

QUANTA SERVICES INC  
Form 10-Q  
May 06, 2011

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

**Form 10-Q**

(Mark One)

- b** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended March 31, 2011**
- or**
- o** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to        .**

**Commission file no. 001-13831**

**Quanta Services, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**74-2851603**

*(I.R.S. Employer  
Identification No.)*

**2800 Post Oak Boulevard, Suite 2600  
Houston, Texas 77056**

*(Address of principal executive offices, including zip code)*

**(713) 629-7600**

*(Registrant's telephone number, including area code)*

**1360 Post Oak Boulevard, Suite 2100  
Houston, Texas 77056**

*(Former name, former address and former fiscal year, if changed since last report)*

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting  
company

(Do not check if a smaller reporting company)

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

As of April 27, 2011, the number of outstanding shares of Common Stock of the Registrant was 211,740,677. As of the same date, 3,909,110 Exchangeable Shares, 432,485 shares of Limited Vote Common Stock and one share of Series F Preferred Stock were outstanding.

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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**QUANTA SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**(In thousands, except share information)  
(Unaudited)

|   | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|---------------------------|------------------------------|
| <b>ASSETS</b>   |                           |                              |
| Current Assets:   |                           |                              |
| Cash and cash equivalents   | \$ 503,019                | \$ 539,221                   |
| Accounts receivable, net of allowances of \$6,089 and \$6,105   | 767,126                   | 766,387                      |
| Costs and estimated earnings in excess of billings on uncompleted contracts   | 110,939                   | 135,475                      |
| Inventories   | 53,091                    | 51,754                       |
| Prepaid expenses and other current assets   | 128,149                   | 103,527                      |
| <b>Total current assets</b>   | <b>1,562,324</b>          | <b>1,596,364</b>             |
| Property and equipment, net of accumulated depreciation of \$451,889 and \$428,025  | 910,530                   | 900,768                      |
| Other assets, net   | 98,229                    | 88,858                       |
| Other intangible assets, net of accumulated amortization of \$141,116 and \$134,735   | 189,086                   | 194,067                      |
| Goodwill  | 1,564,393                 | 1,561,155                    |
| <b>Total assets</b>   | <b>\$ 4,324,562</b>       | <b>\$ 4,341,212</b>          |
| <b>LIABILITIES AND EQUITY</b>   |                           |                              |
| Current Liabilities:  |                           |                              |
| Notes payable   | \$ 1,156                  | \$ 1,327                     |
| Accounts payable and accrued expenses   | 394,849                   | 415,947                      |
| Billings in excess of costs and estimated earnings on uncompleted contracts   | 86,706                    | 83,121                       |
| <b>Total current liabilities</b>  | <b>482,711</b>            | <b>500,395</b>               |
| Deferred income taxes   | 214,187                   | 212,200                      |
| Insurance and other non-current liabilities   | 267,886                   | 261,698                      |
| <b>Total liabilities</b>  | <b>964,784</b>            | <b>974,293</b>               |
| Commitments and Contingencies   |                           |                              |
| Equity:   |                           |                              |
| Common stock, \$.00001 par value, 300,000,000 shares authorized, 214,850,437 and 213,981,415 shares issued and 211,735,631 and 211,138,091 shares outstanding | 2                         | 2                            |
| Exchangeable Shares, no par value, 3,909,110 shares authorized, issued and outstanding  |                           |                              |

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Limited Vote Common Stock, \$.00001 par value, 3,345,333 shares authorized,  
432,485 shares issued and outstanding

Series F Preferred Stock, \$.00001 par value, 1 share authorized, issued and  
outstanding

|  |                  |                  |
|--|------------------|------------------|
| Additional paid-in capital                                     | 3,166,813        | 3,162,779        |
| Retained earnings  | 211,418          | 229,012          |
| Accumulated other comprehensive income                         | 25,300           | 14,122           |
| Treasury stock, 3,114,806 and 2,843,324 common shares, at cost | (46,408)         | (40,360)         |
| <br>Total stockholders' equity                                 | <br>3,357,125    | <br>3,365,555    |
| Noncontrolling interests                                       | 2,653            | 1,364            |
| <br>Total equity   | <br>3,359,778    | <br>3,366,919    |
| <br>Total liabilities and equity                               | <br>\$ 4,324,562 | <br>\$ 4,341,212 |

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

**QUANTA SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share information)  
(Unaudited)

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2011</b>               | <b>2010</b> |
| Revenues  | \$ 848,959                | \$ 748,283  |
| Cost of services (including depreciation)                 | 778,068                   | 619,141     |
| Gross profit  | 70,891                    | 129,142     |
| Selling, general and administrative expenses              | 91,541                    | 81,004      |
| Amortization of intangible assets                         | 6,266                     | 5,848       |
| Operating income (loss)                                   | (26,916)                  | 42,290      |
| Interest expense  | (255)                     | (2,864)     |
| Interest income   | 286                       | 369         |
| Other income (expense), net                               | (65)                      | 371         |
| Income (loss) before income taxes                         | (26,950)                  | 40,166      |
| Provision (benefit) for income taxes                      | (10,645)                  | 16,066      |
| Net income (loss)   | (16,305)                  | 24,100      |
| Less: Net income attributable to noncontrolling interests | 1,289                     | 356         |
| Net income (loss) attributable to common stock            | \$ (17,594)               | \$ 23,744   |
| Earnings (loss) per share attributable to common stock:   |                           |             |
| Basic earnings (loss) per share                           | \$ (0.08)                 | \$ 0.11     |
| Diluted earnings (loss) per share                         | \$ (0.08)                 | \$ 0.11     |
| Shares used in computing earnings (loss) per share:       |                           |             |
| Weighted average basic shares outstanding                 | 214,167                   | 208,673     |
| Weighted average diluted shares outstanding               | 214,167                   | 210,342     |

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

**QUANTA SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2011</b>               | <b>2010</b> |
| <b>Cash Flows from Operating Activities:</b>  |                           |             |
| Net income (loss)   | \$ (16,305)               | \$ 24,100   |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities |                           |             |
| Depreciation  | 28,196                    | 26,584      |
| Amortization of intangible assets   | 6,266                     | 5,848       |
| Non-cash interest expense   |                           | 1,137       |
| Amortization of debt issuance costs   | 118                       | 231         |
| Amortization of deferred revenue  | (2,950)                   | (1,152)     |
| Gain on sale of property and equipment  | (8)                       | (430)       |
| Foreign currency (gain) loss  | 255                       | (285)       |
| Provision for (recovery of) doubtful accounts   | 433                       | (48)        |
| Deferred income tax provision   | 11,483                    | 11,930      |
| Non-cash stock-based compensation   | 5,541                     | 6,002       |
| Tax impact of stock-based equity awards   | (2,014)                   | (1,969)     |
| Changes in operating assets and liabilities, net of non-cash transactions                         |                           |             |
| (Increase) decrease in  |                           |             |
| Accounts and notes receivable   | (9,849)                   | 16,797      |
| Costs and estimated earnings in excess of billings on uncompleted contracts                       | 25,409                    | 4,668       |
| Inventories   | (1,145)                   | 348         |
| Prepaid expenses and other current assets   | (36,047)                  | 7,697       |
| Increase (decrease) in  |                           |             |
| Accounts payable and accrued expenses and other non-current liabilities                           | (17,161)                  | (94,758)    |
| Billings in excess of costs and estimated earnings on uncompleted contracts                       | 3,537                     | (3,867)     |
| Other, net  | 53                        | 793         |
| Net cash provided by (used in) operating activities   | (4,188)                   | 3,626       |
| <b>Cash Flows from Investing Activities:</b>  |                           |             |
| Proceeds from sale of property and equipment  | 3,193                     | 932         |
| Additions of property and equipment   | (37,488)                  | (43,799)    |
| Net cash used in investing activities   | (34,295)                  | (42,867)    |
| <b>Cash Flows from Financing Activities:</b>  |                           |             |
| Proceeds from other long-term debt  | 1,794                     |             |
| Payments on other long-term debt  | (1,991)                   | (3,294)     |
| Tax impact of stock-based equity awards   | 2,014                     | 1,969       |

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|  |            |             |
|--|------------|-------------|
| Exercise of stock options  | 507        | 190         |
| Net cash provided by (used in) financing activities                  | 2,324      | (1,135)     |
| Effect of foreign exchange rate changes on cash and cash equivalents | (43)       | 571         |
| Net decrease in cash and cash equivalents                            | (36,202)   | (39,805)    |
| Cash and cash equivalents, beginning of period                       | 539,221    | 699,629     |
| Cash and cash equivalents, end of period                             | \$ 503,019 | \$ 659,824  |
| Supplemental disclosure of cash flow information:                    |            |             |
| Cash (paid) received during the period for                           |            |             |
| Interest paid  | \$ (137)   | \$ (159)    |
| Income taxes paid  | \$ (2,775) | \$ (34,403) |
| Income tax refunds   | \$ 175     | \$ 1,722    |

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



**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. BUSINESS AND ORGANIZATION:**

Quanta Services, Inc. (Quanta) is a leading national provider of specialized contracting services, offering infrastructure solutions to the electric power, natural gas and oil pipeline and telecommunications industries. Quanta reports its results under four reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services, (3) Telecommunications Infrastructure Services and (4) Fiber Optic Licensing.

***Electric Power Infrastructure Services Segment***

The Electric Power Infrastructure Services segment provides comprehensive network solutions to customers in the electric power industry. Services performed by the Electric Power Infrastructure Services segment generally include the design, installation, upgrade, repair and maintenance of electric power transmission and distribution networks and substation facilities along with other engineering and technical services. This segment also provides emergency restoration services, including repairing infrastructure damaged by inclement weather, the energized installation, maintenance and upgrade of electric power infrastructure utilizing unique bare hand and hot stick methods and our proprietary robotic arm technologies, and the installation of smart grid technologies on electric power networks. In addition, this segment designs, installs and maintains renewable energy generation facilities, in particular solar and wind, and related switchyards and transmission networks. To a lesser extent, this segment provides services such as the design, installation, maintenance and repair of commercial and industrial wiring, installation of traffic networks and the installation of cable and control systems for light rail lines.

***Natural Gas and Pipeline Infrastructure Services Segment***

The Natural Gas and Pipeline Infrastructure Services segment provides comprehensive network solutions to customers involved in the transportation of natural gas, oil and other pipeline products. Services performed by the Natural Gas and Pipeline Infrastructure Services segment generally include the design, installation, repair and maintenance of natural gas and oil transmission and distribution systems, compressor and pump stations and gas gathering systems, as well as related trenching, directional boring and automatic welding services. In addition, this segment's services include pipeline protection, pipeline integrity and rehabilitation and fabrication of pipeline support systems and related structures and facilities. To a lesser extent, this segment designs, installs and maintains airport fueling systems as well as water and sewer infrastructure.

***Telecommunications Infrastructure Services Segment***

The Telecommunications Infrastructure Services segment provides comprehensive network solutions to customers in the telecommunications and cable television industries. Services performed by the Telecommunications Infrastructure Services segment generally include the design, installation, repair and maintenance of fiber optic, copper and coaxial cable networks used for video, data and voice transmission, as well as the design, installation and upgrade of wireless communications networks, including towers, switching systems and backhaul links from wireless systems to voice, data and video networks. This segment also provides emergency restoration services, including repairing telecommunications infrastructure damaged by inclement weather. To a lesser extent, services provided under this segment include cable locating, splicing and testing of fiber optic networks and residential installation of fiber optic cabling.

***Fiber Optic Licensing Segment***

The Fiber Optic Licensing segment designs, procures, constructs and maintains fiber optic telecommunications infrastructure in select markets and licenses the right to use these point-to-point fiber optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

portion of the capacity of a fiber optic facility, with the facility owned and maintained by Quanta. The Fiber Optic Licensing segment provides services to enterprise, education, carrier, financial services and healthcare customers, as well as other entities with high bandwidth telecommunication needs. The telecommunication services provided through this segment are subject to regulation by the Federal Communications Commission and certain state public utility commissions.

***Acquisitions***

On October 25, 2010, Quanta acquired Valard Construction LP and certain of its affiliated entities (Valard), an electric power infrastructure services company based in Alberta, Canada. In connection with the acquisition, Quanta paid the former owners of Valard approximately \$118.9 million in cash and issued 623,720 shares of Quanta common stock and 3,909,110 exchangeable shares of a Canadian subsidiary of Quanta. In addition, one share of Quanta Series F preferred stock with voting rights equivalent to Quanta common stock equal to the number of exchangeable shares outstanding at any time was issued to a voting trust on behalf of the holders of the exchangeable shares. The aggregate value of the common stock and exchangeable shares issued was approximately \$88.5 million. The exchangeable shares are substantially equivalent to, and exchangeable on a one-for-one basis for, Quanta common stock. In connection with the acquisition, Quanta also repaid \$12.8 million in Valard debt at the closing of the acquisition. As this transaction was effective October 25, 2010, the results of Valard have been included in the consolidated financial statements beginning on such date. This acquisition allows Quanta to further expand its capabilities and scope of services in Canada. Valard's financial results are generally included in Quanta's Electric Power Infrastructure Services segment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

***Principles of Consolidation***

The consolidated financial statements of Quanta include the accounts of Quanta Services, Inc. and its wholly owned subsidiaries, which are also referred to as its operating units. The consolidated financial statements also include the accounts of certain of Quanta's investments in joint ventures, which are either consolidated or partially consolidated, as discussed in the following summary of significant accounting policies. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, references to Quanta include Quanta and its consolidated subsidiaries.

***Interim Condensed Consolidated Financial Information***

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. Quanta believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. The results of Quanta have historically been subject to significant seasonal fluctuations.

Quanta recommends that these unaudited condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Quanta and its subsidiaries included in Quanta's Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the SEC on March 1, 2011.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date the financial statements are published and the reported amount of revenues and expenses recognized during the periods presented. Quanta reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustments prior to their publication. Judgments and estimates are based on Quanta's beliefs and assumptions derived from information available at the time such judgments and estimates are made. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. Estimates are primarily used in Quanta's assessment of the allowance for doubtful accounts, valuation of inventory, useful lives of assets, fair value assumptions in analyzing goodwill, other intangibles and long-lived asset impairments, purchase price allocations, liabilities for self-insured and other claims, revenue recognition for construction contracts and fiber optic licensing, share-based compensation, operating results of reportable segments, provision (benefit) for income taxes and calculation of uncertain tax positions.

***Cash and Cash Equivalents***

Quanta had cash and cash equivalents of \$503.0 million and \$539.2 million as of March 31, 2011 and December 31, 2010. Cash consisting of interest-bearing demand deposits is carried at cost, which approximates fair value. Quanta considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are carried at fair value. At March 31, 2011 and December 31, 2010, cash equivalents were \$450.0 million and \$460.8 million, which consisted primarily of money market mutual funds and investment grade commercial paper and are discussed further in *Fair Value Measurements* below. As of March 31, 2011 and December 31, 2010, cash and cash equivalents held in domestic bank accounts was approximately \$502.1 million and \$509.6 million, and cash and cash equivalents held in foreign bank accounts was approximately \$0.9 million and \$29.6 million.

***Current and Long-term Accounts and Notes Receivable and Allowance for Doubtful Accounts***

Quanta provides an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful, and receivables are written off against the allowance when deemed uncollectible. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the customer's access to capital, the customer's willingness or ability to pay, general economic and market conditions and the ongoing relationship with the customer. Quanta considers accounts receivable delinquent after 30 days but does not generally include delinquent accounts in its analysis of the allowance for doubtful accounts unless the accounts receivable have been outstanding for 90 days. In addition to balances that have been outstanding for 90 days, Quanta also includes accounts receivable in its analysis of the allowance for doubtful accounts if they relate to customers in bankruptcy or with other known difficulties. Under certain circumstances such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. Material changes in Quanta's customers business or cash flows, which may be impacted by negative economic and market conditions, could affect its ability to collect amounts due from them. As of March 31, 2011 and December 31, 2010, Quanta had total allowances for doubtful accounts of approximately \$7.3 million, of which approximately \$6.1 million was included as a reduction of net current accounts receivable. Should customers experience financial difficulties or file for bankruptcy, or should anticipated recoveries relating to receivables in existing bankruptcies or other workout situations fail to materialize,

Quanta could experience reduced cash flows and losses in excess of current allowances provided.

The balances billed but not paid by customers pursuant to retainage provisions in certain contracts will be due upon completion of the contracts and acceptance by the customer. Based on Quanta's experience with similar contracts in recent years, the majority of the retention balances at each balance sheet date will be collected within

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the next twelve months. Current retainage balances as of March 31, 2011 and December 31, 2010 were approximately \$114.0 million and \$119.4 million and are included in accounts receivable. Retainage balances with settlement dates beyond the next twelve months are included in other assets, net, and as of March 31, 2011 and December 31, 2010 were \$20.1 million and \$8.0 million.

Within accounts receivable, Quanta recognizes unbilled receivables in circumstances such as when: revenues have been earned and recorded but the amount cannot be billed under the terms of the contract until a later date; costs have been incurred but are yet to be billed under cost-reimbursement type contracts; or amounts arise from routine lags in billing (for example, work completed one month but not billed until the next month). These balances do not include revenues accrued for work performed under fixed-price contracts as these amounts are recorded as costs and estimated earnings in excess of billings on uncompleted contracts. At March 31, 2011 and December 31, 2010, the balances of unbilled receivables included in accounts receivable were approximately \$124.3 million and \$103.5 million.

***Goodwill and Other Intangibles***

Quanta has recorded goodwill in connection with its acquisitions. Goodwill is subject to an annual assessment for impairment using a two-step fair value-based test, which Quanta performs at the operating unit level. Each of Quanta's operating units is organized into one of three internal divisions, which are closely aligned with Quanta's reportable segments, based on the predominant type of work performed by the operating unit at the point in time the divisional designation is made. Because separate measures of assets and cash flows are not produced or utilized by management to evaluate segment performance, Quanta's impairment assessments of its goodwill do not include any consideration of assets and cash flows by reportable segment. As a result, Quanta has determined that its individual operating units represent its reporting units for the purpose of assessing goodwill impairments.

Quanta's goodwill impairment assessment is performed annually at year-end, or more frequently if events or circumstances exist which indicate that goodwill may be impaired. For instance, a decrease in Quanta's market capitalization below book value, a significant change in business climate or a loss of a significant customer, among other things, may trigger the need for interim impairment testing of goodwill associated with one or all of its reporting units. The first step of the two-step fair value-based test involves comparing the fair value of each of Quanta's reporting units with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the reporting unit's goodwill to the implied fair value of its goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss would be recorded as a reduction to goodwill with a corresponding charge to operating expense.

Quanta determines the fair value of its reporting units using a weighted combination of the discounted cash flow, market multiple and market capitalization valuation approaches, with heavier weighting on the discounted cash flow method, as in management's opinion, this method currently results in the most accurate calculation of a reporting unit's fair value. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. Such estimates and assumptions include revenue growth rates, operating margins, discount rates, weighted average costs of capital and future market conditions, among others. Quanta believes the estimates and assumptions used in its impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated.

Under the discounted cash flow method, Quanta determines fair value based on the estimated future cash flows of each reporting unit, discounted to present value using risk-adjusted industry discount rates, which reflect the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Cash flow projections are derived from budgeted amounts and operating forecasts (typically a three-year model) plus an estimate of later period cash flows, all of which are evaluated by management. Subsequent period cash flows are developed for each reporting unit using growth rates that management believes are reasonably likely to occur along



**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with a terminal value derived from the reporting unit's earnings before interest, taxes, depreciation and amortization (EBITDA). The EBITDA multiples for each reporting unit are based on trailing twelve-month comparable industry data.

Under the market multiple and market capitalization approaches, Quanta determines the estimated fair value of each of its reporting units by applying transaction multiples to each reporting unit's projected EBITDA and then averaging that estimate with similar historical calculations using either a one, two or three year average. For the market capitalization approach, Quanta adds a reasonable control premium, which is estimated as the premium that would be received in a sale of the reporting unit in an orderly transaction between market participants.

For recently acquired reporting units, a step one impairment test may indicate an implied fair value that is substantially similar to the reporting unit's carrying value. Such similarities in value are generally an indication that management's estimates of future cash flows associated with the recently acquired reporting unit remain relatively consistent with the assumptions that were used to derive its initial fair value. During the fourth quarter of 2010, a goodwill impairment analysis was performed for each of Quanta's operating units, which indicated that the implied fair value of each of Quanta's operating units was substantially in excess of carrying value. Following the analysis, management concluded that no impairment was indicated at any operating unit. As discussed generally above, when evaluating the 2010 step one impairment test results, management considered many factors in determining whether or not an impairment of goodwill for any reporting unit was reasonably likely to occur in future periods, including future market conditions and the economic environment in which Quanta's reporting units were operating. As of March 31, 2011, there were no known factors that would indicate the need for an interim impairment assessment at any of Quanta's reporting units; however, circumstances such as continued market declines, the loss of a major customer or other factors could impact the valuation of goodwill in future periods.

Quanta's intangible assets include customer relationships, backlog, trade names, non-compete agreements and patented rights and developed technology. The value of customer relationships is estimated using the value-in-use concept utilizing the income approach, specifically the excess earnings method. The excess earnings analysis consists of discounting to present value the projected cash flows attributable to the customer relationships, with consideration given to customer contract renewals, the importance or lack thereof of existing customer relationships to Quanta's business plan, income taxes and required rates of return. Quanta values backlog based upon the contractual nature of the backlog within each service line, using the income approach to discount back to present value the cash flows attributable to the backlog. The value of trade names is estimated using the relief-from-royalty method of the income approach. This approach is based on the assumption that in lieu of ownership, a company would be willing to pay a royalty in order to exploit the related benefits of this intangible asset.

Quanta amortizes intangible assets based upon the estimated consumption of the economic benefits of each intangible asset or on a straight-line basis if the pattern of economic benefits consumption cannot otherwise be reliably estimated. Intangible assets subject to amortization are reviewed for impairment and are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For instance, a significant change in business climate or a loss of a significant customer, among other things, may trigger the need for interim impairment testing of intangible assets. An impairment loss would be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

***Investments in Joint Ventures***

In the normal course of business, Quanta enters into various types of joint venture agreements, each having unique terms and conditions, with Quanta owning an equity interest in either an incorporated or an unincorporated company as a result. Quanta determines whether a joint venture is a variable interest entity (VIE) based on the characteristics of the entity involved. If the entity is determined to be a VIE, then management determines if Quanta is the primary beneficiary and whether or not consolidation of the VIE is required. The primary beneficiary consolidating the VIE must normally meet both of the following characteristics: (i) the power to direct the activities

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of a VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. When Quanta is deemed to be the primary beneficiary and the VIE is consolidated, the other party's equity interest in the VIE is accounted for as a noncontrolling interest. In cases where Quanta determines it has an undivided interest in the assets, liabilities, revenues and profits of an unincorporated VIE (i.e., a general partnership interest), such amounts are consolidated on a basis proportional to Quanta's ownership interest in the unincorporated entity.

***Revenue Recognition***

**Infrastructure Services** Through its Electric Power Infrastructure Services, Natural Gas and Pipeline Infrastructure Services and Telecommunications Infrastructure Services segments, Quanta designs, installs and maintains networks for customers in the electric power, natural gas, oil and telecommunications industries. These services may be provided pursuant to master service agreements, repair and maintenance contracts and fixed price and non-fixed price installation contracts. Pricing under contracts may be competitive unit price, cost-plus/hourly (or time and materials basis) or fixed price (or lump sum basis), and the final terms and prices of these contracts are frequently negotiated with the customer. Under unit-based contracts, the utilization of an output-based measurement is appropriate for revenue recognition. Under these contracts, Quanta recognizes revenue as units are completed based on pricing established between Quanta and the customer for each unit of delivery, which best reflects the pattern in which the obligation to the customer is fulfilled. Under cost-plus/hourly and time and materials type contracts, Quanta recognizes revenue on an input basis, as labor hours are incurred and services are performed.

Revenues from fixed price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs incurred to date to total estimated costs for each contract. These contracts provide for a fixed amount of revenues for the entire project. Such contracts provide that the customer accept completion of progress to date and compensate Quanta for services rendered, which may be measured in terms of units installed, hours expended or some other measure of progress. Contract costs include all direct materials, labor and subcontract costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Much of the materials associated with Quanta's work are owner-furnished and are therefore not included in contract revenues and costs. The cost estimation process is based on the professional knowledge and experience of Quanta's engineers, project managers and financial professionals. Changes in job performance, job conditions and final contract settlements are factors that influence management's assessment of total contract value and the total estimated costs to complete those contracts and therefore, Quanta's profit recognition. Changes in these factors may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. Provisions for losses on uncompleted contracts are made in the period in which such losses are determined to be probable and the amount can be reasonably estimated.

Quanta may incur costs subject to change orders, whether approved or unapproved by the customer, and/or claims related to certain contracts. Quanta determines the probability that such costs will be recovered based upon evidence such as past practices with the customer, specific discussions or preliminary negotiations with the customer or verbal approvals. Quanta treats items as a cost of contract performance in the period incurred if it is not probable that the costs will be recovered or will recognize revenue if it is probable that the contract price will be adjusted and can be reliably estimated. As of March 31, 2011 and December 31, 2010, Quanta had approximately \$49.3 million and \$83.1 million of change orders and/or claims that had been included as contract price adjustments on certain contracts which were in the process of being negotiated in the normal course of business.

The current asset Costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed for fixed price contracts. The current liability Billings in excess of costs and estimated earnings on uncompleted contracts represents billings in excess of revenues recognized for fixed price contracts.

**QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiber Optic Licensing** The Fiber Optic Licensing segment constructs and licenses the right to use fiber optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber optic facility, with the facility owned and maintained by Quanta. Revenues, including any initial fees or advance billings, are recognized ratably over the expected length of the agreements, including probable renewal periods. As of March 31, 2011 and December 31, 2010, initial fees and advance billings on these licensing agreements not yet recorded in revenue were \$46.6 million and \$44.4 million and are recognized as deferred revenue, with \$37.0 million and \$34.7 million considered to be long-term and included in other non-current liabilities. Minimum future licensing revenues expected to be recognized by Quanta pursuant to these agreements at March 31, 2011 are as follows (in thousands):

|   | <b>Minimum<br/>Future<br/>Licensing<br/>Revenues</b> |
|---|--|
| Year Ending December 31                         |  |
| Remainder of 2011                               | \$ 65,992  |
| 2012  | 71,866   |
| 2013  | 57,317   |
| 2014  | 40,175   |
| 2015  | 20,710   |
| Thereafter                                      | 70,653   |
| Fixed non-cancelable minimum licensing revenues | \$ 326,713   |

***Income Taxes***

Quanta follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the underlying assets or liabilities are recovered or settled.

Quanta regularly evaluates valuation allowances established for deferred tax assets for which future realization is uncertain. The estimation of required valuation allowances includes estimates of future taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Quanta considers projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income differs from these estimates, Quanta may not realize deferred tax assets to the extent estimated.

Quanta records reserves for expected tax consequences of uncertain positions assuming that the taxing authorities have full knowledge of the position and all relevant facts. As of March 31, 2011, the total amount of unrecognized tax benefits relating to uncertain tax positions was \$53.2 million, an increase from December 31, 2010 of \$2.6 million,

which primarily relates to tax positions expected to be taken for 2011. Quanta recognized \$0.8 million and \$1.0 million of interest expense and penalties in the provision for income taxes for the quarters ended March 31, 2011 and 2010. Quanta believes that it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease by up to \$8.7 million due to the expiration of certain statutes of limitations.

The income tax laws and regulations are voluminous and are often ambiguous. As such, Quanta is required to make many subjective assumptions and judgments regarding its tax positions that could materially affect amounts recognized in its future consolidated balance sheets and statements of operations.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Stock-Based Compensation***

Quanta recognizes compensation expense for all stock-based compensation based on the fair value of the awards granted, net of estimated forfeitures, at the date of grant. The fair value of restricted stock awards is determined based on the number of shares granted and the closing price of Quanta's common stock on the date of grant. An estimate of future forfeitures is required in determining the period expense. Quanta uses historical data to estimate the forfeiture rate; however, these estimates are subject to change and may impact the value that will ultimately be realized as compensation expense. The resulting compensation expense from discretionary awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period, while compensation expense from performance-based awards is recognized using the graded vesting method over the requisite service period. The cash flows resulting from the tax deductions in excess of the compensation expense recognized for restricted stock and stock options (excess tax benefit) are classified as financing cash flows.

***Functional Currency and Translation of Financial Statements***

The U.S. dollar is the functional currency for the majority of Quanta's operations. However, Quanta has foreign operating units in Canada, for which Quanta considers the Canadian dollar to be the functional currency. Generally, the currency in which the operating unit transacts a majority of its transactions, including billings, financing, payroll and other expenditures, would be considered the functional currency, but any dependency upon the parent company and the nature of the operating unit's operations must also be considered. Under the relevant accounting guidance, the treatment of these translation gains or losses is dependent upon management's determination of the functional currency of each operating unit, which involves consideration of all relevant economic facts and circumstances affecting the operating unit. In preparing the consolidated financial statements, Quanta translates the financial statements of its foreign operating units from their functional currency into U.S. dollars. Statements of operations and cash flows are translated at average monthly rates, while balance sheets are translated at the month-end exchange rates. The translation of the balance sheets at the month-end exchange rates results in translation gains or losses. If transactions are denominated in the operating unit's functional currency, the translation gains and losses are included as a separate component of equity under the caption Accumulated other comprehensive income. If transactions are not denominated in the operating unit's functional currency, the translation gains and losses are included within the statement of operations.

***Comprehensive Income (Loss)***

Comprehensive income (loss) includes all changes in equity during a period except those resulting from investments by and distributions to stockholders. Quanta records other comprehensive income (loss), net of tax, for the foreign currency translation adjustment related to its foreign operations and for changes in fair value of its derivative contracts that are classified as cash flow hedges, as applicable.

***Fair Value Measurements***

The carrying values of cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. For disclosure purposes, qualifying assets and liabilities are categorized into three broad levels based on the priority of the inputs used to determine their fair values. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). All of Quanta's cash equivalents are categorized as

Level 1 assets at March 31, 2011 and December 31, 2010, as all values are based on unadjusted quoted prices for identical assets in an active market that Quanta has the ability to access.

In connection with Quanta's acquisitions, identifiable intangible assets acquired included goodwill, backlog, customer relationships, trade names and covenants not-to-compete. Quanta utilizes the fair value premise as the primary basis for its valuation procedures, which is a market based approach to determining the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Quanta



**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

periodically engages the services of an independent valuation firm to assist management with this valuation process, which includes assistance with the selection of appropriate valuation methodologies and the development of market-based valuation assumptions. Based on these considerations, management utilizes various valuation methods, including an income approach, a market approach and a cost approach, to determine the fair value of intangible assets acquired based on the appropriateness of each method in relation to the type of asset being valued. The assumptions used in these valuation methods are analyzed and compared, where possible, to available market data, such as industry-based weighted average costs of capital and discount rates, trade name royalty rates, public company valuation multiples and recent market acquisition multiples. The level of inputs used for these fair value measurements is the lowest level (Level 3). Quanta believes that these valuation methods appropriately represent the methods that would be used by other market participants in determining fair value.

Quanta uses fair value measurements on a routine basis in its assessment of assets classified as goodwill, other intangible assets and long-lived assets held and used. In accordance with its annual impairment test during the quarter ended December 31, 2010, the carrying amounts of such assets, including goodwill, was compared to their fair values. No changes in carrying amount resulted. The inputs used for fair value measurements for goodwill, other intangible assets and long-lived assets held and used are the lowest level (Level 3) inputs for which Quanta uses the assistance of third party specialists to develop valuation assumptions.

**3. NEW ACCOUNTING PRONOUNCEMENTS:**

*Adoption of New Accounting Pronouncements*

None.

*Accounting Standards Not Yet Adopted*

None.

**4. GOODWILL AND OTHER INTANGIBLE ASSETS:**

A summary of changes in Quanta's goodwill between December 31, 2010 and March 31, 2011 is as follows (in thousands):

|                               | <b>Electric<br/>Power<br/>Division</b> | <b>Natural Gas<br/>and<br/>Pipeline<br/>Division</b> | <b>Telecommunications<br/>Division</b> | <b>Total</b> |
|-------------------------------|--|--|--|--------------|
| Balance at December 31, 2010: |  |  |  |              |
| Goodwill                      | \$ 741,276                             | \$ 337,911   | \$ 545,232                             | \$ 1,624,419 |
| Accumulated impairment        |  |  | (63,264)                               | (63,264)     |
| Goodwill, net                 | 741,276                                | 337,911  | 481,968                                | 1,561,155    |

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|   |            |            |            |              |
|---|------------|------------|------------|--------------|
| Foreign currency translation related to goodwill    | 3,286      |            |            | 3,286        |
| Purchase price adjustments related to prior periods |            | (48)       |            | (48)         |
| Balance at March 31, 2011:                          |            |            |            |              |
| Goodwill  | 744,562    | 337,863    | 545,232    | 1,627,657    |
| Accumulated impairment                              |            |            | (63,264)   | (63,264)     |
| Goodwill, net                                       | \$ 744,562 | \$ 337,863 | \$ 481,968 | \$ 1,564,393 |

As described in Note 2, Quanta's operating units are organized into one of Quanta's three internal divisions and accordingly, Quanta's goodwill associated with each of its operating units has been aggregated on a divisional basis

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and reported in the table above. These divisions are closely aligned with Quanta's reportable segments based on the predominant type of work performed by the operating units within the divisions.

Intangible assets are comprised of (in thousands):

|  | As of                |                             | Three Months Ended      |                                    | As of                     |
|--|----------------------|-----------------------------|-------------------------|------------------------------------|---------------------------|
|  | December 31, 2010    |                             | March 31, 2011          |                                    | March 31, 2011            |
|  | Intangible<br>Assets | Accumulated<br>Amortization | Amortization<br>Expense | Foreign<br>Currency<br>Adjustments | Intangible<br>Assets, Net |
| Customer relationships                   | \$ 153,100           | \$ (27,880)                 | \$ (2,524)              | \$ 714                             | \$ 123,410                |
| Backlog                                  | 108,421              | (88,429)                    | (2,149)                 | 396                                | 18,239                    |
| Trade names                              | 27,249               | (1,005)                     | (227)                   | 100                                | 26,117                    |
| Non-compete agreements                   | 23,954               | (13,164)                    | (1,049)                 | 75                                 | 9,816                     |
| Patented rights and developed technology | 16,078               | (4,257)                     | (317)                   |                                    | 11,504                    |
| Total intangible assets                  | \$ 328,802           | \$ (134,735)                | \$ (6,266)              | \$ 1,285                           | \$ 189,086                |

Expenses for the amortization of intangible assets were \$6.3 million and \$5.8 million for the three months ended March 31, 2011 and 2010. The remaining weighted average amortization period for all intangible assets as of March 31, 2011 is 12.9 years, while the remaining weighted average amortization periods for customer relationships, backlog, trade names, non-compete agreements and the patented rights and developed technology are 12.4 years, 1.9 years, 28.7 years, 2.9 years and 9.5 years, respectively. The estimated future aggregate amortization expense of intangible assets as of March 31, 2011 is set forth below (in thousands):

|  |            |
|--|------------|
| For the Fiscal Year Ending December 31 |            |
| 2011 (Remainder)                       | \$ 19,984  |
| 2012                                   | 24,327     |
| 2013                                   | 14,220     |
| 2014                                   | 13,620     |
| 2015                                   | 12,840     |
| Thereafter                             | 104,095    |
| Total                                  | \$ 189,086 |

**5. PER SHARE INFORMATION:**

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period, and diluted earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period adjusted for all potentially dilutive common stock equivalents, except in cases where the effect of the common stock equivalent would be antidilutive. The amounts used to compute the basic and

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

diluted earnings (loss) per share for the three months ended March 31, 2011 and 2010 are illustrated below (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| <b>NET INCOME (LOSS):</b>  |   |             |
| Net income (loss) attributable to common stock                                       | \$ (17,594)                             | \$ 23,744   |
| Net income (loss) attributable to common stock for diluted earnings (loss) per share | \$ (17,594)                             | \$ 23,744   |
| <b>WEIGHTED AVERAGE SHARES:</b>  |   |             |
| Weighted average shares outstanding for basic earnings (loss) per share              | 214,167                                 | 208,673     |
| Effect of dilutive stock options   |   | 137         |
| Effect of shares in escrow   |   | 1,532       |
| Weighted average shares outstanding for diluted earnings (loss) per share            | 214,167                                 | 210,342     |

Potential common shares are excluded from the diluted loss per share computation in the quarter ended March 31, 2011 as their inclusion would be antidilutive. For the three months ended March 31, 2010, a nominal amount of stock options were excluded from the computation of diluted earnings (loss) per share because the exercise prices of these common stock equivalents were greater than the average market price of Quanta's common stock. The 3.9 million exchangeable shares of a Canadian subsidiary of Quanta that were issued pursuant to the acquisition of Valard on October 25, 2010, which are exchangeable on a one-for-one basis with Quanta common shares, are included in weighted average shares outstanding for basic and diluted earnings (loss) per share in the 2011 period. Shares placed in escrow related to the acquisition of Price Gregory are included in the computation of diluted earnings per share for the quarter ended March 31, 2010. These shares were released from escrow on April 4, 2011. For the three months ended March 31, 2010, the effect of assuming conversion of Quanta's 3.75% convertible subordinated notes due 2026 (3.75% Notes) would have been antidilutive and therefore the shares issuable upon conversion were excluded from the calculation of diluted earnings per share. The 3.75% Notes were not outstanding after May 14, 2010 and therefore had no impact on diluted shares during the quarter ended March 31, 2011.

**6. DEBT OBLIGATIONS:**

*Credit Facility*

Quanta has an agreement with various lenders that provides for a \$475.0 million senior secured revolving credit facility maturing on September 19, 2012. Subject to the conditions specified in the credit facility, borrowings under the credit facility are to be used for working capital, capital expenditures and other general corporate purposes. The entire unused portion of the credit facility is available for the issuance of letters of credit.

As of March 31, 2011, Quanta had approximately \$187.9 million of letters of credit issued under the credit facility and no outstanding revolving loans. The remaining \$287.1 million was available for revolving loans or issuing new letters of credit. Amounts borrowed under the credit facility bear interest, at Quanta's option, at a rate equal to either (a) the Eurodollar Rate (as defined in the credit facility) plus 0.875% to 1.75%, as determined by the ratio of Quanta's total funded debt to consolidated EBITDA (as defined in the credit facility), or (b) the base rate (as described below) plus 0.00% to 0.75%, as determined by the ratio of Quanta's total funded debt to consolidated EBITDA. Letters of credit issued under the credit facility are subject to a letter of credit fee of 0.875% to 1.75%, based on the ratio of Quanta's total funded debt to consolidated EBITDA. Quanta is also subject to a commitment fee of 0.15% to 0.35%, based on the ratio of its total funded debt to consolidated EBITDA, on any unused availability under the credit facility. The base rate equals the higher of (i) the Federal Funds Rate (as defined in the credit facility) plus 1/2 of 1% or (ii) the bank's prime rate.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The credit facility contains certain covenants, including covenants with respect to maximum funded debt to consolidated EBITDA, maximum senior debt to consolidated EBITDA and minimum interest coverage, in each case as specified in the credit facility. For purposes of calculating the maximum funded debt to consolidated EBITDA ratio and the maximum senior debt to consolidated EBITDA ratio, Quanta's maximum funded debt and maximum senior debt are reduced by all cash and cash equivalents (as defined in the credit facility) held by Quanta in excess of \$25.0 million. As of March 31, 2011, Quanta was in compliance with all of its covenants. The credit facility limits certain acquisitions, mergers and consolidations, capital expenditures, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on material assets. The credit facility also limits the payment of dividends and stock repurchase programs in any fiscal year except those payments or other distributions payable solely in capital stock. The credit facility provides for customary events of default and carries cross-default provisions with Quanta's continuing indemnity and security agreement with its sureties and all of its other debt instruments exceeding \$15.0 million in borrowings. If an event of default (as defined in the credit facility) occurs and is continuing, on the terms and subject to the conditions set forth in the credit facility, amounts outstanding under the credit facility may be accelerated and may become or be declared immediately due and payable.

The credit facility is secured by a pledge of all of the capital stock of certain of Quanta's subsidiaries and substantially all of Quanta's assets. Quanta's U.S. subsidiaries also guarantee the repayment of all amounts due under the credit facility.

Periodically, Quanta may issue letters of credit under arrangements other than the credit facility which require that cash collateral also be provided. These letters of credit are generally issued in connection with operations in foreign jurisdictions. As of March 31, 2011, Quanta had approximately \$5.6 million in letters of credit outstanding under cash collateralized letter of credit arrangements in addition to the amounts outstanding under the credit facility.

***3.75% Convertible Subordinated Notes***

As of March 31, 2011 and December 31, 2010, none of Quanta's 3.75% Notes were outstanding. However, the 3.75% Notes were outstanding during the quarter ended March 31, 2010. The 3.75% Notes were originally issued in April 2006 for an aggregate principal amount of \$143.8 million and required semi-annual interest payments on April 30 and October 30 until maturity.

On May 14, 2010, Quanta redeemed all of the \$143.8 million aggregate principal amount outstanding of the 3.75% Notes at a redemption price of 101.607% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the date of redemption.

**7. EQUITY:**

***Exchangeable Shares and Series F Preferred Stock***

In connection with acquisition of Valard as discussed in Note 1, certain former owners of Valard received exchangeable shares of Quanta Services EC Canada Ltd. (EC Canada); one of Quanta's wholly owned Canadian subsidiaries. The exchangeable shares may be exchanged at the option of the holder for Quanta common stock on a one-for-one basis. The holders of exchangeable shares can make an exchange only once in any calendar quarter and must exchange a minimum of either 50,000 shares or if less, the total number of remaining exchangeable shares registered in the name of the holder making the request. Quanta also issued one share of Quanta Series F preferred

stock to a voting trust on behalf of the holders of the exchangeable shares. The Series F preferred stock provides the holders of the exchangeable shares voting rights in Quanta common stock equivalent to the number of exchangeable shares outstanding at any time. The combination of the exchangeable shares and the share of Series F preferred stock gives the holders of the exchangeable shares rights equivalent to Quanta common stockholders as far as dividends, voting and other economic rights.



**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Limited Vote Common Stock***

The shares of Limited Vote Common Stock have rights similar to shares of common stock, except with respect to voting. Holders of Limited Vote Common Stock are entitled to vote as a separate class to elect one director and do not vote in the election of other directors. Holders of Limited Vote Common Stock are entitled to one-tenth of one vote for each share held on all other matters submitted for stockholder action. Each share of Limited Vote Common Stock will convert into common stock upon disposition by the holder of such shares in accordance with the transfer restrictions applicable to such shares. During the quarters ended March 31, 2011 and 2010, there were no shares of Limited Vote Common Stock converted to or exchanged for common stock.

***Treasury Stock***

Pursuant to the stock incentive plans described in Note 8, employees may elect to satisfy their tax withholding obligations upon vesting of restricted stock by having Quanta make such tax payments and withhold a number of vested shares having a value on the date of vesting equal to their tax withholding obligation. As a result of such employee elections, Quanta withheld 271,482 and 208,261 shares of Quanta common stock during three months ended March 31, 2011 and 2010, with a total market value of \$6.0 million and \$4.0 million, in each case for settlement of employee tax liabilities. These shares were accounted for as treasury stock. Under Delaware corporate law, treasury stock is not entitled to vote or be counted for quorum purposes.

***Noncontrolling Interests***

Quanta has an investment in a joint venture that provides infrastructure services, including the design, installation and maintenance of electric transmission and distribution systems in the northeast United States, under a contract awarded by a large utility customer. The joint venture members each own equal equity interests in the joint venture. Quanta has determined that the joint venture is a variable interest entity, with Quanta providing the majority of the subcontractor services to the joint venture, which management believes most significantly influences the economic performance of the joint venture. As a result, Quanta has determined that it is the primary beneficiary of the joint venture and has accounted for the results of the joint venture on a consolidated basis. The other party's equity interest in the joint venture has been accounted for as a noncontrolling interest in the accompanying condensed consolidated financial statements. Additionally, Quanta holds investments in other individually insignificant joint ventures that constitute variable interest entities and are also included on a consolidated basis in the accompanying financial statements. Income attributable to joint venture members has been accounted for as a reduction of reported net income (loss) attributable to common stock for the quarters ended March 31, 2011 and 2010 in the amount of \$1.3 million and \$0.4 million. Equity in the consolidated assets and liabilities of the joint ventures attributable to the other joint venture members has been accounted for as a noncontrolling interest component of total equity in the accompanying balance sheets.

The carrying value of the investments held by Quanta in all of its variable interest entities was approximately \$2.7 million and \$1.4 million at March 31, 2011 and December 31, 2010. The carrying value of the investment held by the noncontrolling interests in these variable interest entities at March 31, 2011 and December 31, 2010 was \$2.7 million and \$1.4 million. There were no changes in equity as a result of transfers to/from the noncontrolling interests during the period. See Note 9 for further disclosures related to Quanta's joint venture arrangements.



## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Comprehensive Income (Loss)*

Quanta's foreign operations are translated into U.S. dollars, and a translation adjustment is recorded in other comprehensive income (loss), net of tax, as a result. Additionally, unrealized gains and losses from certain hedging activities are recorded in other comprehensive income (loss), net of tax. The following table presents the components of comprehensive income (loss) for the periods presented (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Net income (loss)  | \$ (16,305)                             | \$ 24,100   |
| Foreign currency translation adjustment, net of tax                        | 11,178                                  | 3,253       |
| Change in unrealized loss on foreign currency cash flow hedges, net of tax |   | (131)       |
| Comprehensive income (loss)  | (5,127)                                 | 27,222      |
| Less: Comprehensive income attributable to the noncontrolling interests    | 1,289                                   | 356         |
| Comprehensive income (loss) attributable to common stock                   | \$ (6,416)                              | \$ 26,866   |

**8. LONG-TERM INCENTIVE PLANS:***Stock Incentive Plans*

Pursuant to the Quanta Services, Inc. 2007 Stock Incentive Plan (the 2007 Plan), which was adopted on May 24, 2007, Quanta may award restricted common stock, incentive stock options and non-qualified stock options. The purpose of the 2007 Plan is to provide directors, key employees, officers and certain consultants and advisors with additional performance incentives by increasing their proprietary interest in Quanta. Awards also remain outstanding under a prior plan adopted by Quanta, as well as under plans assumed by Quanta in connection with its acquisition of InfraSource Services, Inc. in 2007. While no further awards may be made under these plans, the awards outstanding under the plans continue to be governed by their terms. These plans, together with the 2007 Plan, are referred to as the Plans.

*Restricted Stock*

Restricted common stock has been issued under the Plans at the fair market value of the common stock as of the date of issuance. The shares of restricted common stock issued are subject to forfeiture, restrictions on transfer and certain other conditions until they vest, which generally occurs over three or four years in equal annual installments. During the restriction period, the restricted stockholders are entitled to vote and receive dividends on such shares.

During the three months ended March 31, 2011 and 2010, Quanta granted 0.8 million and 1.1 million shares of restricted stock under the 2007 Plan with a weighted average grant price of \$22.34 and \$19.11. During the three months ended March 31, 2011 and 2010, 0.8 million and 0.6 million shares vested with an approximate fair value at

the time of vesting of \$19.0 million and \$11.9 million.

As of March 31, 2011, there was approximately \$32.5 million of total unrecognized compensation cost related to unvested restricted stock granted to both employees and non-employees. This cost is expected to be recognized over a weighted average period of 2.18 years.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Non-Cash Compensation Expense and Related Tax Benefits***

The amounts of non-cash compensation expense and related tax benefits, as well as the amount of actual tax benefits related to vested restricted stock and options exercised are as follows (in thousands):

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                             | <b>2010</b> |
| Non-cash compensation expense related to restricted stock                               | \$ 5,541                                | \$ 5,821    |
| Non-cash compensation expense related to stock options                                  |   | 181         |
| Total stock-based compensation included in selling, general and administrative expenses | \$ 5,541                                | \$ 6,002    |
| Actual tax benefit (expense) from vested restricted stock                               | \$ (1,876)                              | \$ (1,937)  |
| Actual tax benefit (expense) from options exercised                                     | (90)                                    | (32)        |
| Actual tax benefit (expense) related to stock-based compensation expense                | (1,966)                                 | (1,969)     |
| Income tax benefit related to non-cash compensation expense                             | 2,161                                   | 2,341       |
| Total tax benefit related to stock-based compensation expense                           | \$ 195                                  | \$ 372      |

***Restricted Stock Units***

In 2010, Quanta adopted the Restricted Stock Unit Plan (the RSU Plan), pursuant to which restricted stock unit awards (RSUs) may be made to certain employees and consultants of Quanta's Canadian operations. The RSU Plan is intended to provide plan participants with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta by providing the participants with rights to receive a cash bonus that is determined by reference to Quanta's common stock price. The number of RSUs granted to a plan participant is determined based on the dollar amount of the grant and the closing price on the date of grant of a share of Quanta common stock. The RSUs vest over a designated period, typically three years, and are subject to forfeiture under certain conditions, primarily termination of service. Upon vesting, the plan participant receives a cash bonus (converted to Canadian dollars using a specified exchange rate as set forth in the RSU agreement) equal to the number of RSUs vested multiplied by Quanta's common stock price on the vesting date.

Compensation expense related to RSUs was \$0.3 million and \$0.0 million for the three months ended March 31, 2011 and 2010. Such expense is recorded in selling, general and administrative expenses. As the RSUs are settled only in cash, they are not included in the calculation of earnings per share and the estimated earned value of the RSUs are classified as liabilities. Liabilities recorded under the RSUs were \$0.4 million and \$0.2 million at March 31, 2011 and December 31, 2010.

**9. COMMITMENTS AND CONTINGENCIES:**

*Joint Venture Contingencies*

As described in Note 7, one of Quanta's operating units operates in a joint venture with a third party engineering company for the purpose of providing infrastructure services under a contract with a large utility customer. Losses incurred by the joint venture are typically shared equally by the joint venture members. However, under the terms of the joint venture agreement, each member of the joint venture has guaranteed all of the obligations of the joint venture under the contract with the customer and therefore can be liable for full performance of the contract to the customer. Quanta is not aware of circumstances that would lead to future claims against it for material amounts in connection with this performance guarantee.

One of Quanta's operating units operates under the terms of a contractual joint venture that provides joint engineering and construction services for the design and installation of fuel storage facilities under a contract with a

**QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

specific customer. The joint venture is a general partnership, and the joint venture partners each own an equal equity interest in the joint venture and participate equally in the profits and losses of the entity. Quanta has determined that its investment in this joint venture partnership represents an undivided 50% interest in the assets, liabilities, revenues and profits of the joint venture, and such amounts have been proportionally consolidated in the accompanying financial statements. As a general partnership, the joint venture partners are jointly and severally liable for all of the obligations of the joint venture, including obligations owed to the customer or any other person or entity. Quanta is not aware of circumstances that would lead to future claims against it for material amounts in connection with its joint and several liabilities.

In each of the above joint venture arrangements, each joint venturer has indemnified the other party for any liabilities incurred in excess of the liabilities for which such other party is obligated to bear under the respective joint venture agreement. It is possible, however, that Quanta could be required to pay or perform obligations in excess of its share if the other joint venturer failed or refused to pay or perform its share of the obligations. Quanta is not aware of circumstances that would lead to future claims against it for material amounts that would not be indemnified.

***Leases***

Quanta leases certain land, buildings and equipment under non-cancelable lease agreements, including related party leases. The terms of these agreements vary from lease to lease, including some with renewal options and escalation clauses. The following schedule shows the future minimum lease payments under these leases as of March 31, 2011 (in thousands):

|                              | <b>Operating<br/>Leases</b> |
|------------------------------|-----------------------------|
| Year Ending December 31      |                             |
| Remainder of 2011            | \$ 33,611                   |
| 2012                         | 31,161                      |
| 2013                         | 23,036                      |
| 2014                         | 13,082                      |
| 2015                         | 8,737                       |
| Thereafter                   | 25,019                      |
| Total minimum lease payments | \$ 134,646                  |

Rent expense related to operating leases was approximately \$26.1 million and \$26.8 million for the three months ended March 31, 2011 and 2010.

Quanta has guaranteed the residual value on certain of its equipment operating leases. Quanta guarantees the difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At March 31, 2011, the maximum guaranteed residual value was approximately \$116.4 million. Quanta believes that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that significant payments

will not be required in the future.

***Committed Capital Expenditures***

Quanta has committed capital for expansion of its fiber optic network. Quanta typically does not commit capital to new network expansions until it has a committed licensing arrangement in place with at least one customer. The amounts of committed capital expenditures are estimates of costs required to build the networks under contract. The actual capital expenditures related to building the networks could vary materially from these



**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

estimates. As of March 31, 2011, Quanta estimates these committed capital expenditures to be approximately \$24.0 million for the period April 1, 2011 through December 31, 2011 and \$4.3 million thereafter.

***Litigation and Claims***

Quanta is from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, Quanta records a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, Quanta discloses matters for which management believes a material loss is at least reasonably possible. Except as otherwise stated below, none of these proceedings, separately or in the aggregate, are expected to have a material adverse effect on Quanta's consolidated financial position, results of operations or cash flows. In all instances, management has assessed the matter based on current information and made a judgment concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of damages sought and the probability of success. Management's judgment may prove materially inaccurate, and such judgment is made subject to the known uncertainty of litigation.

*California Fire Litigation - San Diego County.* On June 18, 2010, PAR Electrical Contractors, Inc., a wholly owned subsidiary of Quanta (PAR), was named as a third party defendant in four lawsuits in California state court in San Diego County, California, all of which arise out of a wildfire in the San Diego area that started on October 21, 2007 referred to as the Witch Creek fire. The California Department of Forestry and Fire Protection issued a report concluding that the Witch Creek fire was started when the conductors of a three phase 69kV transmission line, known as TL 637, owned by San Diego Gas & Electric (SDG&E) touched each other, dropping sparks on dry grass. The Witch Creek fire, together with another wildfire referred to as the Guejito fire that merged with the Witch Creek fire, burned a reported 198,000 acres, over 1,500 homes and structures and is alleged to have caused 2 deaths and numerous personal injuries.

Numerous additional lawsuits were filed directly against SDG&E and its parent company, Sempra, claiming SDG&E's power lines caused the fire. The court ordered that the claims be organized into the four lawsuits mentioned above and grouped the matters by type of plaintiff, namely, insurance subrogation claimants, individual/business claimants, governmental claimants, and a class action matter, for which class certification has since been denied. PAR is not named as a defendant in any of these lawsuits against SDG&E or its parent. SDG&E has reportedly settled many of the claims. On June 18, 2010, SDG&E joined PAR to the four lawsuits as a third party defendant seeking contractual and equitable indemnification for losses related to the Witch Creek fire, although a claim for specific damages has not been made. SDG&E's claims for indemnity relate to work done by PAR involving the replacement of one pole on TL 637 about four months prior to the Witch Creek fire. Quanta does not believe that the work done by PAR was the cause of the contact between the conductors. However, PAR has notified its various insurers of the claims. One insurer is participating in the defense of the matter, while others have reserved their rights to contest coverage, not stated their position or denied coverage. One insurer filed a lawsuit in the U.S. District Court for the Southern District of Texas, Houston Division on April 15, 2011 seeking a declaratory judgment that coverage does not exist. PAR is vigorously defending the third party claims and continues to work with the insurers to ensure coverage of any potential liabilities. An amount equal to the deductibles under Quanta's applicable insurance policies has been expensed, and a liability and corresponding insurance recovery receivable of \$35 million have been recorded in connection with these matters. Given PAR's defenses to the indemnity claims, as well as the potential for insurance

coverage, Quanta cannot estimate the amount of any possible loss or the range of possible losses that may exceed Quanta's applicable insurance coverage. However, due to the nature of these claims, an adverse result in these proceedings leading to a significant uninsured loss could have a material adverse effect on Quanta's consolidated financial condition, results of operations and cash flows.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*California Fire Claim Amador County.* In October 2004, a wildfire in Amador County, California, burned 16,800 acres. The United States Forest Service alleged that the fire originated as a result of the activities of a Quanta subsidiary crew performing vegetation management under a contract with Pacific Gas & Electric Co. (PG&E). In November 2007, the United States Department of Agriculture (USDA) sent a written demand to the Quanta subsidiary for payment of fire suppression costs of approximately \$8.5 million. The USDA recently communicated verbally that it also intends to seek past and future restoration and other damages of approximately \$51.3 million. No litigation has been filed. PG&E tendered defense and indemnification for the matter to Quanta in 2010. The USDA, Quanta, its subsidiary and PG&E have entered into a tolling agreement with respect to the filing of any litigation and are exchanging information on an informal basis.

Quanta and its subsidiary intend to vigorously defend against any liability and damage allegations. Quanta has notified its insurers, and one insurer is participating under a reservation of rights. Other insurers in that policy year have not stated a position regarding coverage. Quanta has recorded a liability and corresponding insurance recovery receivable of approximately \$8.5 million associated with this matter. Given Quanta's intent to vigorously defend against the allegations and the potential for insurance coverage, Quanta cannot estimate the amount of any loss or the range of any possible losses that might exceed its insurance coverage. However, due to the nature of these claims, an adverse result leading to a significant uninsured loss could have a material adverse effect on Quanta's consolidated financial condition, results of operation and cash flows.

***Concentration of Credit Risk***

Quanta is subject to concentrations of credit risk related primarily to its cash and cash equivalents and accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of Quanta's cash investments are managed by what it believes to be high credit quality financial institutions. In accordance with Quanta's investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what Quanta believes to be high quality investments, which consist primarily of interest-bearing demand deposits, money market mutual funds and investment grade commercial paper with original maturities of three months or less. Although Quanta does not currently believe the principal amount of these investments is subject to any material risk of loss, the weakness in the economy has significantly impacted the interest income Quanta receives from these investments and is likely to continue to do so in the future. In addition, Quanta grants credit under normal payment terms, generally without collateral, to its customers, which include electric power, natural gas and pipeline companies, telecommunications service providers, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States and Canada. Consequently, Quanta is subject to potential credit risk related to changes in business and economic factors throughout the United States and Canada, which may be heightened as a result of depressed economic and financial market conditions that have existed over the past two years. However, Quanta generally has certain statutory lien rights with respect to services provided. Under certain circumstances, such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. In such circumstances, extended time frames may be required to liquidate these assets, causing the amounts realized to differ from the value of the assumed receivable. Historically, some of Quanta's customers have experienced significant financial difficulties, and others may experience financial difficulties in the future. These difficulties expose Quanta to increased risk related to collectability of billed and unbilled receivables and costs and estimated earnings in excess of billings on uncompleted contracts for services Quanta has performed. At December 31, 2010, one customer accounted for approximately 12% of billed and unbilled receivables. Revenues from this customer are included in the Natural Gas and Pipeline Infrastructure Services segment. No customers

represented 10% or more of accounts receivable as of March 31, 2011, and no customers represented 10% or more of revenues for the three months ended March 31, 2011 or 2010.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Self-Insurance***

Quanta is insured for employer's liability, general liability, auto liability and workers' compensation claims. Since August 1, 2009, all policy deductible levels are \$5.0 million per occurrence, other than employer's liability, which is subject to a deductible of \$1.0 million. Quanta also has employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$350,000 per claimant per year. For the policy year ended July 31, 2009, employer's liability claims were subject to a deductible of \$1.0 million per occurrence, general liability and auto liability claims were subject to a deductible of \$3.0 million per occurrence, and workers' compensation claims were subject to a deductible of \$2.0 million per occurrence. Additionally, for the policy year ended July 31, 2009, Quanta's workers' compensation claims were subject to an annual cumulative aggregate deductible of \$1.0 million on claims in excess of \$2.0 million per occurrence.

Losses under all of these insurance programs are accrued based upon Quanta's estimates of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries. These insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the extent of damage, the determination of Quanta's liability in proportion to other parties and the number of incidents not reported. The accruals are based upon known facts and historical trends, and management believes such accruals are adequate. As of March 31, 2011 and December 31, 2010, the gross amount accrued for insurance claims totaled \$218.6 million and \$216.8 million, with \$164.8 million and \$164.3 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of March 31, 2011 and December 31, 2010 were \$64.9 million and \$66.3 million, of which \$10.4 million and \$9.4 million are included in prepaid expenses and other current assets and \$54.5 million and \$56.9 million are included in other assets, net.

Quanta renews its insurance policies on an annual basis, and therefore deductibles and levels of insurance coverage may change in future periods. In addition, insurers may cancel Quanta's coverage or determine to exclude certain items from coverage, or the cost to obtain such coverage may become unreasonable. In any such event, Quanta's overall risk exposure would increase, which could negatively affect its results of operations and financial condition.

***Letters of Credit***

Certain of Quanta's vendors require letters of credit to ensure reimbursement for amounts they are disbursing on its behalf, such as to beneficiaries under its self-funded insurance programs. In addition, from time to time some customers require Quanta to post letters of credit to ensure payment to its subcontractors and vendors under those contracts and to guarantee performance under its contracts. Such letters of credit are generally issued by a bank or similar financial institution. The letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that Quanta has failed to perform specified actions. If this were to occur, Quanta would be required to reimburse the issuer of the letter of credit. Depending on the circumstances of such a reimbursement, Quanta may also have to record a charge to earnings for the reimbursement. Quanta does not believe that it is likely that any material claims will be made under a letter of credit in the foreseeable future.

As of March 31, 2011, Quanta had \$187.9 million in letters of credit outstanding under its credit facility primarily to secure obligations under its casualty insurance program. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2011 and 2012. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods. Quanta also had approximately

\$5.6 million in letters of credit outstanding under cash-collateralized letter of credit arrangements in addition to the amounts outstanding under the credit facility.

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Performance Bonds and Parent Guarantees***

In certain circumstances, Quanta is required to provide performance bonds in connection with its contractual commitments. Quanta has indemnified its sureties for any expenses paid out under these performance bonds. As of March 31, 2011, the total amount of outstanding performance bonds was approximately \$1.4 billion, and the estimated cost to complete these bonded projects was approximately \$700.5 million.

Quanta, from time to time, guarantees the obligations of its wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease obligations, certain joint venture arrangements and, in some states, obligations in connection with obtaining contractors' licenses. Quanta also guarantees the obligations of its wholly owned subsidiary that is a party to the joint venture arrangement with a third party engineering company.

***Employment Agreements***

Quanta has various employment agreements with certain executives and other employees, which provide for compensation and certain other benefits and for severance payments under certain circumstances. Certain employment agreements also contain clauses that become effective upon a change of control of Quanta. Upon the occurrence of any of the defined events in the various employment agreements, Quanta will pay certain amounts to the employee, which vary with the level of the employee's responsibility.

***Collective Bargaining Agreements***

Certain of Quanta's operating units are parties to various collective bargaining agreements with certain of their employees. The agreements require such subsidiaries to pay specified wages, provide certain benefits to their union employees and contribute certain amounts to multi-employer pension plans and employee benefit trusts. Quanta's multi-employer pension plan contribution rates are determined annually and assessed on a "pay-as-you-go" basis based on its union employee payrolls, which cannot be determined for future periods because the location and number of union employees that Quanta employs at any given time and the plans in which they may participate vary depending on projects Quanta has ongoing at any time and the need for union resources in connection with those projects. The collective bargaining agreements expire at various times and have typically been renegotiated and renewed on terms similar to those in the expiring agreements.

The Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multi-employer plan in the event of the employer's withdrawal from, or upon termination of, such plan. None of Quanta's operating units have any current plans to withdraw from these plans. In addition, the Pension Protection Act of 2006 added new funding rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as "endangered," "seriously endangered," or "critical" status. For a plan in critical status, additional required contributions and benefit reductions may apply. A number of plans to which Quanta operating units contribute or may contribute in the future are in "critical" status. Certain of these plans may require additional contributions, generally in the form of a surcharge on future benefit contributions required for future work performed by union employees covered by the plans. The amount of additional funds, if any, that Quanta may be obligated to contribute to these plans in the future cannot be estimated, as such amounts will likely be based on future work that requires the specific use of the union employees covered by these plans, and the amount of that future work and the number of affected employees that may

be needed cannot be estimated.

***Indemnities***

Quanta has indemnified various parties against specified liabilities that those parties might incur in the future in connection with Quanta's previous acquisitions of certain companies. The indemnities under acquisition agreements usually are contingent upon the other party incurring liabilities that reach specified thresholds. Quanta also generally indemnifies its customers for the services it provides under its contracts, as well as other specified liabilities, which may subject Quanta to indemnity claims and liabilities and related litigation. As of March 31,



**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2011, except as otherwise set forth above in *Litigation and Claims*, Quanta does not believe any material liabilities for asserted claims exist in connection with any of these indemnity obligations.

**10. SEGMENT INFORMATION:**

Quanta presents its operations under four reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services, (3) Telecommunications Infrastructure Services and (4) Fiber Optic Licensing. This structure is generally focused on broad end-user markets for Quanta's services. See Note 1 for additional information regarding reportable segments.

Quanta's segment results are derived from the types of services provided across its operating units in each of the end user markets described above. Quanta's entrepreneurial business model allows each of its operating units to serve the same or similar customers and to provide a range of services across end user markets. Quanta's operating units are organized into one of three internal divisions, namely, the electric power division, natural gas and pipeline division and telecommunications division. These internal divisions are closely aligned with the reportable segments described above based on their operating units' predominant type of work, with the operating units providing predominantly telecommunications and fiber optic licensing services being managed within the same internal division.

Reportable segment information, including revenues and operating income by type of work, is gathered from each operating unit for the purpose of evaluating segment performance in support of Quanta's market strategies. These classifications of Quanta's operating unit revenues by type of work for segment reporting purposes can at times require judgment on the part of management. Quanta's operating units may perform joint infrastructure service projects for customers in multiple industries, deliver multiple types of network services under a single customer contract or provide service across industries, for example, joint trenching projects to install distribution lines for electric power, natural gas and telecommunications customers.

In addition, Quanta's integrated operations and common administrative support at each of its operating units requires that certain allocations, including allocations of shared and indirect costs, such as facility costs, indirect operating expenses including depreciation, and general and administrative costs, are made to determine operating segment profitability. Corporate costs, such as payroll and benefits, employee travel expenses, facility costs, professional fees, acquisition costs and amortization related to certain intangible assets are not allocated.

Summarized financial information for Quanta's reportable segments is presented in the following tables (in thousands):

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2011</b>               | <b>2010</b> |
| <b>Revenues from external customers:</b> |                           |             |
| Electric Power                           | \$ 566,461                | \$ 456,821  |
| Natural Gas and Pipeline                 | 176,823                   | 188,934     |
| Telecommunications                       | 79,393                    | 78,226      |
| Fiber Optic Licensing                    | 26,282                    | 24,302      |

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|                                   |             |            |
|-----------------------------------|-------------|------------|
| Consolidated                      | \$ 848,959  | \$ 748,283 |
| <b>Operating income (loss):</b>   |             |            |
| Electric Power                    | \$ 31,318   | \$ 39,817  |
| Natural Gas and Pipeline          | (36,993)    | 18,374     |
| Telecommunications                | (3,612)     | (800)      |
| Fiber Optic Licensing             | 12,035      | 12,119     |
| Corporate and non-allocated costs | (29,664)    | (27,220)   |
| Consolidated                      | \$ (26,916) | \$ 42,290  |

## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|                                   | <b>Three Months Ended<br/>March 31,</b> |             |
|-----------------------------------|---|-------------|
|                                   | <b>2011</b>                             | <b>2010</b> |
| <b>Depreciation:</b>              |   |             |
| Electric Power                    | \$ 12,434                               | \$ 9,901    |
| Natural Gas and Pipeline          | 9,875                                   | 11,176      |
| Telecommunications                | 1,398                                   | 1,706       |
| Fiber Optic Licensing             | 3,418                                   | 3,038       |
| Corporate and non-allocated costs | 1,071                                   | 763         |
| Consolidated                      | \$ 28,196                               | \$ 26,584   |

Separate measures of Quanta's assets and cash flows by reportable segment, including capital expenditures, are not produced or utilized by management to evaluate segment performance. Quanta's fixed assets which are held at the operating unit level, including operating machinery, equipment and vehicles, as well as office equipment, buildings and leasehold improvements, are used on an interchangeable basis across its reportable segments. As such, for reporting purposes, each quarter total depreciation expense is allocated amongst Quanta's reportable segments based upon the ratio of each reportable segment's revenue contribution to consolidated revenues.

***Foreign Operations***

During the three months ended March 31, 2011 and 2010, Quanta derived \$109.3 million and \$47.4 million of its revenues from foreign operations, the majority of which was earned in Canada. In addition, Quanta held property and equipment of \$95.8 million and \$94.0 million in foreign countries as of March 31, 2011 and December 31, 2010.

**11. SUBSEQUENT EVENT:**

On May 3, 2011, Quanta's Board of Directors approved a stock repurchase program authorizing Quanta to purchase, from time to time, up to \$100.0 million of its outstanding common stock. These repurchases may be made in open market transactions, in privately negotiated transactions, including block purchases, or otherwise, at management's discretion based on market and business conditions, applicable legal requirements and other factors. This program, which will be effective on May 9, 2011, does not obligate Quanta to acquire any specific amount of common stock and will continue until otherwise modified or terminated by Quanta's Board of Directors at any time at its sole discretion and without notice. The stock repurchase program will be funded with cash on hand.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the Securities and Exchange Commission (SEC) on March 1, 2011 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on our website, which is [www.quantaservices.com](http://www.quantaservices.com). The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified under the headings "Uncertainty of Forward-Looking Statements and Information" below in this Item 2 and "Risk Factors" in Item 1A of Part II of this Quarterly Report.

**Introduction**

We are a leading national provider of specialty contracting services, offering infrastructure solutions to the electric power, natural gas and oil pipeline and telecommunications industries. The services we provide include the design, installation, upgrade, repair and maintenance of infrastructure within each of the industries we serve, such as electric power transmission and distribution networks, substation facilities, renewable energy facilities, natural gas and oil transmission and distribution systems and telecommunications networks used for video, data and voice transmission. We also design, procure, construct and maintain fiber optic telecommunications infrastructure in select markets and license the right to use these point-to-point fiber optic telecommunications facilities to customers.

We report our results under four reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services, (3) Telecommunications Infrastructure Services and (4) Fiber Optic Licensing. These reportable segments are based on the types of services we provide. Our consolidated revenues for the quarter ended March 31, 2011 were approximately \$849.0 million, of which 67% was attributable to the Electric Power Infrastructure Services segment, 21% to the Natural Gas and Pipeline Infrastructure Services segment, 9% to the Telecommunications Infrastructure Services segment and 3% to the Fiber Optic Licensing segment.

Our customers include many of the leading companies in the industries we serve. We have developed strong strategic alliances with numerous customers and strive to develop and maintain our status as a preferred vendor to our customers. We enter into various types of contracts, including competitive unit price, hourly rate, cost-plus (or time and materials basis), and fixed price (or lump sum basis), the final terms and prices of which we frequently negotiate with the customer. Although the terms of our contracts vary considerably, most are made on either a unit price or fixed price basis in which we agree to do the work for a price per unit of work performed (unit price) or for a fixed amount for the entire project (fixed price). We complete a substantial majority of our fixed price projects within one year, while we frequently provide maintenance and repair work under open-ended unit price or cost-plus master service agreements that are renewable periodically.

We recognize revenue on our unit price and cost-plus contracts when units are completed or services are performed. For our fixed price contracts, we record revenues as work on the contract progresses on a percentage-of-completion basis. Under this method, revenue is recognized based on the percentage of total costs incurred to date in proportion to total estimated costs to complete the contract. Fixed price contracts generally include retainage provisions under which a percentage of the contract price is withheld until the project is complete and has been accepted by our customer.

For internal management purposes, we are organized into three internal divisions, namely, the electric power division, the natural gas and pipeline division and the telecommunications division. These internal divisions are closely aligned with the reportable segments described above based on the predominant type of work provided by the operating units

within a division. The operating units providing predominantly telecommunications and fiber optic licensing services are managed within the same internal division.

Reportable segment information, including revenues and operating income by type of work, is gathered from each operating unit for the purpose of evaluating segment performance in support of our market strategies. These

classifications of our operating unit revenues by type of work for segment reporting purposes can at times require judgment on the part of management. Our operating units may perform joint infrastructure service projects for customers in multiple industries, deliver multiple types of network services under a single customer contract or provide services across industries, for example, joint trenching projects to install distribution lines for electric power, natural gas and telecommunication customers. Our integrated operations and common administrative support at each of our operating units require that certain allocations, including allocations of shared and indirect costs, such as facility costs, indirect operating expenses including depreciation and general and administrative costs, are made to determine operating segment profitability. Corporate costs, such as payroll and benefits, employee travel expenses, facility costs, professional fees, acquisition costs and amortization related to certain intangible costs are not allocated.

The Electric Power Infrastructure Services segment provides comprehensive network solutions to customers in the electric power industry. Services performed by the Electric Power Infrastructure Services segment generally include the design, installation, upgrade, repair and maintenance of electric power transmission and distribution networks and substation facilities along with other engineering and technical services. This segment also provides emergency restoration services, including repairing infrastructure damaged by inclement weather, the energized installation, maintenance and upgrade of electric power infrastructure utilizing unique bare hand and hot stick methods and our proprietary robotic arm technologies, and the installation of smart grid technologies on electric power networks. In addition, this segment designs, installs and maintains renewable energy generation facilities, in particular solar and wind, and related switchyards and transmission networks. To a lesser extent, this segment provides services such as the design, installation, maintenance and repair of commercial and industrial wiring, installation of traffic networks and the installation of cable and control systems for light rail lines.

The Natural Gas and Pipeline Infrastructure Services segment provides comprehensive network solutions to customers involved in the transportation of natural gas, oil and other pipeline products. Services performed by the Natural Gas and Pipeline Infrastructure Services segment generally include the design, installation, repair and maintenance of natural gas and oil transmission and distribution systems, compressor and pump stations and gas gathering systems, as well as related trenching, directional boring and automatic welding services. In addition, this segment's services include pipeline protection, pipeline integrity and rehabilitation and fabrication of pipeline support systems and related structures and facilities. To a lesser extent, this segment designs, installs and maintains airport fueling systems as well as water and sewer infrastructure.

The Telecommunications Infrastructure Services segment provides comprehensive network solutions to customers in the telecommunications and cable television industries. Services performed by the Telecommunications Infrastructure Services segment generally include the design, installation, repair and maintenance of fiber optic, copper and coaxial cable networks used for video, data and voice transmission, as well as the design, installation and upgrade of wireless communications networks, including towers, switching systems and backhaul links from wireless systems to voice, data and video networks. This segment also provides emergency restoration services, including repairing telecommunications infrastructure damaged by inclement weather. To a lesser extent, services provided under this segment include cable locating, splicing and testing of fiber optic networks and residential installation of fiber optic cabling.

The Fiber Optic Licensing segment designs, procures, constructs and maintains fiber optic telecommunications infrastructure in select markets and licenses the right to use these point-to-point fiber optic telecommunications facilities to our customers pursuant to licensing agreements, typically with licensing terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber optic facility, with the facility owned and maintained by us. The Fiber Optic Licensing segment provides services to enterprise, education, carrier, financial services and healthcare customers, as well as other entities with high bandwidth telecommunication needs. The telecommunication services provided through this segment are subject to regulation by the Federal Communications Commission and certain state public utility

commissions.

## Recent Acquisition

On October 25, 2010, we acquired Valard Construction LP and certain of its affiliated entities (Valard), an electric power infrastructure services company based in Alberta, Canada. This acquisition allows us to further expand our electric power infrastructure capabilities and scope of services in Canada. Because of the type of work performed by Valard, its financial results are generally included in the Electric Power Infrastructure Services segment. The results of Valard have been included in our consolidated financial statements beginning on October 25, 2010.

## Backlog

Backlog represents the amount of revenue that we expect to realize from work to be performed in the future on uncompleted contracts, including new contractual agreements on which work has not begun. The backlog estimates include amounts under long-term maintenance contracts in addition to construction contracts. We determine the amount of backlog for work under long-term maintenance contracts, or master service agreements (MSAs), by using recurring historical trends inherent in the current MSAs, factoring in seasonal demand and projected customer needs based upon ongoing communications with the customer. The following tables present our total backlog by reportable segment as of March 31, 2011 and December 31, 2010, along with an estimate of the backlog amounts expected to be realized within 12 months of each balance sheet date (in thousands):

|  | Backlog as of<br>March 31, 2011 |              | Backlog as of<br>December 31, 2010 |              |
|--|---------------------------------|--------------|------------------------------------|--------------|
|  | 12 Month                        | Total        | 12 Month                           | Total        |
| Electric Power Infrastructure Services           | \$ 1,883,151                    | \$ 4,344,347 | \$ 1,798,284                       | \$ 4,473,425 |
| Natural Gas and Pipeline Infrastructure Services | 668,664                         | 1,257,073    | 743,970                            | 1,026,937    |
| Telecommunications Infrastructure Services       | 310,336                         | 533,518      | 228,549                            | 415,460      |
| Fiber Optic Licensing                            | 95,228                          | 425,774      | 98,792                             | 402,299      |
| Total  | \$ 2,957,379                    | \$ 6,560,712 | \$ 2,869,595                       | \$ 6,318,121 |

As discussed above, our backlog estimates include amounts under MSAs. Generally, our customers are not contractually committed to specific volumes of services under our MSAs, and many of our contracts may be terminated with notice. There can be no assurance as to our customers' requirements or that our estimates are accurate. In addition, many of our MSAs, as well as contracts for fiber optic licensing, are subject to renewal options. For purposes of calculating backlog, we have included future renewal options only to the extent the renewals can reasonably be expected to occur. Projects included in backlog can be subject to delays as a result of commercial issues, regulatory requirements, adverse weather and other factors, which could cause revenue amounts to be realized in periods later than originally expected.

## Seasonality; Fluctuations of Results; Economic Conditions

Our revenues and results of operations can be subject to seasonal and other variations. These variations are influenced by weather, customer spending patterns, bidding seasons, project timing and schedules, and holidays. Typically, our revenues are lowest in the first quarter of the year because cold, snowy or wet conditions cause delays on projects. The second quarter is typically better than the first, as some projects begin, but continued cold and wet weather can often impact second quarter productivity. The third quarter is typically the best of the year, as a greater number of projects are underway and weather is more accommodating to work on projects. Generally, revenues during the fourth quarter



of the year are lower than the third quarter but higher than the second quarter. Many projects are completed in the fourth quarter, and revenues are often impacted positively by customers seeking to spend their capital budgets before the end of the year; however, the holiday season and inclement weather sometimes can cause delays, reducing revenues and increasing costs. Any quarter may be positively or negatively affected by atypical weather patterns in a given part of the country, such as severe weather, excessive rainfall or warmer winter weather, making it difficult to predict these variations and their effect on particular projects quarter-to-quarter.

Additionally, our industry can be highly cyclical. As a result, our volume of business may be adversely affected by declines or delays in new projects in various geographic regions in the United States and Canada. Project schedules, in particular in connection with larger, longer-term projects, can also create fluctuations in the services provided, which may adversely affect us in a given period. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular period, regional, national and global economic and market conditions, timing of acquisitions, the timing and magnitude of acquisition and integration costs associated with acquisitions and interest rate fluctuations may also materially affect quarterly results. Accordingly, our operating results in any particular period may not be indicative of the results that can be expected for any other period.

We and our customers continue to operate in a challenging business environment, with increasing regulatory requirements and only gradual recovery in the economy and capital markets from recessionary levels. We are closely monitoring our customers and the effect that changes in economic and market conditions have had or may have on them. Certain of our customers have reduced spending since late 2008, which we attribute to negative economic and market conditions, and we anticipate that these negative conditions may continue to affect demand for some of our services in the near-term. However, we believe that most of our customers, many of whom are regulated utilities, remain financially stable in general and will be able to continue with their business plans in the long-term. You should read *Outlook and Understanding Margins* for additional discussion of trends and challenges that may affect our financial condition, results of operations and cash flows.

### **Understanding Margins**

Our gross margin is gross profit expressed as a percentage of revenues, and our operating margin is operating income expressed as a percentage of revenues. Cost of services, which is subtracted from revenues to obtain gross profit, consists primarily of salaries, wages and benefits to employees, depreciation, fuel and other equipment expenses, equipment rentals, subcontracted services, insurance, facilities expenses, materials and parts and supplies. Selling, general and administrative expenses and amortization of intangible assets are then subtracted from gross profit to obtain operating income. Various factors – some controllable, some not – impact our margins on a quarterly or annual basis.

*Seasonal and Geographical.* As discussed above, seasonal patterns can have a significant impact on margins. Generally, business is slower in the winter months versus the warmer months of the year. This can be offset somewhat by increased demand for electrical service and repair work resulting from severe weather. Additionally, project schedules, including when projects begin and when they are completed, may impact margins. The mix of business conducted in different parts of the country will affect margins, as some parts of the country offer the opportunity for higher margins than others due to the geographic characteristics associated with the physical location where the work is being performed. Such characteristics include whether the project is performed in an urban versus a rural setting or in a mountainous area or in open terrain. Site conditions, including unforeseen underground conditions, can also impact margins.

*Weather.* Adverse or favorable weather conditions can impact margins in a given period. For example, snow or rainfall in the areas in which we operate may negatively impact our revenues and margins due to reduced productivity, as projects may be delayed or temporarily placed on hold until weather conditions improve. Conversely, in periods when weather remains dry and temperatures are accommodating, more work can be done, sometimes with less cost, which would have a favorable impact on margins. In some cases, severe weather, such as hurricanes and ice storms, can provide us with higher margin emergency restoration service work, which generally has a positive impact on margins.

*Revenue Mix.* The mix of revenues derived from the industries we serve will impact margins, as certain industries provide higher margin opportunities. Additionally, changes in our customers' spending patterns in each of the

industries we serve can cause an imbalance in supply and demand and, therefore, affect margins and mix of revenues by industry served.

*Service and Maintenance versus Installation.* Installation work is often obtained on a fixed price basis, while maintenance work is often performed under pre-established or negotiated prices or cost-plus pricing arrangements. Margins for installation work may vary from project to project, and can be higher than maintenance work, as work

obtained on a fixed price basis has higher risk than other types of pricing arrangements. We typically derive approximately 30% of our annual revenues from maintenance work, but a higher portion of installation work in any given period may affect our margins for that period.

*Subcontract Work.* Work that is subcontracted to other service providers generally yields lower margins. An increase in subcontract work in a given period may contribute to a decrease in margins. We typically subcontract approximately 15% to 20% of our work to other service providers.

*Materials versus Labor.* Typically, our customers are responsible for supplying their own materials on projects; however, for some of our contracts, we may agree to procure all or part of the required materials. Margins may be lower on projects where we furnish a significant amount of materials, as our mark-up on materials is generally lower than on our labor costs. In a given period, an increase in the percentage of work with higher materials procurement requirements may decrease our overall margins.

*Depreciation.* We include depreciation in cost of services. This is common practice in our industry, but it can make comparability to other companies difficult. This must be taken into consideration when comparing us to other companies.

*Insurance.* Margins could be impacted by fluctuations in insurance accruals as additional claims arise and as circumstances and conditions of existing claims change. We are insured for employer's liability, general liability, auto liability and workers' compensation claims. Since August 1, 2009, all policy deductible levels are \$5.0 million per occurrence, other than employer's liability, which is subject to a deductible of \$1.0 million. We also have employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$350,000 per claimant per year. For the policy year ended July 31, 2009, employer's liability claims were subject to a deductible of \$1.0 million per occurrence, general liability and auto liability claims were subject to a deductible of \$3.0 million per occurrence, and workers' compensation claims were subject to a deductible of \$2.0 million per occurrence. Additionally, for the policy year ended July 31, 2009, our workers' compensation claims were subject to an annual cumulative aggregate deductible of \$1.0 million on claims in excess of \$2.0 million per occurrence.

*Performance Risk.* Margins may fluctuate because of the volume of work and the impacts of pricing and job productivity, which can be impacted both favorably and negatively by weather, geography, customer decisions and crew productivity. For example, when comparing a service contract between a current quarter and the comparable prior year's quarter, factors affecting the gross margins associated with the revenues generated by the contract may include pricing under the contract, the volume of work performed under the contract, the mix of the type of work specifically being performed and the productivity of the crews performing the work. Productivity of a crew can be influenced by many factors, including where the work is performed (*e.g.*, rural versus urban area or mountainous or rocky area versus open terrain), whether the work is on an open or encumbered right of way, the impacts of inclement weather or the impacts of regulatory delays. These types of factors are not practicable to quantify through accounting data, but each may have a direct impact on the gross margin of a specific project.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist primarily of compensation and related benefits to management, administrative salaries and benefits, marketing, office rent and utilities, communications, professional fees, bad debt expense, acquisition costs, gains and losses on the sale of property and equipment, letter of credit fees and maintenance, training and conversion costs related to the implementation of an information technology solution.



**Results of Operations**

The following table sets forth selected statements of operations data and such data as a percentage of revenues for the three month periods indicated (dollars in thousands):

**Consolidated Results**

|   | <b>Three Months Ended March 31,</b> |        | <b>2010</b> |        |
|---|-------------------------------------|--------|-------------|--------|
|   | <b>2011</b>                         |        |             |        |
| Revenues  | \$ 848,959                          | 100.0% | \$ 748,283  | 100.0% |
| Cost of services (including depreciation)                 | 778,068                             | 91.6   | 619,141     | 82.7   |
| Gross profit  | 70,891                              | 8.4    | 129,142     | 17.3   |
| Selling, general and administrative expenses              | 91,541                              | 10.8   | 81,004      | 10.8   |
| Amortization of intangible assets                         | 6,266                               | 0.8    | 5,848       | 0.8    |
| Operating income (loss)                                   | (26,916)                            | (3.2)  | 42,290      | 5.7    |
| Interest expense  | (255)                               |        | (2,864)     | (0.4)  |
| Interest income   | 286                                 |        | 369         | 0.0    |
| Other income (expense), net                               | (65)                                |        | 371         | 0.1    |
| Income (loss) before income taxes                         | (26,950)                            | (3.2)  | 40,166      | 5.4    |
| Provision (benefit) for income taxes                      | (10,645)                            | (1.3)  | 16,066      | 2.2    |
| Net income (loss)   | (16,305)                            | (1.9)  | 24,100      | 3.2    |
| Less: Net income attributable to noncontrolling interests | 1,289                               | 0.2    | 356         | 0.0    |
| Net income (loss) attributable to common stock            | \$ (17,594)                         | (2.1)% | \$ 23,744   | 3.2%   |

***Three months ended March 31, 2011 compared to the three months ended March 31, 2010******Consolidated Results***

**Revenues.** Revenues increased \$100.7 million, or 13.5%, to \$849.0 million for the three months ended March 31, 2011. Electric power infrastructure services revenues increased \$109.6 million, or 24.0%, to \$566.5 million, primarily due to the contribution of \$41.6 million in revenues from Valard, which was acquired on October 25, 2010, and higher revenues from solar power generation projects. Partially offsetting these increases were lower revenues from emergency restoration services, which decreased \$36.4 million from the first quarter of 2010, to \$16.5 million in the quarter ended March 31, 2011 and lower revenues from natural gas and pipeline infrastructure services, which decreased \$12.1 million from the first quarter of 2010, or 6.4%, to \$176.8 million in the quarter ended March 31, 2011.

**Gross profit.** Gross profit decreased \$58.3 million, or 45.1%, to \$70.9 million for the three months ended March 31, 2011. As a percentage of revenues, gross margin decreased to 8.4% for the three months ended March 31, 2011 from 17.3% for the three months ended March 31, 2010. These decreases were primarily due to the impact of operating losses incurred by the Natural Gas and Pipeline Infrastructure Services segment as a result of increased costs related to

performance issues on certain gas transmission pipeline projects completed during the first quarter of 2011 that were caused by adverse weather conditions and regulatory restrictions. Also contributing to these decreases were lower margins earned on revenues from electric power infrastructure services primarily due to the lower contribution of revenues from higher margin emergency restoration services in the first quarter of 2011 as compared to the first quarter of 2010.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased \$10.5 million, or 13.0%, to \$91.5 million for the three months ended March 31, 2011. Approximately \$6.3 million of the increase is attributable to higher salary and benefits costs associated with additional personnel and salary increases. Included within this increase is \$1.7 million of severance costs incurred during the quarter associated with the reorganization of certain of our natural gas and pipeline operations. Also contributing to the increase are approximately \$2.1 million in additional administrative expenses associated with Valard which was acquired in the

fourth quarter of 2010 and approximately \$1.0 million in higher legal costs associated with litigation ongoing during the first quarter of 2011. Selling, general and administrative expenses as a percentage of revenues remained consistent at 10.8%.

*Amortization of intangible assets.* Amortization of intangible assets increased \$0.4 million to \$6.3 million for the three months ended March 31, 2011. This increase is primarily due to increased amortization of intangibles resulting from the acquisition of Valard on October 25, 2010, partially offset by reduced amortization expense from previously acquired intangible assets as balances became fully amortized.

*Interest expense.* Interest expense for the three months ended March 31, 2011 decreased \$2.6 million as compared to the three months ended March 31, 2010, primarily due to the redemption of all of our 3.75% convertible subordinated notes due 2026 (3.75% Notes) on May 14, 2010.

*Interest income.* Interest income was \$0.3 million for the quarter ended March 31, 2011, compared to \$0.4 million for the quarter ended March 31, 2010. The decrease results primarily from a lower average cash balance for the quarter ended March 31, 2011 as compared to the quarter ended March 31, 2010.

*Provision (benefit) for income taxes.* The benefit from income taxes was \$10.6 million for the three months ended March 31, 2011, with an effective tax rate of 39.5%, as compared to a provision of \$16.1 million for the three months ended March 31, 2010, with an effective tax rate of 40.0%. The lower estimated annual effective tax rate for 2011 results primarily from higher levels of projected income for the current year as compared to the prior year, which reduces the impact of certain non-deductible expenses on the overall effective tax rate as well as the impact of a higher percentage of foreign earnings which are generally taxed at lower rates than U.S. earnings.

## Segment Results

|   | <b>Three Months Ended March 31,</b> |        |             |        |
|---|-------------------------------------|--------|-------------|--------|
|   | <b>2011</b>                         |        | <b>2010</b> |        |
| <b>Revenues from external customers:</b>      |                                     |        |             |        |
| Electric Power                                | \$ 566,461                          | 66.7%  | \$ 456,821  | 61.0%  |
| Natural Gas and Pipeline                      | 176,823                             | 20.8   | 188,934     | 25.3   |
| Telecommunications                            | 79,393                              | 9.4    | 78,226      | 10.5   |
| Fiber Optic Licensing                         | 26,282                              | 3.1    | 24,302      | 3.2    |
| Consolidated revenues from external customers | \$ 848,959                          | 100.0% | \$ 748,283  | 100.0% |
| <b>Operating income (loss):</b>               |                                     |        |             |        |
| Electric Power                                | \$ 31,318                           | 5.5%   | \$ 39,817   | 8.7%   |
| Natural Gas and Pipeline                      | (36,993)                            | (20.9) | 18,374      | 9.7    |
| Telecommunications                            | (3,612)                             | (4.5)  | (800)       | (1.0)  |
| Fiber Optic Licensing                         | 12,035                              | 45.8   | 12,119      | 49.9   |
| Corporate and non-allocated costs             | (29,664)                            | N/A    | (27,220)    | N/A    |
| Consolidated operating income (loss)          | \$ (26,916)                         | (3.2)% | \$ 42,290   | 5.7%   |

*Three months ended March 31, 2011 compared to the three months ended March 31, 2010*



*Electric Power Infrastructure Services Segment Results*

Revenues for this segment increased \$109.6 million, or 24.0%, to \$566.5 million for the quarter ended March 31, 2011. Revenues were positively impacted by an increase in revenues from solar power generation projects and higher revenues from other electric power infrastructure services resulting primarily from increased spending by our customers during the first quarter of 2011. Revenues were also favorably impacted by the contribution of \$41.6 million in revenues contributed from Valard, which was acquired on October 25, 2010. These increases were offset by lower revenues from emergency restorations services which decreased \$36.4 million from the first quarter 2010, to \$16.5 million for the first quarter of 2011.

Operating income decreased \$8.5 million, or 21.3%, to \$31.3 million for the quarter ended March 31, 2011. Operating income as a percentage of revenues decreased to 5.5% for the quarter ended March 31, 2011, from 8.7% for the quarter ended March 31, 2010. These decreases are primarily due to lower revenues from emergency restoration services, which typically generate higher margins, a more competitive pricing environment for distribution services, and the completion of certain higher margin electric transmission projects during 2010 as compared to electric transmission projects ongoing in the first quarter of 2011, which are at earlier stages of construction.

#### *Natural Gas and Pipeline Infrastructure Services Segment Results*

Revenues for this segment decreased \$12.1 million, or 6.4%, to \$176.8 million for the quarter ended March 31, 2011. Revenues were negatively impacted by a decrease in the number and size of projects as a result of delays in spending by our customers, specifically in connection with natural gas transmission projects.

Operating income decreased \$55.4 million to a \$37.0 million operating loss for the quarter ended March 31, 2011, as compared to operating income of \$18.4 million for the quarter ended March 31, 2010. Operating income as a percentage of revenues decreased to a negative 20.9% for the quarter ended March 31, 2011 from a positive 9.7% for the quarter ended March 31, 2010. These decreases are primarily due to cost overruns which resulted in project losses on two gas transmission projects completed during the first quarter of 2011. One project incurred more than previously anticipated clean up costs as a result of unforeseen modifications in the project schedule due partly to regulatory hurdles and unpredictable winter weather during the first quarter of 2011. Another pipeline project, located northwest of Edmonton, Alberta, Canada, was significantly impacted by exceptional snowfall and cold weather, as well as complicated directional drilling. A small portion of this project was performed during the fourth quarter of 2010, however, the substantial majority was performed during the first quarter of 2011. Contract change orders to recoup certain of these costs associated with the two projects continue to be negotiated but did not impact this quarter. This compares to the first quarter of 2010, which was favorably impacted by negotiated increases to contract values for change orders associated with similar gas transmission projects.

#### *Telecommunications Infrastructure Services Segment Results*

Revenues for this segment increased \$1.2 million, or 1.5%, to \$79.4 million for the quarter ended March 31, 2011.

Operating loss increased \$2.8 million to a loss of \$3.6 million for the quarter ended March 31, 2011 as compared to the first quarter of 2010, and operating loss as a percentage of revenues increased from a negative 1.0% to a negative 4.5%. The lower performance in this segment in the first quarter of 2011 was due to decreases in revenues associated with higher margin long-haul installations offset by increases in revenues from lower margin fiber to the premise build-out initiatives and adverse weather conditions that caused productivity slowdowns.

#### *Fiber Optic Licensing Segment Results*

Revenues for this segment increased \$2.0 million, or 8.1%, to \$26.3 million for the quarter ended March 31, 2011. This increase in revenues is primarily a result of our continued network expansion and the associated revenues from licensing the right to use point-to-point fiber optic telecommunications facilities.

Operating income decreased nominally to \$12.0 million for the quarter ended March 31, 2011. Operating income as a percentage of revenues for the quarter ended March 31, 2011 decreased to 45.8% from 49.9% primarily due to higher selling and marketing expenses during the current period.

#### *Corporate and Non-allocated Costs*

Certain selling, general and administrative expenses and amortization of intangible assets are not allocated to segments. Corporate and non-allocated costs for the quarter ended March 31, 2011 increased \$2.4 million to \$29.7 million primarily due to an increase in salaries and benefits costs associated with additional personnel and salary increases, as well as higher legal costs associated with ongoing litigation.

## **Liquidity and Capital Resources**

### ***Cash Requirements***

We anticipate that our cash and cash equivalents on hand, which totaled \$503.0 million as of March 31, 2011, existing borrowing capacity under our credit facility, and our future cash flows from operations will provide sufficient funds to enable us to meet our future operating needs, our planned capital expenditures and anticipated stock repurchases, as well as facilitate our ability to grow in the foreseeable future. On May 3, 2011, our board of directors approved a stock repurchase program authorizing us to purchase, from time to time, up to \$100.0 million of our outstanding common stock. We also evaluate opportunities for strategic acquisitions from time to time that may require cash, as well as opportunities to make investments in customer-sponsored projects where we anticipate performing services such as project management, engineering, procurement or construction services. These investment opportunities exist in the markets and industries we serve and may take the form of debt or equity investments, which may require cash.

Management continues to monitor the financial markets and general national and global economic conditions. We consider our cash investment policies to be conservative in that we maintain a diverse portfolio of what we believe to be high-quality cash investments with short-term maturities. We were in compliance with our covenants under our credit facility at March 31, 2011. Accordingly, we do not anticipate that any weakness in the capital markets will have a material impact on the principal amounts of our cash investments or our ability to rely upon our existing credit facility for funds. To date, we have experienced no loss or lack of access to our cash or cash equivalents or funds under our credit facility; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted in the future by adverse conditions in the financial markets.

Capital expenditures are expected to be between \$180 million to \$210 million for 2011. Approximately \$30 million to \$35 million of the expected 2011 capital expenditures are targeted for the expansion of our fiber optic networks.

### ***Sources and Uses of Cash***

As of March 31, 2011, we had cash and cash equivalents of \$503.0 million and working capital of \$1.08 billion. We also had \$187.9 million of letters of credit outstanding under our credit facility and \$287.1 million available from revolving loans or issuing new letters of credit under our credit facility.

### ***Operating Activities***

Cash flow from operations is primarily influenced by demand for our services, operating margins and the type of services we provide, but can also be influenced by working capital needs, in particular on larger projects, due to the timing of collection of receivables and the settlement of payables and other obligations. Working capital needs are generally higher during the summer and fall months due to increased demand for our services when favorable weather conditions exist in many of the regions in which we operate. Conversely, working capital assets are typically converted to cash during the winter months.

We used net cash in operating activities of \$4.2 million during the three months ended March 31, 2011 as compared to \$3.6 million net cash provided to us during the three months ended March 31, 2010. The lower levels of cash flows resulted primarily from operating losses that were incurred during the three months ended March 31, 2011. Operating cash flows in the first quarter of 2010 were negatively impacted by significant payments of income tax obligations associated with a large acquisition which occurred in the fourth quarter of 2009.

### ***Investing Activities***

During the three months ended March 31, 2011, we used net cash in investing activities of \$34.3 million as compared to \$42.9 million in the three months ended March 31, 2010. Investing activities in the first quarter of 2011 included \$37.5 million used for capital expenditures, partially offset by \$3.2 million of proceeds from the sale of equipment. Investing activities in 2010 included \$43.8 million used for capital expenditures, partially offset by \$0.9 million of proceeds from the sale of equipment.

### *Financing Activities*

During the three months ended March 31, 2011 and 2010, there were no material financing activities.

### *Debt Instruments*

#### *Credit Facility*

We have an agreement with various lenders that provides for a \$475.0 million senior secured revolving credit facility maturing on September 19, 2012. Subject to the conditions specified in the credit facility, borrowings under the credit facility are to be used for working capital, capital expenditures and other general corporate purposes. The entire unused portion of the credit facility is available for the issuance of letters of credit.

As of March 31, 2011, we had approximately \$187.9 million of letters of credit issued under the credit facility and no outstanding revolving loans. The remaining \$287.1 million was available for revolving loans or issuing new letters of credit. Amounts borrowed under the credit facility bear interest, at our option, at a rate equal to either (a) the Eurodollar Rate (as defined in the credit facility) plus 0.875% to 1.75%, as determined by the ratio of our total funded debt to consolidated EBITDA (as defined in the credit facility), or (b) the base rate (as described below) plus 0.00% to 0.75%, as determined by the ratio of our total funded debt to consolidated EBITDA. Letters of credit issued under the credit facility are subject to a letter of credit fee of 0.875% to 1.75%, based on the ratio of our total funded debt to consolidated EBITDA. We are also subject to a commitment fee of 0.15% to 0.35%, based on the ratio of our total funded debt to consolidated EBITDA, on any unused availability under the credit facility. The base rate equals the higher of (i) the Federal Funds Rate (as defined in the credit facility) plus 1/2 of 1% or (ii) the bank's prime rate.

The credit facility contains certain covenants, including covenants with respect to maximum funded debt to consolidated EBITDA, maximum senior debt to consolidated EBITDA and minimum interest coverage, in each case as specified in the credit facility. For purposes of calculating the maximum funded debt to consolidated EBITDA ratio and the maximum senior debt to consolidated EBITDA ratio, our maximum funded debt and maximum senior debt are reduced by all cash and cash equivalents (as defined in the credit facility) held by us in excess of \$25.0 million. As of March 31, 2011, we were in compliance with all of its covenants. The credit facility limits certain acquisitions, mergers and consolidations, capital expenditures, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on material assets. The credit facility also limits the payment of dividends and stock repurchase programs in any fiscal year except those payments or other distributions payable solely in capital stock. The credit facility provides for customary events of default and carries cross-default provisions with our continuing indemnity and security agreement with our sureties and all of our other debt instruments exceeding \$15.0 million in borrowings. If an event of default (as defined in the credit facility) occurs and is continuing, on the terms and subject to the conditions set forth in the credit facility, amounts outstanding under the credit facility may be accelerated and may become or be declared immediately due and payable.

The credit facility is secured by a pledge of the capital stock of certain of our subsidiaries and substantially all of our assets. Our U.S. subsidiaries also guarantee the repayment of all amounts due under the credit facility.

Periodically, we may issue letters of credit under arrangements other than the credit facility which require that cash collateral also be provided. These letters of credit are generally issued in connection with operations in foreign jurisdictions. As of March 31, 2011, we had approximately \$5.6 million in letters of credit outstanding under cash collateralized letter of credit arrangements in addition to the amounts outstanding under the credit facility.

#### *3.75% Convertible Subordinated Notes*

As of March 31, 2011 and December 31, 2010, none of our 3.75% Notes were outstanding. However, the 3.75% Notes were outstanding during the quarter ended March 31, 2010. The 3.75% Notes were originally issued in April 2006 for an aggregate principal amount of \$143.8 million and required semi-annual interest payments on April 30 and October 30 until maturity.

On May 14, 2010, we redeemed all of the \$143.8 million aggregate principal amount outstanding of the 3.75% Notes at a redemption price of 101.607% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the date of redemption.

## **Off-Balance Sheet Transactions**

As is common in our industry, we have entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. Our significant off-balance sheet transactions include liabilities associated with non-cancelable operating leases, letter of credit obligations, commitments to expand our fiber optic networks, surety guarantees, multi-employer pension plan liabilities and obligations relating to our joint venture arrangements. Certain joint venture structures involve risks not directly reflected in our balance sheets. For certain joint ventures, we have guaranteed all of the obligations of the joint venture under a contract with the customer. Additionally, other joint venture arrangements qualify as general partnerships, for which we are jointly and severally liable for all of the obligations of the joint venture. In each joint venture arrangement, each joint venturer has indemnified the other party for any liabilities incurred in excess of the liabilities for which such other party is obligated to bear under the respective joint venture agreement. Other than as previously discussed, we have not engaged in any material off-balance sheet financing arrangements through special purpose entities, and we have no other material guarantees of the work or obligations of third parties.

### ***Leases***

We enter into non-cancelable operating leases for many of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for use of facilities, vehicles and equipment rather than purchasing them. We may decide to cancel or terminate a lease before the end of its term, in which case we are typically liable to the lessor for the remaining lease payments under the term of the lease.

We have guaranteed the residual value of the underlying assets under certain of our equipment operating leases at the date of termination of such leases. We have agreed to pay any difference between this residual value and the fair market value of each underlying asset as of the lease termination date. As of March 31, 2011, the maximum guaranteed residual value was approximately \$116.4 million. We believe that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future significant payments will not be required.

### ***Letters of Credit***

Certain of our vendors require letters of credit to ensure reimbursement for amounts they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance programs. In addition, from time to time some customers require us to post letters of credit to ensure payment to our subcontractors and vendors under those contracts and to guarantee performance under our contracts. Such letters of credit are generally issued by a bank or similar financial institution. The letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that we have failed to perform specified actions. If this were to occur, we would be required to reimburse the issuer of the letter of credit. Depending on the circumstances of such a reimbursement, we may also have to record a charge to earnings for the reimbursement. We do not believe that it is likely that any claims will be made under a letter of credit in the foreseeable future.

As of March 31, 2011, we had \$187.9 million in letters of credit outstanding under our credit facility primarily to secure obligations under our casualty insurance program. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2011 and 2012. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods. Quanta also had approximately \$5.6 million in letters of credit outstanding under cash-collateralized letter of credit arrangements in addition to the amounts outstanding under the credit facility.

### ***Performance Bonds and Parent Guarantees***



Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a financial institution known as a surety. These bonds provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. Under our continuing indemnity and security agreement with our sureties and with the consent of our lenders under

our credit facility, we have granted security interests in certain of our assets to collateralize our obligations to the sureties. In addition, we have assumed obligations with other sureties with respect to bonds issued on behalf of acquired companies that were outstanding as of the applicable dates of acquisition. To the extent these bonds have not expired or been replaced, we may be required to transfer to the applicable sureties certain of our assets as collateral in the event of a default under these other agreements. We may be required to post letters of credit or other collateral in favor of the sureties or our customers in the future. Posting letters of credit in favor of the sureties or our customers would reduce the borrowing availability under our credit facility. To date, we have not been required to make any reimbursements to our sureties for bond-related costs. We believe it is unlikely that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of March 31, 2011, the total amount of outstanding performance bonds was approximately \$1.4 billion, and the estimated cost to complete these bonded projects was approximately \$700.5 million.

From time to time, we guarantee the obligations of our wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease obligations, certain joint venture arrangements and, in some states, obligations in connection with obtaining contractors' licenses. We also guarantee the obligations of a wholly owned subsidiary that is a party to the joint venture arrangement with a third party engineering company.

### Contractual Obligations

As of March 31, 2011, our future contractual obligations are as follows (in thousands):

|  | <b>Total</b>      | <b>Remainder<br/>of 2011</b> | <b>2012</b>      | <b>2013</b>      | <b>2014</b>      | <b>2015</b>     | <b>Thereafter</b> |
|--|-------------------|------------------------------|------------------|------------------|------------------|-----------------|-------------------|
| Long-term obligations principal  | \$ 1,156          | \$ 1,156                     | \$               | \$               | \$               | \$              | \$                |
| Operating lease obligations  | 134,646           | 33,611                       | 31,161           | 23,036           | 13,082           | 8,737           | 25,019            |
| Committed capital expenditures for fiber optic networks under contracts with customers | 28,312            | 23,989                       | 4,323            |                  |                  |                 |                   |
| <b>Total</b>   | <b>\$ 164,114</b> | <b>\$ 58,756</b>             | <b>\$ 35,484</b> | <b>\$ 23,036</b> | <b>\$ 13,082</b> | <b>\$ 8,737</b> | <b>\$ 25,019</b>  |

The committed capital expenditures for fiber optic networks represent commitments related to signed contracts with customers. The amounts are estimates of costs required to build the networks under contract. The actual capital expenditures related to building the networks could vary materially from these estimates.

As of March 31, 2011, the total unrecognized tax benefits related to uncertain tax positions was \$53.2 million. We estimate that none of this will be paid within the next twelve months. However, we believe it is reasonably possible that within the next twelve months unrecognized tax benefits may decrease up to \$8.7 million due to the expiration of certain statutes of limitations. We are unable to make reasonably reliable estimates regarding the timing of future cash outflows, if any, associated with the remaining unrecognized tax benefits.

The above table does not reflect estimated contractual obligations under the multi-employer pension plans in which our union employees participate. Certain of our operating units are parties to various collective bargaining agreements

that require us to provide to the employees subject to these agreements specified wages and benefits, as well as to make contributions to multi-employer pension plans. Our multi-employer pension plan contribution rates are determined annually and assessed on a pay-as-you-go basis based on our union employee payrolls, which cannot be determined in advance for future periods because the location and number of union employees that we employ at any given time and the plans in which they may participate vary depending on the projects we have ongoing at any time and the need for union resources in connection with those projects. Additionally, the Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multi-employer plan in the event of the employer's withdrawal from, or upon termination of, such plan. None of our operating units have any current plans to withdraw from these plans, and accordingly, no withdrawal liabilities are reflected in the above table. We may also be required to make additional contributions to our multi-employer pension plans if they become underfunded, and these additional contributions will be determined based on our union employee payrolls. The Pension

Protection Act of 2006 added new funding rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as endangered, seriously endangered, or critical status. For a plan in critical status, additional required contributions and benefit reductions may apply. A number of multi-employer plans to which our operating units contribute or may contribute in the future are in critical status. Certain of these plans may require additional contributions, generally in the form of a surcharge on future benefit contributions required for future work performed by union employees covered by these plans. The amount of additional funds, if any, that we may be obligated to contribute to these plans in the future cannot be estimated and is not included in the above table, as such amounts will likely be based on future work that requires the specific use of the union employees covered by these plans, and the amount of that future work and the number of employees that may be affected cannot be estimated.

### ***Self-Insurance***

We are insured for employer's liability, general liability, auto liability and workers' compensation claims. Since August 1, 2009, all policy deductible levels are \$5.0 million per occurrence, other than employer's liability, which is subject to a deductible of \$1.0 million. We also have employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$350,000 per claimant per year. For the policy year ended July 31, 2009, employer's liability claims were subject to a deductible of \$1.0 million per occurrence, general liability and auto liability claims were subject to a deductible of \$3.0 million per occurrence, and workers' compensation claims were subject to a deductible of \$2.0 million per occurrence. Additionally, for the policy year ended July 31, 2009, our workers' compensation claims were subject to an annual cumulative aggregate deductible of \$1.0 million on claims in excess of \$2.0 million per occurrence.

Losses under all of these insurance programs are accrued based upon our estimate of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries. These insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties and the number of incidents not reported. The accruals are based upon known facts and historical trends, and management believes such accruals are adequate. As of March 31, 2011 and December 31, 2010, the gross amount accrued for insurance claims totaled \$218.6 million and \$216.8 million, with \$164.8 million and \$164.3 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of March 31, 2011 and December 31, 2010 were \$64.9 million and \$66.3 million, of which \$10.4 million and \$9.4 million are included in prepaid expenses and other current assets and \$54.5 million and \$56.9 million are included in other assets, net.

We renew our insurance policies on an annual basis, and therefore deductibles and levels of insurance coverage may change in future periods. In addition, insurers may cancel our coverage or determine to exclude certain items from coverage, or the cost to obtain such coverage may become unreasonable. In any such event, our overall risk exposure would increase which could negatively affect our results of operations, financial condition and cash flows.

### **Concentration of Credit Risk**

We are subject to concentrations of credit risk related primarily to our cash and cash equivalents and accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of our cash investments are managed by what we believe to be high credit quality financial institutions. In accordance with our investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what we believe to be high quality investments, which primarily include interest-bearing demand deposits, money market mutual funds and investment grade commercial paper with original maturities of three months or less. Although we do not currently believe the principal amount of these investments is subject to any material risk of loss, the weakness in the economy has significantly impacted the interest income we receive from these investments and is likely to continue to do so in the future. In addition, we grant credit under

normal payment terms, generally without collateral, to our customers, which include electric power, natural gas and pipeline companies, telecommunications service providers, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States and Canada. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States and Canada, which may be heightened as a result of depressed

economic and financial market conditions that have existed over the past two years. However, we generally have certain statutory lien rights with respect to services provided. Under certain circumstances, such as foreclosures or negotiated settlements, we may take title to the underlying assets in lieu of cash in settlement of receivables. In such circumstances, extended time frames may be required to liquidate these assets, causing the amounts realized to differ from the value of the assumed receivable. Historically, some of our customers have experienced significant financial difficulties, and others may experience financial difficulties in the future. These difficulties expose us to increased risk related to collectability of billed and unbilled receivables and costs and estimated earnings in excess of billings on uncompleted contracts for services we have performed. At December 31, 2010, one customer accounted for approximately 12% of billed and unbilled receivables. Business with this customer is included in the Natural Gas and Pipeline Infrastructure Services segment. No customers represented 10% or more of accounts receivable as of March 31, 2011, and no customers represented 10% or more of revenues for the three months ended March 31, 2011 or 2010.

### **Litigation and Claims**

We are from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we record a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, we disclose matters for which management believes a material loss is at least reasonably possible. See Note 9 of the Notes to the Condensed Consolidated Financial Statements in Item 1 for additional information regarding litigation and claims.

### **Related Party Transactions**

In the normal course of business, we enter into transactions from time to time with related parties. These transactions typically take the form of facility leases with prior owners of certain acquired companies.

### **New Accounting Pronouncements**

#### *Adoption of New Accounting Pronouncements*

None.

#### *Accounting Standards Not Yet Adopted*

None.

### **Outlook**

We and our customers continue to operate in a difficult business environment, with only gradual improvements in the economy and continuing uncertainty in the marketplace. Our customers are also facing stringent regulatory requirements as they implement projects to enhance the overall state of their infrastructure, which has resulted in reductions or delays in spending. These economic and regulatory factors have negatively affected our results and may continue to do so in the near term. We believe, however, that economic conditions will continue to improve and market constraints will lessen, resulting in increased activity and spending in the industries we serve in the second half of 2011 and beyond, although the regulatory obstacles our customers must overcome continue to create uncertainty as to the timing of spending. We continue to be optimistic about our long-term opportunities in each of the industries we serve, and we believe that our financial and operational strengths will enable us to manage these challenges and

uncertainties.

***Electric Power Infrastructure Services Segment***

The North American electric grid is aging and requires significant upgrades to meet future demands for power. Over the past several years, many utilities across the country have begun to implement plans to improve their transmission systems. As a result, new construction, structure change-outs, line upgrades and maintenance projects

on many transmission systems are occurring or planned. Indications are that the long-awaited transmission build-out programs by our customers has begun. In the second half of 2010 and to date in 2011, several large-scale transmission projects have been awarded, which is indicative that transmission spending is beginning to increase. Regulatory processes remain a hurdle for some proposed transmission projects, continuing to cause delays and create uncertainty as to timing on some transmission spending. We anticipate, however, these hurdles to be overcome and transmission spending to accelerate over the next few years.

We also anticipate that utilities will continue to integrate smart grid technologies into their transmission and distribution systems to improve grid management and create efficiencies. Development and installation of smart grid technologies have benefited from stimulus funding and the desire by consumers for more efficient energy use. With respect to our electric power distribution services, we have seen a slowdown in spending by our customers over the past two years on their distribution systems, which we believe is due primarily to adverse economic and market conditions. Although we saw some increase in spending in the latter part of 2010, we expect distribution spending to remain at low levels throughout 2011. As an indirect result of the prolonged economic downturn, overall growth in demand for electricity decreased, which could also affect the timing and scope of transmission and distribution spending by our customers on their existing systems or planned projects. We believe, however, that utilities remain committed to the expansion and strengthening of their transmission infrastructure, with planning, engineering and funding for many of their projects in place. To date, we have not seen the current economic conditions negatively impact our customers' plans for spending on transmission expansion, with demand for electricity and the need for reliability expected to increase over the long-term. As a result of these and other factors, including the renewable energy initiatives discussed below, we anticipate a continued shift over the long-term in our electric power service mix to a greater proportion of high-voltage electric power transmission and substation projects. Many of these projects have a long-term horizon, and timing and scope can be affected by numerous factors, including regulatory permitting, siting and right-of-way issues, environmental approvals and economic and market conditions.

We believe that opportunities also exist as a result of renewable energy initiatives. We are seeing an increase in renewable energy spending, and we expect future spending on renewable energy initiatives to continue to increase, particularly in connection with solar power, in 2011 and beyond. State renewable portfolio standards, which set required or voluntary standards for how much power is required to be generated from renewable energy sources, as well as general environmental concerns, are driving the development of renewable energy projects, with a stronger focus currently on utility-scale and distributed solar projects. Tax incentives and government stimulus funds are also expected to encourage development. We expect the construction of renewable energy facilities, including solar power and wind generation sources, to result in the need for additional transmission lines and substations to transport the power from the facilities, which are often in remote locations, to demand centers. We also believe opportunities exist for us to provide engineering, project management, materials procurement and installation services for renewable projects, as reflected by recent awards to us of contracts for these services on various utility-scale solar facilities. However, the economic feasibility of renewable energy projects, and therefore the attractiveness of investment in the projects, may depend on the availability of tax incentive programs or the ability of the projects to take advantage of such incentives, and there is no assurance that the government will extend existing tax incentives or create new incentive or funding programs. The timing of investments in renewable energy projects and related infrastructure could also be affected by regulatory permitting processes and siting issues, as well as capital constraints. Furthermore, to the extent that renewable energy projects are developed to satisfy mandatory state renewable portfolio standards, spending on such projects would likely decline if states were to lessen those standards.

We believe that certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), enacted in February 2009, will also increase demand for our services in 2011 and beyond. The economic stimulus programs under the ARRA include incentives in the form of grants, loans, tax cuts and tax incentives for renewable energy, energy efficiency and electric power and telecommunications infrastructure. Additionally, loan guarantee programs partially funded through the ARRA and cash grant programs have been implemented for renewable energy and



transmission reliability and efficiency projects. For example, in October 2009, approximately \$3.4 billion in cash grants were awarded to foster the transition to a smarter electric grid. We anticipate investments in many of these initiatives to create opportunities for our operations, although many projects are waiting on regulatory approval.

While we cannot predict with certainty the timing of the implementation of the programs under the ARRA, the funding of stimulus projects or the scope of projects once funding is received, we anticipate projects to have aggressive deployment schedules due to the deadlines under the stimulus plan, resulting in increased opportunities in the near term.

Several existing, pending or proposed legislative or regulatory actions may also positively affect demand for the services provided by this segment in the long-term, in particular in connection with electric power infrastructure and renewable energy spending. For example, legislative or regulatory action that alleviates some of the siting and right-of-way challenges that impact transmission projects would potentially accelerate future transmission projects. We also anticipate increased infrastructure spending by our customers as a result of legislation requiring the power industry to meet federal reliability standards for its transmission and distribution systems and providing further incentives to the industry to invest in and improve maintenance on its systems. Additionally, the proposed federal renewable portfolio standard could further advance the installation of renewable generation facilities and related electric transmission infrastructure. It is uncertain, however, if or when pending or proposed legislation or regulations will be effective or whether the potentially beneficial provisions we highlight in this outlook will be included in the final legislation, and this uncertainty could affect our customers' decisions regarding potential projects and the timing thereof.

Several industry and market trends are also prompting customers in the electric power industry to seek outsourcing partners. These trends include an aging utility workforce, increasing costs and labor issues. The need to ensure available labor resources for larger projects is also driving strategic relationships with customers.

#### ***Natural Gas and Pipeline Infrastructure Services Segment***

We also see potential growth opportunities over the long-term in our natural gas and pipeline operations, primarily in natural gas and oil pipeline installation and maintenance and related services such as gas gathering and pipeline integrity. We believe our position as a leading provider of transmission pipeline infrastructure services in North America will allow us to take advantage of these opportunities. However, the natural gas and oil industry is cyclical as a result of fluctuations in natural gas and oil prices, and spending in the pipeline industry has been negatively impacted in the past by lower natural gas and oil prices, reductions in the development of natural resources and capital constraints. In addition, increases in environmental scrutiny, regulatory requirements and permitting processes have resulted in project delays.

We believe that the cyclical nature of this business can be somewhat normalized by opportunities associated with an increase in the ongoing development of unconventional shale formations that produce natural gas and/or oil, as well as the development of Canadian oil sands, requiring the construction of transmission pipeline infrastructure to connect production with demand centers. Additionally, we believe the goals of clean energy and energy independence for the United States will make abundant, low-cost natural gas the fuel of choice to replace coal for power generation until renewable energy becomes a significant part of the overall generation of electricity, creating the demand for additional production of natural gas and the need for related infrastructure. The U.S. Department of Transportation has also implemented significant regulatory legislation through the Pipeline and Hazardous Materials Safety Administration relating to pipeline integrity requirements that we expect will increase the demand for our pipeline integrity and rehabilitation services over the long-term.

In the past, our natural gas operations have been challenged by lower margins overall, primarily in connection with our natural gas distribution services. As a result, we have primarily focused our efforts in this segment on transmission pipeline opportunities and other more profitable services, and we are optimistic about these operations in the future. The timing and scope of projects could be affected, however, by economic and market conditions and the volatility of natural gas and oil prices, environmental issues and regulatory requirements. Our specific opportunities in the

transmission pipeline business are sometimes difficult to predict because of the seasonality of the bidding and construction cycles within the industry. Projects are often bid and awarded in the first part of the year, with construction activities compressed in the third and fourth quarters of the year. As a result, we often are limited in our ability to determine the outlook, including backlog, for this business until we near the close of the bidding cycle.

### ***Telecommunications Infrastructure Services Segment***

In connection with our telecommunications services, we expect increasing opportunities in the future as stimulus funding for broadband deployment to underserved areas progresses through the engineering phase into construction. Approximately \$7.2 billion in funding has been awarded under the ARRA for numerous broadband deployment projects across the U.S. To receive funding for these projects, however, awardees are generally required to file environmental impact statements, the approval of which has delayed and may continue to delay projects. If funding is delayed, the demand for our telecommunications services will be affected. Although the timing of funding is uncertain, once funding is received, projects are expected to be rapidly deployed to meet stimulus deadlines that require completion of the project within three years, which for many projects will extend through 2013. As a result, we anticipate this deployment schedule will increase spending over the next three years. We also anticipate spending by our customers on fiber optic backhaul to provide links from wireless cell sites to broader voice, data and video networks. In connection with our wireless services, several wireless companies have announced plans to increase their cell site deployments over the next few years, including the expansion of next generation technology. In particular, the transition to 4G and LTE (long term evolution) technology by wireless service providers will require the enhancement of their networks. We also believe opportunities remain over the long-term as a result of fiber build-out initiatives by wireline carriers and government organizations, although we do not expect spending for these initiatives to increase significantly over the levels experienced in the past two years. We anticipate that the opportunities in both wireline and wireless businesses will increase demand for our telecommunications services over the long-term, with the timing and amount of spending from these opportunities being dependent on future economic, market and regulatory conditions.

### ***Fiber Optic Licensing Segment***

Our Fiber Optic Licensing segment is experiencing growth primarily through geographic expansion, with a focus on markets where secure high-speed networks are important, such as markets where enterprises, communications carriers and educational, financial services and healthcare institutions are prevalent. We continue to see opportunities for growth both in the markets we currently serve and new markets, although we cannot predict the adverse impact, if any, of economic conditions on these growth opportunities. This growth, however, has been affected in the education markets, which has in the past comprised a significant portion of this segment's revenues. We believe this slow down is due to budgetary constraints, although these constraints appear to be easing somewhat. Our Fiber Optic Licensing segment typically generates higher margins than our other operations, but we can give no assurance that the Fiber Optic Licensing segment margins will continue at historical levels. Additionally, we anticipate the need for continued capital expenditures to support the growth in this business.

### ***Conclusion***

We are currently seeing growth opportunities in our electric transmission, telecommunications, renewables and fiber licensing operations, despite continuing negative effects from restrictive regulatory requirements and challenging economic conditions, which caused spending by our customers to decline in 2009 and remain slow throughout 2010. While we believe opportunities exist in our natural gas and pipeline segment, many projects previously anticipated to be constructed in 2011 have been delayed until 2012. We expect spending on electric distribution and gas distribution services, both of which have been more significantly affected by the economic conditions that have existed during the past two years, to remain slow in the near term. Constraints in the capital markets have also negatively affected some of our customers' plans for projects and may continue to do so in the future, which could delay, reduce or suspend future projects if funding is not available. However, we do not believe the factors described above will significantly affect revenue growth in 2011 and beyond. We anticipate that utilities will increase spending on projects to upgrade and build out their transmission systems and outsource more of their work, due in part to their aging workforce issues. We believe that we remain the partner of choice for many utilities in need of broad infrastructure expertise, specialty

equipment and workforce resources. We also believe that we are one of the largest full-service solution providers of natural gas transmission and distribution services in North America, which positions us to leverage opportunities in the natural gas industry. Furthermore, as new technologies emerge in the future for communications and digital services such as voice, video, data and telecommunications,

service providers are expected to work quickly to deploy fast, next-generation fiber and wireless networks, and we are and expect to continue to be recognized as a key partner in deploying these services.

We also expect to continue to see our margins generally improve over the long term, although reductions in spending by our customers, competitive pricing environments and restrictive regulatory requirements have negatively impacted our margins in the past year and could further affect our margins in the future. Additionally, margins may be negatively impacted on a quarterly basis due to adverse weather conditions, timing of projects and other factors as described in *Understanding Margins* above. We continue to focus on the elements of the business we can control, including costs, the margins we accept on projects, collecting receivables, ensuring quality service and rightsizing initiatives to match the markets we serve.

Capital expenditures for 2011 are expected to be between \$180 million to \$210 million, of which approximately \$30 million to \$35 million of these expenditures are targeted for fiber optic network expansion with the majority of the remaining expenditures for operating equipment. We expect 2011 capital expenditures to continue to be funded substantially through internal cash flows and cash on hand.

We continue to evaluate other potential strategic acquisitions or investments to broaden our customer base, expand our geographic area of operation and grow our portfolio of services. We believe that additional attractive acquisition candidates exist primarily as a result of the highly fragmented nature of the industry, the inability of many companies to expand and modernize due to capital constraints and the desire of owners for liquidity. We also believe that our financial strength and experienced management team will be attractive to acquisition candidates.

We believe certain international regions also present significant opportunities for growth across many of our operations. We are strategically evaluating ways in which we can apply our expertise to strengthen the infrastructure in various foreign countries where infrastructure enhancements are increasingly important. For example, we are actively pursuing opportunities in growth markets where we can leverage our technology or proprietary work methods, such as our energized services, to establish a presence in these markets.

We believe that we are adequately positioned to capitalize upon opportunities and trends in the industries we serve because of our proven full-service operations with broad geographic reach, financial capability and technical expertise. Additionally, we believe that these industry opportunities and trends will increase the demand for our services over the long-term; however, we cannot predict the actual timing, magnitude or impact these opportunities and trends will have on our operating results and financial position.

### **Uncertainty of Forward-Looking Statements and Information**

This Quarterly Report on Form 10-Q includes forward-looking statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, project, forecast, may, will, should, could, expect, believe, plan, intend and other words of similar meaning. In particular but are not limited to, statements relating to the following:

Projected revenues, earnings per share, other operating or financial results and capital expenditures;

Expectations regarding our business outlook, growth or opportunities in particular markets;

The expected value of, and the scope, services, term and results of any related projects awarded under, agreements for services to be provided by us;

The impact of renewable energy initiatives, including mandated state renewable portfolio standards, the economic stimulus package and other existing or potential energy legislation;

Potential opportunities that may be indicated by bidding activity;

The potential benefit from acquisitions;

Statements relating to the business plans or financial condition of our customers;

Our plans and strategies; and

The current economic and regulatory conditions and trends in the industries we serve.

These forward-looking statements are not guarantees of future performance and involve or rely on a number of risks, uncertainties, and assumptions that are difficult to predict or beyond our control. These forward-looking statements reflect our beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that actual outcomes and results may differ materially from what is expressed, implied or forecasted by our forward-looking statements and that any or all of our forward-looking statements may turn out to be wrong. Those statements can be affected by inaccurate assumptions and by known or unknown risks and uncertainties, including the following:

Quarterly variations in our operating results;

Adverse economic and financial conditions, including weakness in the capital markets;

Trends and growth opportunities in relevant markets;

Delays, reductions in scope or cancellations of existing or pending projects, including as a result of weather, regulatory or environmental processes, or our customers' capital constraints;

Our dependence on fixed price contracts and the potential to incur losses with respect to those contracts;

Estimates relating to our use of percentage-of-completion accounting;

Adverse impacts from weather;

Our ability to effectively compete for new projects and obtain contract awards for projects bid;

Our ability to successfully negotiate, execute, perform and complete pending and existing contracts;

Our ability to generate internal growth;

Competition in our business;

Potential failure of renewable energy initiatives, the economic stimulus package or other existing or potential energy legislation to result in increased demand for our services;

Liabilities for claims that are not insured;

Unexpected costs or liabilities that may arise from lawsuits or indemnity claims asserted against us;

Risks relating to the potential unavailability or cancellation of third party insurance;

Cancellation provisions within our contracts and the risk that contracts expire and are not renewed or are replaced on less favorable terms;

Loss of one or a few of our customers;

Our inability or failure to comply with the terms of our contracts;

The effect of natural gas and oil prices on our operations and growth opportunities;



The inability of our customers to pay for services;

The failure to recover on payment claims or customer-requested change orders;

The failure of our customers to comply with regulatory requirements applicable to their projects;

Budgetary or other constraints that may reduce or eliminate government funding of projects;

Our ability to attract skilled labor and retain key personnel and qualified employees;

The potential shortage of skilled employees;

Estimates and assumptions in determining our financial results and backlog;

Our ability to realize our backlog;

Our ability to successfully identify, complete, integrate and realize synergies from, acquisitions;

Risks associated with expanding our business in international markets, including losses that may arise from currency fluctuations;

The potential adverse impact resulting from uncertainty surrounding acquisitions, including the ability to retain key personnel from the acquired businesses and the potential increase in risks already existing in our operations;

The adverse impact of goodwill or other intangible asset impairments;

Our growth outpacing our infrastructure;

Requirements relating to governmental regulation and changes thereto;

Inability to enforce our intellectual property rights or the obsolescence of such rights;

Risks related to the implementation of an information technology solution;

The impact of our unionized workforce on our operations and on our ability to complete future acquisitions;

Liabilities associated with union pension plans, including underfunding liabilities;

Potential liabilities relating to occupational health and safety matters;

Liabilities and/or harm to our reputation for actions or omissions by our joint venture partners;

Our dependence on suppliers, subcontractors or equipment manufacturers;

Risks associated with our fiber optic licensing business, including regulatory changes and the potential inability to realize a return on our capital investments;

Beliefs and assumptions about the collectability of receivables;

The cost of borrowing, availability of credit, debt covenant compliance, interest rate fluctuations and other factors affecting our financing and investment activities;

The ability to access sufficient funding to finance desired growth and operations;

Our ability to obtain performance bonds;

Potential exposure to environmental liabilities;

Our ability to continue to meet the requirements of the Sarbanes-Oxley Act of 2002;

The impact of increased healthcare costs arising from healthcare reform legislation; and

The other risks and uncertainties as are described elsewhere herein and under Item 1A. *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2010 and as may be detailed from time to time in our other public filings with the SEC.

All of our forward-looking statements, whether written or oral, are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements or that are otherwise included in this report. In addition, we do not undertake and expressly disclaim any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this report or otherwise.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk.***

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and currency exchange rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2010. Our primary

exposure to market risk relates to unfavorable changes in concentration of credit risk, interest rates and currency exchange rates.

*Credit Risk.* We are subject to concentrations of credit risk related to our cash and cash equivalents and accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of our cash investments are managed by what we believe to be high credit quality financial institutions. In accordance with our investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what we believe to be high-quality investments, which primarily include interest-bearing demand deposits, money market mutual funds and investment grade commercial paper with original maturities of three months or less. Although we do not currently believe the principal amounts of these investments are subject to any material risk of loss, the weakness in the economy has significantly impacted the interest income we receive from these investments and is likely to continue to do so in the future. In addition, as we grant credit under normal payment terms, generally without collateral, we are subject to potential credit risk related to our customers ability to pay for services provided. This risk may be heightened as a result of the depressed economic and financial market conditions that have existed for the past two years. However, we believe the concentration of credit risk related to trade accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts is limited because of the diversity of our customers. We perform ongoing credit

risk assessments of our customers and financial institutions and obtain collateral or other security from our customers when appropriate.

*Interest Rate and Market Risk.* Currently, we do not have any significant assets or obligations with exposure to significant interest rate and market risk.

*Currency Risk.* We conduct operations primarily in the U.S. and Canada. Future earnings are subject to change due to fluctuations in foreign currency exchange rates when transactions are denominated in currencies other than our functional currencies. To minimize the need for foreign currency forward contracts to hedge this exposure, our objective is to manage foreign currency exposure by maintaining a minimal consolidated net asset or net liability position in a currency other than the functional currency.

We may enter into foreign currency derivative contracts to manage some of our foreign currency exposures. These exposures may include revenues generated in foreign jurisdictions and anticipated purchase transactions, including foreign currency capital expenditures and lease commitments. There were no open foreign currency derivative contracts at March 31, 2011.

#### **Item 4. Controls and Procedures.**

Attached as exhibits to this quarterly report on Form 10-Q are certifications of Quanta's Chief Executive Officer and Chief Financial Officer that are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This *Controls and Procedures* section includes information concerning the controls and controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

#### **Evaluation of Disclosure Controls and Procedures**

Our management has established and maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. The disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this quarterly report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, these officers have concluded that, as of March 31, 2011, our disclosure controls and procedures were effective to provide reasonable assurance of achieving their objectives.

#### **Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **Design and Operation of Control Systems**

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if

any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple errors or mistakes. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## PART II OTHER INFORMATION

### QUANTA SERVICES, INC. AND SUBSIDIARIES

#### **Item 1. *Legal Proceedings.***

We are from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we record a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, we disclose matters for which management believes a material loss is at least reasonably possible. See Note 9 of the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report for additional information regarding legal proceedings.

#### **Item 1A. *Risk Factors.***

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Annual Report). An investment in our common stock or other equity securities involves various risks. When considering an investment in our company, you should carefully consider all of the risk factors described herein and in our 2010 Annual Report. These matters specifically identified are not the only risks and uncertainties facing us and there may be additional matters that are not known to us or that we currently consider immaterial. All of these risks and uncertainties could adversely affect our business, financial condition or future results and, thus, the value of an investment in our company.

#### **Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.***

##### **Issuer Purchases of Equity Securities**

The following table contains information about our purchases of equity securities during the three months ended March 31, 2011.

| (a) Total Number of | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans | (d) Maximum Number of Shares that may yet be Purchased Under the Plans or |
|---------------------|--|---|
|                     |  |   |

| <b>Period</b>                        | <b>Shares Purchased</b> | <b>(b) Average<br/>Price<br/>Paid per Share</b> | <b>or Programs</b> | <b>Programs</b> |
|--------------------------------------|-------------------------|---|--------------------|-----------------|
| February 1, 2011 - February 28, 2011 | 271,482(i)              | \$ 22.28  | None               | None            |

(i) Represents shares purchased from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards pursuant to the 2007 Stock Incentive Plan.

**Item 6. Exhibits.**

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | Restated Certificate of Incorporation (previously filed as Exhibit 3.3 to the Company's Form 10-Q (No. 001-13831) filed August 14, 2003 and incorporated herein by reference)  |
| 3.2         | Bylaws of Quanta Services, Inc., as amended and restated December 9, 2010 (previously filed as Exhibit 3.1 to the Company's Form 8-K (No. 001-13831) filed December 15, 2010 and incorporated herein by reference)   |
| 10.1+       | Employment Agreement dated March 24, 2011, effective as of May 19, 2011, by and between Quanta Services, Inc. and John R. Colson (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed March 25, 2011 and incorporated herein by reference)      |
| 10.2+       | Employment Agreement dated March 24, 2011, effective as of May 19, 2011, by and between Quanta Services, Inc. and James F. O'Neil III (previously filed as Exhibit 10.2 to the Company's Form 8-K (No. 001-13831) filed March 25, 2011 and incorporated herein by reference) |
| 10.3+*      | Director Compensation Summary effective as of the 2011 Annual Meeting of the Board of Directors (filed herewith)   |
| 10.4+       | 2011 Incentive Bonus Plan (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed March 7, 2011 and incorporated herein by reference)  |
| 31.1*       | Certification by Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)   |
| 31.2*       | Certification by Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)   |
| 32.1*       | Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)   |
| 101         | XBRL Instance Document   |
| INS         |  |
| 101         | XBRL Taxonomy Extension Schema Document  |
| SCH         |  |
| 101         | XBRL Taxonomy Extension Calculation Linkbase Document  |
| CAL         |  |
| 101         | XBRL Taxonomy Extension Label Linkbase Document  |
| LAB         |  |
| 101         | XBRL Taxonomy Extension Presentation Linkbase Document   |
| PRE         |  |

+ Management contracts or compensatory plans or arrangements

\* Filed or furnished herewith

Furnished with this Quarterly Report on Form 10-Q and included in Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010, (ii) the Consolidated Balance Sheets as of



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March 31, 2011 and December 31, 2010 and (iii) the Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010. Users of the XBRL data furnished herewith are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant, Quanta Services, Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUANTA SERVICES, INC.

By: /s/ DERRICK A. JENSEN

Derrick A. Jensen  
Senior Vice President Finance and Administration  
Chief Accounting Officer

Dated: May 6, 2011

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