MASTEC INC
Form 10-Q
November 06, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007
Commission File Number 001-08106
MASTEC, INC.
(Exact name of registrant as specified in Its charter)

Florida	**65-0829355**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
800 S. Douglas Road, 12th Floor, Coral Gables, FL	**33134**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (305) 599-1800

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 x No o

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

x Large accelerated filer o Accelerated filer o 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 o No x

As of November 2, 2007, MasTec, Inc. had 66,846,105 shares of common stock, $0.10 par value, outstanding.

MASTEC, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	$ 266,864	$ 252,236	$ 764,144	$ 700,360
Costs of revenue, excluding depreciation	230,867	213,293	655,215	600,748
Depreciation	4,283	3,668	12,145	10,638
General and administrative expenses, including non-cash stock compensation expense of $1,099 and $4,566, respectively, in 2007 and $2,169 and $5,392, respectively, in 2006	55,865	20,892	95,347	54,017
Interest expense, net of interest income	2,220	2,180	7,136	8,037
Other income, net	228	3,097	4,284	4,991
Income (loss) from continuing operations before minority interest	(26,143)	15,300	(1,415)	31,911
Minority interest	(597)	(986)	(2,249)	(1,180)
Income (loss) from continuing operations	(26,740)	14,314	(3,664)	30,731
Loss from discontinued operations	(5,416)	(21,936)	(10,922)	(66,234)
Net loss	$ (32,156)	$ (7,622)	$ (14,586)	$ (35,503)
Basic net income (loss) per share:				
Continuing operations	$ (0.40)	$ 0.22	$ (0.06)	$ 0.49
Discontinued operations	(0.08)	(0.34)	(0.17)	(1.05)
Total basic net loss per share	$ (0.48)	$ (0.12)	$ (0.22)	$ (0.56)
Basic weighted average common shares outstanding	66,408	65,024	65,892	63,022
Diluted net income (loss) per share:				
Continuing operations	$ (0.40)	$ 0.22	$ (0.06)	$ 0.48
Discontinued operations	(0.08)	(0.33)	(0.17)	(1.03)
Total diluted net loss per share	$ (0.48)	$ (0.12)	$ (0.22)	$ (0.55)
Diluted weighted average common shares outstanding	66,408	66,243	65,892	64,578

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

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

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents, including restricted cash of $18,050 in 2007 and $18,000 in 2006	$ 133,093	$ 87,993
Accounts receivable, unbilled revenue and retainage, net	172,157	163,608
Inventories	27,669	28,832
Income tax refund receivable	131	135
Prepaid expenses and other current assets	52,047	38,752
Current assets held for sale		20,600
Total current assets	385,097	339,920
Property and equipment, net	73,513	61,212
Goodwill and other intangibles	184,318	151,600
Deferred taxes, net	38,835	49,317
Other assets	25,208	43,405
Long-term assets held for sale		659
Total assets	$ 706,971	$ 646,113
Liabilities and Shareholders Equity		
Current liabilities:		
Current maturities of debt	$ 2,811	$ 1,769
Accounts payable and accrued expenses	114,286	101,210
Other current liabilities	92,339	47,266
Current liabilities related to assets held for sale		25,633
Total current liabilities	209,436	175,878
Other liabilities	30,580	36,521
Long-term debt	160,769	128,407
Long-term liabilities related to assets held for sale		596
Total liabilities	400,785	341,402
Commitments and contingencies		
Shareholders equity:		

Preferred stock, $1.00 par value; authorized shares 5,000,000; issued and outstanding shares none				
Common stock, $0.10 par value; authorized shares 100,000,000; issued and outstanding shares 66,602,742 and 65,182,437 shares in 2007 and 2006, respectively		6,660		6,518
Capital surplus		546,636		530,179
Accumulated deficit		(246,834)		(232,248)
Accumulated other comprehensive (loss) income		(276)		262
Total shareholders equity		306,186		304,711
Total liabilities and shareholders equity	$	706,971	$	646,113

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

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

	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net loss	$ (14,586)	$ (35,503)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,713	11,463
Impairment of goodwill and assets	328	34,516
Non-cash stock and restricted stock compensation expense	4,566	5,649
Gain on sale of fixed assets	(3,696)	(1,422)
Write down of fixed assets		144
Provision for doubtful accounts	17,452	7,267
Provision for inventory obsolescence		302
Income from equity investment	(119)	(3,581)
Accrued losses on construction projects		5,566
Minority interest	2,249	1,180
Changes in assets and liabilities, net of assets acquired:		
Accounts receivable, unbilled revenue and retainage, net	(12,459)	(11,787)
Inventories	6,504	3,262
Income tax refund receivable	4	1,159
Other assets, current and non-current portion	6,080	7,435
Accounts payable and accrued expenses	4,055	4,925
Other liabilities, current and non-current portion	21,015	(6,486)
Net cash provided by operating activities	44,106	24,089
Cash flows used in investing activities:		
Cash paid for acquisitions, net of cash acquired and cash sold	(12,563)	(19,356)
Capital expenditures	(20,534)	(16,188)
Investments in unconsolidated companies	(1,025)	(3,755)
Investments in life insurance policies	(689)	(1,043)
Payments received from sub-leases		333
Net proceeds from sale of assets	3,822	3,121
Net cash used in investing activities	(30,989)	(36,888)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock, net		156,465
Proceeds from the issuance of senior notes	150,000	
Payments of other borrowings, net	(1,491)	(4,017)
Payments of capital lease obligations	(1,442)	(563)
Payments of senior subordinated notes	(121,000)	(75,000)

Proceeds from issuance of common stock pursuant to stock option exercises	8,971	3,921
Payments of financing costs	(4,117)	(116)
Net cash provided by financing activities	30,921	80,690
Net increase in cash and cash equivalents	44,038	67,891
Net effect of currency translation on cash	9	47
Cash and cash equivalents beginning of period	89,046	2,024
Cash and cash equivalents end of period	$ 133,093	$ 69,962
Cash paid during the period for:		
Interest	$ 12,824	$ 13,873
Income taxes	$ 264	$ 217
Supplemental disclosure of non-cash information:		
Equipment acquired under capital lease	$ 5,895	$ 7,665
Auction receivable	$ 237	$ 570
Investment in unconsolidated companies	$	$ 925
Accruals for inventory at quarter-end	$ 13,981	$ 13,364

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

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MasTec, Inc.
Notes to the Condensed Unaudited Consolidated Financial Statements

Note 1 Nature of the Business

MasTec, Inc. (collectively, with its subsidiaries, MasTec , we, us, our or the Company) is a leading specialty contractor operating mainly throughout the United States and across a range of industries. Our core activities are the building, installation, maintenance and upgrade of communications and utility infrastructure. Our primary customers are in the following industries: communications (including satellite television and cable television), utilities and government. MasTec provides similar infrastructure services across the industries it serves. Customers rely on us to build and maintain infrastructure and networks that are critical to their delivery of voice, video and data communications, electricity and other energy resources.

Note 2 Basis for Presentation

The accompanying condensed unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements do not include all information and notes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2006. In our opinion, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Key estimates for us include the recognition of revenue for costs and estimated earnings in excess of billings, allowance for doubtful accounts, accrued self-insured claims, the fair value of goodwill and intangible assets, asset lives used in computing depreciation and amortization, including amortization of intangibles, and accounting for income taxes, contingencies and litigation. While we believe that such estimates are fair when considered in conjunction with the consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the financial statements.

Note 3 Significant Accounting Policies

(a) Principles of Consolidation

The accompanying financial statements include MasTec, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. As discussed in Note 4, in the first quarter of 2007, we began consolidating the financial statements of an entity in which we acquired majority ownership effective February 1, 2007.

On July 18, 2007, we acquired an additional 5% ownership interest in GlobeTec Construction, LLC (GlobeTec) for $0.4 million in cash. On August 1, 2007, we acquired an additional 8% ownership interest in GlobeTec for $1.0 million in cash. In addition to the cash payments, we have agreed to pay the sellers an earn-out based on future performance of GlobeTec. As a result of these investments, our ownership interest in GlobeTec increased from 51% to 64% during the quarter ended September 30, 2007.

(b) Comprehensive Income (Loss)

Comprehensive income (loss) is a measure of net income (loss) and all other changes in equity that result from transactions other than with shareholders. Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments.

Comprehensive loss consisted of the following (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006

Net loss	$ (32,156)	$ (7,622)	$ (14,586)	$ (35,503)
Foreign currency translation gain (loss)	(1)	(5)	(10)	53
Comprehensive loss	$ (32,157)	$ (7,627)	$ (14,596)	$ (35,450)

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MasTec, Inc.
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(c) Basic and Diluted Net Income (Loss) Per Share

The computation of basic net income (loss) per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted net income (loss) per common share is based on the weighted average of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options and unvested restricted stock (common stock equivalents). For the three and nine months ended September 30, 2007, diluted net loss per common share excludes the effect of common stock equivalents in the amount of approximately 1,774,000 shares and 1,544,000 shares, respectively, since their effect is considered anti-dilutive. For the three and nine months ended September 30, 2006, diluted net income (loss) per common share includes the effect of approximately 1,219,000 shares and 1,556,000 shares, respectively, of common stock equivalents.

Earnings per share amounts for continuing operations, discontinued operations and net income, as presented on the consolidated statements of operations, are calculated individually and may not sum due to rounding differences.

(d) Valuation of Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), we conduct, on at least an annual basis, a review of our reporting entities to determine whether the carrying values of goodwill exceed the fair market value using a discounted cash flow methodology for each entity. Should this be the case, the value of its goodwill may be impaired and written down. Goodwill acquired in a purchase business combination and determined to have an infinite useful life is not amortized, but instead tested for impairment at least annually in accordance with provisions of SFAS No. 142.

As discussed in Note 7, we wrote-off approximately $0.4 million in goodwill in connection with our decision to sell our Canadian operations during the nine month period ended September 30, 2007.

During the nine months ended September 30, 2007, we recorded approximately $32.7 million of goodwill and other intangible assets in connection with acquisitions we have made. Included in this amount is approximately $6.2 million recorded for earn-out obligations in connection with acquisitions we have made.

In addition, during the nine months ended September 30, 2007, we recorded approximately $0.5 million of goodwill in connection with the acquisition of additional ownership interest in GlobeTec. See Note 3(a).

(e) Accrued Insurance

MasTec maintains insurance policies subject to per claim deductibles of $1 million for its workers compensation policy, $2 million for its general liability policy and $3 million for its automobile liability policy. We have excess umbrella coverage for losses in excess of the primary coverages of up to $100 million per claim and in the aggregate. These insurance liabilities are actuarially determined on a quarterly basis for unpaid claims and associated expenses, including the ultimate liability for claims incurred and an estimate of claims incurred but not reported. During the three month period ended June 30, 2007, we changed the discount factor used in estimating the actuarial insurance reserve for our workers compensation, general liability and auto liability policies from a spot rate of 5.2% applied to all future expected cash outflows, to the Citigroup Pension Discount Curve, which was developed to improve the matching of discount rates across multiple periods with projected future cash outflows in those periods. The curve is derived from U.S. Treasury rates, plus an option-adjusted spread varying by maturity to better reflect the settlement rate used to discount estimated future cash payments. We also maintain an insurance policy with respect to employee group health claims subject to per claim deductibles of $300,000 after satisfying an aggregate annual deductible of $100,000. The accruals are based upon known facts, historical trends and a reasonable estimate of future expenses. However, a change in experience or actuarial assumptions could nonetheless materially affect results of operations in a particular period. Known amounts for claims that are in the process of being settled, but have been paid in periods subsequent to those being reported, are also recorded in such reporting period.

MasTec, Inc.
Notes to the Condensed Unaudited Consolidated Financial Statements

(f) Stock Based Compensation

We have granted to employees and others restricted stock and options to purchase our common stock. Total non-cash stock compensation expense for the three months ended September 30, 2007 and 2006 was $1.1 million and $2.2 million, respectively, which is included in general and administrative expense in the condensed unaudited consolidated statements of operations. Total non-cash stock compensation expense for the nine months ended September 30, 2007 and 2006 was $4.6 million and $5.6 million, respectively, of which $0 and $0.2 million, respectively, was included in loss from discontinued operations, and $4.6 million and $5.4 million, respectively, is included in general and administrative expense in the condensed unaudited consolidated statements of operations.

Non-cash compensation expense related to stock options amounted to approximately $0.8 million and $1.8 million, respectively, during the three months ended September 30, 2007 and 2006, which is included in general and administrative expense in the condensed unaudited consolidated statements of operations. There were no options granted during the three months ended September 30, 2007. During the three months ended September 30, 2006, we granted to certain employees, directors and executives the right to purchase 265,000 shares of MasTec s common stock at the current market price per share at the time of the option grant. The options granted during the three months ended September 30, 2006 had a weighted average exercise price of $12.25 per share. The weighted average fair value of options granted during the three month period ended September 30, 2006 was $8.03 per share.

Non-cash compensation expense related to stock options amounted to approximately $3.3 million and $4.7 million, respectively, during the nine months ended September 30, 2007 and 2006, of which $0.2 million for 2006 is included in loss from discontinued operations, and $3.3 million and $4.5 million, respectively, is included in general and administrative expense in the condensed unaudited consolidated statements of operations. Included in general and administrative expense for the nine month period ended September 30, 2006 is approximately $0.4 million of compensation expense related to the acceleration of stock option grants that occurred in the nine months ended September 30, 2006. These accelerations were a result of certain benefits given to employees whose employment ceased during the nine month period. There were no options granted during the nine months ended September 30, 2007. During the nine months ended September 30, 2006, we granted to certain employees, directors and executives the right to purchase 1,064,500 shares of MasTec s common stock at the current market price per share at the time of the option grant. The options granted during the nine months ended September 30, 2006 had a weighted average exercise price of $13.50 per share. The weighted average fair value of options granted during the nine month period ended September 30, 2006 was $8.47 per share.

We use the Black-Scholes valuation model to estimate the fair value of options to purchase our common stock and use the ratable method (an accelerated method of expense recognition under SFAS 123R) to amortize compensation expense over the vesting period of the option grant.

The fair value of each option granted was estimated using the following assumptions:

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Expected life employees.	4.25 - 7.00 years	4.26 - 7.00 years	4.25 - 7.00 years	4.26 - 7.00 years
Expected life executives	5.88 - 9.88 years	5.74 - 9.74 years	5.88 - 9.88 years	5.74 - 9.74 years
Volatility percentage.	40% - 60%	40% - 65%	40% - 60%	40% - 65%
Interest rate.	3.97% - 4.85%	4.58% - 4.62%	3.97% - 5.03%	4.58% - 4.85%
Dividends.	None	None	None	None
Forfeiture rate.	7.44%	7.27%	7.44%	7.21%

We also sometimes grant restricted stock, which is valued based on the market price of our common stock on the date of grant. Compensation expense arising from restricted stock grants is recognized using the ratable method over the vesting period. Unearned compensation for performance-based options and restricted stock is shown as a reduction of shareholders equity in the condensed unaudited consolidated balance sheets. Through September 30, 2007, we have issued 527,357 shares of restricted stock valued at approximately $5.8 million which is being expensed over various vesting periods (12 months to 4 years). Total unearned compensation related to restricted

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stock grants as of September 30, 2007 is approximately $2.7 million. Restricted stock expense for the three and nine months ended September 30, 2007 is approximately $0.3 million and $1.2 million, respectively, and is included in general and administrative expenses in the condensed unaudited statements of operations. Restricted stock expense for the three and nine months ended September 30, 2006 was approximately $0.4 million and $1.0 million, respectively, and is included in general and administrative expenses in the condensed unaudited statements of operations.

(g) Reclassifications

Certain reclassifications were made to the prior period financial statements in order to conform to the current period presentation. In addition, as discussed in Note 7, in March 2007 we reached the decision to sell substantially all of our Canadian operations. Accordingly, the net loss for these operations for the three and nine months ended September 30, 2006 have been reclassified from the prior period presentation as a loss from discontinued operations in our condensed unaudited consolidated statements of operations. In addition, current and long-term assets, as well as current and non-current liabilities, have been reclassified on the consolidated balance sheet as of December 31, 2006 to conform to the current presentation.

(h) Equity investments

Through January 2007 we owned a 49% interest in DirectStar TV LLC (DirectStar). We accounted for our 49% interest under the equity method as we had the ability to exercise significant influence, but not control, over the operational policies of the company. Our share of earnings or losses in this investment through January 2007 is included as other income, net in the condensed unaudited consolidated statements of operations. As discussed in Note 4, effective February 1, 2007, we acquired the remaining 51% equity interest in this entity, and accordingly, we have consolidated their operations with our results commencing in February 2007. As of December 31, 2006, our investment in DirectStar exceeded the net equity of such investment and the excess is considered to be equity goodwill.

(i) Fair value of financial instruments

We estimate the fair market value of financial instruments through the use of public market prices, quotes from financial institutions and other available information. Judgment is required in interpreting data to develop estimates of market value and, accordingly, amounts are not necessarily indicative of the amounts that we could realize in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts payable and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on management s estimates, equaled their carrying values. At September 30, 2007, the fair value of our outstanding senior notes was approximately $145.7 million. At December 31, 2006, the fair value of our outstanding senior subordinated notes was approximately $121.0 million.

(j) Income taxes

In the past, we conducted business in the United States, as well as various territories outside of the United States. As a result, through one or more of our subsidiaries, we file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities in certain foreign locations, including such major jurisdictions as Canada, Brazil and the United States. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2003.

We are currently under audit by the Internal Revenue Service for the 2004 tax year. The examination phase of the audit concluded in the three months ended June 30, 2007, and we have received preliminary indication that the IRS will recommend no change to the tax return we filed for that year. Until such time as we receive a formal notice of conclusion to this audit, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns could change from those recorded for uncertain income tax positions in our financial statements. In addition, the outcome of the examination may impact the valuation of certain deferred tax assets (such as net operating losses) in future periods. Given the procedures for finalizing audits by the Internal Revenue Service, it is not possible to estimate the impact of changes, if any, to previously recorded uncertain tax positions.

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We adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109*, (FIN 48) in the first quarter of 2007. FIN 48 is an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, and seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a more likely than not threshold. In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based on management s evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recognized the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in our financial statements.

On January 1, 2007, we recorded the cumulative effect of applying FIN 48 of $1.9 million as an adjustment to the balance of deferred tax assets, and an offset to the valuation allowance on that deferred tax asset. As of the adoption date, we had no accrued interest expense or penalties related to the unrecognized tax benefits. Interest and penalties, if incurred, would be recognized as a component of income tax expense.

Note 4 Acquisition of Remaining 51% Interest in an Equity Method Investment

As discussed in Note 3, prior to February 1, 2007, we owned a 49% interest in DirectStar. The purchase price for this investment was an initial amount of $3.7 million which was paid in four quarterly installments of $925,000 through December 31, 2005. Beginning in the first quarter of 2006, eight additional contingent quarterly payments were expected to be made to the third party from which the interest was purchased. The contingent payments were to be up to a maximum of $1.3 million per quarter based on the level of unit sales and profitability of the limited liability company in specified preceding quarters. The first five quarterly payments, each of $925,000, were made on January 10, 2006, April 10, 2006, July 11, 2006, October 10, 2006 and January 10, 2007. The January 10, 2007 amount was included in accrued expenses and other assets at December 31, 2006. In March 2006, DirectStar requested an additional capital contribution in the amount of $2.0 million of which $980,000, or 49%, was paid by MasTec.

Effective February 1, 2007, we acquired the remaining 51% equity interest in this investment. As a result of our acquisition of the remaining 51% equity interest, we have consolidated the operations of DirectStar with our results commencing in February 2007. In February 2007, we paid the seller $8.65 million in cash, in addition to approximately $6.35 million which we also paid at that time to discharge our remaining obligations to the seller under the purchase agreement for the original 49% equity interest, and issued to the seller 300,000 shares of our common stock. We have also agreed to pay the seller an earn-out through the eighth anniversary of the closing date based on the future performance of the acquired business. In connection with the purchase, we entered into a service agreement with the sellers for them to manage the business. Under certain circumstances, including a change of control of MasTec or DirectStar or in certain cases a termination of the service agreement, the remaining earn-out payments will be accelerated and become payable. Under certain circumstances, we may be required to invest up to an additional $3.0 million in DirectStar. In connection with the acquisition, on April 13, 2007, we filed a registration statement to register for resale 200,000 shares of the total shares issued to the seller. On May 15, 2007, this registration statement was declared effective by the SEC.

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MasTec, Inc.
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Amounts allocated to tangible and intangible assets are based on independent appraisals. The purchase price allocation for the 51% acquisition of this entity is based on the fair-value of each of the components as of February 1, 2007 (in thousands):

Net assets	$ 3,281
Tradename	476
Non-compete agreement	311
Other intangibles	6,715
Goodwill	928
Purchase price	$ 11,711

The purchase price for the original 49% equity interest exceeded the carrying value of the net assets as of original acquisition date and accordingly the excess was considered goodwill.

The non-compete agreements are in force with the former shareholders of the acquired entity and are being amortized over their contractual life.

Prior to the acquisition of the remaining 51% equity interest, we accounted for this investment using the equity method as we had the ability to exercise significant influence over the financial and operational policies of this limited liability company. We recognized approximately $0 and $2.0 million in equity income during the three months ended September 30, 2007 and 2006, respectively, and approximately $0.1 million and $3.6 million during the nine months ended September 30, 2007 and 2006, respectively. As of December 31, 2006, we had an investment balance of approximately $15.7 million in relation to this investment included in other assets in the condensed unaudited consolidated financial statements.

Note 5 Other Assets and Liabilities

Prepaid expenses and other current assets as of September 30, 2007 and December 31, 2006 consist of the following (in thousands):

	September 30, 2007	December 31, 2006
Deferred tax assets	$ 18,121	$ 7,639
Notes receivable	3,399	213
Non-trade receivables	16,853	14,664
Other investments	1,930	5,548
Prepaid expenses and deposits	6,982	7,249
Other	4,762	