemed to arise as of the end of such fiscal period. Notwithstanding Section 2.6(c) to the contrary, interest shall accrue and at the Default Rate in respect of any Event of Default arising solely by virtue of this Section 8.2 only from the date such restatement is announced or such restated financial statements are delivered.

8.3 Remedies Upon Event of Default. Without limiting any other rights or remedies of Administrative Agent or Lenders provided for elsewhere in this Agreement, or the other Loan Documents, or by applicable Law, or in equity, or otherwise:

(a) Upon the occurrence, and during the continuance, of any Event of Default other than an Event of Default described in Section 8.1(j):

(i) Requisite Lenders may request Administrative Agent to, and Administrative Agent thereupon shall, terminate the Commitments and/or declare all or any part of the unpaid principal of all Loans, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be immediately due and payable, whereupon the same shall become and be immediately due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower; and/or

(ii) Issuing Lender, with the approval of Administrative Agent on behalf of Requisite Lenders, may demand immediate payment by Borrower of an amount equal to the aggregate amount of all outstanding Letter of Credit Usage to be held in a blocked Letter of Credit cash collateral account held with Lender.

(b) Upon the occurrence of any Event of Default described in Section 8.1 (j):

(i) the Commitments and all other obligations of Administrative Agent or Lenders shall automatically terminate without notice to or demand upon Borrower, which are expressly waived by Borrower;

(ii) the unpaid principal of all Loans, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents shall be immediately

due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower; and

(iii) an amount equal to the aggregate amount of all outstanding Letter of Credit Usage shall be immediately due and payable to Issuing Lender without notice to or demand upon Borrower, which are expressly waived by Borrower, to be held in a blocked Letter of Credit cash collateral account held with Lender.

(c) Upon the occurrence of any Event of Default, Lenders and Administrative Agent, or any of them, without notice to (except as expressly provided for in any Loan Document) or demand upon Borrower, which are expressly waived by Borrower (except as to notices expressly provided for in any Loan Document), may proceed to (but only with the consent of Requisite Lenders) protect, exercise and enforce their rights and remedies under the Loan Documents against Borrower and such other rights and remedies as are provided by Law or equity (including, without limitation, the provisions of the applicable Uniform Commercial Code).

(d) Except as permitted by Section 10.5, no Lender may exercise any rights or remedies with respect to the Obligations without the consent of Requisite Lenders in their sole and absolute discretion. The order and manner in which Administrative Agent's and Lenders' rights and remedies are to be exercised shall be determined by Requisite Lenders in their sole and absolute discretion. Regardless of how a Lender may treat payments for the purpose of its own accounting, for the purpose of computing the Obligations hereunder, payments shall be applied first, to costs and expenses (including Attorney Costs) incurred by Administrative Agent and each Lender, second, to the payment of accrued and unpaid interest on the Loans to and including the date of such application, third, to the payment of the unpaid principal of the Loans, and fourth, to the payment of all other amounts (including fees) then owing to Administrative Agent and Lenders under the Loan Documents, in each case paid pro rata to each Lender in the same proportions that the aggregate Obligations owed to each Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all Lenders, without priority or preference among Lenders. No application of payments will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents, or prevent the exercise, or continued exercise, of rights or remedies of Administrative Agent and Lenders hereunder or thereunder or at Law or in equity.

SECTION IX ADMINISTRATIVE AGENT

9.1 Appointment and Authorization of Administrative Agent.

(a) Each Lender hereby irrevocably (subject to Section 9.9) appoints, designates and authorizes Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably

incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall Administrative Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term “agent” in this Agreement with reference to Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) Issuing Lender shall act on behalf of Lenders with respect to any Letters of Credit issued by it and the documents associated therewith until such time and except for so long as Administrative Agent may agree at the request of Requisite Lenders to act for such Issuing Lender with respect thereto; provided, however, that Issuing Lender shall have all of the benefits and immunities (i) provided to Administrative Agent in this Section 9 with respect to any acts taken or omissions suffered by Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it and the application and agreements for letters of credit pertaining to the Letters of Credit as fully as if the term “Administrative Agent” as used in this Section 9 included Issuing Lender with respect to such acts or omissions, and (ii) as additionally provided in this Agreement with respect to Issuing Lender.

9.2 Delegation of Duties. Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in- fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.3 Liability of Administrative Agent. No Administrative Agent-Related Person shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any Lender for any recital, statement, representation or warranty made by Borrower or any Subsidiary or Affiliate of Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Administrative Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of Borrower or any of Borrower’s Subsidiaries or Affiliates.

9.4 Reliance by Administrative Agent.

(a) Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, representation, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Borrower), independent accountants and other experts selected by Administrative Agent. Administrative Agent shall be fully justified in failing or refusing to take any action under any other Loan Document unless it shall first receive such advice or concurrence of Requisite Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of Requisite Lenders or all Lenders, if required hereunder, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of Lenders. Where this Agreement expressly permits or prohibits an action unless Requisite Lenders otherwise determine, and in all other instances, Administrative Agent may, but shall not be required to, initiate any solicitation for the consent or a vote of Lenders.

(b) For purposes of determining compliance with the conditions specified in Section 4.1, each Lender that has executed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by Administrative Agent to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to such Lender.

(c) Each Lender hereby authorizes Administrative Agent, upon payment of the amount certified by Borrower as the full and final payment of all principal, interest, fees and other charges outstanding under this Agreement, and following termination of the Commitments, to execute with and in favor of Borrower a termination letter that, inter alia, terminates Borrower's obligation to observe any or all of the covenants in Sections 3, 6 and 7 hereof.

9.5 Notice of Default. Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to Administrative Agent for the account of Lenders, unless Administrative Agent shall have received written notice from a Lender or Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". Administrative Agent will notify Lenders of its receipt of any such notice. Administrative Agent shall take such action with respect to such Default or Event of Default as may be directed by Requisite Lenders in accordance with Section 8; provided, however, that unless and until Administrative Agent has received any such direction, Administrative Agent may (but shall not be obligated to) take such action, or refrain

from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of Lenders.

9.6 Credit Decision; Disclosure of Information by Administrative Agent. Each Lender acknowledges that no Administrative Agent-Related Person has made any representation or warranty to it, and that no act by Administrative Agent hereinafter taken, including any consent to and acceptance of any assignment or review of the affairs of Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Administrative Agent-Related Person to any Lender as to any matter, including whether Administrative Agent-Related Persons have disclosed material information in their possession. Each Lender, including any Lender by assignment, represents to Administrative Agent that it has, independently and without reliance upon any Administrative Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower and its Subsidiaries, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower hereunder. Each Lender also represents that it will, independently and without reliance upon any Administrative Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower. Except for notices, reports and other documents expressly required to be furnished to Lenders by Administrative Agent herein, Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of Borrower or any of its Subsidiaries which may come into the possession of any Administrative Agent-Related Person.

9.7 Indemnification of Administrative Agent. Whether or not the transactions contemplated hereby are consummated, Lenders shall indemnify upon demand each Administrative Agent-Related Person (to the extent not reimbursed by or on behalf of Borrower and without limiting the obligation of Borrower to do so), pro rata, and hold harmless each Administrative Agent-Related Person from and against any and all Indemnified Liabilities incurred by it; provided, however, that no Lender shall be liable for the payment to any Administrative Agent-Related Person of any portion of such Indemnified Liabilities resulting from such Person's gross negligence or willful misconduct; provided, however, that no action taken in accordance with the directions of Requisite Lenders shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section. Without limitation of the foregoing, each Lender shall reimburse Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Administrative Agent is not reimbursed for such expenses by or on behalf of Borrower. The

undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of Administrative Agent.

9.8 Administrative Agent in Individual Capacity. KeyBank and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with Borrower and its Subsidiaries and Affiliates as though KeyBank were not Administrative Agent or Issuing Lender hereunder and without notice to or consent of Lenders. Lenders acknowledge that, pursuant to such activities, KeyBank or its Affiliates may receive information regarding Borrower or its Affiliates (including information that may be subject to confidentiality obligations in favor of Borrower or such Affiliate) and acknowledge that Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, KeyBank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not Administrative Agent or Issuing Lender.

9.9 Successor Administrative Agent. Administrative Agent may, and at the request of Requisite Lenders shall, resign as Administrative Agent upon 30 days' notice to Lenders. If Administrative Agent resigns under this Agreement, Requisite Lenders shall appoint from among Lenders a successor administrative agent for Lenders which successor administrative agent shall be approved by Borrower. If no successor administrative agent is appointed prior to the effective date of the resignation of Administrative Agent, Administrative Agent may appoint, after consulting with Lenders and Borrower and upon approval of Borrower (other than at any time as there exists an Event of Default) which will not be unreasonably withheld, a successor administrative agent from among Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, such successor administrative agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor administrative agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9 and Sections 10.3 and 10.11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor administrative agent has accepted appointment as Administrative Agent (whether due to absence of Borrower approval or otherwise) by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and Lenders shall perform all of the duties of Administrative Agent hereunder until such time, if any, as Requisite Lenders appoint a successor agent as provided for above. Notwithstanding the foregoing, however, KeyBank may not be removed as Administrative Agent at the request of Requisite Lenders unless KeyBank shall also simultaneously be replaced as "Issuing Lender" hereunder pursuant to documentation in form and substance reasonably satisfactory to KeyBank. Any Administrative Agent hereunder must hold a Commitment in an amount not less than the \$5,000,000.

9.10 Designation of Arranger; No Affiliate Liability. The parties hereto hereby designates KeyBanc Capital Markets, an Affiliate of KeyBank as "Sole Arranger" and "Sole Book Runner" under this Agreement. None of Lenders (or Affiliates of Lenders) identified from time to time herein by the titles "Sole Arranger," "Sole Book Runner," "Syndication Agent,"

“Documentation Agent” or similar titles shall have any right, power, obligation, liability, responsibility or duty under this Agreement in such capacity. Without limiting the foregoing, none of Lenders (or Affiliates of Lenders) so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of Lenders (or Affiliates of Lenders) so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

SECTION X MISCELLANEOUS

10.1 Amendments; Consents. No amendment, modification, supplement, extension, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, and no consent to any departure by Borrower therefrom shall be effective unless in writing signed by Requisite Lenders and acknowledged by Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. Except as otherwise expressly provided herein, without the approval in writing of Administrative Agent and all Lenders, no amendment, modification, supplement, termination, waiver or consent may be effective:

(a) To reduce the amount of principal, principal prepayments or the rate of interest payable on, any Loan, or the amount of any fee or other amount payable to any Lender under the Loan Documents (unless such modification is consented to by each Lender entitled to receive such fee) or to waive an Event of Default consisting of the failure of Borrower to pay when due principal, interest or any commitment fee;

(b) To postpone any date fixed for any payment of principal of, prepayment of principal of, or any installment of interest on, any Loan or any installment of any commitment fee, to extend the term of, or increase the amount of, any Lender’s Commitment (it being understood that a waiver of an Event of Default shall not constitute an extension or increase in the Commitment of any Lender) or modify the Pro Rata Share of any Lender;

(c) To release collateral in which Lenders have a security interest to secure the performance of Borrower’s obligations under the Loan Documents constituting more than 20% of the value of Borrower’s consolidated assets;

(d) To amend the definition of “Requisite Lenders” or the provisions of Section 4, Section 9, this Section 10.1 or Section 10.6;

(e) To amend any provision of this Agreement that expressly requires the consent or approval of all Lenders; provided, however, that (i) no amendment, waiver or consent shall, unless in writing and signed by Issuing Lender in addition to Requisite Lenders or all Lenders, as the case may be, affect the rights or duties of Issuing Lender, (ii) no amendment, waiver or consent shall, unless in writing and signed by Administrative Agent in addition to Requisite Lenders or all Lenders, as the case may be, affect the rights or duties of Administrative Agent, and (iii) the fee letters may be amended, or rights or privileges thereunder waived, in a writing executed by the parties

thereto. Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section shall apply equally to, and shall be binding upon, all Lenders and Administrative Agent.

10.2 Transmission and Effectiveness of Communications and Signatures.

(a) **Modes of Delivery.** Except as otherwise provided in any Loan Document, notices, requests, demands, directions, agreements and documents delivered in connection with the Loan Documents (collectively, “*communications*”) shall be transmitted by Requisite Notice to the number and address set forth on Schedule 10.2, may be delivered by the following modes of delivery, and shall be effective as follows:

Mode of Delivery	Effective on earlier of actual receipt and:
Courier	Scheduled delivery date
Facsimile	When transmission in legible form complete
Mail	Fourth Business Day after deposit in U.S. mail first class postage pre-paid
Personal delivery	When received
Telephone	When conversation completed

provided, however, that communications delivered to Administrative Agent pursuant to Section 2 must be in writing and shall not be effective until actually received by Administrative Agent.

(b) **Reliance by Administrative Agent and Lenders.** Administrative Agent and Lenders shall be entitled to rely and act on any communications purportedly given by or on behalf of Borrower even if (i) such communications (A) were not made in a manner specified herein, (B) were incomplete or (C) were not preceded or followed by any other notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any subsequent related communications provided for herein. Borrower shall indemnify Administrative Agent and Lenders from any loss, cost, expense or liability as a result of relying on any communications permitted herein.

(c) **Effectiveness of Facsimile Documents and Signatures.** Documents and agreements delivered from time to time in connection with the Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as hardcopies with manual signatures and shall be binding on all Borrower and its Subsidiaries and Administrative Agent and Lenders. Administrative Agent may also request that any such documents and signature be confirmed by a manually-signed hardcopy thereof; provided, however, that the failure to request or deliver any such manually-signed hardcopy shall not affect the effectiveness of any facsimile documents or signatures.

10.3 Attorney Costs, Expenses and Taxes. Borrower agrees (a) to pay or reimburse Administrative Agent for all reasonable costs and expenses incurred in connection with the development, preparation, negotiation and execution of the Loan Documents, and the development, preparation, negotiation and execution of any amendment, waiver, consent, supplement or modification to, any Loan Documents, and any other documents prepared in connection herewith or therewith, including all reasonable Attorney Costs, and (b) to pay or reimburse Administrative Agent and each Lender for all costs and expenses incurred in connection with any refinancing, restructuring, reorganization (including a bankruptcy reorganization), collection and enforcement or attempted enforcement, or preservation of any rights under any Loan Documents, and any other documents prepared in connection herewith or therewith, or in connection with any refinancing, or restructuring of any such documents in the nature of a “workout” or of any insolvency or bankruptcy proceeding, including Attorney Costs. The foregoing costs and expenses shall include all reasonable search, filing, and appraisal charges and fees and documentary, stamp or similar taxes related thereto, and other out-of-pocket expenses incurred by Administrative Agent or any Lender and the cost of independent public accountants and other outside experts retained by Administrative Agent or any Lender. Any amount payable by Borrower under this Section shall bear interest from the tenth (10th) Business Day following the date of demand for payment at the Default Rate, unless waived by Administrative Agent. The agreements in this Section shall survive repayment of all Obligations.

10.4 Binding Effect; Assignment.

(a) This Agreement and the other Loan Documents to which Borrower is a party will be binding upon and inure to the benefit of Borrower, Lenders and Administrative Agent and their respective successors and assigns, except that, Borrower may not assign its rights hereunder or thereunder or any interest herein or therein without the prior written consent of all Lenders and any such attempted assignment shall be void. Any Lender may at any time pledge its Note or any other instrument evidencing its rights as a Lender under this Agreement to a Federal Reserve Bank, but no such pledge shall release each such Lender from its obligations hereunder or grant to such Federal Reserve Bank the rights of a Lender hereunder absent foreclosure of such pledge.

(b) From time to time following the Closing Date, each Lender may assign to one or more Eligible Assignees all or any portion of its Commitment and/or Extensions of Credit; provided that (i) such assignment, if not to a Lender or an Affiliate of the assigning Lender, shall be consented to by Borrower at all times other than during the existence of a Default or Event of Default and by Administrative Agent and Issuing Lender (which approval of Borrower shall not be unreasonably withheld), (ii) a copy of a duly signed and completed Assignment and Acceptance shall be delivered to Administrative Agent, (iii) except in the case of an assignment (A) to an Affiliate of the assigning Lender or to another Lender or (B) of the entire remaining Commitment of the assigning Lender, the portion of the Commitment assigned shall not be less than the Minimum Amount therefor, and (iv) the effective date of any such assignment shall be as specified in the Assignment and Acceptance, but not earlier than the date which is five Business Days after the date Administrative Agent has received the Assignment and Acceptance. Upon any required consent by Administrative Agent, Issuing Lender and

Borrower to such assignment and payment of the requisite fee described below, the assignee named therein shall be a Lender for all purposes of this Agreement, with the Pro Rata Share therein set forth and, to the extent of such Pro Rata Share, the assigning Lender shall be released from its further obligations under this Agreement. Borrower agrees that it shall execute and deliver upon request (against delivery by the assigning Lender to Borrower of any Note) to such assignee Lender, one or more Notes evidencing such assignee Lender's Loans, and to the assigning Lender if requested, one or more Notes evidencing Loans under any Commitment retained by the assigning Lender. Administrative Agent's consent to any assignment shall not be deemed to constitute any representation or warranty by any Administrative Agent-Related Person as to any matter. For purposes hereof, each mutual fund that is an Affiliate of a Lender shall be deemed to be a single Eligible Assignee, whether or not such fund is managed by the same fund manager as other mutual funds that are Affiliates of the same Lender.

(c) After receipt of a completed Assignment and Acceptance, and receipt of an assignment fee of \$3,500 (unless such fee is waived by the Administrative Agent) from such Eligible Assignee (including in the case of assignments to Affiliates of assigning Lenders), Administrative Agent shall, promptly following the effective date thereof, provide to Borrower and Lenders a revised Schedule 10.2 giving effect thereto.

(d) Each such Lender may from time to time, without the consent of any other Person, grant participations to one or more other Person (including another Lender) of all or any portion of its Pro Rata Share of its Commitment or Extensions of Credit; provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) participating banks or other financial institutions shall not be a Lender hereunder for any purpose except, if the participation agreement so provides, for the purposes of Section 3 (but only to the extent that the cost of such benefits to Borrower does not exceed the cost which Borrower would have incurred in respect of such Lender absent the participation) and subject to Sections 10.5 and 10.6, (iv) Borrower, Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) the participation agreement shall not restrict an increase in the combined Commitments, or in granting Lender's Pro Rata Share, so long as the amount of the participation interest is not affected thereby, and (iv) the consent of the holder of such participation interest shall not be required for amendments or waivers of provisions of the Loan Documents; provided, however, that the assigning Lender may, in any agreement with a participant, give such participant the right to consent to any matter which (A) extends the Maturity Date as to such participant or any other date upon which any payment of money is due to such participant, (B) reduces the rate of interest owing to such participant, any fee or any other monetary amount owing to such participant, or (C) reduces the amount of any installment of principal owing to such participant. Any Lender that sells a participation to any Person that is a "foreign corporation, partnership or trust" within the meaning of the Code shall include in its participation agreement with such Person a covenant by such Person that such Person will comply with the provisions of Section 10.22 as if such Person were a Lender and

provide that Administrative Agent and Borrower shall be third party beneficiaries of such covenant.

10.5 Set-off. In addition to any rights and remedies of Administrative Agent and Lenders or any assignee or participant of any Lender or any Affiliate thereof (each, a “*Proceeding Party*”) provided by law, upon the occurrence and during the continuance of any Event of Default, each Proceeding Party is authorized at any time and from time to time, without prior notice to Borrower, any such notice being waived by Borrower to the fullest extent permitted by law, to proceed directly, by right of set-off, banker’s lien, or otherwise, against any assets of Borrower and its Subsidiaries which may be in the hands of such Proceeding Party (including all general or special, time or demand, provisional or other deposits and other indebtedness owing by such Proceeding Party to or for the credit or the account of Borrower) and apply such assets against the Obligations, irrespective of whether such Proceeding Party shall have made any demand therefor and although such Obligations may be unmatured. Each Lender agrees promptly to notify Borrower and Administrative Agent after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

10.6 Sharing of Payments. Each Lender severally agrees that if it, through the exercise of any right of setoff, banker’s lien or counterclaim against Borrower or otherwise, receives payment on account of the Outstanding Obligations held by it that is ratably more than any other Lender receives in payment on account of the Outstanding Obligations held by such other Lender, then, subject to applicable Laws: (a) the Lender exercising the right of setoff, banker’s lien or counterclaim or otherwise receiving such payment shall purchase, and shall be deemed to have simultaneously purchased, from the other Lender a participation in the Outstanding Obligations held by the other Lender and shall pay to the other Lender a purchase price in an amount so that the share of the Outstanding Obligations held by each Lender after the exercise of the right of setoff, banker’s lien or counterclaim or receipt of payment shall be in the same proportion that existed prior to the exercise of the right of setoff, banker’s lien or counterclaim or receipt of payment; and (b) such other adjustments and purchases of participations shall be made from time to time as shall be equitable to ensure that all Lenders share any payment obtained in respect of the Outstanding Obligations ratably in accordance with each Lender’s share of the Outstanding Obligations immediately prior to, and without taking into account, the payment; provided that, if all or any portion of a disproportionate payment obtained as a result of the exercise of the right of setoff, banker’s lien, counterclaim or otherwise is thereafter recovered from the purchasing Lender by Borrower or any Person claiming through or succeeding to the rights of Borrower, the purchase of a participation shall be rescinded and the purchase price thereof shall be restored to the extent of the recovery, but without interest. Each Lender that purchases a participation in the Outstanding Obligations pursuant to this Section shall from and after the purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Outstanding Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Outstanding Obligations purchased. Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in an Obligation so purchased may exercise any and all rights of setoff, banker’s lien or counterclaim with respect to the participation as fully as if Lender were the original owner of the Obligation purchased.

10.7 No Setoff. As to any and all funds, securities or other assets of Borrower which are now or hereafter held by Administrative Agent or any Lender as collateral pursuant to the Credit Agreement or any other Loan Document for any of the obligations thereunder (collectively the “*Collateral Assets*”), Administrative Agent and the Lenders agree that they shall not exercise any right of setoff or recoupment against nor shall they assert any security interest in the Collateral Assets in connection with any other obligation owed to Administrative Agent or any Lender which is unrelated to the Credit Agreement or the Loan Documents, except for: (i) recovery for any items deposited with Administrative Agent or any Lender and returned unpaid or as to which claims have been asserted as to breach of transfer or presentment warranties, (ii) overdrafts on any account which generated the funds which constitute part of the Collateral Assets, (iii) automated clearing house entries, and (iv) Administrative Agent or any Lender’s usual and customary fees for services rendered in connection with the assets or bank accounts which constitute the Collateral Assets.

10.8 No Waiver; Cumulative Remedies.

(a) No failure by any Lender or Administrative Agent to exercise, and no delay by any Lender or Administrative Agent in exercising, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. Without limiting the generality of the foregoing, the terms and conditions of Section 4 may be waived in whole or in part, with or without terms or conditions, in respect of any Extension of Credit without prejudicing Administrative Agent’s or Lender’s rights to assert them in whole or in part in respect of any other Extension of Credit.

(b) The rights, remedies, powers and privileges herein or therein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law. Any decision by Administrative Agent or any Lender not to require payment of any interest (including Default Interest), fee, cost or other amount payable under any Loan Document or to calculate any amount payable by a particular method on any occasion shall in no way limit or be deemed a waiver of Administrative Agent’s or Lender’s right to require full payment thereof, or to calculate an amount payable by another method that is not inconsistent with this Agreement, on any other or subsequent occasion.

(c) The terms and conditions of Section 9 are for the sole benefit of Administrative Agent and Lenders.

10.9 Usury. Notwithstanding anything to the contrary contained in any Loan Document, the interest and fees paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the “*Maximum Rate*”). If Administrative Agent or any Lender shall receive interest or a fee in an amount that exceeds the Maximum Rate, the excessive interest or fee shall be applied to the principal of the Outstanding Obligations or, if it exceeds the unpaid principal, refunded to Borrower. In determining whether the interest or a fee contracted for, charged, or received by Administrative Agent or any Lender exceeds the Maximum Rate, such Person may, to the extent permitted by

applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations.

10.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.11 Integration. This Agreement, together with the other Loan Documents and any letter agreements referred to herein, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental rights or remedies in favor of Administrative Agent or Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.12 Nature of Lenders' Obligations. Nothing contained in this Agreement or any other Loan Document and no action taken by Administrative Agent or Lenders or any of them pursuant hereto or thereto may, or may be deemed to, make Lenders a partnership, an association, a joint venture or other entity, either among themselves or with Borrower or any Affiliate of Borrower. Each Lender's obligation to make any Extension of Credit pursuant hereto is several and not joint or joint and several, provided that, in the case of the initial Extension of Credit only, each lender's obligation is conditioned upon the performance by all other Lenders of their obligations to make the initial Extension of Credit. A default by any Lender will not increase the Pro Rata Share attributable to any other Lender.

10.13 Survival of Representations and Warranties. All representations and warranties made hereunder and in any Loan Document, certificate or statement delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery thereof but shall terminate the later of (a) when the Commitments are terminated and (b) when no Obligations remain outstanding under any Loan Document. Such representations and warranties have been or will be relied upon by Administrative Agent and each Lender, notwithstanding any investigation made by Administrative Agent or any Lender or on their behalf.

10.14 Indemnity by Borrower. Borrower agrees to indemnify, defend, save and hold harmless each Administrative Agent-Related Person and each Lender and their respective Affiliates, directors, officers, agents, attorneys and employees (collectively, the "**Indemnitees**") from and against: (a) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any Person (other than Administrative Agent or any Lender) relating directly or indirectly to a claim, demand, action or cause of action that such Person asserts or may assert against Borrower, any of its Affiliates or any its officers or directors; (b) any and all claims, demands, actions or causes of action arising out of or relating to, the Loan Documents,

any predecessor loan documents, the Commitments, the use or contemplated use of the proceeds of any Loan, property that is the subject of any Material Lease or any other collateral given to secure the obligations of Borrower under this Agreement, or the relationship of Borrower, Administrative Agent and Lenders under this Agreement; (c) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in subsection (a) or (b) above; and (d) all liabilities, claims, actions, loss, damages, including, without limitation, foreseeable and unforeseeable consequential damages, costs and expenses (including sums paid in settlement of claims and all consultant, expert and legal fees and expenses of Indemnitees' counsel) directly or indirectly arising out of or resulting from any Hazardous Substance being present at any time in or around any part of Borrower's properties (leasehold or fee), or in the soil, groundwater or soil vapor on or under Borrower's properties (leasehold or fee), including those incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work, or any resulting damages or injuries to the person or property of any third parties or to any natural resources; (e) any and all liabilities, losses, costs or expenses (including Attorney Costs) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action, cause of action or proceeding, or as a result of the preparation of any defense in connection with any foregoing claim, demand, action, cause of action or proceeding, in all cases, whether or not an Indemnitee is a party to such claim, demand, action, cause of action or proceeding, including those liabilities caused by an Indemnitee's own negligence (all the foregoing, collectively, the "*Indemnified Liabilities*"); provided that no Indemnitee shall be entitled to indemnification for any loss caused by its own gross negligence or willful misconduct or for any loss asserted against it by another Indemnitee.

10.15 Nonliability of Lender.

Borrower acknowledges and agrees that:

- (a) Any inspections of any property of Borrower made by or through Administrative Agent or Lenders are for purposes of administration of the Loan Documents only, and Borrower is not entitled to rely upon the same (whether or not such inspections are at the expense of Borrower);
- (b) By accepting or approving anything required to be observed, performed, fulfilled or given to Administrative Agent or Lenders pursuant to the Loan Documents, neither Administrative Agent nor Lenders shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by Administrative Agent or Lenders;
- (c) The relationship between Borrower and Administrative Agent and Lenders is, and shall at all times remain, solely that of borrower and lenders; neither Administrative Agent nor Lenders shall under any circumstance be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or its Affiliates, or to owe any fiduciary duty to Borrower or its Affiliates; neither Administrative Agent nor any Lender undertakes or assumes any responsibility or duty to

Borrower or its Affiliates to select, review, inspect, supervise, pass judgment upon or inform Borrower or its Affiliates of any matter in connection with their property or the operations of Borrower or its Affiliates; Borrower and its Affiliates shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by Lender in connection with such matters is solely for the protection of Lenders and neither Borrower nor any other Person is entitled to rely thereon; and

(d) Neither Administrative Agent nor Lenders shall be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to property caused by the actions, inaction or negligence of Borrower and/or its Affiliates and Borrower hereby indemnifies and holds Administrative Agent and Lenders harmless from any such loss, damage, liability or claim.

10.16 No Third Parties Benefited. This Agreement is made for the purpose of defining and setting forth certain obligations, rights and duties of Borrower, Administrative Agent and Lenders in connection with the Extensions of Credit, and is made for the sole benefit of Borrower, Administrative Agent and Lenders, and Administrative Agent and Lenders' successors and assigns. Except as provided in Sections 10.14 and 10.22, no other Person shall have any rights of any nature hereunder or by reason hereof.

10.17 Severability. Any provision of the Loan Documents that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.18 Confidentiality. Administrative Agent and each Lender shall use any confidential non-public information concerning Borrower and its Subsidiaries that is furnished to Administrative Agent or such Lender by or on behalf of Borrower and its Subsidiaries in connection with the Loan Documents that has been identified in writing as confidential at the time so furnished (collectively, "**Confidential Information**") solely for the purpose of evaluating and providing products and services to them and administering and enforcing the Loan Documents, and it will hold the Confidential Information in confidence in accordance with such Person's customary procedures for handling confidential of the same nature. Notwithstanding the foregoing, Administrative Agent and each Lender may disclose Confidential Information to: (a) their Affiliates, or any of their or their Affiliates' directors, officers, employees, advisors, or representatives (collectively, the "**Representatives**") whom it determines need to know such information for the purposes set forth in this Section (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Confidential Information and instructed to keep such Confidential Information confidential; (b) any bank or financial institution or other entity to which such Lender has assigned or desires to assign an interest or participation in the Loan Documents or the Obligations, provided that any such foregoing recipient of such Confidential Information agrees to keep such Confidential Information confidential as specified herein; (c) any governmental agency or regulatory body having or claiming to have authority to regulate or oversee any aspect of Administrative Agent's or such Lender's business or that of their Representatives in connection with the exercise of such

authority or claimed authority; (d) the extent necessary or appropriate to effect or preserve Administrative Agent or such Lender's or any of their Affiliates' security (if any) for any Obligation or to enforce any right or remedy or in connection with any claims asserted by or against Administrative Agent or such Lender or any of its Representatives; and (e) pursuant to any subpoena or any similar legal process so long as Borrower is, or has been, given notice of such legal process and the opportunity to seek a protective order. For purposes hereof, the term "**Confidential Information**" shall not include information that (x) is in Administrative Agent's or such Lender's possession prior to its being provided by or on behalf of Borrower and its Subsidiaries, provided that such information is not known by Administrative Agent or such Lender to be subject to another confidentiality agreement with, or other legal or contractual obligation of confidentiality to, Borrower, (y) is or becomes publicly available (other than through a breach hereof by Administrative Agent or such Lender), or (z) becomes available to Administrative Agent or such Lender on a nonconfidential basis, provided that the source of such information was not known by Administrative Agent or such Lender to be bound by a confidentiality agreement or other legal or contractual obligation of confidentiality with respect to such information. Administrative Agent and each Lender acknowledges that (i) the Confidential Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (ii) it has developed compliance procedures regarding the use of material, non-public information and (iii) it will handle material non-public information concerning the Borrower or a Subsidiary in accordance with all Laws, including federal and state securities Laws applicable to Administrative Agent or such Lender, as applicable, provided that neither Administrative Agent nor any Lender shall in any way be responsible for compliance with such Laws by Borrower or any of its Subsidiaries and provided, further, that nothing in this sentence shall limit the right of Administrative Agent or any Lender to disclose Confidential Information as otherwise permitted in this Section 10.18.

10.19 Further Assurances. Borrower and its Subsidiaries shall, at their expense and without expense to Administrative Agent or Lenders, do, execute and deliver such further acts and documents as any Lender or Administrative Agent from time to time reasonably requires for the assuring and confirming unto Lender of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

10.20 Headings. Section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

10.21 Time of the Essence. Time is of the essence of the Loan Documents.

10.22 Foreign Lenders. Each Lender that is a "foreign corporation, partnership or trust" within the meaning of the Code (a "**Foreign Lender**") shall deliver to Administrative Agent, prior to receipt of any payment subject to withholding under the Code (or after accepting an assignment of an interest herein), two duly signed completed copies of either Form W-8BEN or any successor thereto (relating to such Person and entitling it to a complete exemption from withholding on all payments to be made to such Person by Borrower pursuant to this Agreement) or Form W-8ECI or any successor thereto (relating to all payments to be made to such Person by Borrower pursuant to this Agreement) of the United States Internal Revenue Service or such

other evidence satisfactory to Borrower and Administrative Agent that no withholding under the federal income tax laws is required with respect to such Person. Thereafter and from time to time, each such Person shall (a) promptly submit to Administrative Agent such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to Borrower and Administrative Agent of any available exemption from, United States withholding taxes in respect of all payments to be made to such Person by Borrower pursuant to this Agreement, and (b) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Lending Office) to avoid any requirement of applicable Laws that Borrower make any deduction or withholding for taxes from amounts payable to such Person. If such Persons fail to deliver the above forms or other documentation, then Administrative Agent may withhold from any interest payment to such Person an amount equivalent to the applicable withholding tax imposed by Sections 1441 and 1442 of the Code. If any Governmental Authority asserts that Administrative Agent did not properly withhold any tax or other amount from payments made in respect of such Person, such Person shall indemnify Administrative Agent therefor, including all penalties and interest and costs and expenses (including Attorney Costs) of Administrative Agent. The obligation of Lenders under this Section shall survive the payment of all Obligations and the resignation or replacement of Administrative Agent.

10.23 Governing Law.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED THAT ADMINISTRATIVE AGENT AND EACH LENDER SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF CALIFORNIA OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF SUCH STATE, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, BORROWER, ADMINISTRATIVE AGENT AND EACH LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. BORROWER, ADMINISTRATIVE AGENT AND EACH LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF ANY LOAN DOCUMENT OR OTHER DOCUMENT RELATED HERETO. BORROWER, ADMINISTRATIVE AGENT AND EACH LENDER WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY THE LAW OF SUCH STATE.

10.24 Waiver of Right to Trial by Jury. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.25 Entire Agreement. This Agreement and the other Loan Documents represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

[SIGNATURES ON FOLLOWING PAGE.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

WIRELESS FACILITIES, INC.,
a Delaware corporation,
as Borrower

KEYBANK NATIONAL ASSOCIATION,
as Administrative Agent,
Issuing Lender and Lender

By: /s/ Laura L. Siegal

By: _____

Name: Laura L. Siegal

Name: _____

Title: Vice President and Treasurer

Title: _____

Signature page to Credit Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

WIRELESS FACILITIES, INC.,
a Delaware corporation,
as Borrower

KEYBANK NATIONAL ASSOCIATION,
as Administrative Agent,
Issuing Lender and Lender

By: _____
Name: _____
Title: _____

By: /s/ Robert W. Boswell
Name: ROBERT W. BOSWELL
Title: VICE PRESIDENT

Signature page to Credit Agreement

EXHIBIT A

FORM OF REQUEST FOR EXTENSION OF CREDIT

Date: _____,

To: KeyBank National Association

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement dated as of March 16, 2005, between Wireless Facilities, Inc., a Delaware corporation (“*Borrower*”) and, Lenders from time to time party thereto, and KeyBank National Association, as Administrative Agent, Lender and Issuing Lender with KeyBanc Capital Markets as designated Sole Arranger and Sole Book Manager (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the “*Agreement*”) the terms defined therein being used herein as therein defined).

The undersigned hereby requests (select one):

- A Borrowing of Loans A Conversion or Continuation of Loans

1. On _____
2. In the amount of \$ _____
3. Comprised of [Offshore Rate or Base Rate]

[type of Loan requested]

4. If applicable: with an Interest Period of [1, 2, 3 or 6] months.

The foregoing request complies with the requirements of Section 2.1 of the Agreement. Other than in connection with a Conversion or Continuation of Loans, the undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the above date, before and after giving effect to the Extension of Credit:

- (a) The representations and warranties made by Borrower in the Agreement, or which are contained in any certificate, document or financial or other statement furnished at any time under or in connection therewith, are and will be correct on and as of the date of this Extension of Credit, except to the extent that such representations and warranties specifically refer to any earlier date; and

(b) No Default or Event of Default has occurred and is continuing on the date hereof or after giving effect to this Extension of Credit.

WIRELESS FACILITIES, INC.,
a Delaware corporation, as Borrower

By: _____

Name: _____

Title: _____

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wireless Facilities, Inc.:

We consent to incorporation by reference in registration statements No. 333-53014, No. 333-71618, No. 333-74108, and No. 333-112956 on Form S-3; No. 333-112957 on Form S-4; and No. 333-90455, No. 333-54818, No. 333-71702, and No. 333-91852 on Form S-8 of Wireless Facilities, Inc. of our report dated March 24, 2005, except as to Note 3(c), which is as of March 30, 2006 with respect to the consolidated balance sheet of Wireless Facilities, Inc. as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2003 and the related financial statement schedule, which report appears in the December 31, 2005 Annual Report on Form 10-K of Wireless Facilities, Inc.

/s/ KPMG LLP
San Diego, California

March 30, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 30, 2006, accompanying the consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting included in the Annual Report of Wireless Facilities, Inc. on Form 10-k for the year ended December 31, 2005. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Wireless Facilities, Inc. on Forms S-3 (File No. 333-53014, No. 333-71618, No. 333-74108, and No. 333-112956), on Form S4 (File No. 333-112957) and on Forms S-8 (File No. 333-127060, No. 333-124959, No. 333-116903, 333-90455, No. 333-54818, No. 333-71702 and No. 333-91852) .

/s/ GRANT THORNTON LLP

Irvine, California
March 30, 2006

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric M. DeMarco, certify that:

1. I have reviewed this annual report on Form 10-K of Wireless Facilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 3, 2006

/s/ ERIC M. DEMARCO

Eric M. De Marco

Chief Executive Officer and President

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Deanna H. Lund, certify that:

1. I have reviewed this annual report on Form 10-K of Wireless Facilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 3, 2006

/s/ DEANNA H. LUND

Deanna H. Lund
Chief Financial Officer

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

In connection with the Annual Report of Wireless Facilities, Inc. (the "Company") on Form 10-K for the fiscal year ended December 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric M. DeMarco, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), of the Securities Exchange Act of 1934; and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 3, 2006

WIRELESS FACILITIES, INC.

/s/ ERIC M. DEMARCO
Chief Executive Officer

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

In connection with the Annual Report of Wireless Facilities, Inc. (the "Company") on Form 10-K for the fiscal year ended December 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deanna H. Lund, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), of the Securities Exchange Act of 1934; and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 3, 2006

WIRELESS FACILITIES, INC.

/s/ DEANNA H. LUND

Chief Financial Officer
