

QUANTA SERVICES INC  
Form 10-Q  
November 08, 2013  
Table of Contents

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

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2013**

**or**

**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)**

**N/A**

**(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  (Do not check if a smaller reporting company) 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 October 31, 2013, the number of outstanding shares of Common Stock of the Registrant was 212,360,276. As of the same date, 3,500,000 Exchangeable Shares and one share of Series F Preferred Stock were outstanding.



**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
ITEM 1. <u>Financial Statements</u> (unaudited)	2
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	66
ITEM 4. <u>Controls and Procedures</u>	67
<b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 1. <u>Legal Proceedings</u>	69
ITEM 1A. <u>Risk Factors</u>	69
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	69
ITEM 3. <u>Defaults Upon Senior Securities</u>	70
ITEM 4. <u>Mine Safety Disclosures</u>	70
ITEM 5. <u>Other Information</u>	70
ITEM 6. <u>Exhibits</u>	71
<u>Signature</u>	72

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****QUANTA SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share information)****(Unaudited)**

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 309,153	\$ 394,701
Accounts receivable, net of allowances of \$5,256 and \$5,447	1,434,701	1,328,081
Costs and estimated earnings in excess of billings on uncompleted contracts	232,292	342,777
Inventories	35,590	38,261
Prepaid expenses and other current assets	125,651	97,907
Total current assets	2,137,387	2,201,727
Property and equipment, net of accumulated depreciation of \$627,839 and \$555,030	1,153,629	1,045,983
Other assets, net	363,191	171,566
Other intangible assets, net of accumulated amortization of \$214,473 and \$198,082	190,749	183,836
Goodwill	1,650,012	1,537,645
Total assets	\$ 5,494,968	\$ 5,140,757
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 2,639	\$
Accounts payable and accrued expenses	757,267	707,294
Billings in excess of costs and estimated earnings on uncompleted contracts	204,881	173,885
Total current liabilities	964,787	881,179
Deferred income taxes	240,394	225,050
Insurance and other non-current liabilities	265,533	262,612
Total liabilities	1,470,714	1,368,841
Commitments and Contingencies		

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Equity:

Common stock, \$.00001 par value, 600,000,000 shares authorized, 222,251,194 and 220,917,050 shares issued, and 210,230,028 and 209,270,586 shares outstanding	2	2
Exchangeable Shares, no par value, 3,500,000 and 3,909,110 shares issued and outstanding		
Series F Preferred Stock, \$.00001 par value, 1 share authorized, issued and outstanding		
Additional paid-in capital	3,338,978	3,287,086
Retained earnings	903,380	668,156
Accumulated other comprehensive income (loss)	(11,319)	14,453
Treasury stock, 12,021,166 and 11,646,464 common shares, at cost	(215,108)	(203,149)
Total stockholders' equity	4,015,933	3,766,548
Noncontrolling interests	8,321	5,368
Total equity	4,024,254	3,771,916
Total liabilities and equity	\$ 5,494,968	\$ 5,140,757

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

Table of Contents

**QUANTA SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share information)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenues	\$ 1,645,132	\$ 1,532,001	\$ 4,705,219	\$ 4,246,927
Cost of services (including depreciation)	1,372,079	1,280,001	3,952,609	3,595,959
Gross profit	273,053	252,000	752,610	650,968
Selling, general and administrative expenses	124,949	114,577	357,661	317,918
Amortization of intangible assets	7,026	10,290	17,406	28,781
Operating income	141,078	127,133	377,543	304,269
Interest expense	(475)	(963)	(1,480)	(2,496)
Interest income	1,139	383	2,230	1,178
Equity in earnings of unconsolidated affiliates		1,308		1,308
Other income (expense), net	(824)	(179)	(1,690)	(375)
Income from continuing operations before income taxes	140,918	127,682	376,603	303,884
Provision for income taxes	42,509	39,596	126,611	103,536
Net income from continuing operations	98,409	88,086	249,992	200,348
Income from discontinued operations, net of taxes		12,770		20,299
Net income	98,409	100,856	249,992	220,647
Less: Net income attributable to noncontrolling interests	5,503	4,458	14,768	13,004
Net income attributable to common stock	\$ 92,906	\$ 96,398	\$ 235,224	\$ 207,643
Amounts attributable to common stock:				
Net income from continuing operations	\$ 92,906	\$ 83,628	\$ 235,224	\$ 187,344
Net income from discontinued operations		12,770		20,299
Net income attributable to common stock	\$ 92,906	\$ 96,398	\$ 235,224	\$ 207,643
Earnings per share attributable to common stock basic and diluted:				
Continuing operations	\$ 0.43	\$ 0.39	\$ 1.10	\$ 0.88

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Discontinued operations			0.06		0.10			
Net income attributable to common stock	\$	0.43	\$	0.45	\$	1.10	\$	0.98
Shares used in computing earnings per share:								
Weighted average basic shares outstanding		214,866		213,150		214,178		212,564
Weighted average diluted shares outstanding		214,916		213,242		214,229		212,650

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



Table of Contents**QUANTA SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 98,409	\$ 100,856	\$ 249,992	\$ 220,647
Other comprehensive income (loss), net of tax provision:				
Foreign currency translation adjustment, net of tax of \$0, \$0, \$0 and \$0	13,120	22,289	(25,772)	19,047
Other, net of tax of \$0, \$1, \$0 and \$3		4		14
Other comprehensive income (loss)	13,120	22,293	(25,772)	19,061
Comprehensive income	111,529	123,149	224,220	239,708
Less: Comprehensive income attributable to noncontrolling interests	5,503	4,458	14,768	13,004
Total comprehensive income attributable to Quanta shareholders	\$ 106,026	\$ 118,691	\$ 209,452	\$ 226,704

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>				
Net income	\$ 98,409	\$ 100,856	\$ 249,992	\$ 220,647
Income from discontinued operations		(12,770)		(20,299)
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	33,873	30,713	98,793	89,115
Amortization of intangible assets	7,026	10,290	17,406	28,781
Equity in earnings of unconsolidated affiliates		(1,308)		(1,308)
Amortization of debt issuance costs	218	228	654	678
Amortization of deferred revenues	(2,652)	(2,523)	(8,169)	(7,663)
Gain on sale of property and equipment	(859)	(187)	(1,512)	(634)
Foreign currency loss	1,303	243	2,247	617
Provision for doubtful accounts	170	468	1,832	2,827
Deferred income tax provision (benefit)	(15,481)	12,485	(10,507)	22,137
Non-cash stock-based compensation	7,669	6,634	27,747	20,120
Tax impact of stock-based equity awards	(229)	66	(2,797)	24
Changes in operating assets and liabilities, net of non-cash transactions				
(Increase) decrease in				
Accounts and notes receivable	(126,633)	(272,380)	(97,474)	(309,551)
Costs and estimated earnings in excess of billings on uncompleted contracts	(792)	(23,853)	(66,460)	(163,143)
Inventories	5,396	(1,137)	2,500	21,321
Prepaid expenses and other current assets	(22,947)	(27,486)	(7,519)	(17,305)
Increase (decrease) in				
Accounts payable and accrued expenses and other non-current liabilities	95,000	134,499	17,470	127,542
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,771)	3,834	12,243	(15,026)
Other, net	7,492	(5,191)	8,654	(7,265)
Net cash provided by (used in) operating activities of continuing operations	83,192	(46,519)	245,100	(8,385)
<b>Cash Flows from Investing Activities:</b>				

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Proceeds from sale of property and equipment	4,508	2,107	8,607	8,976
Additions of property and equipment	(51,074)	(67,929)	(213,240)	(148,643)
Cash paid for acquisitions, net of cash acquired	(123,759)		(124,736)	(68,727)
Investments in unconsolidated affiliates	(1,707)		(11,177)	(53,750)
Cash received from (paid for) other investments	994		(12,332)	
Cash withdrawn from restricted cash	36,482		36,482	
Cash paid for other intangibles		(1,541)		(1,541)
<b>Net cash used in investing activities of continuing operations</b>	<b>(134,556)</b>	<b>(67,363)</b>	<b>(316,396)</b>	<b>(263,685)</b>
<b>Cash Flows from Financing Activities:</b>				
Borrowings under credit facility		425,540		775,160
Payments under credit facility		(339,540)		(650,160)
Payments on other long-term debt	(227)	(14)	(227)	(47)
Distributions to noncontrolling interests	(2,503)	(6,733)	(11,815)	(12,970)
Tax impact of stock-based equity awards	229	(66)	2,797	(24)
Exercise of stock options	49	649	872	1,573
<b>Net cash provided by (used in) financing activities of continuing operations</b>	<b>(2,452)</b>	<b>79,836</b>	<b>(8,373)</b>	<b>113,532</b>
<b>Discontinued operations:</b>				
Net cash used in operating activities		(13,252)		(21,325)
Net cash used in investing activities		(2,908)		(10,907)
<b>Net cash used in discontinued operations</b>		<b>(16,160)</b>		<b>(32,232)</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>				
	(144)	5,547	(5,879)	3,630
<b>Net decrease in cash and cash equivalents</b>	<b>(53,960)</b>	<b>(44,659)</b>	<b>(85,548)</b>	<b>(187,140)</b>
Cash and cash equivalents, beginning of period	363,113	172,868	394,701	315,349
<b>Cash and cash equivalents, end of period</b>	<b>\$ 309,153</b>	<b>\$ 128,209</b>	<b>\$ 309,153</b>	<b>\$ 128,209</b>
<b>Supplemental disclosure of cash flow information:</b>				
<b>Cash (paid) received during the period for</b>				
Interest paid	\$ (267)	\$ (752)	\$ (996)	\$ (1,532)
Income taxes paid	\$ (36,557)	\$ (40,255)	\$ (193,947)	\$ (111,179)
Income tax refunds	\$ 297	\$ 384	\$ 639	\$ 2,677

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

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. BUSINESS AND ORGANIZATION:**

Quanta Services, Inc. (Quanta) is a leading provider of specialty contracting services, offering infrastructure solutions primarily to the electric power and natural gas and oil pipeline industries in North America and in select international markets. Quanta reports its results under three reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services and (3) Fiber Optic Licensing and Other.

***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 the repair of infrastructure damaged by inclement weather, the energized installation, maintenance and upgrade of electric power infrastructure utilizing unique bare hand and hot stick methods and Quanta's 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 pipeline transmission and distribution systems, gathering systems, production systems and compressor and pump stations, as well as related trenching, directional boring and automatic welding services. In addition, this segment's services include pipeline protection, integrity testing, rehabilitation and replacement, 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.

***Fiber Optic Licensing and Other Segment***

The Fiber Optic Licensing and Other segment designs, procures, constructs, maintains and owns 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 these agreements, customers are provided the right to use a portion of the capacity of a fiber optic network, with the network owned and maintained by Quanta. The Fiber Optic Licensing and Other 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. The Fiber Optic Licensing and Other segment also provides various telecommunication infrastructure services on a limited basis primarily to Quanta's customers in the electric power industry.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***Acquisitions***

During the fourth quarter of 2013, Quanta has completed three acquisitions. One of the companies acquired specializes in mechanical installations for the offshore oil and gas industry with operations primarily in the Gulf of Mexico and select offshore international markets. The second acquired company specializes in pipeline logistics with operations throughout the U.S., primarily in the shale regions. The third acquired company is an electric power infrastructure services contractor with operations in western regions of the U.S. The aggregate consideration paid for these acquisitions consisted of approximately \$180.8 million in cash and 2,747,412 shares of Quanta common stock valued at approximately \$69.3 million. As these transactions were effective during the fourth quarter of 2013, the results will be included in Quanta's consolidated financial statements beginning on the respective dates of acquisition. These acquisitions should enable Quanta to further enhance its electric power infrastructure service and natural gas and pipeline infrastructure service offerings in the United States and select international markets.

In July 2013, Quanta acquired an electric power infrastructure services company based in Ohio with operations primarily in the Midwest and along the East Coast of the United States (U.S.) and an energy infrastructure contractor that primarily provides pipeline construction and related services in Australia. The aggregate consideration paid for these two acquisitions consisted of approximately \$123.8 million in cash, net of unrestricted cash acquired, and 763,272 shares of Quanta common stock valued at approximately \$18.7 million. As these transactions were effective in July 2013, the results have been included in Quanta's consolidated financial statements beginning on their respective acquisition dates. These acquisitions should enable Quanta to further enhance its service offerings in certain regions of the United States and increase Quanta's service capabilities in Australia.

In the first quarter of 2013, Quanta acquired a small electric power infrastructure services company. The results of operations related to this acquisition are not material and have been reflected in Quanta's condensed consolidated financial statements beginning as of the date of the acquisition.

In the first and second quarters of 2012, Quanta acquired four businesses, which included one electric power infrastructure services company based in Canada, two electric power infrastructure services companies based in the United States and one natural gas and pipeline infrastructure services company based in the United States. These businesses have been reflected in Quanta's consolidated financial statements as of their respective acquisition dates. The aggregate consideration for these acquisitions consisted of approximately \$57.5 million in cash, 1,927,113 shares of Quanta common stock valued at approximately \$37.3 million and the repayment of \$11.0 million in debt. These acquisitions have allowed Quanta to further expand its capabilities and scope of services internationally and in the United States.

***Dispositions***

On December 3, 2012, Quanta sold substantially all of its domestic telecommunications infrastructure services operations and related subsidiaries for net proceeds of approximately \$265.0 million. Accordingly, Quanta has presented the results of operations, financial position and cash flows of such telecommunications subsidiaries as

discontinued operations for the 2012 periods presented in the accompanying consolidated financial statements.

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

Summarized financial information for discontinued operations is shown below (in thousands):

	<b>Three Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2012</b>
Revenues	\$ 153,200	\$ 380,147
Income from discontinued operations before taxes	18,527	32,054
Provision for income taxes	(5,757)	(11,755)
Income from discontinued operations, net of taxes	\$ 12,770	\$ 20,299

**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 proportionately consolidated, as discussed in the following summary of significant accounting policies. Investments in affiliated entities in which Quanta does not have a controlling financial interest, but over which Quanta has significant influence, usually because Quanta holds a voting interest of 20% to 50%, are accounted for using the equity method. 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, comprehensive income (loss) and cash flows with respect to the interim condensed consolidated financial statements have been included. The results of operations and comprehensive income (loss) 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, 2012, which was filed with the SEC on March 1, 2013, as amended by Amendment No. 1 thereto on Form 10-K/A, which was filed with the SEC on May 31, 2013.

***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

---

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

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, equity and other investments, loan receivables, purchase price allocations, liabilities for self-insured and other claims, multi-employer pension plan withdrawal liabilities, revenue recognition for construction contracts and fiber optic licensing, share-based compensation, operating results of reportable segments, as well as the provision for income taxes and the calculation of uncertain tax positions.

***Reclassifications***

Cash flows for investing activities for the nine months ended September 30, 2013 include the reclassification of certain amounts from other investing activities into capital expenditures based upon strategic plan expansions during the third quarter of 2013.

***Cash and Cash Equivalents***

Quanta had cash and cash equivalents of \$309.2 million and \$394.7 million as of September 30, 2013 and December 31, 2012. 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 September 30, 2013 and December 31, 2012, cash equivalents were \$130.1 million and \$92.5 million, which consisted primarily of money market mutual funds and are discussed further in *Fair Value Measurements* below. As of September 30, 2013 and December 31, 2012, cash and cash equivalents held in domestic bank accounts were approximately \$125.2 million and \$254.1 million, and cash and cash equivalents held in foreign bank accounts were approximately \$184.0 million and \$140.6 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 at least 90 days. In addition to balances that have been outstanding for 90 days or more, Quanta also includes accounts receivable balances that relate to customers in bankruptcy or with other known difficulties in its

analysis of the allowance for doubtful accounts. Material changes in Quanta's customers' business or cash flows, which may be impacted by negative economic and market conditions, could affect Quanta's ability to collect amounts due from them. As of September 30, 2013 and December 31, 2012, Quanta had total allowances for doubtful accounts of approximately \$5.3 million and \$5.4 million, all of which were included as a reduction of net current accounts

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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 are generally 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 retainage balances at each balance sheet date are expected to be collected within the next twelve months. Current retainage balances as of September 30, 2013 and December 31, 2012 were approximately \$222.9 million and \$180.6 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 September 30, 2013 and December 31, 2012 were \$42.3 million and \$22.5 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 September 30, 2013 and December 31, 2012, the balances of unbilled receivables included in accounts receivable were approximately \$193.1 million and \$127.5 million.

***Goodwill and Other Intangibles***

Quanta has recorded goodwill in connection with its historical acquisitions of companies. Upon acquisition, these companies have been either combined into one of Quanta's existing operating units or managed on a stand-alone basis as an individual operating unit. Goodwill recorded in connection with these acquisitions is subject to an annual assessment for impairment, which Quanta performs at the operating unit level for each operating unit that carries a balance of goodwill. Each of Quanta's operating units is organized into one of three internal divisions: the Electric Power Division, the Natural Gas and Pipeline Division or the Fiber Optic Licensing Division. As most of the companies acquired by Quanta provide multiple types of services for multiple types of customers, these divisional designations are based on the predominant type of work performed by each operating unit at the point in time the divisional designation is made. Goodwill is required to be measured for impairment at the operating segment level or one level below the operating segment level for which discrete financial information is available, and Quanta has determined that its individual operating units represent its reporting units for the purpose of assessing goodwill impairments.

Quanta has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step fair value-based impairment test described below. If Quanta believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. Quanta can choose to perform the qualitative assessment on none, some or all of its reporting units. Quanta can also bypass the qualitative assessment for any reporting unit in any

period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. Qualitative indicators including deterioration in macroeconomic conditions, declining financial performance, or a sustained decrease in share price, among other things, may trigger the need for annual or interim impairment testing of goodwill associated with one or all of the reporting units.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

Quanta's goodwill impairment assessment is performed at year-end, or more frequently if events or circumstances arise 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 loss of a significant customer, as well as the qualitative indicators referenced above, may trigger the need for interim impairment testing of goodwill for 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 two-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 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 2012, a two-step fair-value based goodwill impairment analysis was performed for each of Quanta's reporting units, and no reporting units were evaluated solely on a qualitative basis. The analysis indicated that the implied fair value of each of Quanta's reporting units, other than recently acquired reporting units, was substantially in excess of its carrying value. Following the analysis, management concluded that no impairment was indicated at any reporting unit. As discussed generally above, when evaluating the 2012

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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. Additionally, management considered the sensitivity of its fair value estimates to changes in certain valuation assumptions and, after giving consideration to at least a 10% decrease in the fair value of each of Quanta's reporting units, the results of the assessment at December 31, 2012 did not change. However, circumstances such as market declines, unfavorable economic conditions, 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, patented rights and developed technology, all subject to amortization, along with other intangible assets not subject to amortization. The value of customer relationships is estimated as of the date a business is acquired based on 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 for acquired businesses as of the acquisition date 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 Affiliates and Other Entities***

In the normal course of business, Quanta enters into various types of investment arrangements, each having unique terms and conditions. These investments may include equity interests held by Quanta in business entities, including general or limited partnerships, contractual joint ventures, or other forms of equity participation. These investments may also include Quanta's participation in different finance structures such as the extension of loans to project specific entities, the acquisition of convertible notes issued by project specific entities, or other strategic financing arrangements. Quanta determines whether such investments involve a variable interest entity (VIE) based on the characteristics of the subject entity. If the entity is determined to be a VIE, then management determines if Quanta is the primary beneficiary of the entity and whether or not consolidation of the VIE is required. The primary beneficiary



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

---

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

Investments in entities of which Quanta is not the primary beneficiary, but over which Quanta has the ability to exercise significant influence, are accounted for using the equity method of accounting. Quanta's share of net income or losses from unconsolidated equity investments is included in equity in earnings of unconsolidated affiliates in the consolidated statements of operations when applicable. Equity investments are reviewed for impairment by assessing whether any decline in the fair value of the investment below the carrying value is other than temporary. In making this determination, factors such as the ability to recover the carrying amount of the investment and the inability of the investee to sustain an earnings capacity are evaluated in determining whether a loss in value should be recognized. Any impairment losses would be recognized in other expense. Equity method investments are carried at original cost and are included in other assets, net in the consolidated balance sheet and are adjusted for Quanta's proportionate share of the investees' income, losses and distributions.

Quanta holds an equity ownership interest of approximately 31% in Howard Midstream Energy Partners, LLC (HEP). HEP is engaged in the business of owning, operating and constructing midstream plant and pipeline assets in the natural gas and oil pipeline industry. Quanta accounts for this investment using the equity method of accounting. During the first nine months of 2013, Quanta invested an additional \$9.1 million, along with other HEP members, primarily to provide capital for planned midstream expansion projects. The carrying value of Quanta's investment in HEP was approximately \$99.6 million and \$90.5 million at September 30, 2013 and December 31, 2012.

***Revenue Recognition***

***Infrastructure Services*** Through its Electric Power Infrastructure Services and Natural Gas and Pipeline Infrastructure Services segments, Quanta designs, installs and maintains networks for customers in the electric power and natural gas and oil pipeline 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 these 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 material associated with Quanta's work is owner-furnished and is therefore not included in contract revenues and costs. The cost estimation process is based on 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. These factors are routinely evaluated on a project by project basis throughout the project term, and the impact of corresponding revisions in management's estimates of

---

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

contract value, contract cost and contract profit are recorded as necessary 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's operating results for the nine months ended September 30, 2013 were impacted by less than 5 percent as a result of changes in contract estimates related to projects that were in progress at December 31, 2012.

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 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 September 30, 2013 and December 31, 2012, Quanta had approximately \$241.3 million and \$205.0 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 September 30, 2013 and December 31, 2012 balances of recognized change orders and claims were primarily impacted by the Sunrise Powerlink project, an electric power infrastructure services project, primarily as a result of customer directed changes to the project construction schedule which required PAR Electrical Contractors, Inc. (PAR), a wholly-owned subsidiary of Quanta, to significantly increase its resources to the project in order to meet the customer required completion date. Revenues associated with this change order of approximately \$165 million were accrued and recognized as a component of costs and estimated earnings in excess of billings on uncompleted contracts. Since completion of the project, PAR and San Diego Gas & Electric Company (SDG&E) have had ongoing meetings to review project scope, costs and performance criteria in order to reach resolution on the additional work performed and pricing of the change order under the contract, which has resulted in PAR and SDG&E being in agreement as to PAR's direct costs. As of early October 2013, the parties were unsuccessful in agreeing on the amount owed to PAR, and as a result, have recently agreed to proceed with a contractually agreed upon arbitration process. As this process is not expected to conclude within the next twelve months, Quanta has reclassified the recognized balance related to this contract into other assets, net. The aggregate contract price adjustments discussed above represent management's best estimate of additional contract revenues which have been earned and which management believes are probable of collection. The amounts ultimately realized by Quanta upon final acceptance by its customers could be higher or lower than such estimated amounts; however, Quanta does not believe the resolution of these matters will have a material adverse effect on Quanta's consolidated financial position, results of operations or cash flows. See *Litigation and Claims - Sunrise Powerlink Arbitration* in Note 10 for additional information.

*Fiber Optic Licensing* The fiber optic licensing business 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

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

of the agreements, including probable renewal periods. As of September 30, 2013 and December 31, 2012, initial fees and advance billings on these licensing agreements not yet recorded in revenue were \$47.8 million and \$46.4 million and are recognized as deferred revenue, with \$38.8 million and \$37.7 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 September 30, 2013 are as follows (in thousands):

Year Ending December 31	<b>Minimum Future Licensing Revenues</b>	
Remainder of 2013	\$	22,694
2014		74,834
2015		50,236
2016		40,203
2017		31,486
Thereafter		144,048
Fixed non-cancelable minimum licensing revenues	\$	363,501

***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 income taxes related to certain tax positions in those instances where Quanta considers it more likely than not that additional taxes may be due in excess of amounts reflected on income tax returns filed. When recording reserves for expected tax consequences of uncertain positions, Quanta assumes that taxing authorities have full knowledge of the position and all relevant facts. Quanta continually reviews exposure to additional tax obligations, and as further information is known or events occur, changes in tax reserves may be recorded. To the

extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified in the provision for income taxes.

As of September 30, 2013, the total amount of unrecognized tax benefits relating to uncertain tax positions was \$50.6 million, a decrease from December 31, 2012 of \$0.6 million. This decrease in unrecognized tax benefits results from a \$7.4 million decrease primarily due to the expiration of certain statute of limitations periods in the 2009 tax year, partially offset by a \$6.8 million increase primarily due to tax positions expected to be taken for 2013. Certain subsidiaries are under examination by various state and Canadian tax authorities for multiple periods. Quanta believes that it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease up to \$10.8 million as a result of settlements of these audits or as a result of the expiration of certain statute of limitations periods.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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, statements of operations and comprehensive income.

***Earnings Per Share***

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period, and diluted earnings 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 equivalents would be antidilutive.

***Collective Bargaining Agreements***

Several of Quanta's operating units are parties to various collective bargaining agreements with unions that represent certain of their employees. 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 agreements require the operating units 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 generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans 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 the projects Quanta has ongoing at any time and the need for union resources in connection with those projects.

***Stock-Based Compensation***

Quanta recognizes compensation expense for restricted stock and restricted stock units (RSUs) to be settled in stock 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 and RSUs to be settled in stock is determined based on the number of shares or RSUs 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. Restricted stock awards and RSUs to be settled in stock are subject to forfeiture, restrictions on transfer and certain other conditions until vesting. During the restriction period, holders of restricted stock are entitled to vote and receive dividends on such shares. The cash flows resulting from the tax deductions in excess of the compensation expense recognized for restricted stock, RSUs to be settled in stock and stock options (excess tax benefit) are classified as financing cash flows.



Compensation expense associated with liability based awards, such as RSUs that are expected to be settled in cash, is recognized based on a remeasurement of the fair value of the award at the end of each reporting period. RSUs to be settled in cash are intended to provide the holders with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta. RSUs to be settled in cash vest over a designated period, typically three years, and are subject to forfeiture under certain conditions, primarily

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

termination of service. Upon vesting of RSUs to be settled in cash, the holders receive for each vested RSU an amount in cash equal to the fair market value on the vesting date of one share of Quanta common stock, as specified in the applicable award agreement.

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

The U.S. dollar is the functional currency for the majority of Quanta's operations, which are primarily located within the United States. The functional currency for Quanta's foreign operations, which are primarily located in Canada, is typically the currency of the country in which the foreign operating unit is located. Generally, the currency in which the operating unit transacts a majority of its activities, including billings, financing, payroll and other expenditures, would be considered the functional currency. Under the relevant accounting guidance, the treatment of foreign currency 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, comprehensive income (loss) 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 units' functional currency, the translation gains and losses are included as a separate component of equity under the caption "Accumulated other comprehensive income (loss)". If transactions are not denominated in the operating units' functional currency, the translation gains and losses are included within the statement of operations.

***Comprehensive Income***

Components of comprehensive income include all changes in equity during a period except those resulting from changes in Quanta's capital related accounts. Quanta records other comprehensive income (loss), net of tax, for foreign currency translation adjustments related to its foreign operations and for other revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income.

***Litigation Costs and Reserves***

Quanta records reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Costs incurred for litigation are expensed as incurred. Further details are presented in Note 10.

***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 were categorized as Level 1 assets at September 30, 2013 and December 31, 2012, as all values were based on unadjusted quoted prices for identical assets in an active market that Quanta has the ability to access.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

In connection with Quanta's acquisitions, identifiable intangible assets acquired include goodwill, backlog, customer relationships, trade names, covenants not-to-compete, patented rights and developed technology. Quanta utilizes the fair value premise as the primary basis for its valuation procedures, which is a market-based approach to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Quanta periodically engages the services of an independent valuation firm when a new business is acquired to assist management with this valuation process, including 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, 2012, the carrying amounts of such assets, including goodwill, were compared to their fair values. 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, and Quanta uses the assistance of third party specialists to develop valuation assumptions.

Quanta also uses fair value measurements in connection with the valuation of its investments in private company equity interests and financing instruments. These valuations require significant management judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. Typically, the initial costs of these investments are considered to represent fair market value, as such amounts are negotiated between willing market participants. On a quarterly basis, Quanta performs an evaluation of its investments to determine if an other-than-temporary decline in the value of each investment has occurred and whether the recorded amount of each investment will be realizable. If an other-than-temporary decline in the value of an investment occurs, a fair value analysis would be performed to determine the degree to which the investment was impaired and a corresponding charge to earnings would be recorded during the period. These types of fair market value assessments are similar to other nonrecurring fair value measures used by Quanta, which include the use of significant judgment and available relevant market data. Such market data may include observations of the valuation of comparable companies, risk adjusted discount rates and an evaluation of the expected performance of the underlying portfolio asset, including historical and projected levels of profitability or cash flows. In addition, a variety of additional factors will be reviewed by management, including, but not limited to, contemporaneous financing and sales transactions with third parties, changes in market outlook and the third-party financing environment.

**3. NEW ACCOUNTING PRONOUNCEMENTS:**

***Adoption of New Accounting Pronouncements***

On January 1, 2013, Quanta adopted an update that gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that its indefinite-lived intangible assets are impaired. If, based on its qualitative assessment, an entity concludes that it is more likely than not that the fair value of its indefinite-lived intangible assets is less than their carrying

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The adoption of this standard did not have a material effect on Quanta's consolidated financial statements.

***Accounting Standards Not Yet Adopted***

In July 2013, the FASB issued an update that provides guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. The update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. Quanta is currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements.

**4. ACQUISITIONS:**

***2013 Acquisitions***

In July 2013, Quanta acquired an electric power infrastructure services company based in Ohio with operations primarily in the Midwest and along the East Coast of the United States and an energy infrastructure contractor that primarily provides pipeline construction and related services in Australia. The aggregate consideration paid for these two acquisitions consisted of approximately \$123.8 million in cash, net of unrestricted cash acquired, and 763,272 shares of Quanta common stock valued at approximately \$18.7 million. As these transactions were effective in July 2013, the results have been included in Quanta's consolidated financial statements beginning in July 2013. These acquisitions should enable Quanta to further enhance its service offerings in certain regions of the United States and increase Quanta's service capabilities in Australia.

In the first quarter of 2013, Quanta acquired a small electric power infrastructure services company. The results of operations related to this acquisition are not material and have been reflected in Quanta's condensed consolidated financial statements beginning as of the date of the acquisition.

***2012 Acquisitions***

In the first and second quarters of 2012, Quanta acquired four businesses, which included one electric power infrastructure services company based in Canada, two electric power infrastructure services companies based in the United States and one natural gas and pipeline infrastructure services company based in the United States. These businesses have been reflected in Quanta's consolidated financial statements as of their respective acquisition dates. The aggregate consideration for these acquisitions consisted of approximately \$57.5 million in cash, 1,927,113 shares of Quanta common stock valued at approximately \$37.3 million and the repayment of \$11.0 million in debt. These acquisitions have allowed Quanta to further expand its capabilities and scope of services internationally and in the United States.

The following table summarizes the aggregate consideration paid through September 30, 2013 for the 2013 and 2012 acquisitions and presents the allocation of these amounts to the net tangible and identifiable intangible assets based on their estimated fair values as of the respective acquisition dates. This allocation requires a

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

significant use of estimates and is based on information that was available to management at the time these consolidated financial statements were prepared (in thousands).

	<b>2013</b>	<b>2012</b>
<b>Consideration:</b>		
Value of Quanta common stock issued	\$ 19,618	\$ 37,291
Cash paid	165,246	68,507
 Fair value of total consideration transferred	 \$ 184,864	 \$ 105,798
 <b>Current assets</b>	 \$ 124,563	 \$ 20,516
Property and equipment	14,221	18,821
Other assets	1,009	123
Identifiable intangible assets	25,934	17,931
<b>Current liabilities</b>	<b>(93,026)</b>	<b>(10,008)</b>
Deferred tax liabilities, net	(4,083)	(6,173)
Other long-term liabilities	(1,617)	(191)
 Total identifiable net assets	 67,001	 41,019
Goodwill	117,863	64,779
	 \$ 184,864	 \$ 105,798

The fair value of current assets acquired in 2013 includes accounts receivable with a fair value of \$38.2 million. The fair value of current assets acquired in 2012 included accounts receivable with a fair value of \$15.3 million.

Goodwill represents the excess of the purchase price over the net amount of the fair values assigned to assets acquired and liabilities assumed. The 2013 and 2012 acquisitions strategically expanded Quanta's Canadian and Australian service offerings and enhanced its domestic electric power and natural gas and oil pipeline service offerings, which Quanta believes contributes to the recognition of the goodwill. In connection with the 2013 acquisitions, goodwill of \$76.8 million was recorded for reporting units included within Quanta's electric power division and \$41.1 million was recorded for reporting units included within Quanta's natural gas and pipeline division at September 30, 2013. In connection with the 2012 acquisitions, goodwill of \$57.5 million was recorded for reporting units included within Quanta's electric power division and \$7.3 million was recorded for reporting units included within Quanta's natural gas and pipeline division at December 31, 2012. Goodwill of approximately \$75.7 million and \$52.9 million is expected to be deductible for income tax purposes related to the businesses acquired in 2013 and 2012.



The unaudited supplemental pro forma results of operations have been provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented or that may be achieved by the combined companies in the future. Future

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

results may vary significantly from the results reflected in the following pro forma financial information because of future events and transactions, as well as other factors (in thousands, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenues	\$ 1,664,282	\$ 1,605,188	\$ 4,926,496	\$ 4,480,965
Gross profit	\$ 275,573	\$ 262,809	\$ 781,801	\$ 685,531
Selling, general and administrative expenses	\$ 126,012	\$ 118,924	\$ 367,893	\$ 332,163
Amortization of intangible assets	\$ 7,070	\$ 11,438	\$ 19,399	\$ 35,217
Net income from continuing operations	\$ 99,240	\$ 91,522	\$ 260,789	\$ 209,297
Net income from continuing operations attributable to common stock	\$ 93,738	\$ 87,064	\$ 246,022	\$ 196,293
Earnings per share from continuing operations attributable to common stock basic and diluted	\$ 0.44	\$ 0.41	\$ 1.15	\$ 0.91

The pro forma combined results of operations for the three and nine months ended September 30, 2013 and 2012 have been prepared by adjusting the historical results of Quanta to include the historical results of the 2013 acquisitions as if they occurred January 1, 2012. The pro forma combined results of operations for the three and nine months ended September 30, 2012 have also been prepared by adjusting the historical results of Quanta to include the historical results of the 2012 acquisitions as if they occurred January 1, 2011. These pro forma combined historical results were then adjusted for the following: a reduction of interest expense and interest income as a result of the repayment of outstanding indebtedness, a reduction of interest income as a result of the cash consideration paid net of cash received, an increase in amortization expense due to the incremental intangible assets recorded related to the 2013 and 2012 acquisitions, an increase or decrease in depreciation expense within cost of services related to the net impact of adjusting acquired property and equipment to the acquisition date fair value and conforming depreciable lives with Quanta's accounting policies, an increase in the number of outstanding shares of Quanta common stock and certain reclassifications to conform the acquired companies' presentation to Quanta's accounting policies. The pro forma results of operations do not include any adjustments to eliminate the impact of acquisition related costs or any cost savings or other synergies that may result from the acquisitions. As noted above, the pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future.

Revenues of approximately \$83.5 million and income from continuing operations before income taxes of approximately \$4.3 million are included in Quanta's consolidated results of operations for the three and nine months ended September 30, 2013 related to the 2013 acquisitions following their respective dates of acquisition.



Table of Contents

## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

A summary of changes in Quanta's goodwill is as follows (in thousands):

	Electric Power Division	Natural Gas and Pipeline Division	Fiber Optic Licensing Division	Total
Goodwill balance at December 31, 2012	\$ 1,065,152	\$ 137,703	\$ 334,790	\$ 1,537,645
Goodwill acquired during 2013	76,756	41,107		117,863
Foreign currency translation related to goodwill	(4,701)	(795)		(5,496)
Goodwill balance at September 30, 2013	\$ 1,137,207	\$ 178,015	\$ 334,790	\$ 1,650,012

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 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. From time to time, operating units may be reorganized among Quanta's internal divisions, as Quanta periodically re-evaluates strategies to better align its operations as business environments evolve.

Activity in Quanta's intangible assets consists of the following (in thousands):

	As of December 31, 2012		Nine Months Ended September 30, 2013			As of September 30, 2013	
	Intangible Assets	Accumulated Amortization	Amortization Expense	Additions	Foreign Currency Adjustments	Intangible Assets, Net	Remaining Weighted Average Amortization Period in Years
Customer relationships	\$ 170,465	\$ (47,777)	\$ (8,575)	\$ 14,155	\$ (1,141)	\$ 127,127	10.9
Backlog	126,057	(119,068)	(4,675)	7,314	(24)	9,604	1.7
Trade names	32,559	(3,014)	(838)	4,121	(206)	32,622	26.9
Non-compete agreements	27,406	(20,706)	(1,737)	344	(155)	5,152	2.7
Patented rights and developed technology	20,931	(7,517)	(1,581)		(89)	11,744	5.5

Total intangible assets subject to amortization	377,418	(198,082)	(17,406)	25,934	(1,615)	186,249	12.7
Other intangible assets not subject to amortization	4,500					4,500	N/A
Total intangible assets	\$ 381,918	\$ (198,082)	\$ (17,406)	\$ 25,934	\$ (1,615)	\$ 190,749	N/A

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

Amortization expense for intangible assets was \$7.0 million and \$10.3 million for the three months ended September 30, 2013 and 2012 and \$17.4 million and \$28.8 million for the nine months ended September 30, 2013 and 2012. The estimated future aggregate amortization expense of intangible assets as of September 30, 2013 is set forth below (in thousands):

For the Fiscal Year Ending December 31	
Remainder of 2013	\$ 7,541
2014	22,276
2015	16,994
2016	16,140
2017	15,170
Thereafter	108,128
Total	\$ 186,249

**6. PER SHARE INFORMATION:**

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period, and diluted earnings 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 diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 are illustrated below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>AMOUNTS ATTRIBUTABLE TO COMMON STOCK:</b>				
Net income from continuing operations	\$ 92,906	\$ 83,628	\$ 235,224	\$ 187,344
Net income from discontinued operations		12,770		20,299
Net income attributable to common stock	\$ 92,906	\$ 96,398	\$ 235,224	\$ 207,643
<b>WEIGHTED AVERAGE SHARES:</b>				
Weighted average shares outstanding for basic earnings per share	214,866	213,150	214,178	212,564

Effect of dilutive stock options	50	92	51	86
Weighted average shares outstanding for diluted earnings per share	214,916	213,242	214,229	212,650

For purposes of calculating diluted earnings per share, there were no adjustments required to derive Quanta's net income attributable to common stock. For the three and nine months ended September 30, 2013 and 2012, a nominal number of stock options were excluded from the computation of diluted earnings per share because the exercise prices of the stock options were greater than the average market price of Quanta's common stock. The outstanding exchangeable shares of a Canadian subsidiary of Quanta that were issued pursuant to the acquisition of Valard Construction LP and certain of its affiliated entities (Valard) on October 25, 2010, which are exchangeable on a one-for-one basis with shares of Quanta common stock, are included in weighted average

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2013 and 2012.

**7. DEBT OBLIGATIONS:**

***Credit Facility***

On October 30, 2013, Quanta entered into an amended and restated credit agreement with various lenders that provides for a \$1.325 billion senior secured revolving credit facility maturing October 30, 2018. See Note 12 for further information.

Quanta's credit agreement in effect as of September 30, 2013 provided for a \$700.0 million senior secured revolving credit facility with a maturity date of August 2, 2016. Up to \$100.0 million of the facility was available for revolving loans and letters of credit in certain alternative currencies in addition to the U.S. dollar. Borrowings under the credit agreement were to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes.

As of September 30, 2013, Quanta had approximately \$226.4 million of letters of credit issued and no outstanding borrowings under the credit facility. The remaining \$473.6 million was available for borrowings or issuing new letters of credit.

Amounts borrowed under the credit agreement in U.S. dollars bore interest, at Quanta's option, at a rate equal to either (a) the Eurocurrency Rate (as defined in the credit agreement) plus 1.25% to 2.50%, as determined based on Quanta's Consolidated Leverage Ratio (as described below), plus, if applicable, any Mandatory Cost (as defined in the credit agreement) required to compensate lenders for the cost of compliance with certain European regulatory requirements, or (b) the Base Rate (as described below) plus 0.25% to 1.50%, as determined based on Quanta's Consolidated Leverage Ratio. Amounts borrowed under the credit agreement in any currency other than U.S. dollars bore interest at a rate equal to the Eurocurrency Rate plus 1.25% to 2.50%, as determined based on Quanta's Consolidated Leverage Ratio, plus, if applicable, any Mandatory Cost. Standby letters of credit issued under the credit agreement were subject to a letter of credit fee of 1.25% to 2.50%, based on Quanta's Consolidated Leverage Ratio, and Performance Letters of Credit (as defined in the credit agreement) issued under the credit agreement in support of certain contractual obligations were subject to a letter of credit fee of 0.75% to 1.50%, based on Quanta's Consolidated Leverage Ratio. Quanta was also subject to a commitment fee of 0.20% to 0.45%, based on Quanta's Consolidated Leverage Ratio, on any unused availability under the credit agreement. The Consolidated Leverage Ratio was the ratio of Quanta's total funded debt to Consolidated EBITDA (as defined in the credit agreement). For purposes of calculating both the Consolidated Leverage Ratio and the maximum senior debt to Consolidated EBITDA ratio discussed below, total funded debt and total senior debt were reduced by all unrestricted cash and Cash Equivalents (as defined in the credit agreement) held by Quanta in excess of \$25.0 million. The Base Rate equaled the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 1/2 of 1%, (ii) Bank of America's prime rate and (iii) the Eurocurrency



Rate plus 1.00%.

Subject to certain exceptions, the credit agreement was secured by substantially all of the assets of Quanta and its wholly owned U.S. subsidiaries, and by a pledge of all of the capital stock of Quanta's wholly owned U.S. subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of Quanta or its wholly owned U.S. subsidiaries. Quanta's wholly owned U.S. subsidiaries also guaranteed the repayment of all amounts due under the credit agreement. Subject to certain conditions, at any time Quanta maintained a corporate credit rating that is BBB- (stable) or higher by Standard & Poor's Rating Services and a corporate family rating that is Baa3 (stable) or higher by Moody's Investors Services, all collateral would have been automatically released from these liens.

---

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

The credit agreement contained certain covenants, including a maximum Consolidated Leverage Ratio and a minimum interest coverage ratio, in each case as specified in the credit agreement. The credit agreement also contained a maximum senior debt to Consolidated EBITDA ratio, as specified in the credit agreement, which would have been in effect at any time that the collateral securing the credit agreement had been and remained released. The credit agreement limited certain acquisitions, mergers and consolidations, indebtedness, capital expenditures, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibited liens on assets. The credit agreement also included limits on the payment of dividends and stock repurchase programs in any fiscal year except those payments or other distributions payable solely in capital stock. As of September 30, 2013, Quanta was in compliance with all of the covenants in the credit agreement.

The credit agreement provided for customary events of default and included cross-default provisions with Quanta's underwriting, continuing indemnity and security agreement with its sureties and all of Quanta's other debt instruments exceeding \$30.0 million in borrowings or availability. If an event of default (as defined in the credit agreement) occurred and continued, on the terms and subject to the conditions set forth in the credit agreement, amounts outstanding under the credit agreement may have been accelerated and may have become or have been declared immediately due and payable.

**8. EQUITY:*****Exchangeable Shares and Series F Preferred Stock***

In connection with the acquisition of Valard on October 25, 2010, certain former owners of Valard received exchangeable shares of a Canadian subsidiary of Quanta which 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 with respect to dividends, voting and other economic rights. On March 26, 2013, 409,110 exchangeable shares were exchanged for Quanta common stock.

***Treasury Stock***

Under the stock incentive plans described in Note 9, the tax withholding obligations of employees upon vesting of restricted stock awards and RSUs to be settled in common stock are typically satisfied by Quanta making such tax payments and withholding a number of vested shares having a value on the date of vesting equal to the tax withholding obligation. As a result, Quanta withheld 374,702 and 289,057 shares of Quanta common stock during the

nine months ended September 30, 2013 and 2012, with a total market value of \$12.0 million and \$6.2 million, in each case for settlement of employee tax liabilities. These shares and the related cost to acquire them were accounted for as an adjustment to the balance of treasury stock.

*Noncontrolling Interests*

Quanta holds investments in several joint ventures that provide infrastructure services under specific customer contracts. Each joint venture is owned equally by its members. Quanta has determined that certain of these joint ventures are variable interest entities, with Quanta providing the majority of the infrastructure services

---

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

to the joint venture, which management believes most significantly influences the economic performance of the joint venture. Management has concluded that Quanta is the primary beneficiary of each of these joint ventures and has accounted for each on a consolidated basis. The other parties' equity interests in these joint ventures have been accounted for as noncontrolling interests in the condensed consolidated financial statements. Income attributable to the other joint venture members has been accounted for as a reduction of reported net income attributable to common stock in the amount of \$5.5 million and \$4.5 million for the three months ended September 30, 2013 and 2012 and \$14.8 million and \$13.0 million for the nine months ended September 30, 2013 and 2012. Equity in the consolidated assets and liabilities of these joint ventures that is attributable to the other joint venture members has been accounted for as a component of noncontrolling interests within 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 \$8.3 million and \$5.4 million at September 30, 2013 and December 31, 2012. The carrying value of investments held by the noncontrolling interests in these variable interest entities at September 30, 2013 and December 31, 2012 was \$8.3 million and \$5.4 million. During the three months ended September 30, 2013 and 2012, distributions to noncontrolling interests were \$2.5 million and \$6.7 million. During the nine months ended September 30, 2013 and 2012, distributions to noncontrolling interests were \$11.8 million and \$13.0 million. There were no other changes in equity as a result of transfers to/from the noncontrolling interests during the nine months ended September 30, 2013 or 2012. See Note 10 for further disclosures related to Quanta's joint venture arrangements.

**9. EQUITY-BASED COMPENSATION:*****Stock Incentive Plans***

On May 19, 2011, Quanta's stockholders approved the Quanta Services, Inc. 2011 Omnibus Equity Incentive Plan (the 2011 Plan). The 2011 Plan provides for the award of non-qualified stock options, incentive (qualified) stock options (ISOs), stock appreciation rights, restricted stock, RSUs, stock bonus awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing. The purpose of the 2011 Plan is to provide participants with additional performance incentives by increasing their proprietary interest in Quanta. Employees, directors, officers, consultants or advisors of Quanta or its affiliates are eligible to participate in the 2011 Plan, as are prospective employees, directors, officers, consultants or advisors of Quanta who have agreed to serve Quanta in those capacities. An aggregate of 11,750,000 shares of Quanta common stock may be issued pursuant to awards granted under the 2011 Plan.

Additionally, pursuant to the Quanta Services, Inc. 2007 Stock Incentive Plan (the 2007 Plan), which was adopted on May 24, 2007, Quanta may award restricted stock, incentive stock options and non-qualified stock options to eligible employees, directors, and certain consultants and advisors. An aggregate of 4,000,000 shares of common stock may be issued pursuant to awards granted under the 2007 Plan. Quanta also has a Restricted Stock Unit Plan (the RSU Plan), pursuant to which RSUs may be awarded to certain employees and consultants of Quanta's Canadian operations.

Equity 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 2011 Plan, the 2007 Plan and the RSU Plan, are referred to as the Plans.

---

**Table of Contents****QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Restricted Stock and Restricted Stock Units To Be Settled in Common Stock***

During the three months ended September 30, 2013 and 2012, Quanta granted nominal amounts of shares of restricted stock and RSUs to be settled in common stock under the Plans. During the nine months ended September 30, 2013 and 2012, Quanta granted 1.4 million and 1.2 million shares of restricted stock and RSUs to be settled in common stock under the Plans with weighted average grant date fair values of \$29.41 and \$21.74. The grant date fair value for awards of restricted stock and RSUs to be settled in common stock is based on the market value of Quanta common stock on the date of grant. Restricted stock and RSU awards to be settled in common stock are subject to forfeiture, restrictions on transfer and certain other conditions until vesting, which generally occurs over three years in equal annual installments. During the restriction period, holders of restricted stock are entitled to vote and receive dividends on such shares.

During the three months ended September 30, 2013 and 2012, vesting activity consisted of 44,392 and 42,838 shares of restricted stock and RSUs settled in common stock with an approximate fair value at the time of vesting of \$1.2 million and \$1.0 million. During the nine months ended September 30, 2013 and 2012, vesting activity consisted of 1.1 million and 0.9 million shares of restricted stock and RSUs settled in common stock with an approximate fair value at the time of vesting of \$32.2 million and \$18.8 million. Vesting activity during the nine months ended September 30, 2013 included compensation cost of approximately \$4.3 million associated with the accelerated vesting of restricted stock and RSUs held by Quanta's former Executive Chairman upon his retirement in May 2013.

As of September 30, 2013, there was approximately \$32.5 million of total unrecognized compensation cost related to unvested restricted stock and RSUs to be settled in common stock granted to both employees and non-employees. This cost is expected to be recognized over a weighted average period of 1.86 years.

***Restricted Stock Units To Be Settled in Cash***

Certain RSUs granted by Quanta under the Plans are intended to provide plan participants with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta. These RSUs to be settled in cash vest over a designated period, typically three years, and are subject to forfeiture under certain conditions, primarily termination of service. Upon vesting of these RSUs, the holders receive for each vested RSU an amount in cash equal to the fair market value on the vesting date of one share of Quanta common stock, as specified in the applicable award agreement.

Compensation expense related to RSUs to be settled in cash was \$0.6 million and \$0.5 million for the three months ended September 30, 2013 and 2012 and \$1.7 million and \$1.3 million for the nine months ended September 30, 2013 and 2012. Such expense is recorded in selling, general and administrative expenses. RSUs that may be settled only in cash are not included in the calculation of earnings per share, and the estimated earned value of such RSUs is classified as a liability. Quanta paid \$0.2 million and a nominal amount to settle liabilities related to cash-settled RSUs in the three months ended September 30, 2013 and 2012 and \$0.8 million and \$0.3 million to settle liabilities related to cash-settled RSUs in the nine months ended September 30, 2013 and 2012. Liabilities recorded for the estimated

earned value of the RSUs outstanding to be settled in cash were \$1.7 million and \$0.8 million at September 30, 2013 and December 31, 2012.

**10. COMMITMENTS AND CONTINGENCIES:**

***Investments in Affiliates and Other Entities***

As described in Note 8, Quanta holds investments in certain joint ventures with third parties for the purpose of providing infrastructure services under certain customer contracts. Losses incurred by these joint ventures are

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

shared equally by the joint venture members. However, each member of the joint venture is jointly and severally liable for 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 with the customer. In circumstances where Quanta's participation in a joint venture qualifies 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 these joint and several liabilities.

In the joint venture arrangements entered into by Quanta, each joint venturer indemnifies the other party for any liabilities incurred in excess of the liabilities 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.

As of September 30, 2013, Quanta had an outstanding capital commitment associated with its investment in HEP of \$8.3 million which is expected to be paid in the fourth quarter of 2013. Additionally, Quanta has outstanding capital commitments associated with investments in unconsolidated affiliates related to planned midstream infrastructure projects of approximately \$13.2 million as of September 30, 2013. Quanta is unable to determine the timing of these capital commitments but anticipates them to be paid before the end of 2015.

***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 September 30, 2013 (in thousands):

	<b>Operating Leases</b>
Year Ending December 31	
Remainder of 2013	\$ 15,072
2014	39,299
2015	24,650
2016	18,411
2017	12,451
Thereafter	22,689
Total minimum lease payments	\$ 132,572



Rent expense related to operating leases was approximately \$28.5 million and \$22.4 million for the three months ended September 30, 2013 and 2012 and approximately \$80.2 million and \$66.2 million for the nine months ended September 30, 2013 and 2012.

Quanta has guaranteed the residual value on certain of its equipment operating leases. Quanta has agreed to pay any difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At September 30, 2013, the maximum guaranteed residual value was approximately \$278.4 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.

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***Committed Capital Expenditures***

Quanta has committed capital for the expansion of its fiber optic network, although 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 estimates. As of September 30, 2013, Quanta estimates these committed capital expenditures to be approximately \$10.1 million for the period October 1, 2013 through December 31, 2013 and \$17.7 million for 2014. Quanta also committed capital for the expansion of its vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of September 30, 2013, production orders for approximately \$9.6 million and \$9.2 million had been issued with delivery dates occurring throughout 2013 and 2014. Although Quanta has committed to purchase these vehicles at the time of their delivery, Quanta intends that these orders will be assigned to third party leasing companies and made available to Quanta under certain of its master equipment lease agreements, thereby releasing Quanta from its capital expenditures commitment.

***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, employment-related 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 its 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 uncertainties of litigation.

*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. Quanta recorded a liability and corresponding insurance recovery receivable of approximately \$8.5 million associated with this matter based on the written demand received from the USDA.

The USDA informally communicated that it also intended to seek past and future restoration and other damages of approximately \$51.3 million, as well as other unspecified damages. PG&E tendered defense and indemnification for

the matter to Quanta in 2010. On August 3, 2012, the USDA filed suit in the United States District Court, Eastern District of California, against Quanta, its subsidiary and PG&E, seeking unspecified damages for fire suppression costs, rehabilitation and restoration expenses, and loss of timber, habitat and environmental values, among other things, including recovery of fees and expenses.

During the first quarter of 2013, a settlement-in-principle was reached with the USDA, subject to approval by the United States Department of Justice, for an amount within Quanta's available insurance coverages. The

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

Department of Justice approved the settlement during the second quarter of 2013, and this matter has been concluded within Quanta's available insurance.

*National Gas Company of Trinidad and Tobago Arbitration.* On October 1, 2010, Mears Group, Inc. (Mears), a wholly-owned subsidiary of Quanta, filed a request for arbitration with the International Chamber of Commerce (ICC) in London against the National Gas Company of Trinidad and Tobago (NGC). The request for arbitration arises out of a contract between Mears and NGC for horizontal directional drilling (HDD) services in connection with a shore approach of a natural gas pipeline. During pullback of the pipeline, a component on the drill rig operated by Mears failed, and the pipeline was lodged downhole. Subsequent efforts to salvage the pipeline by NGC, Mears and other parties failed to dislodge the pipeline. NGC subsequently hired a separate HDD contractor to complete reworks.

Mears alleges breach of contract, among other things, and seeks recovery for works performed, standby costs, demobilization costs, and other expenses, totaling approximately \$16.5 million, including taxes, and additionally seeks recovery of pre-judgment interest and attorneys' fees and expenses. Mears contends in the arbitration that NGC breached the contract between the parties by providing a pipeline with insufficient buoyancy, weighing significantly more than the weight specified in the contract. In addition, Mears argues that NGC failed to provide a contractually required builders all-risk insurance policy naming Mears as an additional insured, which would have covered losses associated with a pullback failure. Moreover, Mears asserts that NGC agreed to indemnify Mears for losses to NGC's equipment for events occurring during the project, and that any recovery by NGC is therefore barred.

NGC counterclaimed in the arbitration, asserting that Mears breached the contract and performed negligently by failing to provide a drilling component capable of withstanding loads during pullback and providing a hole of insufficient cleanliness such that debris and other materials contributed to excess forces experienced during Mears pullback of the pipeline. NGC seeks recovery for the costs of the salvage operations, the cost of the reworks, as well as other costs, totaling approximately \$79.5 million, and additionally seeks recovery of pre-judgment interest and attorneys' fees and expenses.

The arbitration hearings were completed during the third quarter of 2012, but no decision has been rendered. Mears also notified its insurers of the counterclaims, and although coverage was denied, Mears is continuing to pursue its insurers for coverage. Due to the nature of these claims, however, an adverse result in these proceedings could result in a significant uninsured loss that could have a material adverse effect on Quanta's consolidated financial condition, results of operations and cash flows.

*Sunrise Powerlink Arbitration.* On April 21, 2010, PAR, a wholly-owned subsidiary of Quanta, entered into a contract with SDG&E to construct a 117-mile electrical transmission line in Imperial and San Diego Counties, California, known as the Sunrise Powerlink project. Construction commenced on November 17, 2010, with commercial operations beginning on June 17, 2012, according to SDG&E. During the construction phase, SDG&E directed changes to the project construction schedule which required PAR to significantly increase its resources to the project in order to meet the customer required completion date. The project also experienced impacts beyond PAR's control such as access delays and restrictions, as well as problems with customer supplied materials to the project. Since

completion of the project, PAR and SDG&E have had ongoing meetings to review project scope, costs and performance criteria in order to reach resolution on the additional work performed and pricing of the change order under the contract, which has resulted in PAR and SDG&E being in agreement as to PAR's direct costs. As of early October 2013, the parties were unsuccessful in agreeing on the final amount owed to PAR and as a result, recently agreed to proceed with a contractually agreed upon arbitration process, which

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

commenced in the fourth quarter of 2013. Quanta believes that the amount which PAR is seeking will be affirmed in the arbitration process and that such amount will be entitled to statutory interest under California law at 10% per annum.

***Concentrations 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, changes in economic conditions could impact the interest income Quanta receives from these investments. In addition, Quanta grants credit under normal payment terms, generally without collateral, to its customers, which include electric power, natural gas and oil pipeline companies, 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 uncertain economic and financial market conditions that have existed in recent years. However, Quanta generally has certain statutory lien rights with respect to services provided. 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.

As of September 30, 2013, two customers accounted for approximately 13% and 10% of Quanta's consolidated net position, which includes accounts receivable including long-term balances and costs and estimated earnings in excess of billings on uncompleted contracts less billings in excess of costs and unearned revenue. As of December 31, 2012, two customers accounted for approximately 16% and 11% of Quanta's consolidated net position. The services provided to these customers relate primarily to Quanta's Electric Power Infrastructure Services segment. Substantially all of the balance for the customer with 10% of consolidated net position as of September 30, 2013 and 11% at December 31, 2012 relates to the Sunrise Powerlink project with a long-term receivable balance related to a significant change order that is subject to a contractually agreed upon arbitration process. During the third quarter of 2013, Quanta reclassified the receivable related to this matter from costs in excess of billings on uncompleted contracts to other assets, net due to the expected timetable for resolution of the matter. For additional information, see *Litigation and Claims - Sunrise Powerlink Arbitration* in this Note 10. Additionally, the customer with the 13% and 16% of consolidated net position at September 30, 2013 and December 31, 2012 also accounted for 10% of consolidated revenues for the nine months ended September 30, 2013. No other customers represented 10% or more of revenues for the three and nine months ended September 30, 2013 and 2012, and no other customers represented

10% or more of consolidated net position as of September 30, 2013 and December 31, 2012.

***Self-Insurance***

Quanta is insured for employer's liability, general liability, auto liability and workers' compensation claims. As of August 1, 2013, Quanta renewed its employer's liability, general liability, auto liability and workers' compensation policies for the current 2013 - 2014 policy year. As a result of the renewal, the deductibles for

---

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

general liability and auto liability increased to \$10.0 million per occurrence, while the deductible for workers compensation remained at \$5.0 million per occurrence and the deductible for employer's liability remained at \$1.0 million per occurrence. Additionally, in connection with this renewal, the amount of letters of credit required by Quanta to secure its obligations under its casualty insurance programs, which is discussed further below, has increased. Between August 1, 2009 and July 31, 2013, all policy deductible levels were \$5.0 million per occurrence, other than employer's liability, which was 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 \$375,000 per claimant per year.

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 September 30, 2013 and December 31, 2012, the gross amount accrued for insurance claims totaled \$164.9 million and \$160.8 million, with \$122.9 million and \$120.2 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of September 30, 2013 and December 31, 2012 were \$12.6 million and \$22.2 million, of which \$0.8 million and \$2.3 million are included in prepaid expenses and other current assets and \$11.8 million and \$19.9 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 Quanta may elect not to obtain certain types or incremental levels of insurance if it believes that the cost to obtain such coverage exceeds the additional benefits obtained. In any such event, Quanta's overall risk exposure would increase, which could negatively affect its results of operations, financial condition and cash flows.

***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, certain customers require Quanta to post letters of credit to ensure payment to its subcontractors and vendors and to guarantee performance under its contracts. Such letters of credit are generally issued by a bank or similar financial institution, typically pursuant to Quanta's credit facility. Each 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 be required 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 September 30, 2013, Quanta had \$226.4 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 2013 and 2014. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***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 September 30, 2013, the total amount of outstanding performance bonds was approximately \$2.35 billion, and the estimated cost to complete these bonded projects was approximately \$433.0 million.

Quanta, from time to time, guarantees the obligations of its wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease obligations and, in some states, obligations in connection with obtaining contractors' licenses. Quanta is not aware of any material obligations for performance or payment asserted against it under any of these guarantees.

***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. Quanta may be obligated to pay certain amounts to such employees upon the occurrence of any of the defined events in the various employment agreements.

***Collective Bargaining Agreements***

Several of Quanta's operating units are parties to various collective bargaining agreements with unions that represent certain of their employees. 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 agreements require the operating units 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 multiemployer pension plan contribution rates generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans 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 the projects Quanta has ongoing at any time and the need for union resources in connection with those projects.

The Pension Protection Act of 2006 (PPA) also added special funding and operational rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as endangered, seriously endangered or critical status based on multiple factors (including, for example, the plan's funded percentage, cash flow position and whether it is projected to experience a minimum funding deficiency). Plans in these classifications must adopt measures to improve their funded status through a funding improvement or rehabilitation plan, as applicable, which may require additional contributions from employers (which may take the form of a surcharge on benefit contributions) and/or modifications to retiree benefits. Certain plans to which Quanta contributes or may contribute in

the future are in endangered, seriously endangered or critical status. The amount of additional funds, if any, that Quanta may be obligated to contribute to these plans in the future cannot be estimated due to uncertainty of the future levels of work that require the specific use of union employees covered by these plans, as well as the future contribution levels and possible surcharges on contributions applicable to these plans.

Quanta may be subject to additional liabilities imposed by law as a result of its participation in multi-employer defined benefit pension plans. For example, the Employee Retirement Income Security Act of 1974, as

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon an employer who is a contributor to a multi-employer pension plan if the employer withdraws from the plan or the plan is terminated or experiences a mass withdrawal. These liabilities include an allocable share of the unfunded vested benefits in the plan for all plan participants, not merely the benefits payable to a contributing employer's own retirees. As a result, participating employers may bear a higher proportion of liability for unfunded vested benefits if other participating employers cease to contribute or withdraw, with the reallocation of liability being more acute in cases when a withdrawn employer is insolvent or otherwise fails to pay its withdrawal liability. Other than as described below, Quanta is not aware of any material amounts of withdrawal liability that have been incurred as a result of a withdrawal by any of Quanta's operating units from any multi-employer defined benefit pension plans.

In the fourth quarter of 2011, Quanta recorded a partial withdrawal liability of approximately \$32.6 million related to the withdrawal by certain Quanta subsidiaries from the Central States, Southeast and Southwest Areas Pension Plan (the Central States Plan). The partial withdrawal liability recognized by Quanta was based on estimates received from the Central States Plan during 2011 for a complete withdrawal by all Quanta companies participating in the Central States Plan. The withdrawal followed an amendment to a collective bargaining agreement with the International Brotherhood of Teamsters that eliminated obligations to contribute to the Central States Plan, which is in critical status and is significantly underfunded as to its vested benefit obligations. The amendment was negotiated by the Pipe Line Contractors Association (PLCA) on behalf of its members, which include the Quanta subsidiaries that withdrew from the Central States Plan. Quanta believed that withdrawing from the Central States Plan in the fourth quarter of 2011 was advantageous because it limited Quanta's exposure to increased liabilities from a future withdrawal if the underfunded status of the Central States Plan deteriorates further. Quanta and other PLCA members now contribute to a different multi-employer pension plan on behalf of Teamsters employees.

The Central States Plan has asserted that the withdrawal of the PLCA members was not effective in 2011, although Quanta believes that a legally effective withdrawal occurred in the fourth quarter of 2011. During the third quarter of 2012, the Central States Plan provided Quanta with an estimate of the potential withdrawal liability, indicating that the withdrawal liability is approximately \$32.8 million based on a partial withdrawal in the fourth quarter of 2011, approximately \$39.7 million based on a partial withdrawal in the first quarter of 2012, or approximately \$40.1 million based on a complete withdrawal in 2012. Certain other Quanta subsidiaries continued participation in the Central States Plan, and Quanta subsequently effected a complete withdrawal as of December 31, 2012. The consequences of the complete withdrawal of Quanta's subsidiaries from the plan will depend on various factors, including interpretations of the terms of the collective bargaining agreements under which the subsidiaries participated and whether exemptions from withdrawal liability applicable to construction industry employers will be available. Based on the previous estimate of liability associated with a complete withdrawal from the Central States Plan, and allowing for the exclusion of amounts believed by management to have been improperly included in such estimate, Quanta will seek to challenge and further negotiate the amount owed in connection with this matter. Given the unknown nature of some of these factors, the final withdrawal liability cannot yet be determined with certainty; therefore the ultimate amount owed upon final settlement of these matters could be materially higher than the \$32.6 million Quanta recognized in the fourth quarter of 2011.

***Indemnities***

Quanta 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. Quanta has also indemnified various parties against specified liabilities that those parties might incur in the future in

Table of Contents

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

connection with Quanta's previous acquisition or disposition of certain companies. The indemnities under acquisition or disposition agreements are usually contingent upon the other party incurring liabilities that reach specified thresholds. As of September 30, 2013, except as otherwise set forth above in *Litigation and Claims*, Quanta does not believe any material liabilities for asserted claims exist against it in connection with any of these indemnity obligations.

**11. SEGMENT INFORMATION:**

Quanta presents its operations under three reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services and (3) Fiber Optic Licensing and Other. This structure is generally based on the broad end-user markets for Quanta's services. See Note 1 for additional information regarding Quanta's 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 fiber optic licensing division. These internal divisions are closely aligned with the reportable segments described above based on their operating units' predominant type of work.

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 and natural gas customers. Quanta's integrated operations and common administrative support at each of its 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, be 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.

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Electric Power	\$ 1,048,370	\$ 1,088,586	\$ 3,275,732	\$ 3,026,872
Natural Gas and Pipeline	552,380	394,215	1,297,254	1,088,777
Fiber Optic Licensing and Other	44,382	49,200	132,233	131,278
Consolidated	\$ 1,645,132	\$ 1,532,001	\$ 4,705,219	\$ 4,246,927
<b>Operating income:</b>				
Electric Power	\$ 122,413	\$ 137,445	\$ 375,772	\$ 362,394
Natural Gas and Pipeline	49,873	23,429	87,874	27,949
Fiber Optic Licensing and Other	14,105	15,114	45,289	45,077
Corporate and non-allocated costs	(45,313)	(48,855)	(131,392)	(131,151)
Consolidated	\$ 141,078	\$ 127,133	\$ 377,543	\$ 304,269
<b>Depreciation:</b>				
Electric Power	\$ 16,343	\$ 14,039	\$ 47,042	\$ 40,749
Natural Gas and Pipeline	11,514	11,103	34,114	32,093
Fiber Optic Licensing and Other	4,281	3,880	12,562	11,282
Corporate and non-allocated costs	1,735	1,691	5,075	4,991
Consolidated	\$ 33,873	\$ 30,713	\$ 98,793	\$ 89,115

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, including operating machinery, equipment and vehicles, as well as office equipment, buildings and leasehold improvements, which are held at the operating unit level, are used on an interchangeable basis across its reportable segments. As such, for reporting purposes, total depreciation expense is allocated each quarter among Quanta's reportable segments based on the ratio of each reportable segment's revenue contribution to consolidated revenues.

**Foreign Operations**

## Edgar Filing: QUANTA SERVICES INC - Form 10-Q

During the three months ended September 30, 2013 and 2012, Quanta derived \$335.7 million and \$198.3 million of its revenues from foreign operations. During the nine months ended September 30, 2013 and 2012, Quanta derived \$841.5 million and \$604.0 million of its revenues from foreign operations. Of Quanta's foreign revenues, approximately 80% and 97% was earned in Canada for the three months ended September 30, 2013 and 2012 and approximately 90% and 96% was earned in Canada for the nine months ended September 30, 2013 and 2012. In addition, Quanta held property and equipment of \$190.7 million and \$151.9 million in foreign countries, primarily Canada, as of September 30, 2013 and December 31, 2012.



**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

**12. SUBSEQUENT EVENTS:**

***Acquisitions***

During the fourth quarter of 2013, Quanta has completed three acquisitions. One of the acquired companies specializes in mechanical installations for the offshore oil and gas industry with operations primarily in the Gulf of Mexico and select offshore international markets. The second acquired company specializes in pipeline logistics with operations throughout the U.S., primarily in the shale regions. The third acquired company is an electric power infrastructure services contractor with operations in western regions of the U.S. The aggregate consideration paid for these acquisitions consisted of approximately \$180.8 million in cash and 2,747,412 shares of Quanta common stock valued at approximately \$69.3 million. As these transactions were effective during the fourth quarter of 2013, the results will be included in Quanta's consolidated financial statements beginning on the respective dates of acquisition. These acquisitions should enable Quanta to further enhance its electric power infrastructure service and natural gas and pipeline infrastructure service offerings in the United States and select international markets.

***Amended Credit Facility***

On October 30, 2013, Quanta entered into an amended and restated credit agreement with various lenders that provides for a \$1.325 billion senior secured revolving credit facility, with an option to increase the facility to \$1.625 billion, maturing October 30, 2018. Interest rates and terms are generally consistent with the terms of the previous credit facility. The \$1.325 billion senior secured revolving credit facility also increases Quanta's ability to borrow funds and provide letters of credit in foreign currencies, subject to certain multi-currency sublimits.

## **Table of Contents**

### **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, 2012, which was filed with the Securities and Exchange Commission (SEC) on March 1, 2013 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 provider of specialty contracting services, offering infrastructure solutions primarily to the electric power and natural gas and oil pipeline industries in North America and in select international markets. 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 and pipeline transmission and distribution systems and facilities. We also own 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 three reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services and (3) Fiber Optic Licensing and Other. This structure is generally focused on broad end-user markets for our services. Our consolidated revenues for the nine months ended September 30, 2013 were approximately \$4.71 billion, of which 69.6% was attributable to the Electric Power Infrastructure Services segment, 27.6% to the Natural Gas and Pipeline Infrastructure Services segment and 2.8% to the Fiber Optic Licensing and Other 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, other than certain large transmission 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 as 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 fiber optic licensing 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 each division.



## **Table of Contents**

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 infrastructure services under a single customer contract or provide services across industries for example, joint trenching projects to install distribution lines for electric power and natural gas customers. Our integrated operations and common administrative support at each of our 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, be 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.

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 the repair of 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 pipeline transmission and distribution systems, gathering systems, production systems and compressor and pump stations, as well as related trenching, directional boring and automatic welding services. In addition, this segment's services include pipeline protection, integrity testing, rehabilitation and replacement, 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 Fiber Optic Licensing and Other segment designs, procures, constructs, maintains and owns 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 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 network, with the network owned and maintained by us. The Fiber Optic Licensing and Other 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. The Fiber Optic Licensing and Other segment also provides various telecommunication infrastructure services on a limited and ancillary basis, primarily to our customers in the electric power industry.

## **Recent Investments, Acquisitions and Divestitures**

In July 2013, we acquired an electric power infrastructure services company based in Ohio with operations primarily in the Midwest and along the East Coast of the United States and an energy infrastructure contractor



## **Table of Contents**

that primarily provides pipeline construction and related services in Australia. The aggregate consideration paid for these two acquisitions consisted of approximately \$123.8 million in cash, net of unrestricted cash acquired, and 763,272 shares of our common stock valued at approximately \$18.7 million. As these transactions were effective in July 2013, the results have been included in our consolidated financial statements beginning on their respective acquisition dates. These acquisitions should enable us to further enhance our service offerings in certain regions of the United States and increase our service capabilities in Australia.

In the first quarter of 2013, we acquired a small electric power infrastructure services company. The results of operations related to this acquisition are not material and have been reflected in our condensed consolidated financial statements beginning as of the date of the acquisition.

In the first and second quarters of 2012, we acquired four businesses, which included one electric power infrastructure services company based in Canada, two electric power infrastructure services companies based in the United States and one natural gas and pipeline infrastructure services company based in the United States. These businesses have been reflected in our consolidated financial statements as of their respective acquisition dates. The aggregate consideration for these acquisitions consisted of approximately \$57.5 million in cash, 1,927,113 shares of our common stock valued at approximately \$37.3 million and the repayment of \$11.0 million in debt. These acquisitions have allowed us to further expand our capabilities and scope of services internationally and in the United States.

During 2011 and 2012, we acquired an equity ownership interest of approximately 31% in Howard Midstream Energy Partners, LLC (HEP). HEP is engaged in the business of owning, operating and constructing midstream plant and pipeline assets in the natural gas and oil pipeline industry. Our investment in HEP is expected to provide strategic growth opportunities in the ongoing development of the Texas Eagle Ford shale region. We account for this investment using the equity method of accounting. During the first nine months of 2013, we invested an additional \$9.1 million, along with other HEP members, primarily to provide capital for planned midstream expansion projects. The carrying value of Quanta's investment in HEP was approximately \$99.6 million and \$90.5 million at September 30, 2013 and December 31, 2012.

On December 3, 2012, substantially all of our domestic telecommunications infrastructure services operations and related subsidiaries were sold for net proceeds of approximately \$265.0 million.

## **Backlog**

Backlog is not a term recognized under United States generally accepted accounting principles; however, it is a common measurement used in our industry. Our methodology for determining backlog may not be comparable to the methodologies used by other companies.

Our backlog represents the amount of consolidated revenue that we expect to realize from future work under construction contracts and long-term maintenance contracts, or master service agreements (MSAs). These estimates include revenues from the remaining portion of firm orders not yet completed and on which work has not yet begun, as well as revenues from change orders, renewal options, and funded and unfunded portions of government contracts to the extent that they are reasonably expected to occur. For purposes of calculating backlog, we include 100% of estimated revenues attributable to consolidated joint ventures and VIEs. The

**Table of Contents**

following table presents our total backlog by reportable segment as of September 30, 2013 and December 31, 2012, along with an estimate of the backlog amounts expected to be realized within 12 months of each balance sheet date (in thousands):

	<b>Backlog as of September 30, 2013</b>		<b>Backlog as of December 31, 2012</b>	
	<b>12 Month</b>	<b>Total</b>	<b>12 Month</b>	<b>Total</b>
Electric Power Infrastructure Services	\$ 2,918,358	\$ 5,322,414	\$ 2,864,870	\$ 4,918,178
Natural Gas and Pipeline Infrastructure Services	1,305,710	2,220,843	797,044	1,566,316
Fiber Optic Licensing and Other	140,862	545,240	145,039	502,523
<b>Total</b>	<b>\$ 4,364,930</b>	<b>\$ 8,088,497</b>	<b>\$ 3,806,953</b>	<b>\$ 6,987,017</b>

Revenue estimates included in our backlog can be subject to change as a result of project accelerations, cancellations or delays due to various factors, including but not limited to commercial issues, regulatory requirements and adverse weather. These factors can also cause revenue amounts to be realized in periods and at levels different than originally projected. Generally, our customers are not contractually committed to specific volumes of services under our MSAs, and while we did not experience any material cancellations during the current periods, most of our contracts may be terminated, typically upon 30 to 90 days notice, even if we are not in default under the contract. We determine the estimated amount of backlog for work under MSAs by using recurring historical trends inherent in current MSAs, factoring in seasonal demand and projected customer needs based upon ongoing communications with the customer. In addition, many of our MSAs, as well as contracts for fiber optic licensing, are subject to renewal options. As of September 30, 2013 and December 31, 2012, MSAs accounted for approximately 32% and 34% of our estimated 12 month backlog and approximately 45% of total backlog as of both periods. There can be no assurance as to our customers' requirements or that our estimates are accurate.

**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 can cause delays on projects. In addition, many of our customers develop their capital budgets for the coming year during the first quarter and do not begin infrastructure projects in a meaningful way until their capital budgets are finalized. Second quarter revenues are typically higher than those in the first quarter, as some projects begin, but continued cold and wet weather can often impact second quarter productivity. Third quarter revenues are typically the highest of the year, as a greater number of projects are underway, and weather is more accommodating. 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 can sometimes 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. The timing of project awards and unanticipated changes in project schedules as a result of delays or accelerations can also create variations in the level of operating activity from 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, particularly 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



## **Table of Contents**

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, dispositions, fluctuations in our equity in earnings of unconsolidated affiliates and interest rate fluctuations are examples of items that 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 an uncertain business environment, with heightened regulatory and environmental requirements, stringent permitting processes and only gradual recovery in the economy 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 or delayed spending over the past three years, which we attribute primarily to regulatory and permitting hurdles and negative economic and market conditions, and we anticipate that these issues 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 previously, seasonal patterns can have a significant impact on margins. Generally, business is slower in the winter months versus the warmer months of the year, resulting in lower productivity and consequently reducing our ability to cover fixed costs. 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 also 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 gross 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.

## **Table of Contents**

*Service and maintenance versus installation.* Installation work is often performed 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 may 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 gross 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 20% to 25% 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 of our margins to those of 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. As of August 1, 2013, we renewed our employer's liability, general liability, auto liability and workers' compensation policies for the current 2013 - 2014 policy year. As a result of the renewal, the deductibles for general liability and auto liability increased to \$10.0 million per occurrence, while the deductible for workers' compensation remained at \$5.0 million per occurrence and the deductible for employer's liability remained at \$1.0 million per occurrence. Between August 1, 2009 and July 31, 2013, all policy deductible levels were \$5.0 million per occurrence, other than employer's liability, which was 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 \$375,000 per claimant per year.

*Performance risk.* Margins may fluctuate because of the volume of work and the impacts of pricing and job productivity, which can be affected 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 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 effects of environmental restrictions or regulatory delays. These types of factors are not practicable to quantify through accounting data, but each of these items may individually or in the aggregate have a direct impact on the gross margin of a specific project.

*Foreign currency risk.* Our financial performance on a U.S. dollar denominated basis is subject to fluctuation in currency exchange rates. These fluctuations could cause material fluctuations in our results of operations.

## **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.

**Table of Contents****Results of Operations**

As previously discussed, we have acquired certain businesses, the results of which have been included in the following results of operations beginning on their respective acquisition dates. Additionally, the results of operations of the telecommunications subsidiaries disposed of on December 3, 2012 have been reclassified from continuing operations to income from discontinued operations for the three and nine months ended September 30, 2012. The following table sets forth selected statements of operations data and such data as a percentage of revenues for the three and nine month periods indicated (dollars in thousands):

**Consolidated Results**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
Revenues	\$ 1,645,132	100.0%	\$ 1,532,001	100.0%	\$ 4,705,219	100.0%	\$ 4,246,927	100.0%
Cost of services (including depreciation)	1,372,079	83.4	1,280,001	83.6	3,952,609	84.0	3,595,959	84.7
Gross profit	273,053	16.6	252,000	16.4	752,610	16.0	650,968	15.3
Selling, general and administrative expenses	124,949	7.6	114,577	7.5	357,661	7.6	317,918	7.5
Amortization of intangible assets	7,026	0.4	10,290	0.6	17,406	0.4	28,781	0.6
Operating income	141,078	8.6	127,133	8.3	377,543	8.0	304,269	7.2
Interest expense	(475)		(963)	(0.1)	(1,480)		(2,496)	
Interest income	1,139	0.1	383		2,230		1,178	
Equity in earnings of unconsolidated affiliates			1,308	0.1			1,308	
Other income (expense), net	(824)	(0.1)	(179)		(1,690)		(375)	
Income from continuing operations before income taxes	140,918	8.6	127,682	8.3	376,603	8.0	303,884	7.2
Provision for income taxes	42,509	2.6	39,596	2.6	126,611	2.7	103,536	2.5
Net income from continuing operations	98,409	6.0	88,086	5.7	249,992	5.3	200,348	4.7
Income from discontinued			12,770	0.9			20,299	0.5

operations, net of taxes

Net income	98,409	6.0	100,856	6.6	249,992	5.3	220,647	5.2
Less: Net income attributable to noncontrolling interests	5,503	0.4	4,458	0.3	14,768	0.3	13,004	0.3
Net income attributable to common stock	\$ 92,906	5.6%	\$ 96,398	6.3%	\$ 235,224	5.0%	\$ 207,643	4.9%

Amounts attributable to common stock:

Net income from continuing operations	\$ 92,906	5.6%	\$ 83,628	5.4%	\$ 235,224	5.0%	\$ 187,344	4.4%
Net income from discontinued operations			12,770	0.9			20,299	0.5
Net income attributable to common stock	\$ 92,906	5.6%	\$ 96,398	6.3%	\$ 235,224	5.0%	\$ 207,643	4.9%

---

**Table of Contents*****Three months ended September 30, 2013 compared to the three months ended September 30, 2012***

*Revenues.* Revenues increased \$113.1 million, or 7.4%, to \$1.65 billion for the three months ended September 30, 2013. This increase was primarily due to higher revenues from natural gas and pipeline infrastructure services, which increased \$158.2 million, or 40.1%, to \$552.4 million, primarily due to increased revenues from natural gas and pipeline transmission projects related to the unconventional shale developments in certain regions of North America and \$56.0 million in revenues generated from companies acquired in 2013. These increases were partially offset by a decline in electric power infrastructure services revenues, which decreased \$40.2 million, or 3.7%, to \$1.05 billion, primarily as a result of a \$56.5 million decrease in emergency restoration services revenues, partially offset by \$27.5 million in revenues generated from companies acquired in 2013.

*Gross profit.* Gross profit increased \$21.1 million, or 8.4%, to \$273.1 million for the three months ended September 30, 2013. This increase was primarily due to the impact of improved performance and higher revenues earned from the Natural Gas and Pipeline Infrastructure Services segment during the current period. Gross profit as a percentage of revenues increased to 16.6% for the three months ended September 30, 2013 from 16.4% for the three months ended September 30, 2012. This increase in gross margin was primarily a result of the impact of improved performance and higher revenues earned from the Natural Gas and Pipeline Infrastructure Services segment during the current period, which improved this segment's ability to cover fixed operating costs. This increase was partially offset by lower gross margin in the Electric Power Infrastructure Services segment, which was primarily a result of the decrease in higher margin emergency restoration services revenues during the three months ended September 30, 2013 as compared to the three months ended September 30, 2012.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased \$10.4 million, or 9.1%, to \$124.9 million for the three months ended September 30, 2013. The increase was primarily attributable to approximately \$6.5 million in higher salary and incentive compensation costs due to increased levels of operating activity and profitability. Also contributing to the overall increase in selling, general and administrative expenses was approximately \$4.1 million in incremental administrative costs related to acquired companies. Selling, general and administrative expenses as a percentage of revenues remained relatively constant at 7.5% for the three months ended September 30, 2012 as compared to 7.6% for the three months ended September 30, 2013.

*Amortization of intangible assets.* Amortization of intangible assets decreased \$3.3 million to \$7.0 million for the three months ended September 30, 2013. This decrease was primarily due to reduced amortization expense from previously acquired intangible assets as certain of these assets became fully amortized, partially offset by increased amortization of intangibles associated with businesses acquired during 2013.

*Interest expense.* Interest expense decreased \$0.5 million to \$0.5 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 due to the impact of higher levels of credit facility borrowing activity during the three months ended September 30, 2012.

*Interest income.* Interest income was \$1.1 million and \$0.4 million for the three month periods ended September 30, 2013 and September 30, 2012. This increase was due to higher average cash balances and interest rates during the quarter ended September 30, 2013 compared to the quarter ended September 30, 2012.

*Provision for income taxes.* The provision for income taxes was \$42.5 million for the three months ended September 30, 2013, with an effective tax rate of 30.2%. The provision for income taxes was \$39.6 million for the three months ended September 30, 2012, with an effective tax rate of 31.0%. The effective tax rates for the three months ended September 30, 2013 and 2012 were impacted by the recording of net tax benefits in the amount of \$6.6 million in the three months ended September 30, 2013 and \$5.2 million in the three months ended September 30, 2012.

associated with decreases in reserves for uncertain tax positions resulting from the expiration



---

**Table of Contents**

of various federal and state statute of limitations periods and settlement of certain tax audits. Excluding the tax benefits from decreases in reserves for uncertain tax positions, the effective rates would have been 34.9% and 35.1% for the three months ended September 30, 2013 and 2012.

***Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012***

**Revenues.** Revenues increased \$458.3 million, or 10.8%, to \$4.71 billion for the nine months ended September 30, 2013. This increase was primarily due to higher revenues from natural gas and pipeline infrastructure services, which increased \$208.5 million, or 19.1%, to \$1.30 billion, primarily due to increased revenues from natural gas and pipeline transmission projects related to unconventional shale developments in certain regions of North America and \$56.0 million in revenues generated from companies acquired in 2013. Additionally, revenues from electric power infrastructure services projects increased \$248.9 million, or 8.2%, to \$3.28 billion primarily as a result of increases in capital spending by our customers and \$27.5 million in revenues generated from companies acquired in 2013.

**Gross profit.** Gross profit increased \$101.6 million, or 15.6%, to \$752.6 million for the nine months ended September 30, 2013. Gross profit as a percentage of revenues increased to 16.0% for the nine months ended September 30, 2013 as compared to 15.3% for the nine months ended September 30, 2012. These increases were primarily due to the impact of higher revenues and a result of overall performance improvements in the Natural Gas and Pipeline Infrastructure Services segment during the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, which were negatively impacted by increased project costs as a result of performance issues caused by adverse weather conditions on certain projects that did not recur to the same extent during 2013.

**Selling, general and administrative expenses.** Selling, general and administrative expenses increased \$39.7 million, or 12.5%, to \$357.7 million for the nine months ended September 30, 2013. The increase was primarily attributable to approximately \$30.9 million in higher salary and incentive compensation costs associated with increased levels of operating activity and profitability. Included in this increase in compensation costs was approximately \$4.3 million of expense related to the accelerated vesting of equity-based awards associated with the retirement of Quanta's Executive Chairman of the Board of Directors in the second quarter of 2013. Also contributing to the overall increase in selling, general and administrative expenses was approximately \$4.4 million in higher costs associated with Quanta's ongoing technology and business development initiatives and approximately \$4.1 million in incremental administrative costs related to acquired companies. Selling, general and administrative expenses as a percentage of revenues remained relatively constant at 7.5% for the nine months ended September 30, 2012 as compared to 7.6% for the nine months ended September 30, 2013.

**Amortization of intangible assets.** Amortization of intangible assets decreased \$11.4 million to \$17.4 million for the nine months ended September 30, 2013. This decrease was primarily due to reduced amortization expense from previously acquired intangible assets as certain of these assets became fully amortized, partially offset by increased amortization of intangibles associated with businesses acquired during 2013.

**Interest expense.** Interest expense decreased \$1.0 million to \$1.5 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 due to higher levels of credit facility borrowing activity during the nine months ended September 30, 2012. There were no credit facility borrowings in the nine months ended September 30, 2013.

**Interest income.** Interest income was \$2.2 million and \$1.2 million for the nine months ended September 30, 2013 and September 30, 2012. This increase was due to higher average cash balances and interest rates during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.



**Table of Contents**

*Provision for income taxes.* The provision for income taxes was \$126.6 million for the nine months ended September 30, 2013, with an effective tax rate of 33.6%. The provision for income taxes was \$103.5 million for the nine months ended September 30, 2012, with an effective tax rate of 34.1%. The effective tax rates for the nine months ended September 30, 2013 and 2012 were impacted by the recording of net tax benefits in the amount of \$6.6 million in the nine months ended September 30, 2013 and \$5.2 million in the nine months ended September 30, 2012 associated with decreases in reserves for uncertain tax positions resulting from the expiration of various federal and state statute of limitations periods and settlement of certain tax audits. Excluding the tax benefits from decreases in reserves for uncertain tax positions, the effective rates would have been 35.4% and 35.8% for the nine months ended September 30, 2013 and 2012.

**Segment Results**

The following table sets forth segment revenues and segment operating income for the periods indicated (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
<b>Revenues:</b>								
Electric Power	\$ 1,048,370	63.7%	\$ 1,088,586	71.1%	\$ 3,275,732	69.6%	\$ 3,026,872	71.3%
Natural Gas and Pipeline	552,380	33.6	394,215	25.7	1,297,254	27.6	1,088,777	25.6
Fiber Optic Licensing and Other	44,382	2.7	49,200	3.2	132,233	2.8	131,278	3.1
Consolidated revenues from external customers	\$ 1,645,132	100.0%	\$ 1,532,001	100.0%	\$ 4,705,219	100.0%	\$ 4,246,927	100.0%
<b>Operating income:</b>								
Electric Power	\$ 122,413	11.7%	\$ 137,445	12.6%	\$ 375,772	11.5%	\$ 362,394	12.0%
Natural Gas and Pipeline	49,873	9.0	23,429	5.9	87,874	6.8	27,949	2.6
Fiber Optic Licensing and Other	14,105	31.8	15,114	30.7	45,289	34.2	45,077	34.3
Corporate and non-allocated costs	(45,313)	N/A	(48,855)	N/A	(131,392)	N/A	(131,151)	N/A
Consolidated operating income	\$ 141,078	8.6%	\$ 127,133	8.3%	\$ 377,543	8.0%	\$ 304,269	7.2%

*Three months ended September 30, 2013 compared to the three months ended September 30, 2012*

*Electric Power Infrastructure Services Segment Results*

Revenues for this segment decreased \$40.2 million, or 3.7%, to \$1.05 billion for the three months ended September 30, 2013. Revenues were negatively impacted by a decrease of approximately \$56.5 million in emergency restoration services revenues to approximately \$18.6 million in the third quarter of 2013 from approximately \$75.1 million in the third quarter of 2012. The emergency restoration services revenues from the three months ended September 30, 2012 were primarily due to severe weather that occurred along the gulf coast region of the United States. Revenues for the three months ended September 30, 2013 were also negatively impacted by lower revenues related to renewable energy projects due to decreased capital spending by our customers primarily as a result of changes in tax incentives associated with these types of projects. Partially offsetting this decrease were increased revenues from electric power transmission and distribution projects, which resulted primarily from increased capital spending by our customers. Additionally, revenues for the three months ended September 30, 2013 were favorably impacted by approximately \$27.5 million in revenues generated by companies acquired in 2013.

---

**Table of Contents**

Operating income decreased \$15.0 million, or 10.9%, to \$122.4 million for the three months ended September 30, 2013. The decrease in operating income was primarily due to the decrease in segment revenues described above. Operating income as a percentage of segment revenues decreased to 11.7% for the quarter ended September 30, 2013 from 12.6% for the quarter ended September 30, 2012. The decrease in operating margin was primarily due to the decrease in revenues from higher margin emergency restoration services and renewable energy projects.

*Natural Gas and Pipeline Infrastructure Services Segment Results*

Revenues for this segment increased \$158.2 million, or 40.1%, to \$552.4 million for the three months ended September 30, 2013. Revenues were higher in the third quarter of 2013 as a result of increases in revenues from transmission projects related to unconventional shale developments in certain regions of North America. Revenues for the three months ended September 30, 2013 were also favorably impacted by approximately \$56.0 million in revenues generated by companies acquired in 2013.

Operating income increased \$26.4 million to \$49.9 million for the quarter ended September 30, 2013 from \$23.4 million for the quarter ended September 30, 2012. Operating income as a percentage of segment revenues increased to 9.0% for the quarter ended September 30, 2013 from 5.9% for the quarter ended September 30, 2012. These increases were primarily due to continued performance improvements and more favorable project conditions as well as the overall increase in segment revenues described above, which improved this segment's ability to cover fixed and overhead costs.

*Fiber Optic Licensing and Other Segment Results*

Revenues for this segment decreased \$4.8 million, or 9.8%, to \$44.4 million for the three months ended September 30, 2013. This decrease in revenues was primarily due to lower levels of ancillary telecommunications service revenues during 2013.

Operating income decreased \$1.0 million, or 6.7%, to \$14.1 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012. The decrease in operating income was primarily due to the decrease in segment revenues described above. Operating income as a percentage of segment revenues for the quarter ended September 30, 2013 increased to 31.8% as compared to 30.7% for the quarter ended September 30, 2012, primarily due to a larger proportion of fiber optic licensing revenues earned during the three months ended September 30, 2013, which yield higher margins than ancillary telecommunication and wireless infrastructure services projects.

*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 September 30, 2013 decreased \$3.5 million to \$45.3 million. This decrease was primarily a result of \$3.3 million in lower amortization expense as previously acquired intangible assets became fully amortized, partially offset by amortization expense related to 2013 acquisitions.

*Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012**Electric Power Infrastructure Services Segment Results*

Revenues for this segment increased \$248.9 million, or 8.2%, to \$3.28 billion for the nine months ended September 30, 2013. Revenues were positively impacted by increased activity in electric power transmission and distribution projects, which resulted primarily from increased capital spending by our customers. Revenues for the nine months ended September 30, 2013 were also favorably impacted by the additional contribution of approximately \$27.5 million in revenues from companies acquired in 2013. Partially offsetting these increases

---

**Table of Contents**

was a decline in revenues from emergency restoration services, which decreased approximately \$42.0 million to approximately \$77.7 million for the nine months ended September 30, 2013 as compared to approximately \$119.7 million for the nine months ended September 30, 2012. Revenues for the nine months ended September 30, 2013 were also negatively impacted by lower revenues related to renewable energy projects due to decreased capital spending by our customers, primarily as a result of a change in the tax incentives associated with these types of projects.

Operating income increased \$13.4 million, or 3.7%, to \$375.8 million for the nine months ended September 30, 2013. The increase in operating income was primarily due to the increase in segment revenues described above. Operating income as a percentage of segment revenues decreased to 11.5% for the nine months ended September 30, 2013 from 12.0% for the nine months ended September 30, 2012 primarily due to lower margins earned on certain major transmission projects that were ongoing during the nine months ended September 30, 2013 as compared to those ongoing during the nine months ended September 30, 2012 and the decrease in emergency restoration services revenues, which typically yield higher margins.

*Natural Gas and Pipeline Infrastructure Services Segment Results*

Revenues for this segment increased \$208.5 million, or 19.1%, to \$1.30 billion for the nine months ended September 30, 2013. Revenues in the nine months ended September 30, 2013 increased when compared to the nine months ended September 30, 2012, primarily due to an increase in revenues from transmission projects related to unconventional shale developments in certain regions of North America. Revenues for the nine months ended September 30, 2013 were also favorably impacted by approximately \$56.0 million in revenues generated by companies acquired in 2013.

Operating income increased \$59.9 million to \$87.9 million for the nine months ended September 30, 2013 from \$27.9 million for the nine months ended September 30, 2012. Operating income as a percentage of segment revenues increased to 6.8% for the nine months ended September 30, 2013 from 2.6% for the nine months ended September 30, 2012. These increases were primarily due to continued performance improvements in project execution and the overall increase in segment revenues described above, which improved this segment's ability to cover fixed and overhead costs. Operating margins for the nine months ended September 30, 2012 were negatively impacted by increased project costs as a result of performance issues caused by adverse weather conditions on certain projects which did not recur to the same extent during the nine months ended September 30, 2013.

*Fiber Optic Licensing and Other Segment Results*

Revenues for this segment increased \$1.0 million, or 0.7%, to \$132.2 million for the nine months ended September 30, 2013. This increase in revenues was primarily due to the volume of work associated with the installation of a statewide fiber optic network in Pennsylvania and from increased licensing of point-to-point fiber optic telecommunications facilities as a result of our continued network expansion activities. The increase was partially offset by a decrease in revenues related to ancillary telecommunications and wireless infrastructure projects.

Operating income increased \$0.2 million, or 0.5%, to \$45.3 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, primarily due to the revenue increases described above. Operating income as a percentage of segment revenues for the nine months ended September 30, 2013 decreased slightly to 34.2% as compared to 34.3% for the nine months ended September 30, 2012.

*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 nine months ended September 30, 2013 increased \$0.2 million to \$131.4 million. Contributing to this increase was approximately \$12.0 million in higher salary



## **Table of Contents**

and incentive compensation costs associated with increased levels of operating activity and profitability and an additional \$4.3 million of expense related to the accelerated vesting of equity-based awards associated with the retirement of Quanta's Executive Chairman of the Board of Directors in the second quarter of 2013. Partially offsetting these increases was primarily a decrease of \$11.4 million in amortization expense as previously acquired intangible assets became fully amortized, partially offset by amortization expense related to 2013 acquisitions.

## **Liquidity and Capital Resources**

### ***Cash Requirements***

Our cash and cash equivalents totaled \$309.2 million as of September 30, 2013. As of September 30, 2013 and December 31, 2012, cash and cash equivalents in domestic bank accounts were approximately \$125.2 million and \$254.1 million, and cash and cash equivalents held in foreign bank accounts were approximately \$184.0 million and \$140.6 million. We were in compliance with our covenants under our credit facility at September 30, 2013. We anticipate that our cash and cash equivalents on hand, 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 and our planned capital expenditures, as well as facilitate our ability to grow in the foreseeable future.

Our industry is capital intensive, and we expect the need for substantial capital expenditures to continue into the foreseeable future to meet the anticipated demand for our services. Capital expenditures are expected to total \$260 million to \$270 million for 2013, of which we spent approximately \$213.2 million through September 30, 2013. Approximately \$45 million to \$50 million of the expected 2013 capital expenditures are targeted for the expansion of our fiber optic networks.

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 require the use of cash in the form of debt or equity investments.

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. 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 credit facility for funds. To date, we have experienced no loss of 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 or availability under our credit facility will not be impacted in the future by adverse conditions in the financial markets.

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

As of September 30, 2013, we had cash and cash equivalents of \$309.2 million and working capital of \$1.17 billion. We also had \$226.4 million of letters of credit outstanding and no revolving loans outstanding under our credit facility, with \$473.6 million available for borrowing or issuing new letters of credit under our credit facility.

### ***Operating Activities***

Cash flow from operations is primarily influenced by demand for our services and operating margins, but can also be influenced by working capital needs associated with the various types of services that we provide. In particular,

working capital needs may increase when we commence large volumes of work under circumstances where project costs, primarily associated with labor, equipment and subcontractors, are required to be paid before the receivables resulting from the work performed are billed and collected. Working capital needs are generally

---

**Table of Contents**

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. These seasonal trends can be offset by changes in the timing of major projects which can be impacted by project delays or accelerations and other economic factors that may affect customer spending.

Operating activities from continuing operations provided net cash of \$83.2 million during the three months ended September 30, 2013 as compared to \$46.5 million used by continuing operations during the three months ended September 30, 2012, and operating activities from continuing operations provided net cash of \$245.1 million during the nine months ended September 30, 2013 as compared to \$8.4 million used by continuing operations during the nine months ended September 30, 2012. The increase in cash flows for operating activities from continuing operations for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 was primarily a result of performance improvements and decreased working capital requirements during 2013 as compared to 2012. The higher working capital requirements in the prior year were primarily due to the ramp up of multiple large transmission projects and more emergency restoration services projects. The increase in cash flow provided by operating activities from continuing operations during the nine months ended September 30, 2013 was primarily a result of the collections on receivables during the first quarter of 2013 attributable to significantly higher levels of emergency restoration services provided in the fourth quarter of 2012 as compared to the fourth quarter of 2011 and due to decreased working capital requirements during 2013 as compared to 2012 mentioned in the three month comparison above.

*Investing Activities*

During the three months ended September 30, 2013, we used net cash in investing activities from continuing operations of \$134.6 million as compared to \$67.4 million in the three months ended September 30, 2012. Investing activities from continuing operations in the third quarter of 2013 included \$51.1 million used for capital expenditures and \$123.8 million used in connection with business acquisitions, partially offset by the release of \$36.5 million of restricted cash balances associated with a newly acquired company and \$4.5 million of proceeds from the sale of equipment. Investing activities from continuing operations in the third quarter of 2012 included \$67.9 million used for capital expenditures, partially offset by \$2.1 million of proceeds from the sale of equipment.

During the nine months ended September 30, 2013, we used net cash in investing activities from continuing operations of \$316.4 million as compared to \$263.7 million in the nine months ended September 30, 2012. Investing activities from continuing operations in the nine months ended September 30, 2013 included \$213.2 million used for capital expenditures, \$124.7 million used in connection with acquisitions, \$12.3 million used for other investments primarily comprised of the capital lease of an internally constructed electric power transmission asset and \$11.2 million used for additional investments in unconsolidated affiliates, partially offset by the release of \$36.5 million of restricted cash balances associated with a newly acquired company and \$8.6 million of proceeds from the sale of equipment. Investing activities from continuing operations in the nine months ended September 30, 2012 included \$148.6 million used for capital expenditures, \$68.7 million used in connection with acquisitions and \$53.8 million used for additional investments in unconsolidated affiliates, partially offset by \$9.0 million of proceeds from the sale of equipment.

Our industry is capital intensive, and we expect the need for substantial capital expenditures to continue into the foreseeable future to meet the anticipated demand for our services. In addition, we expect to continue to pursue strategic acquisitions and investments, although we cannot predict the timing or magnitude of the potential cash outlays for these initiatives.



---

**Table of Contents***Financing Activities*

During the three months ended September 30, 2013, net cash used by financing activities was \$2.5 million as compared to \$79.8 million provided by financing activities in the three months ended September 30, 2012. Financing activities in the third quarter of 2013 included \$2.5 million of cash payments to noncontrolling interests as distributions of joint venture profits. Financing activities in the third quarter of 2012 included increased borrowings under the credit facility of \$86.0 million primarily due to increased working capital needs associated with the ramp up of domestic projects during the third quarter of 2012, partially offset by \$6.7 million of cash payments to noncontrolling interests as distributions of joint venture profits.

During the nine months ended September 30, 2013, net cash used by financing activities was \$8.4 million as compared to \$113.5 million provided by financing activities in the nine months ended September 30, 2012. Financing activities in the nine months ended September 30, 2013 included \$11.8 million of cash payments to noncontrolling interests as distributions of joint venture profits and the positive impact of \$2.8 million related to the tax impact of stock-based equity awards. Financing activities in the nine months ended September 30, 2012 included net borrowings under the credit facility of \$125.0 million primarily due to increased working capital needs associated with the ramp up of domestic projects during the third quarter of 2012 and \$13.0 million of cash payments to noncontrolling interests as distributions of joint venture profits.

*Debt Instruments**Credit Facility*

Our credit agreement in effect as of September 30, 2013 provided for a \$700.0 million senior secured revolving credit facility with a maturity date of August 2, 2016. The entire amount of the facility was available for the issuance of letters of credit. Up to \$100.0 million of the facility was available for borrowings and letters of credit in certain alternative currencies in addition to the U.S. dollar. Borrowings under the credit agreement were to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes.

As of September 30, 2013, we had approximately \$226.4 million of letters of credit issued and no outstanding borrowings under the credit facility. The remaining \$473.6 million was available for borrowings or issuing new letters of credit. Amounts borrowed under the credit agreement in U.S. dollars bore interest, at our option, at a rate equal to either (a) the Eurocurrency Rate (as defined in the credit agreement) plus 1.25% to 2.50%, as determined based on our Consolidated Leverage Ratio (as described below), plus, if applicable, any Mandatory Cost (as defined in the credit agreement) required to compensate lenders for the cost of compliance with certain European regulatory requirements, or (b) the Base Rate (as described below) plus 0.25% to 1.50%, as determined based on our Consolidated Leverage Ratio. Amounts borrowed under the credit agreement in any currency other than U.S. dollars bore interest at a rate equal to the Eurocurrency Rate plus 1.25% to 2.50%, as determined based on our Consolidated Leverage Ratio, plus, if applicable, any Mandatory Cost. Standby letters of credit issued under the credit agreement were subject to a letter of credit fee of 1.25% to 2.50%, based on our Consolidated Leverage Ratio, and Performance Letters of Credit (as defined in the credit agreement) issued under the credit agreement in support of certain contractual obligations were subject to a letter of credit fee of 0.75% to 1.50%, based on our Consolidated Leverage Ratio. We were also subject to a commitment fee of 0.20% to 0.45%, based on our Consolidated Leverage Ratio, on any unused availability under the credit agreement. The Consolidated Leverage Ratio was the ratio of our total funded debt to Consolidated EBITDA (as defined in the credit agreement). For purposes of calculating both the Consolidated Leverage Ratio and the maximum senior debt to Consolidated EBITDA ratio discussed below, total funded debt and total senior debt were reduced by all cash and Cash Equivalents (as defined in the credit agreement) held by us in excess of \$25.0 million. The Base Rate equaled the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 1/2 of 1%,

(ii) Bank of America's prime rate and (iii) the Eurocurrency Rate plus 1.00%.

Subject to certain exceptions, the credit agreement was secured by substantially all of our assets and the assets of our wholly owned U.S. subsidiaries, and by a pledge of all of the capital stock of our wholly owned

## **Table of Contents**

U.S. subsidiaries and 65% of the capital stock of our direct foreign subsidiaries and the direct foreign subsidiaries of our wholly owned U.S. subsidiaries. Our wholly owned U.S. subsidiaries also guaranteed the repayment of all amounts due under the credit agreement. Subject to certain conditions, at any time we maintained a corporate credit rating that was BBB- (stable) or higher by Standard & Poor's Rating Services and a corporate family rating that was Baa3 (stable) or higher by Moody's Investors Services, all collateral would have been automatically released from these liens.

The credit agreement contained certain covenants, including a maximum Consolidated Leverage Ratio and a minimum interest coverage ratio, in each case as specified in the credit agreement. The credit agreement also contained a maximum senior debt to Consolidated EBITDA ratio, as specified in the credit agreement, that would have been in effect at any time that the collateral securing the credit agreement had been and remained released. The credit agreement limited certain acquisitions, mergers and consolidations, indebtedness, capital expenditures, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibited liens on assets. The credit agreement also included limits on the payment of dividends and stock repurchase programs in any fiscal year except those payments or other distributions payable solely in capital stock. As of September 30, 2013, we were in compliance with all of the covenants in the credit agreement.

The credit agreement provided for customary events of default and included cross-default provisions with our underwriting, continuing indemnity and security agreement with our sureties and all of our other debt instruments exceeding \$30.0 million in borrowings or availability. If an event of default (as defined in the credit agreement) occurred and continued, on the terms and subject to the conditions set forth in the credit agreement, amounts outstanding under the credit agreement may have been accelerated and may have become or be declared immediately due and payable.

On October 30, 2013, we entered into an amended and restated credit agreement with various lenders that provides for a \$1.325 billion senior secured revolving credit facility, with an option to increase the facility to \$1.625 billion, maturing October 30, 2018. Interest rates and terms are generally consistent with the terms of the previous credit facility. The \$1.325 billion senior secured revolving credit facility also increases our ability to borrow funds and provide letters of credit in foreign currencies, subject to certain multi-currency sublimits.

## **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, commitments to purchase equipment, 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 a general partnership, for which we are jointly and severally liable for all of the obligations of the joint venture. In our joint venture arrangements, each joint venturer indemnifies the other party for any liabilities incurred in excess of the liabilities 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 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.



## **Table of Contents**

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 September 30, 2013, the maximum guaranteed residual value was approximately \$278.4 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, certain 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, typically pursuant to our credit facility. Each 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 be required to record a charge to earnings for the reimbursement. We do not believe that it is likely that any material claims will be made under a letter of credit in the foreseeable future.

As of September 30, 2013, we had \$226.4 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 2013 and 2014. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods.

### ***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 underwriting, 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. Subject to certain conditions and consistent with terms of our credit facility, these security interests will be automatically released if we maintain a corporate credit rating that is BBB- (stable) or higher by Standard & Poor's Rating Services and a corporate family rating that is Baa3 (stable) or higher by Moody's Investors Services. 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 that it is unlikely that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of September 30, 2013, the total amount of outstanding performance bonds was approximately \$2.35 billion, and the estimated cost to complete these bonded projects was approximately \$433.0 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 are not aware of any material obligations for performance or payment asserted against us under any of these guarantees.



**Table of Contents****Contractual Obligations**

As of September 30, 2013, our future contractual obligations are as follows (in thousands):

	<b>Total</b>	<b>Remainder of 2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Thereafter</b>
Operating lease obligations	\$ 132,572	\$ 15,072	\$ 39,299	\$ 24,650	\$ 18,411	\$ 12,451	\$ 22,689
Capital lease obligations	2,639	2,639					
Equipment purchase commitments	18,799	9,598	9,201				
Capital commitments related to investments in unconsolidated affiliates	8,333	8,333					
Committed capital expenditures for fiber optic networks under contracts with customers	27,773	10,119	17,654				
<b>Total</b>	<b>\$ 190,116</b>	<b>\$ 45,761</b>	<b>\$ 66,154</b>	<b>\$ 24,650</b>	<b>\$ 18,411</b>	<b>\$ 12,451</b>	<b>\$ 22,689</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. We have also committed capital for the expansion of our vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of September 30, 2013, production orders for approximately \$9.6 million and \$9.2 million had been issued with delivery dates occurring throughout 2013 and 2014. Although we have committed to the purchase of these vehicles at the time of their delivery, we intend that these orders will be assigned to third party leasing companies and made available to us under certain of our master equipment lease agreements, which will release us from our capital commitment. The capital commitment related to investment in unconsolidated affiliates refers primarily to a capital commitment with HEP for planned midstream expansion projects and is expected to be funded in the fourth quarter of 2013.

As of September 30, 2013, the total unrecognized tax benefits related to uncertain tax positions was \$50.6 million. Although the Internal Revenue Service completed its examination related to calendar year 2009 during 2012, certain of our subsidiaries remain under examination by various state and Canadian tax authorities for multiple periods, and the amount of unrecognized tax benefits could therefore increase or decrease as a result of the expiration of certain statute of limitations periods or settlements of these audits. We believe it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease up to \$10.8 million due to the expiration of certain statute of limitations periods or settlements of the audits.

The previously presented table of estimated contractual obligations does not reflect obligations under the multi-employer pension plans in which our union employees participate. Some 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 generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans on a pay-as-you-go basis based on our union employee payrolls. Our

obligations for contributions to multi-employer pension plans cannot be determined for future periods because the location and number of union employees that we have employed 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.

We may also have additional liabilities imposed by law as a result of our participation in multi-employer defined benefit pension plans. 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 if the employer withdraws from the plan or the plan is terminated or

---

**Table of Contents**

experiences a mass withdrawal. These liabilities include an allocable share of the unfunded vested benefits in the plan for all plan participants, not merely the benefits payable to a contributing employer's own retirees. Other than as noted below, we are not aware of any material amounts of withdrawal liability that have been or are expected to be incurred as a result of a withdrawal by any of our operating units from any multi-employer defined benefit pension plans.

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 special funding and operational rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as endangered, seriously endangered or critical status. Plans in these classifications must adopt measures to improve their funded status through a funding improvement or rehabilitation plan, as applicable, which may require additional contributions from employers (which may take the form of a surcharge on benefit contributions) and/or modifications to retiree benefits. A number of multi-employer plans to which our operating units contribute or may contribute in the future are in endangered, seriously endangered or critical status. The amount of additional funds, if any, that we may be obligated to contribute to these plans in the future cannot be reasonably estimated and is not included in the above table due to uncertainty of the future levels of work that require the specific use of the union employees covered by these plans, as well as the future contribution levels and possible surcharges on contributions applicable to these plans.

We recorded a partial withdrawal liability of approximately \$32.6 million in the fourth quarter of 2011 related to the withdrawal by certain of our subsidiaries from the Central States, Southeast and Southwest Areas Pension Plan (the Central States Plan). The partial withdrawal liability we recognized was based on estimates received from the Central States Plan during 2011 for a complete withdrawal by all of our subsidiaries participating in the Central States Plan. During the third quarter of 2012, the Central States Plan provided an estimate of the potential withdrawal liability, indicating that the withdrawal liability is approximately \$32.8 million based on a partial withdrawal in the fourth quarter of 2011, approximately \$39.7 million based on a partial withdrawal in the first quarter of 2012, or approximately \$40.1 million based upon a complete withdrawal in 2012. Certain other of our subsidiaries continued participation in the Central States Plan, and we subsequently effected a complete withdrawal as of December 31, 2012. The consequences of the complete withdrawal of our subsidiaries from the plan will depend on various factors, including interpretations of the terms of the collective bargaining agreements under which the subsidiaries participated and whether exemptions from withdrawal liability applicable to construction industry employers will be available. Based on the previous estimates of liability associated with a complete withdrawal from the Central States Plan, and allowing for the exclusion of amounts we believe have been improperly included in such estimate, we will seek to challenge and further negotiate the amount owed in connection with this matter. Given the unknown nature of some of these factors, the final withdrawal liability cannot yet be determined with certainty; therefore, such amount could be materially higher than the \$32.6 million we recognized in the fourth quarter of 2011. As a result of these various factors, the estimated partial withdrawal liability of \$32.6 million has not been included in the Contractual Obligations table. For additional information regarding the partial withdrawal liability, see Note 10 of the Notes to Condensed Consolidated Financial Statements in Item 1. Financial Statements.

Also excluded from the Contractual Obligations table is interest associated with letters of credit fees and commitment fees under our credit facility because the outstanding letters of credit, availability and applicable interest rates and fees are variable. For additional information regarding the interest rates under our credit facility, see Note 7 of the Notes to Condensed Consolidated Financial Statements in Item 1. Financial Statements. We have also excluded additional capital commitments associated with investments in unconsolidated affiliates related to planned midstream infrastructure projects of approximately \$13.2 million from the Contractual Obligations table because we are unable to determine the timing of these capital commitments but anticipate them to be paid before the end of 2015. As specific amounts of capital commitments and their timing are determined, we will reflect such amounts in the Contractual Obligations table.



---

**Table of Contents*****Self-Insurance***

We are insured for employer's liability, general liability, auto liability and workers' compensation claims. As of August 1, 2013, we renewed our employer's liability, general liability, auto liability and workers' compensation policies for the current 2013 - 2014 policy year. As a result of the renewal, the deductibles for general liability and auto liability increased to \$10.0 million per occurrence, while the deductible for workers' compensation remained at \$5.0 million per occurrence and the deductible for employer's liability remained at \$1.0 million per occurrence. Additionally, in connection with this renewal, the amount of letters of credit required by us to secure our obligations under our casualty insurance programs, which is discussed further below, has increased. Between August 1, 2009 and July 31, 2013, all policy deductible levels were \$5.0 million per occurrence, other than employer's liability, which was 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 \$375,000 per claimant per year.

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 extent of damage, 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 September 30, 2013 and December 31, 2012, the gross amount accrued for insurance claims totaled \$164.9 million and \$160.8 million, with \$122.9 million and \$120.2 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of September 30, 2013 and December 31, 2012 were \$12.6 million and \$22.2 million, of which \$0.8 million and \$2.3 million are included in prepaid expenses and other current assets and \$11.8 million and \$19.9 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 we may elect not to obtain certain types or incremental levels of insurance if we believe that the cost to obtain such coverage exceeds the additional benefits obtained. 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 our 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, changes in economic conditions could impact the interest income we receive from these investments. In addition, we grant credit under normal payment terms, generally without collateral, to our customers, which include electric power, natural gas and oil pipeline companies, 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 uncertain economic and financial market conditions that have existed in recent years. However, we generally have certain statutory lien rights with respect to services provided. Historically, some of our customers have experienced

significant financial difficulties, and others may experience financial difficulties in the future. These difficulties expose us to



---

**Table of Contents**

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.

As of September 30, 2013, two customers accounted for approximately 13% and 10% of our consolidated net position, which includes accounts receivable including long-term balances and costs and estimated earnings in excess of billings on uncompleted contracts less billings in excess of costs and unearned revenue. As of December 31, 2012, two customers accounted for approximately 16% and 11% of consolidated net position. The services provided to these customers relate primarily to our Electric Power Infrastructure Services segment. Substantially all of the balance for the customer with 10% of consolidated net position as of September 30, 2013 and 11% at December 31, 2012 relates to the Sunrise Powerlink project with a long-term receivable balance related to a significant change order that is subject to a contractually agreed upon arbitration process. During the third quarter of 2013, we reclassified the receivable related to this matter from costs in excess of billings on uncompleted contracts to other assets, net due to the expected timetable for resolution of the matter. For additional information, see *Litigation and Claims - Sunrise Powerlink Project Arbitration* in Note 10 of the Notes to Condensed Consolidated Financial Statements. Additionally, the customer with the 13% and 16% of consolidated net position at September 30, 2013 and December 31, 2012 also accounted for 10% of consolidated revenues for the nine months ended September 30, 2013. No other customers represented 10% or more of revenues for the three and nine months ended September 30, 2013 and 2012, and no other customers represented 10% or more of consolidated net position as of September 30, 2013 and December 31, 2012.

**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, employment-related 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 10 of the Notes to Condensed Consolidated Financial Statements in Item 1, *Financial Statements* 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.***

On January 1, 2013, we adopted an update that gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that its indefinite-lived intangible assets are impaired. If, based on its qualitative assessment, an entity concludes that it is more likely than not that the fair value of its indefinite-lived intangible assets is less than their carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

***Accounting Standards Not Yet Adopted.***

In July 2013, the FASB issued an update that provides guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. The update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. We are currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements.

---

**Table of Contents****Outlook**

We currently see growth opportunities across all the industries we serve. However, we and our customers continue to operate in an uncertain business environment, with gradual improvement in the economy and continuing uncertainty in the marketplace. Our customers are also facing stringent regulatory and environmental requirements as they implement projects to enhance and expand their infrastructure. These economic and regulatory factors have negatively affected our results in the past and may continue to create some uncertainty as to the timing of anticipated customer spending. We believe that our financial and operational strengths will enable us to manage these challenges and uncertainties, and we remain optimistic about our near-term and long-term opportunities.

***Electric Power Infrastructure Services Segment***

The North American electric grid is aging and requires significant upgrades and maintenance to meet current and future demands for power. Over the past several years, many utilities across North America have begun to implement plans to improve their transmission systems in order to improve reliability and reduce congestion. Among other things, these activities include new construction, structure change-outs, line upgrades and maintenance projects on many transmission systems. In addition, state renewable portfolio standards, which set required or voluntary standards for how much power is to be generated from renewable energy sources, can result in the need for additional transmission lines and substations to transport the power from these facilities, which are often in remote locations, to demand centers. Other factors, such as the reliability standards issued by the North American Electric Reliability Corporation (NERC) and other regulatory actions, are also driving transmission system upgrades and expansions. We believe these factors create significant opportunities for our transmission infrastructure services.

We believe 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. The regulatory and environmental permitting processes remain a hurdle for some proposed transmission and renewable energy projects, and these factors continue to create uncertainty as to timing of this spending. The timing and scope of projects can also be affected by other factors such as siting, right-of-way and unfavorable economic and market conditions. We anticipate many of these issues to be overcome and spending on transmission projects to be active over the next few years. We currently have a number of these projects underway, and we expect this segment's backlog to remain strong throughout the remainder of 2013 and into 2014.

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, particularly 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 line construction. 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 incentives to the industry to invest in and improve maintenance on its systems. Developments in environmental regulations concerning fossil fuel power generation plants are expected to result in the need to retire or upgrade older coal-fired generation facilities to comply with new environmental and emission rules. Much of the electricity previously generated from retired coal-fired generation facilities is expected to be replaced over the coming years by newly developed natural gas-fired and generation facilities. We believe this coal to gas dynamic will require old transmission lines to be updated, rebuilt or replaced with higher voltage transmission infrastructure as well as the construction of new transmission infrastructure to connect new natural gas-fired generation facilities to the grid. The Federal Energy Regulatory Commission (FERC) issued FERC Order No. 1000 to promote more efficient and cost-effective development of new transmission facilities. The order establishes transmission planning and cost allocation requirements intended to facilitate multi-state electric transmission lines and to encourage competition by

removing, under certain conditions, federal rights of first refusal from FERC-approved tariffs and agreements. We believe FERC Order No. 1000, which was affirmed by FERC in May 2012 with the issuance of FERC Order No. 1000-A, will have a

## **Table of Contents**

favorable impact on electric transmission line development, although the impact of its implementation is not expected to occur for several years.

We benefited from increases in distribution spending throughout 2011, 2012 and thus far in 2013, despite continued economic and political uncertainties. However, as a result of reduced spending by utilities on their distribution systems during 2009 and 2010, combined with the need to meet reliability requirements, we believe there is an ongoing need for utilities to resume sustained investment in their distribution systems in order to properly maintain their systems. We also anticipate that utilities will continue to integrate smart grid technologies into their transmission and distribution systems over time to improve grid management and create efficiencies. Development and installation of smart grid technologies and other energy efficiency initiatives have benefited from stimulus funding under the ARRA, as well as the implementation of grid management initiatives by utilities and the desire by consumers for more efficient energy use.

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 project developer 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 in the future. Although we see additional developments of renewable energy projects, primarily utility-scale solar facilities which could create increased opportunities for our engineering, procurement and construction services, we believe there is some uncertainty with these projects advancing towards award and construction.

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 availability issues. We believe the economic recession in the United States slowed employee retirements by many utility workers, causing the growth trend in outsourcing to temporarily pause. As the economy and financial markets continue to recover, we believe utility employee retirements could return to normal levels, which should result in an increase in outsourcing opportunities. The need to ensure available labor resources for larger projects also drives strategic relationships with customers.

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

We see growth opportunities in our natural gas and oil pipeline operations, primarily in the installation and maintenance of mainline pipe, gathering systems, production systems and related facilities, as well as pipeline integrity and specialty services such as horizontal directional drilling. We believe opportunities for this segment exist as a result of the increase in the ongoing development of unconventional shale formations in North America that produce natural gas, natural gas liquids and/or crude oil, as well as the development of Canadian oil sands and the development of coal seam gas and unconventional shale formations in Australia, which will require the construction of mainline pipe infrastructure to connect production with demand centers and the development of midstream gathering infrastructure within areas of production. We also believe the goals of clean energy and energy independence for North America, as well as more stringent environmental regulations, will make abundant, low-cost natural gas the fuel of choice versus coal for power generation over time, creating the need for continued investment in natural gas infrastructure. We believe our position as a leading provider of mainline pipe and gathering system infrastructure services in North America and Australia will allow us to capitalize on these opportunities.

The natural gas and oil pipeline industry is cyclical and subject to volatility as a result of fluctuations in natural gas, natural gas liquids and oil prices. In the past, sustained periods of low prices for these products have negatively impacted the development of these natural resources and related infrastructure. In addition, environmental scrutiny, stringent regulatory requirements and cumbersome permitting processes have caused delays in some mainline pipe

projects during the past several years. These dynamics resulted in below average mainline pipe construction opportunities for us and the industry in 2011 and 2012.

## Table of Contents

The lack of mainline pipe opportunities in 2011 and 2012 negatively impacted our natural gas and pipeline segment margins, in part as a result of our inability to cover certain fixed costs. Margins for mainline pipe projects are also subject to significant performance risk, which can arise from adverse weather conditions, challenging geography, customer decisions and crew productivity. Our specific opportunities in the mainline pipe business are sometimes difficult to predict because of the seasonality of the bidding and construction cycles within the industry.

A number of large mainline pipe projects are proposed from the Canadian oil sands and U.S. shale developments to refineries and other demand centers. Many of these projects are still developing, though several mainline projects have been awarded to various pipeline construction contractors, including Quanta. While there is risk that some of these projects will not occur or could be delayed, we are encouraged by these proposed mainline pipe development plans and the progression of some mainline projects being awarded to contractors, which could create an improved and favorable mainline pipe market in late 2013 and 2014 for us and the industry in North America. We also believe there are significant mainline pipeline opportunities in Australia driven by the production of coal seam gas for liquefied natural gas (LNG) export. There are a number of LNG export facilities under construction and being proposed for development, which will require pipelines and related infrastructure to be built to serve these facilities. In addition, Australia has unconventional shale plays which, according to the U.S. Energy Information Administration, have the seventh largest potential natural gas and sixth largest potential oil resources in the world. Development of Australia's unconventional shale plays are in the very early stages and will require significant gathering, mainline and related infrastructure to be built over time. We believe we will gain more visibility into these evolving dynamics during the remainder of 2013 and into 2014.

Our customers continue to invest in infrastructure needed to support the development of unconventional shales, particularly liquid rich formations. We continue to increase our presence in areas where unconventional shale formations are located, to continue to position us to successfully pursue projects associated with midstream gathering infrastructure development. Demand for pipeline services to support shale gathering infrastructure continues to be active and we believe it will remain so into the foreseeable future. We have also expanded our service offerings in this segment through several recent acquisitions, including the acquisition of Nacap in Australia, which has different market drivers and seasonality as compared to North America. In addition, recent acquisitions of companies that provide pipeline logistics services to the oil and natural gas industry in the United States and specialty services to the offshore oil and gas industry further enhance the segment's service offerings, customer base and end markets.

We also see growth potential in some of our other pipeline services. The U.S. Department of Transportation has 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, rehabilitation and replacement services over the long-term. As pipeline integrity testing requirements increase in stringency and frequency, we believe more information will be gathered about the condition of the nation's pipeline infrastructure and will result in an increase in spending by our customers on pipeline integrity initiatives. We also operate an engineering, research and development business that develops and owns pipeline inspection tools, enhancing our pipeline integrity offerings. We believe that our ability to offer a complete pipeline integrity turnkey solution to pipeline companies and gas utilities provides us an advantageous position in providing these services to our customers. We are also experiencing an increase in demand for our natural gas distribution services as a result of continuing improvement in economic conditions and lower natural gas prices.

Overall, we are optimistic about this segment's operations going forward. We continue to believe that mainline pipe opportunities can provide strong profitability, although these projects and the profits they generate are often subject to more cyclical than our other service offerings. We have also taken steps to diversify our operations in this segment through other services, such as pipeline integrity and gathering system opportunities, and to restructure our gas distribution operations to improve margins. We believe these measures, together with the potential for mainline pipe

opportunities, will position us for profitable growth in this segment over the long-term.



## **Table of Contents**

### ***Fiber Optic Licensing and Other Segment***

Our Fiber Optic Licensing and Other 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, 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. The education market, which comprises a significant portion of this segment's revenue, has been negatively impacted over the last few years by challenging economic conditions and budgetary constraints. These constraints eased through the end of 2012, and we currently see spending patterns providing renewed opportunities for growth. However, expanding the markets we serve continues to create competitive pressure which may impact this segment's prospects for future growth. Our Fiber Optic Licensing and Other segment typically generates higher margins than our other operations, but we can give no assurance that the Fiber Optic Licensing and Other segment margins will continue at historical levels. Additionally, we anticipate the need for continued capital expenditures to support the build-out of our networks and growth of this business. The Fiber Optic Licensing and Other segment also provides various telecommunications infrastructure services on a limited and ancillary basis, primarily to our customers in the electric power industry. Due to the disposition of our telecommunications subsidiaries, telecommunications services are no longer a strategic priority for us. We will continue to provide these services to utility customers on an as needed basis. However, we believe that expected increases in this segment's revenues associated with fiber optic licensing services could be offset by decreases in other telecommunications infrastructure service revenues.

### ***Conclusion***

We continue to see growth opportunities in all of the industry segments we serve, despite continuing challenges from restrictive regulatory requirements and uncertain economic conditions. We are benefiting from utilities' increased spending on projects to upgrade and expand their electric power transmission infrastructure to improve system reliability and to deliver renewable electricity from new generation sources to demand centers. Favorable industry legislation is also creating incentives and a positive environment for utilities to invest in their electrical infrastructure, in particular for transmission infrastructure. Additional environmental regulations concerning fossil fuel power generation emissions create opportunities for transmission lines to be updated, rebuilt or replaced due to coal to gas facility replacements. We also expect utilities to outsource more of their work to companies like us, 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 believe that we are one of the largest full-service providers of natural gas and oil pipeline infrastructure services in North America, which positions us to leverage opportunities driven by the development and production of resources from North American unconventional shale developments, the Canadian oil sands and coal seam gas and unconventional shale formations in Australia. Development activity in liquid-rich shale areas in North America is strong, increasing the need for gathering system infrastructure, and we are seeing encouraging indications that mainline pipe project activity is increasing in 2013 and could continue to increase in 2014. We also believe that our strategy to pursue midstream gathering system opportunities in liquid-rich unconventional shales in the U.S., as well as the anticipated increase in demand for our pipeline integrity, rehabilitation and replacement services from pipeline integrity initiatives, and other services in adjacent markets that we have gained through recent acquisitions will create attractive growth potential for us and also further diversify the services provided by our Natural Gas and Pipeline Infrastructure Services segment.

Our electric distribution and gas distribution services were both significantly affected by the uncertain economic conditions that existed during the recent recession. Demand for our electric distribution services has increased over the past two years as the economy has stabilized and spending on maintenance to improve reliability has somewhat

returned. We are optimistic that continued implementation of electric distribution reliability programs and the potential for improvement in the housing market will facilitate moderate growth in demand for our electric distribution services. Gas distribution spending has been driven primarily by improving economic conditions, and the lower cost of natural gas.

## **Table of Contents**

Competitive pricing environments, project delays and effects from restrictive regulatory requirements have negatively impacted our margins in the past and could affect our margins in the future. Additionally, margins may be negatively impacted on a quarterly basis due to adverse weather conditions, timing of project starts or completions 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, rightsizing initiatives as needed to match the markets we serve, and safely executing on the projects we are awarded.

Capital expenditures for 2013 are expected to be between \$260 million to \$270 million, of which approximately \$45 million to \$50 million of these expenditures are targeted for fiber optic network expansion, with the majority of the remaining expenditures for operating equipment. We expect the remainder of our 2013 capital expenditures to be funded substantially through internal cash flows, cash on hand and borrowings under our credit facility.

We continue to evaluate potential strategic acquisitions and investments to broaden our customer base, expand our geographic area of operation, grow our portfolio of services and increase opportunities across our operations. 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 are attractive to acquisition candidates.

Certain international regions present significant opportunities for growth over time across many of our operations. We are evaluating ways in which we can strategically apply our expertise to strengthen 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 well-positioned to capitalize upon opportunities and trends in the industries we serve because of our proven full-service operations with broad geographic reach, financial strength and technical expertise. Additionally, we believe that these industry opportunities and trends will increase the demand for our services over the long-term; although the actual timing, magnitude or impact of these opportunities and trends on our operating results and financial position can be difficult to predict.

## **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, margins, capital expenditures, and other projections of operating or financial results;

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

The expected value of contracts or intended contracts with customers;

The scope, services, term and results of any projects awarded or expected to be awarded 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;

**Table of Contents**

Potential opportunities that may be indicated by bidding activity or similar discussions with customers;

The potential benefits from acquisitions;

The outcome of pending or threatened litigation;

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:

The effects of industry, economic or political conditions outside our control;

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 anticipated, pending or existing projects, including as a result of weather, regulatory or environmental processes, project performance issues, or our customers' capital constraints;

The successful negotiation, execution, performance and completion of anticipated, pending and existing contracts, including the ability to obtain awards of projects on which we bid or are otherwise discussing with customers;

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

The potential shortage of skilled employees;

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

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

Adverse impacts from weather;

Our ability to generate internal growth;

Competition in our business, including our ability to effectively compete for new projects and market share;

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

Liabilities associated with multi-employer pension plans, including underfunding of liabilities and termination or withdrawal liabilities;

The possibility of an increase in the liability associated with our withdrawal from a multi-employer pension plan;

Liabilities for claims that are self-insured or not insured;

**Table of Contents**

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, the exclusion of coverage for certain losses, and potential increases in premiums for coverage deemed beneficial to us;

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

Loss of customers with whom we have long-standing or significant relationships;

The potential that participation in joint ventures exposes us to liability and/or harm to our reputation for acts or omissions by our partners;

Our inability or failure to comply with the terms of our contracts, which may result in unexcused delays, warranty claims, failure to meet performance guarantees, damages or contract terminations;

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

The future development of natural resources in shale areas;

The inability of our customers to pay for services;

The failure to recover on payment claims against project owners or to obtain adequate compensation for customer-requested change orders;

The failure of our customers to comply with regulatory requirements applicable to their projects, including those related to awards of stimulus funds, which may result in project delays and cancellations;

Budgetary or other constraints that may reduce or eliminate tax incentives for or government funding of projects, including stimulus projects, which may result in project delays or cancellations;

Estimates and assumptions in determining our financial results and backlog;

Our ability to realize our backlog;

Risks associated with operating in international markets, including instability of foreign governments, currency fluctuations, tax and investment strategies and compliance with the laws of foreign jurisdictions, as well as the U.S. Foreign Corrupt Practices Act and other applicable anti-bribery and anti-corruption laws;

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

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 impairments of goodwill and other intangible assets or investments;

Our growth outpacing our decentralized management and 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, including labor stoppages or interruptions due to strikes or lockouts;

Potential liabilities relating to occupational health and safety matters;

Our dependence on suppliers, subcontractors and equipment manufacturers;



**Table of Contents**

Risks associated with our fiber optic licensing business, including regulatory and tax 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, fluctuations in the price and volume of our common stock, debt covenant compliance, interest rate fluctuations and other factors affecting our financing and investing 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;

Rapid technological and structural changes that could reduce the demand for our services;

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, 2012 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, 2012. 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 our 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, changes in economic conditions could impact the interest income we receive from these investments. 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 in recent 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 in some cases, we obtain collateral or other security from our customers.

## **Table of Contents**

*Interest Rate and Market Risk.* Currently, we do not have any significant assets or obligations with exposure to significant interest rate and market risk. Although we had credit facility borrowings outstanding at various times in 2012 which exposed us to interest rate risk, there were no credit facility borrowings outstanding as of or for the nine months ended September 30, 2013.

*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 September 30, 2013.

### **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 that are 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 September 30, 2013, 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 September 30, 2013, 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,

**Table of Contents**

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. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. 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.

**Table of Contents**

**PART II OTHER INFORMATION**

**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, employment-related 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 *Litigation and Claims* in Note 10 of the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report, which is incorporated by reference in this Item 1 of Part II, 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, 2012 (2012 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 2012 Annual Report. The matters specifically identified are not the only risks and uncertainties we face, 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.***

**Unregistered Sales of Equity Securities**

During the third quarter of 2013, we completed one acquisition in which some of the consideration consisted of the issuance of unregistered shares of our common stock. Specifically, on July 9, 2013, we acquired an electric power infrastructure services company based in Ohio with operations primarily in the Midwest and along the East Coast of the United States, for aggregate consideration consisting of approximately \$70.6 million in cash and assumed debt and 763,272 shares of our common stock. Such shares of common stock were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, as the shares were issued to the owners of the business acquired in a privately negotiated transaction not involving any public offering or solicitation.

**Table of Contents****Issuer Purchases of Equity Securities**

The following table contains information about our purchases of equity securities during the three months ended September 30, 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Maximum	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
July 1-31, 2013		\$		
August 1-31, 2013	2,687 <sup>(1)</sup>	\$ 26.46		
September 1-30, 2013		\$		
Total	2,687			\$

(1) Represents shares purchased from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Table of Contents****Item 6. Exhibits.**

<b>Exhibit</b>	
<b>No.</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of Quanta Services, Inc. (previously filed as Exhibit 3.3 to the Company's Form 8-K (No. 001-13831) filed May 25, 2011 and incorporated herein by reference)
3.2	Bylaws of Quanta Services, Inc., as amended and restated August 16, 2012 (previously filed as Exhibit 3.2 to the Company's Form 8-K (No. 001-13831) filed August 21, 2012 and incorporated herein by reference)
10.1	Third Amended and Restated Credit Agreement dated as of October 30, 2013, among Quanta Services, Inc. and certain subsidiaries of Quanta Services, Inc., as Borrowers, the subsidiaries of Quanta Services, Inc. identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the Lenders party thereto (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed November 5, 2013 and incorporated herein by reference)
10.2	Third Amended and Restated Security Agreement dated as of October 30, 2013, among Quanta Services, Inc., the other Debtors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.2 to the Company's Form 8-K (No. 001-13831) filed November 5, 2013 and incorporated herein by reference)
10.3	Third Amended and Restated Pledge Agreement dated as of October 30, 2013, among Quanta Services, Inc., the other Pledgors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.3 to the Company's Form 8-K (No. 001-13831) filed November 5, 2013 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 INS*	XBRL Instance Document
101 SCH*	XBRL Taxonomy Extension Schema Document
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 LAB*	XBRL Taxonomy Extension Label Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101 DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith





**Table of Contents**

**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

Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Dated: November 8, 2013

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of Quanta Services, Inc. (previously filed as Exhibit 3.3 to the Company's Form 8-K (No. 001-13831) filed May 25, 2011 and incorporated herein by reference)
3.2	Bylaws of Quanta Services, Inc., as amended and restated August 16, 2012 (previously filed as Exhibit 3.2 to the Company's Form 8-K (No. 001-13831) filed August 21, 2012 and incorporated herein by reference)
10.1	Third Amended and Restated Credit Agreement dated as of October 30, 2013, among Quanta Services, Inc. and certain subsidiaries of Quanta Services, Inc., as Borrowers, the subsidiaries of Quanta Services, Inc. identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the Lenders party thereto (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed November 5, 2013 and incorporated herein by reference)
10.2	Third Amended and Restated Security Agreement dated as of October 30, 2013, among Quanta Services, Inc., the other Debtors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.2 to the Company's Form 8-K (No. 001-13831) filed November 5, 2013 and incorporated herein by reference)
10.3	Third Amended and Restated Pledge Agreement dated as of October 30, 2013, among Quanta Services, Inc., the other Pledgors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.3 to the Company's Form 8-K (No. 001-13831) filed November 5, 2013 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 INS*	XBRL Instance Document
101 SCH*	XBRL Taxonomy Extension Schema Document
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 LAB*	XBRL Taxonomy Extension Label Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101 DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith