

QUANTA SERVICES INC  
Form 10-Q  
August 10, 2015  
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 June 30, 2015.**

**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 August 4, 2015, the number of outstanding shares of Common Stock of the Registrant was 196,832,022. As of the same date, 3,500,000 exchangeable shares of a Canadian subsidiary of the Registrant associated with one share of Series F Preferred Stock of the Registrant were outstanding, 899,858 exchangeable shares of a Canadian subsidiary of the Registrant associated with one share of Series G Preferred Stock of the Registrant were outstanding and an additional 2,926,113 exchangeable shares of certain other Canadian subsidiaries of the Registrant 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 (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	75
ITEM 4. <u>Controls and Procedures</u>	76
<b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 1. <u>Legal Proceedings</u>	78
ITEM 1A. <u>Risk Factors</u>	78
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	78
ITEM 3. <u>Defaults Upon Senior Securities</u>	79
ITEM 4. <u>Mine Safety Disclosures</u>	79
ITEM 5. <u>Other Information</u>	79
ITEM 6. <u>Exhibits</u>	79
<u>Signature</u>	81

**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>June 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 65,427	\$ 190,515
Accounts receivable, net of allowances of \$6,032 and \$6,174	1,626,833	1,801,110
Costs and estimated earnings in excess of billings on uncompleted contracts	347,511	290,447
Inventories	55,815	38,921
Prepaid expenses and other current assets	210,909	210,267
Current assets of discontinued operations	9,072	22,716
<b>Total current assets</b>	<b>2,315,567</b>	<b>2,553,976</b>
Property and equipment, net of accumulated depreciation of \$707,892 and \$651,559	1,129,597	1,099,574
Other assets, net	99,790	79,133
Other intangible assets, net of accumulated amortization of \$239,489 and \$225,367	234,303	243,584
Goodwill	1,598,654	1,596,695
Non-current assets of discontinued operations	752,599	739,062
<b>Total assets</b>	<b>\$ 6,130,510</b>	<b>\$ 6,312,024</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and short-term borrowings	\$ 2,638	\$ 8,876
Accounts payable and accrued expenses	875,152	856,245
Billings in excess of costs and estimated earnings on uncompleted contracts	233,715	251,113
Current liabilities of discontinued operations	67,643	21,091
<b>Total current liabilities</b>	<b>1,179,148</b>	<b>1,137,325</b>
Long-term debt and notes payable, net of current maturities	214,255	72,489
Deferred income taxes	229,422	234,379
Insurance and other non-current liabilities	249,906	227,730

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Non-current liabilities of discontinued operations	48,061	114,561
<b>Total liabilities</b>	<b>1,920,792</b>	<b>1,786,484</b>
Commitments and Contingencies		
Equity:		
Common stock, \$.00001 par value, 600,000,000 shares authorized, 226,928,063 and 226,194,656 shares issued, and 198,674,187 and 210,819,790 shares outstanding	2	2
Exchangeable Shares, no par value, 7,325,971 shares issued and outstanding		
Series F Preferred Stock, \$.00001 par value, 1 share authorized, issued and outstanding		
Series G Preferred Stock, \$.00001 par value, 1 share authorized, issued and outstanding		
Additional paid-in capital	3,619,922	3,592,906
Retained earnings	1,466,384	1,366,791
Accumulated other comprehensive income (loss)	(197,339)	(123,290)
Treasury stock, 28,253,876 and 15,374,866 common shares, at cost	(692,725)	(321,936)
Total stockholders' equity	4,196,244	4,514,473
Non-controlling interests	13,474	11,067
Total equity	4,209,718	4,525,540
<b>Total liabilities and equity</b>	<b>\$ 6,130,510</b>	<b>\$ 6,312,024</b>

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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues	\$ 1,872,340	\$ 1,838,209	\$ 3,733,726	\$ 3,573,657
Cost of services (including depreciation)	1,644,835	1,574,000	3,268,315	3,053,394
Gross profit	227,505	264,209	465,411	520,263
Selling, general and administrative expenses	149,923	135,210	295,386	304,099
Amortization of intangible assets	8,731	8,202	17,024	16,035
Operating income	68,851	120,797	153,001	200,129
Interest expense	(1,675)	(1,128)	(3,075)	(2,110)
Interest income	319	599	772	2,141
Equity in earnings (losses) of unconsolidated affiliates	(314)	(332)	(314)	(332)
Other income (expense), net	(134)	(901)	(346)	(257)
Income from continuing operations before income taxes	67,047	119,035	150,038	199,571
Provision for income taxes	31,584	41,220	62,185	70,074
Net income from continuing operations	35,463	77,815	87,853	129,497
Net income from discontinued operations	14,102	7,629	19,897	14,595
Net income	49,565	85,444	107,750	144,092
Less: Net income attributable to non-controlling interests	3,456	4,362	8,157	8,602
Net income attributable to common stock	\$ 46,109	\$ 81,082	\$ 99,593	\$ 135,490
Amounts attributable to common stock:				
Net income from continuing operations	\$ 32,007	\$ 73,453	\$ 79,696	\$ 120,895
Net income from discontinued operations	14,102	7,629	19,897	14,595
Net income attributable to common stock	\$ 46,109	\$ 81,082	\$ 99,593	\$ 135,490

Earnings per share attributable to common stock basic and diluted:

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Continuing operations	\$ 0.15	\$ 0.33	\$ 0.37	\$ 0.55
Discontinued operations	0.07	0.04	0.09	0.07
Net income attributable to common stock	\$ 0.22	\$ 0.37	\$ 0.46	\$ 0.62
Shares used in computing earnings per share:				
Weighted average basic shares outstanding	213,047	219,612	214,257	219,345
Weighted average diluted shares outstanding	213,059	219,642	214,269	219,375

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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 49,565	\$ 85,444	\$ 107,750	\$ 144,092
Other comprehensive income (loss), net of tax provision:				
Foreign currency translation adjustment, net of tax of \$0, \$0, \$0 and \$0	14,897	31,362	(74,052)	13,397
Other, net of tax of \$(3), \$6, \$(2) and \$12	8	(18)	3	(36)
Other comprehensive income (loss)	14,905	31,344	(74,049)	13,361
Comprehensive income	64,470	116,788	33,701	157,453
Less: Comprehensive income attributable to non-controlling interests	3,456	4,362	8,157	8,602
Total comprehensive income attributable to Quanta stockholders	\$ 61,014	\$ 112,426	\$ 25,544	\$ 148,851

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>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities of Continuing Operations:</b>				
Net income	\$ 49,565	\$ 85,444	\$ 107,750	\$ 144,092
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations				
Income from discontinued operations	(14,102)	(7,629)	(19,897)	(14,595)
Depreciation	41,030	33,907	80,428	66,754
Amortization of intangible assets	8,731	8,202	17,024	16,035
Equity in losses of unconsolidated affiliates	314	332	314	332
Amortization of debt issuance costs	273	273	546	548
Gain on sale of property and equipment	(7)	(797)	(110)	(1,101)
Foreign currency loss	523	682	713	416
Provision for doubtful accounts	126	1,062	704	1,110
Non-cash portion of arbitration expense				10,518
Deferred income tax provision (benefit)	280	(5,455)	992	(545)
Non-cash stock-based compensation	9,714	10,012	19,185	19,852
Tax impact of stock-based equity awards	(3)	(121)	(4)	(244)
Changes in operating assets and liabilities, net of non-cash transactions				
(Increase) decrease in				
Accounts and notes receivable	17,779	(91,135)	137,652	(157,959)
Costs and estimated earnings in excess of billings on uncompleted contracts	(3,281)	40,215	(66,769)	(4,836)
Inventories	(9,869)	(4,858)	(12,991)	(6,781)
Prepaid expenses and other current assets	(7,270)	(23,807)	(9,576)	(22,486)
Increase (decrease) in				
Accounts payable and accrued expenses and other non-current liabilities	22,235	(52,228)	51,446	(102,204)
Billings in excess of costs and estimated earnings on uncompleted contracts	(7,551)	21,261	(14,569)	(10,371)
Other, net	(2,363)	498	(7,086)	4,078
Net cash provided by (used in) operating activities of continuing operations	106,124	15,858	285,752	(57,387)

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Cash Flows from Investing Activities of Continuing Operations:				
Proceeds from sale of property and equipment	7,733	4,054	9,015	6,541
Additions of property and equipment	(62,493)	(61,773)	(120,997)	(120,009)
Cash paid for acquisitions, net of cash acquired	(37,936)	(3,215)	(72,669)	(79,583)
Investments in equity from unconsolidated affiliates	(1,784)	(3,044)	(2,593)	(3,044)
Cash received from other investments	2,871	2,011	3,193	2,270
Cash withdrawn from restricted cash			214	
Cash paid for intangibles	(211)		(211)	
<b>Net cash used in investing activities of continuing operations</b>	<b>(91,820)</b>	<b>(61,967)</b>	<b>(184,048)</b>	<b>(193,825)</b>

Cash Flows from Financing Activities of Continuing Operations:				
Borrowings under credit facility	625,286	333,830	772,742	336,200
Payments under credit facility	(528,741)	(333,830)	(632,684)	(336,200)
Payments on other long-term debt	(959)	(380)	(1,359)	(10,673)
Payments on short-term debt	(4,248)		(5,170)	
Distributions to non-controlling interests	(2,500)	(6)	(5,003)	(506)
Tax impact of stock-based equity awards	3	121	4	244
Exercise of stock options	278	477	354	901
Repurchase of common stock	(172,279)	(45,021)	(354,279)	(45,021)
<b>Net cash used in financing activities of continuing operations</b>	<b>(83,160)</b>	<b>(44,809)</b>	<b>(225,395)</b>	<b>(55,055)</b>

Discontinued operations:				
Net cash provided by operating activities	11,432	16,898	21,031	29,610
Net cash used in investing activities	(13,517)	(13,628)	(21,181)	(26,804)
<b>Net cash provided by (used in) discontinued operations</b>	<b>(2,085)</b>	<b>3,270</b>	<b>(150)</b>	<b>2,806</b>
Effect of foreign exchange rate changes on cash and cash equivalents	834	3,256	(1,247)	3,632
<b>Net decrease in cash and cash equivalents</b>	<b>(70,107)</b>	<b>(84,392)</b>	<b>(125,088)</b>	<b>(299,829)</b>
Cash and cash equivalents, beginning of period	135,534	273,340	190,515	488,777
<b>Cash and cash equivalents, end of period</b>	<b>\$ 65,427</b>	<b>\$ 188,948</b>	<b>\$ 65,427</b>	<b>\$ 188,948</b>

Supplemental disclosure of cash flow information:				
Cash (paid) received during the period for				
Interest paid	\$ (1,422)	\$ (792)	\$ (2,610)	\$ (1,369)
Income taxes paid	\$ (37,876)	\$ (73,334)	\$ (50,485)	\$ (161,046)
Income tax refunds	\$ 10,293	\$ 1,054	\$ 10,738	\$ 1,292

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 oil and gas industries in the United States, Canada and Australia and select other international markets. Quanta reports its results under two reportable segments: (1) Electric Power Infrastructure Services and (2) Oil and Gas Infrastructure Services.

***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 infrastructure 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, consisting of solar, wind and certain types of natural gas generation facilities, and related switchyards and transmission infrastructure to transport power to demand centers. To a lesser extent, this segment provides services such as the construction of electric power generation facilities, the design, installation, maintenance and repair of commercial and industrial wiring, installation of traffic networks, the installation of cable and control systems for light rail lines and limited ancillary telecommunication infrastructure services.

***Oil and Gas Infrastructure Services Segment***

The Oil and Gas Infrastructure Services segment provides comprehensive network solutions to customers involved in the development and transportation of natural gas, oil and other pipeline products. Services performed by the Oil and Gas 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. Quanta also serves the offshore and inland water energy markets, primarily providing services to oil and gas exploration platforms, including mechanical installation (or hook-ups), electrical and instrumentation, pre-commissioning and commissioning, coatings, fabrication, pipeline construction, integrity services and marine asset repair. To a lesser extent, this segment designs, installs and maintains fueling systems, as well as water and sewer infrastructure.

***Disposition - Fiber Optic Licensing Operations***

On April 29, 2015, Quanta, Crown Castle International Corp. (Crown Castle), and CC SCN Fiber LLC, a subsidiary of Crown Castle, entered into a stock purchase agreement, pursuant to which Quanta agreed to sell all of the issued

and outstanding equity interests in Quanta Fiber Networks, Inc., a wholly owned subsidiary of Quanta that owned Quanta's fiber optic licensing operations. The purchase agreement contains customary representations and warranties, covenants and indemnities. On August 4, 2015, Quanta completed the sale for a purchase price of approximately \$1 billion in cash, resulting in after-tax net proceeds of approximately \$830 million. In the third quarter of 2015, Quanta expects to recognize an estimated net of tax gain of approximately \$175 million.

---

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

As of June 30, 2015, Quanta determined that its fiber optic licensing operations met the requirements to be classified as held for sale and presented as discontinued operations. Accordingly, Quanta has presented the results of operations, financial position, cash flows and disclosures of the fiber optic licensing operations as discontinued operations for all periods presented in the accompanying unaudited condensed consolidated financial statements. These results were previously included in the Fiber Optic Licensing and Other segment.

***Acquisitions***

During the second quarter of 2015, Quanta acquired three companies, consisting of a powerline construction company located in the United States, an engineering company located in Canada and an engineering, procurement and construction services company based in the United States, all of which are generally included in Quanta's Electric Power Infrastructure Services segment. During the first quarter of 2015, Quanta acquired three companies. These acquisitions included an underground utility distribution contractor that provides services to gas and electric utilities in Canada, which is generally included in Quanta's Oil and Gas Infrastructure Services segment; a supplier and material procurement specialist for the power and utility industry in Canada, which is generally included in Quanta's Electric Power Infrastructure Services segment; and a company that specializes in the engineering, procurement, construction and commissioning of compression and surface facilities for the high pressure gas industry in Australia, which is generally included in Quanta's Oil and Gas Infrastructure Services segment.

During 2014, Quanta completed nine acquisitions, which enabled Quanta to further enhance its electric power and oil and gas infrastructure service offerings in the United States and Canada and expand its capabilities in Australia to include electric power infrastructure service offerings. These acquisitions included four electric power infrastructure services companies located in Canada; two oil and gas infrastructure services businesses located in Canada; an electric power infrastructure services company located in Australia; a U.S.-based general engineering and construction company specializing in hydrant fueling, waterfront and utility construction for the U.S. Department of Defense that is generally included in Quanta's Oil and Gas Infrastructure Services segment; and a geotechnical and geological engineering services company based in the United States that is generally included in Quanta's Electric Power Infrastructure Services segment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:*****Principles of Consolidation***

The consolidated financial statements of Quanta include the accounts of Quanta Services, Inc. and its wholly owned subsidiaries, which are also referred to as its operating units. The consolidated financial statements also include the accounts of certain of Quanta's investments in joint ventures, which are either consolidated or 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 between 20% and 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 Services, Inc. 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

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

the United States (US GAAP), 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 and cash flows with respect to the interim condensed consolidated financial statements have been included. The results of operations and comprehensive income 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, 2014, which was filed with the SEC on March 2, 2015.

***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with US GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts 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 and guarantees, multi-employer pension plan withdrawal liabilities, revenue recognition for construction contracts inclusive of contractual change orders and claims, share-based compensation, operating results of reportable segments, as well as the provision for income taxes and the calculation of uncertain tax positions.

***Cash and Cash Equivalents***

Quanta had cash and cash equivalents of \$65.4 million and \$190.5 million as of June 30, 2015 and December 31, 2014. Cash consisting of interest-bearing demand deposits is carried at cost, which approximates fair value. Quanta considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents, which are carried at fair value. At June 30, 2015 and December 31, 2014, cash equivalents were \$4.7 million and \$107.6 million, and consisted primarily of money market mutual funds and are discussed further in *Fair Value Measurements* below. As of June 30, 2015 and December 31, 2014, cash and cash equivalents held in domestic bank accounts were approximately \$29.1 million and \$127.2 million, and cash and cash equivalents held in foreign bank accounts were approximately \$36.3 million and \$63.3 million. As of June 30, 2015 and December 31, 2014, cash and cash equivalents held by Quanta's investments in joint ventures, which are either consolidated or proportionately



consolidated, were approximately \$13.6 million and \$19.1 million. Cash and cash equivalents held by the joint ventures are available to support the operations of the related joint ventures, and Quanta does not have access to that cash for its other operations. Under the terms of the partnership agreements, Quanta generally has no right to the joint ventures' cash other than participating in distributions and in the event of dissolution.

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***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 regarding, among other factors, the customer's access to capital, the customer's willingness or ability to pay, general economic and market conditions, the ongoing relationship with the customer and uncertainties related to the resolution of disputed matters. 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 June 30, 2015 and December 31, 2014, Quanta had allowances for doubtful accounts on current receivables of approximately \$6.0 million and \$6.2 million. Long-term accounts receivable are included within other assets, net on the consolidated balance sheets.

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 June 30, 2015 and December 31, 2014 were approximately \$284.3 million and \$307.3 million, and were included in accounts receivable. Retainage balances with settlement dates beyond the next twelve months were included in other assets, net, and as of June 30, 2015 and December 31, 2014 were \$30.8 million and \$19.6 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 June 30, 2015 and December 31, 2014, the balances of unbilled receivables included in accounts receivable were approximately \$229.1 million and \$163.1 million.

***Goodwill and Other Intangibles***

Quanta has recorded goodwill in connection with its historical acquisitions of companies. Upon acquisition, these companies were 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 two internal divisions: the Electric Power Division and the Oil and Gas Infrastructure 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

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

is made. Goodwill is required to be measured for impairment at the reporting unit level, which represents the operating segment level or one level below the operating segment level for which discrete financial information is available. 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 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.

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 one-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.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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 2014, 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 2014 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, 2014 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. 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 and estimated customer attrition rates, 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.

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***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 financing 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 non-controlling 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.

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 (losses) 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 investee's income, losses and distributions.

***Revenue Recognition***

Through its Electric Power Infrastructure Services and Oil and Gas Infrastructure Services segments, Quanta designs, installs and maintains networks for customers in the electric power and oil and gas 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

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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 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 six months ended June 30, 2015 and 2014 were impacted by less than 5% as a result of changes in contract estimates related to projects that were in progress at December 31, 2014 and 2013.

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 June 30, 2015 and December 31, 2014, Quanta had approximately \$134.7 million and \$106.8 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. These aggregate contract price adjustments 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.

***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.

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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 June 30, 2015, the total amount of unrecognized tax benefits relating to uncertain tax positions was \$52.7 million, an increase from December 31, 2014 of \$1.8 million. This increase in unrecognized tax benefits resulted primarily from a \$2.2 million increase due to tax positions expected to be taken for 2015, partially offset by a \$0.4 million decrease due to audit settlements. Quanta is currently under examination by the Internal Revenue Service (IRS) for tax years 2011 and 2012 and remains open to examination by the IRS for tax years 2013 and 2014, as these statute of limitations periods have not yet expired. Additionally, certain subsidiaries are under examination by various U.S. state, Canadian and other foreign tax authorities for multiple periods. Quanta believes it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease by up to \$10.3 million as a result of settlement of these examinations or as a result of the expiration of certain statute of limitations periods.

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

***Self-Insurance***

Quanta is insured for employer's liability, general liability, auto liability and workers' compensation claims. Under these programs, the deductibles for general liability and auto liability were \$10.0 million per occurrence, the deductible for workers' compensation was \$5.0 million per occurrence, and the deductible for employer's liability was \$1.0 million per occurrence for the 2015-2016 and 2014-2015 policy years. Quanta is generally self-insured for all claims that do not exceed the amount of the applicable deductible. 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 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 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.

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***Collective Bargaining Agreements***

Some 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. 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 that time and the need for union resources in connection with those projects. Therefore, Quanta is unable to accurately predict the union employee payroll and the amount of the resulting multi-employer pension plan contribution obligation for future periods.

***Stock-Based Compensation***

Quanta recognizes compensation expense for restricted stock, restricted stock units (RSUs) and performance units to be settled in common stock based on the fair value of the awards granted at the date of grant, net of estimated forfeitures. The fair value of restricted stock awards, RSUs and performance units to be settled in common stock is determined based on the number of shares, RSUs or performance units granted and the closing price of Quanta's common stock on the date of grant. An estimate of future forfeitures is required in determining the period expense. Quanta uses historical data to estimate the forfeiture rate; however, these estimates are subject to change and may impact the value that will ultimately be realized as compensation expense. The resulting compensation expense from discretionary awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period, while compensation expense from performance-based awards is recognized using the graded vesting method over the requisite service period. The cash flows resulting from the tax deductions in excess of the compensation expense recognized for restricted stock, RSUs and performance units to be settled in common 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 or may settle in cash, is recognized based on a remeasurement of the fair value of the award at the end of each reporting period. Upon settlement, the holders receive for each RSU an amount in cash equal to the fair market value on the settlement date of one share of Quanta common stock, as specified in the applicable award agreement. For additional information on Quanta's restricted stock, RSU and performance unit awards, see Note 10.

***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 and Australia, is typically the currency of the country in which the foreign operating unit is located. Generally, the

currency in which the operating unit transacts the majority of its activities, including billings, financing, payroll and other expenditures, would be considered the functional currency. 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

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

operations, comprehensive income and cash flows are translated at average monthly rates, while balance sheets are translated at month-end exchange rates. This results in translation gains or losses, which are included as a separate component of equity under the caption Accumulated other comprehensive income (loss). Gains and losses arising from transactions which are not denominated in the operating units' functional currencies are included within other income (expense) in the statements 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) 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 11.

***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. The carrying value of variable rate debt also approximates fair value. 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 June 30, 2015 and December 31, 2014, as all values were based on unadjusted quoted prices for identical assets in an active market that Quanta has the ability to access.

In connection with Quanta's acquisitions, identifiable intangible assets acquired 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. In accordance with its annual impairment test during the quarter ended December 31, 2014, the carrying amounts of such assets, including goodwill, were compared to their fair values. The level of inputs used for these fair value measurements is the lowest level (Level 3). Quanta uses the assistance of third party specialists to develop valuation assumptions. Quanta believes that these valuation methods appropriately represent the methods that would be used by other market participants in determining fair value.

---

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

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 may 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***

In April 2014, the Financial Accounting Standards Board (FASB) issued an update that changes the requirement for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity will be required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the entity or group of components of an entity meets the criteria to be classified as held for sale or when it is disposed of by sale or other than by sale. The update also requires additional disclosures about discontinued operations, a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, and an entity's significant continuing involvement with a discontinued operation. Quanta adopted this guidance effective January 1, 2015 and has incorporated the new requirements into its presentation of the disposition of the fiber optic licensing operations as discontinued operations as of June 30, 2015.

***Accounting Standards Not Yet Adopted***

In May 2014, the FASB issued an update that supersedes most current revenue recognition guidance as well as some cost recognition guidance. The update requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires new qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, information about contract balances and performance obligations,

and assets recognized from costs incurred to obtain or fulfill a contract. On July 9, 2015, the FASB affirmed its proposal to defer the effective date until fiscal years beginning on or after December 15, 2017. The guidance can be applied on a full retrospective or modified retrospective basis whereby the entity records a cumulative effect of initially applying this update at the date of initial application. Quanta is currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements and is planning to adopt this guidance effective January 1, 2018.

Table of Contents

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

In August 2014, the FASB issued guidance to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when and how an entity must disclose certain relevant conditions and events. This update requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued). If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions or events. The guidance is effective for annual and interim periods ending after December 15, 2016. This guidance will impact the disclosure and presentation of any substantial doubt by Quanta about its ability to continue as a going concern, if such substantial doubt were to exist. Quanta will adopt this guidance effective January 1, 2017.

In February 2015, the FASB issued an update which amends existing consolidation guidance, including amending the guidance related to determining whether an entity is a variable interest entity. The update is effective for interim and annual periods beginning after December 15, 2015, although early adoption is permitted. The guidance may be applied using a modified retrospective approach whereby the entity records a cumulative effect of adoption at the beginning of the fiscal year of initial application. A reporting entity may also apply the amendments on a full retrospective basis. Quanta is currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements.

In April 2015, the FASB issued an update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts and premiums. The standard is effective for interim and annual reporting periods beginning after December 15, 2015, although early adoption is permitted. The update is required to be adopted retroactively for all periods presented. The adoption of the update is not expected to have a significant impact on Quanta's consolidated financial statements or related disclosures. Quanta will adopt this guidance effective January 1, 2016.

**4. DISCONTINUED OPERATIONS:**

On August 4, 2015, Quanta completed the sale of its fiber optic licensing operations to Crown Castle, pursuant to a stock purchase agreement entered into on April 29, 2015. The aggregate purchase price was approximately \$1 billion in cash, resulting in estimated after-tax net proceeds of approximately \$830 million. In the third quarter of 2015, Quanta expects to recognize an estimated net of tax gain of approximately \$175 million.

As of June 30, 2015, Quanta determined that its fiber optic licensing operations met the requirements to be classified as held for sale and presented as discontinued operations. Accordingly, Quanta has presented the results of operations,

financial position, cash flows and disclosures related to the fiber optic licensing operations as discontinued operations in the accompanying unaudited condensed consolidated financial statements. The results were previously included in the Fiber Optic Licensing and Other segment.

Also in connection with the sale, Quanta will remain liable for all income related taxes and insured claims associated with the fiber optic licensing operations arising on or before or outstanding as of August 4, 2015.

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

The following represents a reconciliation of the major classes of line items constituting income from discontinued operations before tax related to Quanta's fiber optic licensing operations (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Major classes of line items constituting pretax income from fiber optic licensing operations:</b>				
Revenues	\$ 25,692	\$ 26,341	\$ 51,262	\$ 53,467
<b>Expenses:</b>				
Cost of services (including depreciation)	10,896	9,102	21,711	20,211
Selling, general and administrative expenses	5,106	4,230	9,881	8,672
Amortization of intangible assets	413	413	825	825
Other income (expense) items that are not major	9		10	2
Net income before taxes of discontinued operations related to fiber optic licensing operations related to major classes of income before taxes	9,286	12,596	18,855	23,761
Provision for (benefit from) income taxes	(4,816)	4,967	(1,042)	9,166
Net income from discontinued operations related to fiber optic licensing operations as presented in the statements of operations	\$ 14,102	\$ 7,629	\$ 19,897	\$ 14,595

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

The following represents a reconciliation of the carrying amounts of major classes of assets and liabilities of fiber optic licensing operations (in thousands):

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Carrying amounts of major classes of assets included as part of fiber optic licensing operations:		
Current assets:		
Accounts receivable	\$ 6,771	\$ 11,429
Prepaid expenses and other current assets	2,301	11,287
Total current assets of fiber optic licensing operations	\$ 9,072	\$ 22,716
Non-current assets:		
Property and equipment	\$ 392,229	\$ 380,554
Other intangible assets, net of accumulated amortization	16,184	17,009
Goodwill	334,790	334,790
Total major classes of non-current assets of fiber optic licensing operations	743,203	732,353
Other non-current assets included in fiber optic licensing operations	9,396	6,709
Total non-current assets of fiber optic licensing operations	\$ 752,599	\$ 739,062
Carrying amounts of major classes of liabilities of fiber optic licensing operations:		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 17,975	\$ 21,091
Deferred income taxes	49,668	
Total current liabilities of fiber optic licensing operations	\$ 67,643	\$ 21,091
Non-current Liabilities:		

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Deferred income taxes	\$	\$	66,137
Long-term deferred revenue	47,855		48,231
Total major classes of non-current liabilities of fiber optic licensing operations	47,855		114,368
Other non-current liabilities of fiber optic licensing operations	206		193
Total non-current liabilities of fiber optic licensing operations	\$ 48,061	\$	114,561



---

**Table of Contents****QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****5. ACQUISITIONS:*****2015 Acquisitions***

During the first half of 2015, Quanta acquired six companies. Four of these acquired companies are generally included in Quanta's Electric Power Infrastructure Services segment, including a powerline construction company located in the United States, an engineering company located in Canada, an engineering, procurement and construction services company based in the United States, and a supplier and material procurement specialist for the power and utility industry in Canada. The remaining two acquired companies are generally included in Quanta's Oil and Gas Infrastructure Services segment, including an underground utility distribution contractor that provides services to gas and electric utilities in Canada and a company that specializes in the engineering, procurement, construction, and commissioning of compression and surface facilities for the high pressure gas industry in Australia. The aggregate consideration paid or payable for these acquisitions was approximately \$65.7 million, which included approximately \$64.7 million in cash, subject to net working capital and other adjustments. As these transactions were effective during the first half of 2015, the results have been 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 and oil and gas infrastructure service offerings in the United States, Canada and Australia.

***2014 Acquisitions***

During 2014, Quanta completed nine acquisitions, which enabled Quanta to further enhance its electric power and oil and gas infrastructure service offerings in the United States and Canada and expand its capabilities in Australia to include electric power infrastructure service offerings. These acquisitions included four electric power infrastructure services companies located in Canada; two oil and gas infrastructure services businesses located in Canada; an electric power infrastructure services company located in Australia; a U.S.-based general engineering and construction company specializing in hydrant fueling, waterfront and utility construction for the U.S. Department of Defense that is generally included in Quanta's Oil and Gas Infrastructure Services segment; and a geotechnical and geological engineering services company based in the United States that is generally included in Quanta's Electric Power Infrastructure Services segment. The aggregate consideration paid for these acquisitions consisted of approximately \$279.5 million in cash, 686,382 shares of Quanta common stock and 3,825,971 exchangeable shares of Canadian subsidiaries of Quanta that are exchangeable on a one-for-one basis for Quanta common stock. In addition, Quanta issued one share of Series G preferred stock associated with 899,858 of the exchangeable shares. The aggregate value of the securities issued related to 2014 acquisitions on the respective closing or settlement dates of the acquisitions totaled approximately \$134.5 million. As these transactions were effective during 2014, the results of each acquired company have been included in Quanta's consolidated financial statements beginning on the respective dates of acquisition. For additional information on the exchangeable shares and preferred stock, see *Exchangeable Shares and Series F and Series G Preferred Stock* in Note 9.

***2015 and 2014 Acquisitions***

Quanta is in the process of finalizing its assessments of the fair values of the acquired assets and assumed liabilities related to businesses acquired subsequent to June 30, 2014, and further adjustments to the purchase price allocations may occur. Quanta expects to complete the purchase accounting process as soon as practicable but no later than one year from the respective acquisition dates. The aggregate purchase consideration related to the third and fourth quarter 2014 acquisitions was preliminarily allocated to acquired assets and assumed liabilities, which resulted in a preliminary allocation of approximately \$111.0 million of net tangible assets, \$107.3 million of goodwill and \$73.9 million of other intangible assets. Additionally, the aggregate purchase

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

consideration related to the 2015 acquisitions was preliminarily allocated to acquired assets and assumed liabilities, which resulted in a preliminary allocation of approximately \$20.6 million of net tangible assets, \$30.3 million of goodwill and \$14.8 million of other intangible assets.

The following table summarizes the aggregate consideration paid or payable through June 30, 2015 for the 2015 and 2014 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 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>2015</b>	<b>2014</b>
<b>Consideration:</b>		
Value of Quanta common stock and exchangeable shares issued	\$	\$ 134,538
Cash paid or payable	64,663	279,533
Contingent consideration	1,001	
Fair value of total consideration transferred or estimated to be transferred	\$ 65,664	\$ 414,071
Current assets	\$ 18,304	\$ 172,121
Property and equipment	29,257	159,186
Other assets	4	3,501
Identifiable intangible assets	14,796	96,302
Current liabilities	(15,283)	(145,646)
Deferred tax liabilities, net	(7,227)	(32,856)
Other long-term liabilities	(5,244)	(4,926)
Non-controlling interests	747	
Total identifiable net assets	35,354	247,682
Goodwill	30,310	166,389
	\$ 65,664	\$ 414,071

The fair value of current assets acquired in 2015 included accounts receivable with a fair value of \$10.3 million. The fair value of current assets acquired in 2014 included accounts receivable with a fair value of \$117.2 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 2015 and 2014 acquisitions strategically expanded Quanta's Canadian, Australian and domestic electric power and oil and gas service offerings, which Quanta believes contributes to the recognition of the goodwill. In connection with the 2015 acquisitions, goodwill of \$13.5 million was recorded for the businesses acquired that were included within Quanta's Electric Power Division and \$16.8 million was recorded for the businesses acquired that were included within Quanta's Oil and Gas Infrastructure Division on the dates of acquisition. In connection with the 2014 acquisitions, goodwill of \$72.3 million was recorded for the businesses included within Quanta's Electric Power Division and \$94.1 million was recorded for businesses included within Quanta's Oil and Gas Infrastructure Division based on fair market values of assets and liabilities on the dates of acquisition. Goodwill of approximately \$10.6 million is expected to be deductible for income tax purposes related to the businesses acquired in the first half of 2015, and goodwill of approximately \$43.5 million is expected to be deductible for income tax purposes related to the businesses acquired in 2014.

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

The following table summarizes the estimated fair values of identifiable intangible assets and the related weighted average amortization periods by type as of the respective acquisition dates for the 2015 acquisitions (in thousands, except for weighted average amortization periods, which are in years).

	<b>Estimated Fair Value at Acquisition Date</b>	<b>Weighted Average Amortization Period at Acquisition Date</b>
Customer relationships	\$ 9,985	17.5
Backlog	1,327	1.3
Trade names	2,374	4.7
Non-compete agreements	1,110	5.0
<b>Total intangible assets subject to amortization acquired in 2015 acquisitions</b>	<b>\$ 14,796</b>	<b>13.1</b>

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 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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ 1,873,169	\$ 2,034,146	\$ 3,749,834	\$ 3,968,023
Gross profit	\$ 227,739	\$ 284,616	\$ 469,840	\$ 560,434
Selling, general and administrative expenses	\$ 150,128	\$ 146,302	\$ 298,208	\$ 326,760
Amortization of intangible assets	\$ 8,743	\$ 11,066	\$ 17,283	\$ 22,298
Net income from continuing operations	\$ 35,481	\$ 82,014	\$ 88,720	\$ 136,523
Net income from continuing operations attributable to common stock	\$ 32,025	\$ 77,652	\$ 80,563	\$ 127,921
Earnings per share from continuing operations attributable to common stock basic and diluted	\$ 0.15	\$ 0.35	\$ 0.38	\$ 0.57

The pro forma combined results of operations for the three and six months ended June 30, 2015 and 2014 have been prepared by adjusting the historical results of Quanta to include the historical results of the 2015 acquisitions as if they

occurred January 1, 2014. The pro forma combined results of operations for the three and six months ended June 30, 2014 have also been prepared by adjusting the historical results of Quanta to include the historical results of the 2014 acquisitions as if they occurred January 1, 2013. These pro forma combined historical results were also adjusted for the following: a reduction of interest expense as a result of the repayment of outstanding indebtedness of the acquired businesses, 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 2015 and 2014 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 exchangeable shares 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.

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

that may result from the 2015 and 2014 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 \$18.1 million and a loss before taxes of approximately \$0.3 million, which included \$1.3 million of acquisition costs, were included in Quanta's consolidated results of operations for the three months ended June 30, 2015 related to the 2015 acquisitions following their respective dates of acquisition. Revenues of approximately \$25.1 million and a loss before income taxes of approximately \$1.2 million, which included \$1.7 million of acquisition costs, were included in Quanta's consolidated results of operations for the six months ended June 30, 2015 related to the 2015 acquisitions following their respective dates of acquisition.

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

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

	<b>Electric Power Division</b>	<b>Oil and Gas Infrastructure Division</b>	<b>Total</b>
Goodwill balance at December 31, 2014	\$ 1,223,224	\$ 373,471	\$ 1,596,695
Goodwill acquired during 2015	13,509	16,801	30,310
Purchase price allocation adjustments	750	(8,863)	(8,113)
Foreign currency translation adjustments	(12,422)	(7,816)	(20,238)
Goodwill balance at June 30, 2015	\$ 1,225,061	\$ 373,593	\$ 1,598,654

As described in Note 2, Quanta's operating units are organized into one of Quanta's two 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.

Quanta's intangible assets subject to amortization and the remaining weighted average amortization periods related to such assets were as follows (in thousands except for weighted average amortization periods, which are in years):

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

	As of June 30, 2015			As of December 31, 2014			As of June 30, 2015 Remaining Weighted Average Amortization Period in Years
	Intangible Assets	Accumulated Amortization	Intangible Assets, Net	Intangible Assets	Accumulated Amortization	Intangible Assets, Net	
Customer relationships	\$ 239,329	\$ (71,768)	\$ 167,561	\$ 235,851	\$ (63,764)	\$ 172,087	10.3
Backlog	132,681	(124,960)	7,721	133,704	(122,265)	11,439	0.9
Trade names	51,005	(7,682)	43,323	49,664	(6,278)	43,386	18.9
Non-compete agreements	28,245	(22,294)	5,951	27,659	(21,365)	6,294	3.4
Patented rights and developed technology	22,532	(12,785)	9,747	22,073	(11,695)	10,378	4.4
Total intangible assets subject to amortization	\$ 473,792	\$ (239,489)	\$ 234,303	\$ 468,951	\$ (225,367)	\$ 243,584	11.2



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

Amortization expense for intangible assets was \$8.7 million and \$8.2 million for the three months ended June 30, 2015 and 2014 and \$17.0 million and \$16.0 million for the six months ended June 30, 2015 and 2014. The estimated future aggregate amortization expense of intangible assets subject to amortization as of June 30, 2015 is set forth below (in thousands):

<b>For the Fiscal Year Ending December 31,</b>	
Remainder of 2015	\$ 17,104
2016	27,571
2017	23,949
2018	23,384
2019	22,448
Thereafter	119,847
<b>Total</b>	<b>\$ 234,303</b>

**7. 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 six months ended June 30, 2015 and 2014 are illustrated below (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Amounts attributable to common stock:</b>				
Net income from continuing operations	\$ 32,007	\$ 73,453	\$ 79,696	\$ 120,895
Net income from discontinued operations	14,102	7,629	19,897	14,595
Net income attributable to common stock	\$ 46,109	\$ 81,082	\$ 99,593	\$ 135,490
<b>Weighted average shares:</b>				
Weighted average shares outstanding for basic earnings per share	213,047	219,612	214,257	219,345

Effect of dilutive stock options	12	30	12	30
Weighted average shares outstanding for diluted earnings per share	213,059	219,642	214,269	219,375

For purposes of calculating diluted earnings per share, there were no adjustments required to derive Quanta's net income attributable to common stock. Outstanding exchangeable shares that were issued pursuant to certain of Quanta's historical acquisitions (as further discussed in Note 9), which are exchangeable on a one-for-one basis with shares of Quanta common stock, have been included in weighted average shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2015 and 2014 for the portion of the respective periods that they were outstanding.

Table of Contents**QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. DEBT OBLIGATIONS:**

Quanta's long-term debt obligations consisted of the following (in thousands):

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Borrowings under credit facility	\$ 204,255	\$ 68,793
Other long-term debt, interest rates ranging from 1.4% to 4.3%	5,906	6,370
Capital leases, interest rates ranging from 6.0% to 7.3%	6,732	1,146
Total long-term debt obligations	216,893	76,309
Less Current maturities of long-term debt	2,638	3,820
Total long-term debt obligations, net of current maturities	\$ 214,255	\$ 72,489

Quanta's current maturities of long-term debt and short-term borrowings consisted of the following (in thousands):

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Short-term borrowings	\$	\$ 5,056
Current maturities of long-term debt	2,638	3,820
Current maturities of long-term debt and short-term borrowings	\$ 2,638	\$ 8,876

***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. The entire amount available may be used for revolving loans and letters of credit in U.S. dollars and certain foreign currencies. Swing line loans are limited to \$50.0 million in U.S. dollars, \$30.0 million in Canadian dollars and \$20.0 million in Australian dollars. In addition, subject to the conditions specified in the credit agreement, Quanta has the option to increase the revolving commitments by up to \$300.0 million from time to time upon receipt of additional commitments from new or existing lenders. Borrowings under the credit agreement are to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes.

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

As of June 30, 2015, Quanta had approximately \$324.7 million of outstanding letters of credit and bank guarantees, \$223.1 million of which was denominated in U.S. dollars and \$101.6 million of which was denominated in Australian or Canadian dollars, and \$204.3 million of outstanding borrowings under the credit facility, \$109.3 million of which was denominated in Canadian dollars and \$95.0 million of which was denominated in U.S. dollars. The remaining \$796.0 million was available for borrowings or issuing new letters of credit or bank guarantees. Information on borrowings under Quanta's credit facility and the applicable interest rates during the three and six months ended June 30, 2015 and 2014 is as follows (dollars in thousands):

	<b>Three Months Ended June 30, 2015</b>	<b>Three Months Ended June 30, 2014</b>	<b>Six Months Ended June 30, 2015</b>	<b>Six Months Ended June 30, 2014</b>
Maximum amount outstanding during the period	\$ 330,473	\$ 83,410	\$ 330,473	\$ 83,410
Average daily amount outstanding under the credit facility	\$ 171,638	\$ 23,940	\$ 132,213	\$ 11,983
Weighted-average interest rate	2.01%	2.67%	2.13%	2.67%

---

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

Effective April 1, 2014, amounts borrowed under the credit agreement in U.S. dollars bear interest, at Quanta's option, at a rate equal to either (i) the Eurocurrency Rate (as defined in the credit agreement) plus 1.125% to 2.125%, as determined based on Quanta's Consolidated Leverage Ratio (as described below), or (ii) the Base Rate (as described below) plus 0.125% to 1.125%, as determined based on Quanta's Consolidated Leverage Ratio. Amounts borrowed as revolving loans under the credit agreement in any currency other than U.S. dollars bear interest at a rate equal to the Eurocurrency Rate plus 1.125% to 2.125%, as determined based on Quanta's Consolidated Leverage Ratio. Standby letters of credit issued under the credit agreement are subject to a letter of credit fee of 1.125% to 2.125%, 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 are subject to a letter of credit fee of 0.675% to 1.275%, based on Quanta's Consolidated Leverage Ratio. Quanta is also subject to a commitment fee of 0.20% to 0.40%, based on its Consolidated Leverage Ratio, on any unused availability under the credit agreement.

Prior to April 1, 2014, amounts borrowed under the credit agreement in U.S. dollars bore interest, at Quanta's option, at a rate equal to either (i) the Eurocurrency Rate plus 1.25%, or (ii) the Base Rate plus 0.25%. Amounts borrowed as revolving loans 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%. Standby letters of credit issued under the credit agreement were subject to a letter of credit fee of 1.25%, and Performance Letters of Credit issued under the credit agreement in support of certain contractual obligations were subject to a letter of credit fee of 0.75%. Quanta was also subject to a commitment fee of 0.20% on any unused availability under the credit agreement.

The Consolidated Leverage Ratio is the ratio of Quanta's Consolidated Funded Indebtedness to Consolidated EBITDA (as those terms are defined in the credit agreement). For purposes of calculating Quanta's Consolidated Leverage Ratio, Consolidated Funded Indebtedness is reduced by available cash and Cash Equivalents (as defined in the credit agreement) in excess of \$25.0 million. The Base Rate equals the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 0.5%, (ii) the prime rate publicly announced by Bank of America, N.A. and (iii) the Eurocurrency Rate plus 1.00%.

Subject to certain exceptions, the credit agreement is secured by substantially all the assets of Quanta and Quanta's 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 direct foreign subsidiaries of Quanta's wholly owned U.S. subsidiaries. Quanta's wholly owned U.S. subsidiaries also guarantee the repayment of all amounts due under the credit agreement. Subject to certain conditions, all collateral will automatically be released from the liens at any time Quanta maintains an Investment Grade Rating (defined in the credit agreement as two of the following three conditions being met: (i) a corporate credit rating that is BBB- or higher by Standard & Poor's Rating Services, (ii) a corporate family rating that is Baa3 or higher by Moody's Investors Services, Inc. or (iii) a corporate credit rating that is BBB- or higher by Fitch Ratings, Inc.).

The credit agreement contains certain covenants, including a maximum Consolidated Leverage Ratio and a minimum Consolidated Interest Coverage Ratio (as defined in the credit agreement). The credit agreement also limits certain acquisitions, mergers and consolidations, indebtedness, asset sales and prepayments of indebtedness and, subject to

certain exceptions, prohibits liens on Quanta's assets. The credit agreement allows cash payments for dividends and stock repurchases subject to compliance with the following requirements (after giving effect to the dividend or stock repurchase): (i) no default or event of default under the credit agreement; (ii) continued compliance with the financial covenants in the credit agreement; and (iii) at least \$100 million of availability under the credit agreement and/or cash and cash equivalents on hand. As of June 30, 2015, Quanta was in compliance with all of the covenants in the credit agreement.

---

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

The credit agreement provides for customary events of default and contains cross-default provisions with Quanta's underwriting, continuing indemnity and security agreement with its sureties and all other debt instruments exceeding \$75.0 million in borrowings or availability. If an Event of Default (as defined in the credit agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the credit agreement, the lenders may declare all amounts outstanding and accrued and unpaid interest immediately due and payable, require that Quanta provide cash collateral for all outstanding letter of credit obligations, terminate the commitments under the credit agreement, and foreclose on the collateral.

**9. EQUITY:*****Exchangeable Shares and Series F and Series G Preferred Stock***

In connection with certain Canadian acquisitions, the former owners of the acquired companies received exchangeable shares of certain Canadian subsidiaries of Quanta, which may be exchanged at the option of the holders 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. Additionally, in connection with two of such acquisitions, Quanta issued one share of Quanta Series F preferred stock and one share of Quanta Series G preferred stock (the Preferred Stock) to voting trusts on behalf of the respective holders of the exchangeable shares issued in such acquisitions. Each share of Preferred Stock provides the holders of such exchangeable shares voting rights in Quanta common stock equivalent to the number of exchangeable shares outstanding at that time.

The combination of the exchangeable shares and Preferred Stock gives the holders of such exchangeable shares rights equivalent to Quanta common stockholders with respect to voting, dividends and other economic rights. The holders of exchangeable shares not associated with the Preferred Stock have rights equivalent to Quanta common stockholders with respect to dividends and other economic rights but do not have voting rights. As of June 30, 2015, both shares of the Preferred Stock remained outstanding and 7,325,971 exchangeable shares remained outstanding, of which 4,399,858 were associated with the Preferred Stock.

***Treasury Stock***

Under the stock incentive plans described in Note 10, the tax withholding obligations of employees upon vesting of restricted stock awards and RSUs 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. For the settlement of these employee tax liabilities, Quanta withheld 0.3 million shares of Quanta common stock during the six months ended June 30, 2015 and 2014, with a total market value of \$9.9 million and \$11.8 million. These shares and the related costs to acquire them were accounted for as adjustments to the balance of treasury stock. Under Delaware corporate law, treasury stock is not counted for quorum purposes or entitled to vote.

During the fourth quarter of 2013, Quanta's board of directors approved a stock repurchase program authorizing Quanta to purchase, from time to time through December 31, 2016, up to \$500.0 million of its outstanding common stock. During the three and six months ended June 30, 2015, Quanta purchased 5.8 million and 12.5 million shares of its common stock under this program at a cost of \$172.3 million and \$354.3 million. As of June 30, 2015, Quanta had purchased an aggregate of approximately 15.5 million shares of its common stock under this program at a cost of \$447.8 million. The shares and the related cost to acquire them have been accounted for as an adjustment to the balance of treasury stock. In the third quarter of 2015, Quanta completed this stock repurchase program, purchasing an additional 1.8 million shares for a cost of \$52.2 million.



---

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

During the third quarter of 2015, Quanta's board of directors approved a stock repurchase program authorizing Quanta to purchase, from time to time through February 28, 2017, up to \$1.25 billion of its outstanding common stock. Repurchases can be made in open market or privately negotiated transactions, including pursuant to an accelerated share repurchase arrangement, an issuer repurchase plan or otherwise, at management's discretion, based on market and business conditions, applicable contractual and legal requirements and other factors. This program does not obligate Quanta to acquire any specific amount of common stock and may be modified or terminated by Quanta's board of directors at any time at its sole discretion and without notice.

***Non-controlling Interests***

Quanta holds investments in several joint ventures that provide infrastructure services under specific customer contracts. Quanta has determined that certain of these joint ventures are VIEs, with Quanta providing the majority of the infrastructure services 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 non-controlling interests in the condensed consolidated financial statements. Income attributable to the other joint venture members in the amounts of \$3.5 million and \$4.4 million for the three months ended June 30, 2015 and 2014 and \$8.2 million and \$8.6 million for the six months ended June 30, 2015 or 2014 has been accounted for as a reduction of net income in deriving net income attributable to common stock. 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 non-controlling interests within total equity in the accompanying balance sheets.

The carrying value of the investments held by Quanta in all of its VIEs was approximately \$13.5 million and \$11.1 million at June 30, 2015 and December 31, 2014. The carrying value of investments held by the non-controlling interests in these variable interest entities at June 30, 2015 and December 31, 2014 was \$13.5 million and \$11.1 million. During the three months ended June 30, 2015 and 2014, distributions to non-controlling interests were \$2.5 million and \$0.0 million. During the six months ended June 30, 2015 and 2014, distributions to non-controlling interests were \$5.0 million and \$0.5 million. There were no other changes in equity as a result of transfers to/from the non-controlling interests during the six months ended June 30, 2015 or 2014. See Note 11 for further disclosures related to Quanta's joint venture arrangements.

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

On May 19, 2011, Quanta's stockholders approved the 2011 Omnibus Equity Incentive Plan (the 2011 Plan). The 2011 Plan provides for the award of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock, RSUs, stock bonus awards, performance compensation awards (including performance units and 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

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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.

The 2011 Plan, the 2007 Plan and the RSU Plan, together with certain plans assumed by Quanta in acquisitions, are referred to as the Plans.

***Restricted Stock and RSUs to be Settled in Common Stock***

During the three months ended June 30, 2015 and 2014, Quanta granted 0.1 million RSUs to be settled in common stock under the Plans with weighted average grant date fair values of \$29.96 and \$33.31. During the six months ended June 30, 2015 and 2014, Quanta granted 1.2 million and 1.4 million RSUs to be settled in common stock under the Plans with weighted average grant date fair values of \$27.90 and \$35.08. 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 in equal installments over a two-year or three-year period following the date of grant. During the restriction period, holders of restricted stock are entitled to vote and receive dividends on such shares.

During the three months ended June 30, 2015 and 2014, vesting activity consisted of 0.1 million shares of restricted stock and RSUs settled in common stock with an approximate fair value at the time of vesting of \$2.3 million and \$3.5 million. During the six months ended June 30, 2015 and 2014, vesting activity consisted of 1.1 million and 1.0 million shares of restricted stock and RSUs settled in common stock with an approximate fair value at the time of vesting of \$33.8 million and \$34.8 million.

As of June 30, 2015, there was approximately \$44.9 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 1.88 years.

***Performance Units to be Settled in Common Stock***

Performance units awarded pursuant to the 2011 Plan provide for the issuance of shares of common stock upon vesting. These performance units cliff-vest at the end of a three-year performance period based on achievement of three-year company financial performance targets and strategic initiatives established by the Compensation Committee. The final amount of earned and vested performance units can range from 0% to 200% of the initial amount awarded based on the level of performance, as determined by the Compensation Committee.

During the three months ended June 30, 2015 and 2014, Quanta granted no performance units to be settled in common stock under the 2011 Plan. During the six months ended June 30, 2015, Quanta granted 0.2 million performance units

to be settled in common stock under the 2011 Plan, with a weighted average grant date fair value of \$28.16 per share. The grant date fair value for awards of performance units to be settled in common stock is based on the market value of Quanta common stock on the date of grant applied to the total number of shares that Quanta anticipates will fully vest. This fair value is expensed ratably over the vesting term and is adjusted for fair value changes, so that the expense recognized for each award is equivalent to the fair value of the final number of earned and vested performance units. During the three months ended June 30, 2015, Quanta recognized \$0.7 million in compensation expense associated with performance units to be settled in common stock. During the six months ended June 30, 2015, Quanta recognized \$1.4 million in compensation expense

---

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

associated with performance units to be settled in common stock. No performance units vested, and no shares of common stock were issued in connection with performance units, during the three and six months ended June 30, 2015 and 2014, as applicable performance periods had not yet concluded.

***RSUs to be Settled in Cash***

Certain RSUs granted by Quanta under the Plans are settled solely in cash. These cash-settled RSUs are intended to provide plan participants with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta, typically vest in equal installments over a two-year or three-year period following the date of grant, and are subject to forfeiture under certain conditions, primarily termination of service. Additionally, Quanta's non-employee directors may elect to settle a portion of their RSU awards in cash as long as they meet certain stock ownership requirements. This cash settlement option is intended to provide non-employee directors with the cash necessary to cover taxes due at settlement of their RSU awards. RSU awards for non-employee directors vest shortly after the conclusion of each director service year; however, settlement may be deferred based on prior elections under a nonqualified deferred compensation plan maintained by Quanta. For all RSUs settled in cash, the holders receive for each vested RSU an amount in cash equal to the fair market value on the settlement 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 \$1.2 million and \$0.9 million for the three months ended June 30, 2015 and 2014 and \$2.5 million and \$1.6 million for the six months ended June 30, 2015 and 2014. 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 \$1.6 million and \$0.1 million to settle liabilities related to cash-settled RSUs in the three months ended June 30, 2015 and 2014 and \$2.5 million and \$2.2 million to settle liabilities related to cash-settled RSUs in the six months ended June 30, 2015 and 2014. Accrued liabilities for the estimated earned value of outstanding RSUs to be settled in cash were \$2.9 million at June 30, 2015 and December 31, 2014.

**11. COMMITMENTS AND CONTINGENCIES:*****Investments in Affiliates and Other Entities***

As described in Note 9, 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 generally shared ratably based on the percentage ownership of the joint venture members. However, each member of the joint venture typically 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, typically 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.

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

During the fourth quarter of 2014, a limited partnership in which Quanta is a partner was selected for an engineering, procurement and construction (EPC) electric transmission project to construct approximately 500 kilometers of transmission line and two 500 kV substations. Quanta will provide turnkey EPC services for the entire project. As of June 30, 2015, Quanta had outstanding capital commitments associated with investments in an unconsolidated affiliate related to this project as follows (in thousands):

	<b>Capital Commitments</b>
<b>Year Ending December 31</b>	
Remainder of 2015	\$ 3,326
2016	8,534
2017 <sup>(1)</sup>	34,345
2018	
2019	25,357
Thereafter	
 Total capital commitments associated with investments in unconsolidated affiliated related to an EPC electrical transmission project	 \$ 71,562

<sup>(1)</sup> This amount excludes a return of capital from an unconsolidated affiliate of approximately \$45.3 million that is anticipated in August 2017.

Additionally, as of June 30, 2015, Quanta had outstanding capital commitments associated with investments in unconsolidated affiliates related to planned midstream infrastructure projects of approximately \$8.7 million, \$0.2 million of which is expected to be paid in the third quarter of 2015. Quanta is unable to determine the exact timing of the remaining \$8.5 million of these capital commitments but anticipates them to be paid by June 1, 2017.

***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 June 30, 2015 (in thousands):

	<b>Operating Leases</b>
Year Ending December 31	
Remainder of 2015	\$ 44,682
2016	60,654
2017	47,767
2018	34,649
2019	18,608
Thereafter	26,055
 Total minimum lease payments	 \$ 232,415



**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

Rent expense related to operating leases was approximately \$50.9 million and \$42.6 million for the three months ended June 30, 2015 and 2014 and approximately \$100.2 million and \$77.2 million for the six months ended June 30, 2015 and 2014.

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 June 30, 2015, the maximum guaranteed residual value was approximately \$469.4 million. Quanta believes that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that significant payments will not be required in the future.

***Committed Capital Expenditures***

Quanta has capital commitments for the expansion of its vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of June 30, 2015, production orders for approximately \$6.3 million had been issued with delivery dates expected to occur throughout the remainder of 2015. 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 commitments.

***Legal Proceedings***

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.

*Lorenzo Benton v. Telecom Network Specialists, Inc., et al.* In June 2006, plaintiff Lorenzo Benton filed a class action complaint in the Superior Court of California, County of Los Angeles, alleging various wage and hour violations against Telecom Network Specialists (TNS), a former subsidiary of Quanta. Benton seeks to represent a class of workers that includes all persons who worked on TNS projects between June 2002 and the present, including individuals that TNS retained through 29 staffing agencies. An amended complaint was filed in August 2007, naming

two additional class representatives, one of whom has since settled directly with his employer. The plaintiffs' motion for class certification was heard and denied in May 2012. The plaintiffs appealed the denial of class certification, and in October 2013, the California Court of Appeal reversed the denial and remanded the case to the trial court for reconsideration. In November 2013, TNS filed a petition for review with the Supreme Court of California, which was denied. The parties attended mediation in December 2014, however, there was no resolution. In March 2015, the plaintiffs filed their motion for class certification in the

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

remanded proceeding. The plaintiffs seek approximately \$16 million for class damages and \$5 million in attorneys fees. Quanta retained any liability associated with this matter following its sale of TNS in December 2012.

Additionally, in November 2007, TNS filed cross complaints for indemnity against the staffing agencies, which employed many of the individuals in the putative class. In December 2012, the trial court heard cross-motions for summary judgment filed by TNS and the staffing agencies pertaining to TNS's demand for indemnity. The court denied TNS's motion and granted the motions filed by the staffing agencies. TNS appealed the court's ruling, and in April 2015, the California Appellate Court reversed the trial court's decision, vacated its award of attorneys' fees, and instructed the trial court to reconsider its earlier ruling on TNS's indemnity claims. At this time, Quanta does not believe this matter will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

*SEC Notice.* On March 10, 2014, the SEC notified Quanta of an inquiry into certain aspects of Quanta's activities in certain foreign jurisdictions, including South Africa and the United Arab Emirates. The SEC also requested that Quanta take necessary steps to preserve and retain categories of relevant documents, including those pertaining to Quanta's U.S. Foreign Corrupt Practices Act compliance program. The SEC has not alleged any violations of law by Quanta or its employees. Quanta has complied with the preservation request and is cooperating with the SEC.

*Sunrise Powerlink Arbitration.* On April 21, 2010, PAR Electrical Contractors, Inc. (PAR), one of Quanta's wholly owned subsidiaries, entered into a contract with San Diego Gas & Electric Company (SDG&E) to construct a 117-mile electrical transmission line in Imperial and San Diego Counties, California, known as the Sunrise Powerlink project. In October 2013, Quanta initiated arbitration proceedings against SDG&E alleging breach of contract and seeking compensation for additional costs incurred on the project. SDG&E filed a counterclaim for breach of contract seeking damages for PAR's alleged untimely performance. In December 2014, the parties reached an agreement to dismiss the arbitration. The settlement terms provided for a cash payment by SDG&E to PAR in the amount of \$65 million, representing the final amount to compensate PAR for substantially all of the unpaid portion of PAR's costs incurred on the project. In January 2015, payment was received and the arbitration was dismissed.

For additional information regarding other pending legal proceedings, see *Collective Bargaining Agreements* in this Note 11.

***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 and oil and gas companies, governmental entities, general contractors, and builders, owners and

---

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

managers of commercial and industrial properties located primarily in the United States, Canada and Australia. Consequently, Quanta is subject to potential credit risk related to changes in business and economic factors throughout the United States, Canada and Australia, 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.

No customers represented 10% or more of Quanta's revenues for the three and six months ended June 30, 2015 and 2014, and no customers represented 10% or more of Quanta's consolidated net position as of June 30, 2015 or December 31, 2014.

***Self-Insurance***

As discussed in Note 2, Quanta is insured for employer's liability, general liability, auto liability and workers compensation claims. As of June 30, 2015 and December 31, 2014, the gross amount accrued for insurance claims totaled \$177.0 million and \$170.2 million with \$144.1 million and \$130.8 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of June 30, 2015 and December 31, 2014 were \$10.1 million and \$9.1 million, of which \$0.5 million and \$0.8 million were included in prepaid expenses and other current assets and \$9.6 million and \$8.3 million were included in other assets, net.

***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 June 30, 2015, Quanta had \$324.7 million in outstanding letters of credit and bank guarantees under its credit facility to secure its casualty insurance program and various contractual commitments. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2015 and 2016. Upon maturity, it is expected that the majority of the letters of credit related to the casualty insurance program will be renewed for subsequent one-year periods.

***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. These performance bonds expire at various times ranging from mechanical completion of the related projects to a period extending beyond contract completion in certain circumstances, and as such a determination of maximum

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

potential amounts outstanding requires the use of certain estimates and assumptions. Such amounts can also fluctuate from period to period based upon the mix and level of Quanta's bonded operating activity. As of June 30, 2015, the total amount of outstanding performance bonds was estimated to be approximately \$2.7 billion. Quanta's estimated maximum exposure as it relates to the value of the performance bonds outstanding is lowered on each bonded project as the cost to complete is reduced, and each of its commitments under the performance bonds generally extinguishes concurrently with the expiration of its related contractual obligation. The estimated cost to complete these bonded projects was approximately \$744 million as of June 30, 2015.

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***

Some 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. From time to time, Quanta is a party to grievance actions based on claims arising out of the collective bargaining 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. 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. Therefore, Quanta is unable to accurately predict its union employee payroll and the amount of the resulting multi-employer pension plan contribution obligation for future periods.

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



---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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 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 (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 asserted that the withdrawal of the PLCA members was not effective in 2011, although Quanta believed at that time that a legally effective withdrawal had occurred during the fourth quarter of 2011. Although the federal district court for the Northern District of Illinois, Eastern Division, ruled that the withdrawal of the PLCA members was not effective in 2011, the PLCA appealed the decision, and the outcome of that appeal remains uncertain. Certain other Quanta subsidiaries continued participation in the Central States Plan, and Quanta believes that it subsequently effected a complete withdrawal as of December 30, 2012.

In December 2013, the Central States Plan filed separate lawsuits against two of Quanta's subsidiaries. In the first lawsuit, the Central States Plan alleged that a Quanta subsidiary elected to participate in the Central States Plan pursuant to the collective bargaining agreement under which it participates. The subsidiary argued that no such election was made and that any payments made by the subsidiary to the Central States Plan were made in error. In

July 2014, the parties reached an agreement to settle the lawsuit, and on July 16, 2014, the court dismissed the case with prejudice.

In the second lawsuit, the Central States Plan alleged that contributions made by another Quanta subsidiary, Infrasource Construction LLC (Infrasource), to a new industry fund that was created after Quanta withdrew from the Central States Plan should have been made to the Central States Plan. This arguably would have extended the

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

date of withdrawal for this subsidiary to at least the end of 2013. Infrasource disputed these allegations on the basis that it has properly paid contributions to the new industry fund based on the terms of the collective bargaining agreement under which it participates. The parties both moved for summary judgment, and in March 2015 the court granted Infrasource's motion, denied the Central States Plan's motion, and entered judgment in favor of Infrasource. The Central States Plan filed a notice of appeal in April 2015.

In March 2014, one of the Quanta subsidiaries was notified of a joint grievance committee decision relating to a separate grievance matter concluding that the Quanta subsidiary should have hired Teamsters under a specific collective bargaining agreement to perform certain jobs. This matter was subsequently resolved with the Teamsters, effectively resulting in an award of wages and benefits (including pension contributions) to the two Teamsters employees under an alternate collective bargaining agreement that is not related to the Central States Plan. In addition, in March 2014, the Central States Plan provided revised estimates indicating that the withdrawal liability based on certain withdrawal scenarios from 2011 through 2014 could range between \$40.1 million and \$55.4 million. In July 2014, the Central States Plan provided Quanta with a Notice and Demand of partial withdrawal liability for certain Quanta entities in the amount of \$39.6 million. Quanta continues to dispute the total withdrawal liability owed to the Central States Plan. However, Quanta began to make monthly payments associated with this Notice and Demand in the third quarter of 2014 while the parties continue the related process to determine the final withdrawal liability. The amount owed upon resolution of this matter will be reduced by these monthly payments made.

The ultimate liability associated with the complete withdrawal of Quanta's subsidiaries from the Central States 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 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. However, Quanta recorded an adjustment to cost of services during the three months ended March 31, 2014 to increase the recognized withdrawal liability to an amount within the range communicated to Quanta by the Central States Plan. Quanta believes that the range of reasonable possible loss associated with the Central States Plan is up to \$55.4 million. Given the unknown nature of some of the factors mentioned above, the final withdrawal liability cannot yet be determined with certainty. Accordingly, it is reasonably possible that the amount owed upon final resolution of these matters could be materially higher than the liability Quanta has recognized through June 30, 2015.

On October 9, 2013, Quanta acquired a company that experienced a complete withdrawal from the Central States Plan prior to the date of acquisition. The Central States Plan issued a Notice and Demand dated March 13, 2013 to the acquired company for a withdrawal liability in the total amount of \$6.9 million payable in installments. Based on legal arguments, the acquired company took the position that the amount of withdrawal liability payable to the Central States Plan as a result of its complete withdrawal was \$4.8 million, of which approximately \$2.6 million remained outstanding as of June 30, 2015. The acquired company and Quanta have taken steps to challenge the amount of the assessment by the Central States Plan; however, payments in accordance with the terms of the Central States Plan's

demand letter are required to be made while the dispute is ongoing. Approximately \$2.1 million of the purchase price was deposited into an escrow account on October 9, 2013 to fund any withdrawal obligation in excess of the \$4.8 million initially demanded. Accordingly, the acquired company's withdrawal from the Central States Plan is not expected to have a material impact on Quanta's financial condition, results of operations or cash flows.

---

**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

***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. Additionally, in connection with certain acquisitions and dispositions, Quanta has indemnified various parties against specified liabilities that those parties might incur in the future. The indemnities under acquisition or disposition agreements are usually contingent upon the other party incurring liabilities that reach specified thresholds. As of June 30, 2015, except as otherwise set forth above in *Legal Proceedings*, Quanta does not believe any material liabilities for claims exist against it in connection with any of these indemnity obligations.

In the normal course of Quanta's acquisition transactions, Quanta obtains rights to indemnification from the sellers or former owners of acquired companies for certain risks, liabilities and obligations arising from their prior operations, such as performance, operational, safety, workforce or tax issues, some of which Quanta may not have discovered during due diligence. However, the indemnities may not cover all of Quanta's exposure for such pre-acquisition matters, as the indemnities under acquisition agreements are usually contingent upon Quanta incurring liabilities that reach specified thresholds, and the indemnitors may be unwilling or unable to pay the amounts owed to Quanta. Quanta is currently in the process of identifying certain pre-acquisition obligations associated with non-U.S. payroll taxes that may be due from a business acquired by Quanta in 2013. As of June 30, 2015, Quanta has recorded \$11.4 million as its best estimate of the pre-acquisition tax obligations and a corresponding indemnification asset, as management expects to recover from the indemnity counterparties any amounts that Quanta may be required to pay in connection with any such obligations.

**12. SEGMENT INFORMATION:**

Quanta presents its operations under two reportable segments: (1) Electric Power Infrastructure Services and (2) Oil and Gas Infrastructure Services. 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 two internal divisions, namely, the Electric Power Division and the Oil and Gas Infrastructure 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. In addition, Quanta's integrated operations and common administrative support at each of its operating units require that certain allocations of shared and indirect costs, such as facility costs and 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 table (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Electric Power Infrastructure	\$ 1,222,324	\$ 1,252,842	\$ 2,462,616	\$ 2,542,433
Oil and Gas Infrastructure	650,016	585,367	1,271,110	1,031,224
Consolidated	\$ 1,872,340	\$ 1,838,209	\$ 3,733,726	\$ 3,573,657
<b>Operating income (loss):</b>				
Electric Power Infrastructure	\$ 88,027	\$ 112,836	\$ 197,019	\$ 257,324
Oil and Gas Infrastructure	35,981	55,583	60,128	34,411
Corporate and non-allocated costs	(55,157)	(47,622)	(104,146)	(91,606)
Consolidated	\$ 68,851	\$ 120,797	\$ 153,001	\$ 200,129
<b>Depreciation:</b>				
Electric Power Infrastructure	\$ 22,072	\$ 18,627	\$ 42,989	\$ 36,490
Oil and Gas Infrastructure	16,783	13,465	33,252	26,680
Corporate and non-allocated costs	2,175	1,815	4,187	3,584
Consolidated	\$ 41,030	\$ 33,907	\$ 80,428	\$ 66,754

Separate measures of Quanta's assets and cash flows by reportable segment, including capital expenditures, are not produced or utilized by management to evaluate segment performance. Quanta's fixed assets, which are held at the operating unit level, include operating machinery, equipment and vehicles, as well as office equipment, buildings and leasehold improvements, and 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**

During the three months ended June 30, 2015 and 2014, Quanta derived \$359.2 million and \$392.2 million of its revenues from foreign operations. During the six months ended June 30, 2015 and 2014, Quanta derived \$892.7 million and \$848.4 million of its revenues from foreign operations. Of Quanta's foreign revenues, approximately 84% and 75% was earned in Canada during the three months ended June 30, 2015 and 2014 and approximately 86% and

80% was earned in Canada in the six months ended June 30, 2015 and 2014. In addition, Quanta held property and equipment of \$357.5 million and \$372.9 million in foreign countries, primarily Canada, as of June 30, 2015 and December 31, 2014.

**13. SUBSEQUENT EVENTS:**

*Acquisitions*

During the third quarter of 2015, Quanta has completed three acquisitions. The companies acquired include a foundation services company located in the United States, an electrical contractor company located in the United States, and an electrical engineering company located in Australia, all of which are included in Quanta's



**Table of Contents**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**(Unaudited)**

Electric Power Infrastructure Services segment. The aggregate consideration paid or payable for these acquisitions included approximately \$28.8 million in cash, subject to net working capital and other adjustments, and shares of Quanta common stock valued at approximately \$7.7 million. As these transactions were effective during the third quarter of 2015, the results will be included in Quanta's consolidated financial statements beginning on the dates of acquisition. These acquisitions should enable Quanta to further enhance its electric power infrastructure service offerings in the United States and Australia.

## **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 (Quarterly Report) and with our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission (SEC) on March 2, 2015 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 in *Uncertainty of Forward-Looking Statements and Information* below and Item 1A. *Risk Factors* 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 oil and gas industries in the United States, Canada and Australia and select other 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, pipeline transmission and distribution systems and facilities, and infrastructure services for the offshore and inland water energy markets.

We report our results under two reportable segments: (1) Electric Power Infrastructure Services and (2) Oil and Gas Infrastructure Services. This structure is generally focused on broad end-user markets for our services. Our consolidated revenues for the six months ended June 30, 2015 were approximately \$3.73 billion, of which 66.0% was attributable to the Electric Power Infrastructure Services segment and 34.0% to the Oil and Gas Infrastructure Services segment. We previously presented our fiber optic licensing operations and various telecommunications infrastructure services, which we provided on a limited and ancillary basis to our electric power customers, in the Fiber Optic Licensing and Other segment. As a result of the sale of our fiber optic licensing operations, for all periods presented in the accompanying unaudited condensed consolidated financial statements, we have presented our fiber optic licensing operations as discontinued operations and our ancillary telecommunications infrastructure services as part of our Electric Power Infrastructure Services 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 are frequently negotiated 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, following the disposition of our fiber optic licensing operations, we are organized into two internal divisions, namely, the Electric Power Division and the Oil and Gas Infrastructure

## **Table of Contents**

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.

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 infrastructure 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, consisting of solar, wind and certain types of natural gas generation facilities, and related switchyards and transmission infrastructure. To a lesser extent, this segment provides services such as the construction of electric power generation facilities, 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 and limited ancillary telecommunication infrastructure services.

The Oil and Gas Infrastructure Services segment provides comprehensive network solutions to customers involved in the development and transportation of natural gas, oil and other pipeline products. Services performed by the Oil and Gas 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. We also serve the offshore and inland water energy markets, primarily providing services to oil and gas exploration platforms, including mechanical installation (or hook-ups), electrical and instrumentation, pre-commissioning and commissioning, coatings, fabrication, pipeline construction, integrity services and marine asset repair. To a lesser extent, this segment designs, installs and maintains fueling systems, as well as water and sewer infrastructure.

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

### ***Disposition - Fiber Optic Licensing Operations***

On April 29, 2015, we entered into a stock purchase agreement with Crown Castle International Corp. (Crown Castle), and CC SCN Fiber LLC, a subsidiary of Crown Castle, pursuant to which we agreed to sell all of the issued and outstanding equity interests in Quanta Fiber Networks, Inc., our wholly owned subsidiary that owned our fiber optic

licensing operations. The purchase agreement contains customary representations and warranties, covenants and indemnities. On August 4, 2015, we completed the sale for a purchase price of approximately \$1 billion in cash, resulting in after-tax net proceeds of approximately \$830 million. In the third quarter of 2015, Quanta expects to recognize an estimated net of tax gain of approximately \$175 million.

---

**Table of Contents**

As of June 30, 2015, we determined that our fiber optic licensing operations met the requirements to be classified as held for sale and presented as discontinued operations. Accordingly, we have presented the results of operations, financial position, cash flows and disclosures of the fiber optic licensing operations as discontinued operations for all periods presented in the accompanying unaudited condensed consolidated financial statements.

***Acquisitions***

During the first six months of 2015, we acquired six companies. Four of these acquired companies are generally included in our Electric Power Infrastructure Services segment, including a powerline construction company located in the United States, an engineering company located in Canada, an engineering, procurement and construction services company based in the United States, and a supplier and material procurement specialist for the power and utility industry in Canada. The remaining two acquired companies are generally included in our Oil and Gas Infrastructure Services segment, including an underground utility distribution contractor that provides services to gas and electric utilities in Canada and a company that specializes in the engineering, procurement, construction, and commissioning of compression and surface facilities for the high pressure gas industry in Australia. The aggregate consideration paid for these acquisitions was approximately \$64.7 million paid or payable in cash, subject to net working capital adjustments, and \$1.0 million in contingent consideration. As these transactions were effective during the first half of 2015, the results have been included in our consolidated financial statements beginning on the respective dates of acquisition. These acquisitions should enable us to further enhance our electric power and oil and gas infrastructure service offerings in the United States, Canada and Australia.

During 2014, we completed nine acquisitions, which enabled us to further enhance our electric power and oil and gas infrastructure service offerings in the United States and Canada and expand our capabilities in Australia to include electric power infrastructure service offerings. These acquisitions included four electric power infrastructure services companies located in Canada; two oil and gas infrastructure services businesses located in Canada; an electric power infrastructure services company located in Australia; a U.S.-based general engineering and construction company specializing in hydrant fueling, waterfront and utility construction for the U.S. Department of Defense that is generally included in our Oil and Gas Infrastructure Services segment; and a geotechnical and geological engineering services company based in the United States that is generally included in our Electric Power Infrastructure Services segment. The aggregate consideration paid for these acquisitions consisted of approximately \$279.5 million in cash, 686,382 shares of Quanta common stock and 3,825,971 exchangeable shares of Canadian subsidiaries of Quanta that are exchangeable on a one-for-one basis for Quanta common stock. The exchangeable shares provide holders with rights equivalent to Quanta common stockholders with respect to dividends and other economic rights. In addition, we issued one share of Series G preferred stock associated with 899,858 of the exchangeable shares, which generally votes on the same matters as Quanta common stock and is entitled to a number of votes equal to the number of such exchangeable shares outstanding at that time. Exchangeable shares not associated with preferred stock do not have voting rights. The aggregate value of the securities issued related to 2014 acquisitions on the respective closing or settlement dates of the acquisitions totaled approximately \$134.5 million. As these transactions were effective during 2014, the results of each acquired company have been included in our consolidated financial statements beginning on the respective dates of acquisition.

**Backlog**

Backlog is not a term recognized under United States generally accepted accounting principles (US GAAP); 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, long-term maintenance contracts and 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

**Table of Contents**

backlog, we include 100% of estimated revenues attributable to consolidated joint ventures and variable interest entities (VIEs). The following table presents our total backlog by reportable segment as of June 30, 2015 and December 31, 2014, 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 June 30, 2015</b>		<b>Backlog as of December 31, 2014</b>	
	<b>12 Month</b>	<b>Total</b>	<b>12 Month</b>	<b>Total</b>
Electric Power Infrastructure Services	\$ 3,217,142	\$ 6,280,244	\$ 3,395,094	\$ 6,715,593
Oil and Gas Infrastructure Services	1,705,738	2,870,652	1,824,610	2,520,635
<b>Total</b>	<b>\$ 4,922,880</b>	<b>\$ 9,150,896</b>	<b>\$ 5,219,704</b>	<b>\$ 9,236,228</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 are subject to renewal options. As of June 30, 2015 and December 31, 2014, MSAs accounted for approximately 44% and 39% of our estimated 12 month backlog and approximately 52% and 47% of total backlog. There can be no assurance as to our customers' actual 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 any of the areas we serve, 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.

These seasonal impacts are typical for our U.S. operations, but as our foreign operations continue to grow, we may see a lessening of this pattern impacting our quarterly revenues. For example, revenues in Canada are often higher in the



first quarter as projects are accelerated so that work can be completed prior to the break up, or seasonal thaw, as productivity is adversely affected by wet ground conditions during the warmer spring and summer months. Also, although revenues from Australia and other international operations have not been significant relative to our overall revenues to date, their seasonal patterns may differ from those in North America and may impact our seasonality more in the future.

---

**Table of Contents**

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, including the United States, Canada and Australia. 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 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 (losses) of unconsolidated affiliates, impairments of goodwill, intangible assets, long-lived assets or investments 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. Oil prices have declined significantly over the past several months. The recent decline in oil prices has created uncertainty with respect to the demand for our oil and gas infrastructure services in the near term, and it is also uncertain if, or for how long, oil prices will remain at lower levels. Over time, we expect that, as the current oversupply of global oil corrects and global demand for oil increases, oil prices could recover from current levels. We believe that, at a minimum, medium- and long-term production of oil from North American unconventional shale formations and the Canadian oil sands will continue, which will create demand for our infrastructure services over time.

We are closely monitoring our customers and the effect that changes in economic and market conditions have or may have on them. Certain of our customers have reduced or delayed spending in recent 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. As mentioned previously, there have been significant decreases in oil prices since mid-2014. If the development or discovery of natural gas and/or oil reserves slowed or stopped as a result of low natural gas or oil prices or otherwise, customers may reduce capital spending on mainline pipe, gas gathering and compressor systems and other related infrastructure, resulting in less demand for our services. 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 – can 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

the areas we serve will also affect margins, as some of the areas we serve 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

## Table of Contents

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.

*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.* As discussed in *Liquidity and Capital Resources* – *Self-Insurance*, we are insured for employer's liability, general liability, auto liability and workers' compensation claims. We also have employee health care benefit plans for most employees not subject to collective bargaining agreements. Margins could be impacted by fluctuations in insurance accruals as additional claims arise and as circumstances and conditions of existing claims change.

*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

**Table of Contents**

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 is reported on a U.S. dollar-denominated basis and is subject to fluctuation in foreign currency exchange rates. Fluctuations in exchange rates relative to the U.S. dollar, primarily the Canadian and Australian dollars, could cause material fluctuations in comparisons of our results of operations between periods.

**Selling, General and Administrative Expenses**

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

**Results of Operations**

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 for our fiber optic licensing operations, which were disposed of on August 4, 2015, have been reclassified from continuing operations to income from discontinued operations for all periods presented. The following table sets forth selected statements of operations data and such data as a percentage of revenues for the three and six month periods indicated (dollars in thousands):

**Consolidated Results**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Revenues	\$ 1,872,340	100.0%	\$ 1,838,209	100.0%	\$ 3,733,726	100.0%	\$ 3,573,657	100.0%
Cost of services (including depreciation)	1,644,835	87.8	1,574,000	85.6	3,268,315	87.5	3,053,394	85.4
Gross profit	227,505	12.2	264,209	14.4	465,411	12.5	520,263	14.6
Selling, general and administrative expenses	149,923	8.0	135,210	7.4	295,386	7.9	304,099	8.5
Amortization of intangible assets	8,731	0.5	8,202	0.4	17,024	0.5	16,035	0.5
Operating income	68,851	3.7	120,797	6.6	153,001	4.1	200,129	5.6
Interest expense	(1,675)	(0.1)	(1,128)	(0.1)	(3,075)	(0.1)	(2,110)	(0.1)
Interest income	319		599		772		2,141	0.1
Equity in earnings (losses) of unconsolidated	(314)		(332)		(314)		(332)	

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

affiliates									
Other income (expense), net	(134)		(901)		(346)		(257)		
Income from continuing operations before income taxes									
	67,047	3.6	119,035	6.5	150,038	4.0	199,571	5.6	
Provision for income taxes	31,584	1.7	41,220	2.3	62,185	1.6	70,074	2.0	
Net income from continuing operations									
	35,463	1.9	77,815	4.2	87,853	2.4	129,497	3.6	
Net income from discontinued operations									
	14,102	0.7	7,629	0.4	19,897	0.5	14,595	0.4	
Net income	49,565	2.6	85,444	4.6	107,750	2.9	144,092	4.0	
Less: Net income attributable to non-controlling interests									
	3,456	0.1	4,362	0.2	8,157	0.2	8,602	0.2	
Net income attributable to common stock									
	\$ 46,109	2.5%	\$ 81,082	4.4%	\$ 99,593	2.7%	\$ 135,490	3.8%	

---

**Table of Contents*****Three months ended June 30, 2015 compared to the three months ended June 30, 2014***

*Revenues.* Revenues increased \$34.1 million, or 1.9%, to \$1.87 billion for the three months ended June 30, 2015. This increase is primarily attributable to an increase in Oil and Gas Infrastructure Services revenues of \$64.6 million, or 11.0%, which was partially offset by a decrease in revenues from Electric Power Infrastructure Services revenues of \$30.5 million, or 2.4%. Revenues in the three months ended June 30, 2015 were favorably impacted by approximately \$70 million in revenues generated by companies acquired since the end of the second quarter of 2014, as well as increased capital spending by our customers. Revenues reported by our international operations were negatively impacted by approximately \$46 million due to changes in foreign currency translation rates as the U.S. dollar strengthened against the Canadian and Australian dollars. Additionally, adverse weather during the three months ended June 30, 2015 across a number of our operating areas negatively impacted revenues.

*Gross profit.* Gross profit decreased \$36.7 million, or 13.9%, to \$227.5 million for the three months ended June 30, 2015. Gross profit as a percentage of revenues decreased to 12.2% for the three months ended June 30, 2015 from 14.4% for the three months ended June 30, 2014. These decreases were primarily due to the negative impact of approximately \$32 million in aggregate losses recorded during the current quarter on three projects due to increased costs associated with performance and site related factors that adversely impacted production. The projects include a power plant project in Alaska expected to be complete in mid-2016, an electric transmission project in Canada expected to be complete in the third quarter of 2015, and a directional drilling project in Canada expected to be complete by year-end.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased \$14.7 million, or 10.9%, to \$149.9 million for the three months ended June 30, 2015. This increase was primarily attributable to \$7.4 million in incremental general and administrative costs associated with companies acquired since the second quarter of 2014, \$7.3 million in higher salaries and benefits costs from annual compensation increases and increased personnel, and \$1.3 million in higher costs associated with ongoing technology and business development initiatives. Selling, general and administrative expenses as a percentage of revenues increased to 8.0% for the three months ended June 30, 2015 from 7.4% for the three months ended June 30, 2014. This increase was primarily due to reduced revenues associated with the negative impact of foreign currency exchange rates and its impact on the absorption of consolidated overhead costs, coupled with the higher salary and benefits costs previously discussed.

*Amortization of intangible assets.* Amortization of intangible assets increased \$0.5 million to \$8.7 million for the three months ended June 30, 2015. This increase was primarily due to increased amortization of intangibles associated with companies acquired after the second quarter of 2014, partially offset by reduced amortization expense from previously acquired intangible assets as certain of these assets became fully amortized.

*Interest expense.* Interest expense increased \$0.5 million to \$1.7 million for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 due to increased borrowing activity during the current quarter.

*Interest income.* Interest income was \$0.3 million and \$0.6 million for the three months ended June 30, 2015 and 2014. The decrease was primarily due to lower average cash balances during the three months ended June 30, 2015.

*Provision for income taxes.* The provision for income taxes was \$31.6 million for the three months ended June 30, 2015, with an effective tax rate of 47.1%. The provision for income taxes was \$41.2 million for the three months ended June 30, 2014, with an effective tax rate of 34.6%. The higher effective tax rate for the three months ended June 30, 2015 was primarily due to a lower proportion of income before taxes earned from international jurisdictions, which are generally taxed at lower statutory rates, and a \$5.0 million negative impact





---

**Table of Contents**

of an increase in the Alberta provincial statutory income tax rate effective June 1, 2015, which required a remeasurement of certain cumulative deferred tax assets and liabilities.

*Other comprehensive income.* Other comprehensive income, net of taxes was a gain of \$14.9 million in the three months ended June 30, 2015 compared to \$31.3 million in the three months ended June 30, 2014. These gains were primarily due to favorable foreign currency translation adjustments related to the weakening of the U.S. dollar against the Canadian and Australian dollars at June 30, 2015 and 2014 compared to March 31, 2015 and 2014.

***Six months ended June 30, 2015 compared to the six months ended June 30, 2014***

*Revenues.* Revenues increased \$160.1 million, or 4.5%, to \$3.73 billion for the six months ended June 30, 2015. This increase is primarily attributable to an increase in Oil and Gas Infrastructure Services revenues of \$239.9 million, or 23.3%, which was partially offset by a decrease in revenues from Electric Power Infrastructure Services revenues of \$79.8 million, or 3.1%. Revenues in the six months ended June 30, 2015 were favorably impacted by approximately \$220 million in revenues generated by companies acquired since the end of the second quarter of 2014, as well as increased capital spending by our customers. Revenues reported by our international operations were negatively impacted by approximately \$111 million due to changes in foreign currency translation rates as the U.S. dollar strengthened against the Canadian and Australian dollars.

*Gross profit.* Gross profit decreased \$54.9 million, or 10.5%, to \$465.4 million for the six months ended June 30, 2015. Gross profit as a percentage of revenues decreased to 12.5% for the six months ended June 30, 2015 from 14.6% for the six months ended June 30, 2014. These decreases were primarily due to the negative impact of approximately \$48 million in aggregate losses recorded during the current year on three projects due to increased costs associated with performance and site related factors that adversely impacted production. The projects include a power plant project in Alaska expected to be complete in mid-2016, an electric transmission project in Canada expected to be complete in the third quarter of 2015, and a directional drilling project in Canada expected to be complete by year-end. Also contributing to the decreases was the negative impact on various projects of heavy snowfall in eastern Canada and northern areas of the U.S. and an early thaw in western Canada during the first three months of 2015.

*Selling, general and administrative expenses.* Selling, general and administrative expenses decreased \$8.7 million, or 2.9%, to \$295.4 million for the six months ended June 30, 2015. The decrease was primarily attributable to an aggregate \$38.8 million expense recorded in the six months ended June 30, 2014 associated with an adverse arbitration decision regarding a contract dispute with the National Gas Company of Trinidad and Tobago (NGC) on a 2010 directional drilling project, partially offset by \$15.9 million in incremental general and administrative costs associated with companies acquired since the second quarter of 2014, \$10.2 million in higher salaries and benefits from annual compensation increases and increased personnel, and \$3.6 million in higher costs associated with ongoing technology and business development initiatives. Selling, general and administrative expenses as a percentage of revenues decreased to 7.9% for the six months ended June 30, 2015 from 8.5% for the six months ended June 30, 2014, due primarily to the impact of the \$38.8 million arbitration expense recorded in the first half of 2014.

*Amortization of intangible assets.* Amortization of intangible assets increased \$1.0 million to \$17.0 million for the six months ended June 30, 2015. This increase was primarily due to increased amortization of intangibles associated with companies acquired after the second quarter of 2014, partially offset by reduced amortization expense from previously acquired intangible assets as certain of these assets became fully amortized.

*Interest expense.* Interest expense increased \$1.0 million to \$3.1 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 due to increased borrowing activity.

*Interest income.* Interest income was \$0.8 million and \$2.1 million for the six months ended June 30, 2015 and 2014. The decrease was primarily due to lower average cash balances during the six months ended June 30, 2015.

**Table of Contents**

*Provision for income taxes.* The provision for income taxes was \$62.2 million for the six months ended June 30, 2015, with an effective tax rate of 41.4%. The provision for income taxes was \$70.1 million for the six months ended June 30, 2014, with an effective tax rate of 35.1%. The higher effective tax rate for the six months ended June 30, 2015 was primarily due to a lower proportion of income before taxes earned from international jurisdictions, which are generally taxed at lower statutory rates, and a \$5.0 million negative impact of an increase in the Alberta provincial statutory income tax rate effective as of June 1, 2015, which required a remeasurement of certain cumulative deferred tax assets and liabilities.

*Other comprehensive income (loss).* Other comprehensive income (loss), net of taxes was a loss of \$74.0 million in the six months ended June 30, 2015 compared to a gain of \$13.4 million in the six months ended June 30, 2014. This decrease was primarily due to unfavorable foreign currency translation adjustments related to the strengthening of the U.S. dollar against the Canadian and Australian dollars at June 30, 2015 as compared to December 31, 2014 versus favorable foreign currency translation adjustments related to the weakening of the U.S. dollar against the Canadian and Australian dollars at June 30, 2014 as compared to December 31, 2013.

**Segment Results**

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
<b>Revenues:</b>								
Electric Power								
Infrastructure	\$ 1,222,324	65.3%	\$ 1,252,842	68.2%	\$ 2,462,616	66.0%	\$ 2,542,433	71.1%
Oil and Gas								
Infrastructure	650,016	34.7	585,367	31.8	1,271,110	34.0	1,031,224	28.9
Consolidated revenues from external customers	\$ 1,872,340	100.0%	\$ 1,838,209	100.0%	\$ 3,733,726	100.0%	\$ 3,573,657	100.0%
<b>Operating income (loss):</b>								
Electric Power								
Infrastructure	\$ 88,027	7.2%	\$ 112,836	9.0%	\$ 197,019	8.0%	\$ 257,324	10.1%
Oil and Gas								
Infrastructure	35,981	5.5	55,583	9.5	60,128	4.7	34,411	3.3
Corporate and non-allocated costs	(55,157)	N/A	(47,622)	N/A	(104,146)	N/A	(91,606)	N/A
Consolidated operating income	\$ 68,851	3.7%	\$ 120,797	6.6%	\$ 153,001	4.1%	\$ 200,129	5.6%

***Three months ended June 30, 2015 compared to the three months ended June 30, 2014***

*Electric Power Infrastructure Services Segment Results*

Revenues for this segment decreased \$30.5 million, or 2.4%, to \$1.22 billion for the three months ended June 30, 2015. Revenues from our international operations were negatively impacted by approximately \$29 million as a result of changes in foreign currency translation rates in the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily attributable to the strengthening of the U.S. dollar

---

**Table of Contents**

against the Canadian dollar. In addition, due to normal fluctuations in project timing, certain larger projects that were ongoing in the three months ended June 30, 2014 were at or near completion in the three months ended June 30, 2015. Partially offsetting these decreases was the contribution of approximately \$20 million in revenues by companies acquired since the second quarter of 2014 and \$6.5 million in higher emergency restoration services revenues.

Operating income decreased \$24.8 million, or 22.0%, to \$88.0 million for the three months ended June 30, 2015. Operating income as a percentage of segment revenues decreased to 7.2% for the three months ended June 30, 2015 from 9.0% for the three months ended June 30, 2014. These decreases were primarily due to the negative impact of approximately \$25 million in losses recorded during the current quarter on two projects due to increased costs associated with performance and site related factors that adversely impacted production. The projects include a power plant project in Alaska expected to be complete in mid-2016 and an electric transmission project in Canada expected to be complete in the third quarter of 2015.

*Oil and Gas Infrastructure Services Segment Results*

Revenues for this segment increased \$64.6 million, or 11.0%, to \$650.0 million for the three months ended June 30, 2015. Revenues in the three months ended June 30, 2015 were favorably impacted by approximately \$50 million in revenues generated by companies acquired since the end of the second quarter of 2014, as well as increased revenues from the ramping up of previously awarded mainline pipe projects, partially offset by reduced demand for services due to lower oil prices and their impact on customer spending. In addition, partially offsetting these increases was the negative impact of changes in foreign currency translation rates, which reduced revenues reported by our international operations by approximately \$17 million in the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily as a result of the strengthening of the U.S. dollar against the Canadian dollar and Australian dollar.

Operating income decreased \$19.6 million, or 35.3%, to \$36.0 million for the three months ended June 30, 2015 from \$55.6 million for the three months ended June 30, 2014. Operating income as a percentage of segment revenues decreased to 5.5% for the three months ended June 30, 2015, from 9.5% for the three months ended June 30, 2014. These decreases were primarily due to performance related project losses of approximately \$7 million on a directional drilling project in Canada expected to be complete by year-end. In addition, profitability on certain other projects was negatively impacted by higher costs resulting from heavy rainfall during the current period. Also contributing to the decrease in operating income as a percentage of revenues was lower demand for services associated with certain operations as a result of lower oil prices which negatively impacted this segment's ability to cover fixed costs.

*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 June 30, 2015 increased \$7.5 million to \$55.2 million as compared to the quarter ended June 30, 2014. This increase was primarily due to \$3.7 million in higher salaries and benefits associated with cost of living increases and increased personnel to support strategic initiatives, \$1.4 million in higher costs associated with ongoing technology and business development initiatives, and \$1.3 million in higher consulting and professional fees.

*Six months ended June 30, 2015 compared to the six months ended June 30, 2014**Electric Power Infrastructure Services Segment Results*

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

Revenues for this segment decreased \$79.8 million, or 3.1%, to \$2.46 billion for the six months ended June 30, 2015. Revenues from our international operations were negatively impacted by approximately \$61

---

**Table of Contents**

million as a result of changes in foreign currency translation rates in the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily attributable to the strengthening of the U.S. dollar against the Canadian dollar. In addition, due to normal fluctuations in project timing, certain larger projects that were ongoing in the six months ended June 30, 2014 were at or near completion in the six months ended June 30, 2015. Also contributing to the decrease was \$11.2 million in lower emergency restoration services. Partially offsetting these decreases was the contribution of approximately \$40 million in revenues by companies acquired since the second quarter of 2014.

Operating income decreased \$60.3 million, or 23.4%, to \$197.0 million for the six months ended June 30, 2015. Operating income as a percentage of segment revenues decreased to 8.0% for the six months ended June 30, 2015 from 10.1% for the six months ended June 30, 2014. These decreases were primarily due to the negative impact of approximately \$47 million in aggregate losses recorded during the current period on two projects due to increased costs associated with performance and site related factors that adversely impacted production. The projects include a power plant project in Alaska expected to be complete in mid-2016 and an electric transmission project in Canada expected to be complete in the third quarter of 2015. In addition, the decreases were due to the negative impact on production for various projects due to heavy snowfall in eastern Canada and northern areas of the U.S. and an early thaw in western Canada during the first three months of 2015. Additionally, lower emergency restoration services revenues impacted margins since such services typically yield higher margins.

*Oil and Gas Infrastructure Services Segment Results*

Revenues for this segment increased \$239.9 million, or 23.3%, to \$1.27 billion for the six months ended June 30, 2015. Revenues in the six months ended June 30, 2015 were favorably impacted by approximately \$180 million in revenues generated by companies acquired since the end of the second quarter of 2014, as well as increased revenues from the ramping up of previously awarded mainline pipe projects, partially offset by reduced demand for services due to lower oil prices and their impact on customer spending. These increases were partially offset by the negative impact of changes in foreign currency translation rates, which reduced revenues reported by our international operations by approximately \$50 million and were primarily attributable to the strengthening of the U.S. dollar against the Canadian dollar and Australian dollar.

Operating income increased \$25.7 million, or 74.7%, to \$60.1 million for the six months ended June 30, 2015 from \$34.4 million for the six months ended June 30, 2014. Operating income as a percentage of segment revenues increased to 4.7% for the six months ended June 30, 2015 from 3.3% for the six months ended June 30, 2014. These increases were primarily due to the six months ended June 30, 2014 being adversely impacted by an aggregate \$38.8 million expense associated with an adverse arbitration decision regarding a contract dispute on a 2010 directional drilling project, as well as an increase in the estimated withdrawal liability associated with the Central States, Southeast and Southwest Areas Pension Plan (the Central States Plan) based on certain withdrawal scenarios that increased the estimated range of possible liability. Operating income during the six months ended June 30, 2015 was also positively impacted by contributions from the increased revenues described above, partially offset by project losses of approximately \$7 million impacting production on a directional drilling project in Canada expected to be complete by year-end.

*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 six months ended June 30, 2015 increased \$12.5 million to \$104.1 million as compared to the six months ended June 30, 2014. This increase was primarily due to \$7.5 million in higher salaries and benefits associated with cost of living increases and increased personnel, \$3.1 million in higher costs



associated with ongoing technology and business development initiatives, and \$2.5 million in higher consulting and professional fees. These increases were partially offset by \$2.2 million in lower acquisition and integration costs.

## **Table of Contents**

### **Liquidity and Capital Resources**

#### ***Cash Requirements***

Our cash and cash equivalents totaled \$65.4 million as of June 30, 2015 and \$190.5 million as of December 31, 2014. As of June 30, 2015 and December 31, 2014, cash and cash equivalents held in domestic bank accounts were approximately \$29.1 million and \$127.2 million, and cash and cash equivalents held in foreign bank accounts were approximately \$36.3 million and \$63.3 million, held primarily in Canada and Australia. As of June 30, 2015 and December 31, 2014, cash and cash equivalents held by our investments in joint ventures, which are either consolidated or proportionately consolidated, were approximately \$13.6 million and \$19.1 million. Cash and cash equivalents held by the joint ventures are available to support the operations of the related joint ventures, and we do not have access to that cash for our other operations. Under the terms of the partnership agreements, we generally have no right to the joint ventures' cash other than participating in distributions and in the event of dissolution.

We were in compliance with the covenants under our credit agreement at June 30, 2015. 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 related to continuing operations are expected to total \$225 million to \$255 million for 2015, of which we have spent approximately \$121.0 million through June 30, 2015.

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.

On August 4, 2015, we completed the sale of our fiber optic licensing operations for a purchase price of approximately \$1 billion in cash, resulting in after-tax net proceeds of approximately \$830 million. We have presented the results of operations, financial position, cash flows and disclosures of the fiber optic licensing operations as discontinued operations for all periods presented in the accompanying unaudited condensed consolidated financial statements.

Also during the third quarter of 2015, our board of directors approved a stock repurchase program authorizing us to purchase, from time to time through February 28, 2017, up to \$1.25 billion of our outstanding common stock. Repurchases can be made in open market or privately negotiated transactions, including pursuant to an accelerated share repurchase arrangement, an issuer repurchase plan or otherwise, at our discretion, based on market and business conditions, applicable contractual and legal requirements and other factors. This program does not obligate us to acquire any specific amount of common stock and may be modified or terminated by our board of directors at any time at its sole discretion and without notice.

During the fourth quarter of 2013, our board of directors approved a stock repurchase program authorizing us to purchase, from time to time through December 31, 2016, up to \$500.0 million of our outstanding common stock. These repurchases could be made in open market transactions or in privately negotiated transactions, including block purchases or otherwise, at management's discretion, and this program did not obligate us to acquire any specific amount of common stock. During the three and six months ended June 30, 2015, we repurchased \$172.3 million and

\$354.3 million of our common stock under this program. In the third quarter of 2015, Quanta completed this stock repurchase program, purchasing an additional 1.8 million shares for a cost of \$52.2 million.

---

**Table of Contents**

Management continues to monitor the financial markets and general national and global economic conditions or factors that may affect our liquidity and capital resources. 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.

If we were to repatriate cash that is indefinitely reinvested outside the United States, we could be subject to additional U.S. income and foreign withholding taxes. Because of the number and variability of assumptions required, it is not practicable to determine the amount of any additional U.S. tax liability that may result if we decide to no longer indefinitely reinvest foreign earnings outside the United States. If our intentions or U.S. tax laws change in the future, there may be a significant negative impact on the provision for income taxes and cash flows as a result of recording an incremental tax liability in the period such change occurs.

***Sources and Uses of Cash***

As of June 30, 2015, we had cash and cash equivalents of \$65.4 million and working capital of \$1.14 billion. We also had \$324.7 million of outstanding letters of credit and bank guarantees, \$223.1 million of which was denominated in U.S. dollars and \$101.6 million of which was denominated in Australian or Canadian dollars, and \$204.3 million of outstanding borrowings under our credit facility, \$109.3 million of which was denominated in Canadian dollars and \$95.0 million of which was denominated in U.S. dollars. As of June 30, 2015, our \$1.325 billion senior secured revolving credit facility, which matures on October 30, 2018, had \$796.0 million available for borrowings or issuing new letters of credit or bank guarantees.

***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. Accordingly, changes within working capital in accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, and billings in excess of costs and estimated earnings on uncompleted contracts are normally related and are typically affected on a collective basis by changes in revenue due to both changes in timing and volume of work performed and variability in the timing of customer billings and payments. Additionally, working capital needs are generally higher during the summer and fall months due to increased demand for our services when favorable weather conditions exist in many of the regions in which we operate. Conversely, working capital assets are typically converted to cash during the winter months. These seasonal trends can be offset by changes in the timing of projects which can be impacted by project delays or accelerations and other economic factors that may affect customer spending.

Operating activities provided net cash of \$106.1 million during the three months ended June 30, 2015 as compared to \$15.9 million during the three months ended June 30, 2014. The increase in cash flows from operating activities for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 was primarily due to lower working capital requirements for projects at or near completion as compared to certain electric power transmission projects that increased production during the three months ended June 30, 2014. In addition, a \$28.3 million arbitration payment was made in the three months ended June 30, 2014 as a result of an adverse arbitration

decision regarding a contract dispute on a 2010 directional drilling project.

---

**Table of Contents**

Partially offsetting these increases in cash flows from operations were less favorable operating results during the three months ended June 30, 2015 as compared to the three months ended June 30, 2014.

Operating activities provided net cash of \$285.8 million during the six months ended June 30, 2015 as compared to \$57.4 million used during the six months ended June 30, 2014. The increase in cash flows from operating activities for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 was partially due to the receipt of a \$65 million cash payment in settlement of an arbitration proceeding involving certain contract price adjustments, as described in *Legal Proceedings Sunrise Powerlink Arbitration* in Note 11 of the Notes to Condensed Consolidated Financial Statements in Item 1. *Financial Statements* of Part I of this Quarterly Report. Also contributing to the increase was reduced income tax payments in the six months ended June 30, 2015 as a result of the \$102.5 million charge to selling, general and administrative expense in 2014 related to receivables for the Sunrise PowerLink project, as well as reduced incentive compensation payments based on our performance against incentive metrics. Operating cash flow for the six months ended June 30, 2014 was also negatively impacted by increased working capital requirements associated with the ramp up on certain electric power transmission projects, as well as weather related delays in part of North America and the timing of project close-outs that affected the achievement of certain billing milestones. In addition, operating cash flows for the six months ended June 30, 2014 were impacted by the \$28.3 million arbitration payment made in the first half of 2014 mentioned above and the timing of collections of other accounts receivable.

Days sales outstanding (DSO) as of June 30, 2015 was 85 days as compared to 78 days at June 30, 2014. DSO is calculated by using the sum of current accounts receivable, net of allowance (which include retainage and unbilled balances), plus costs and estimated earnings in excess of billings on uncompleted contracts less billings in excess of costs and estimated earnings on uncompleted contracts, divided by average revenues per day during the quarter. DSOs were higher as of June 30, 2015 primarily due to the timing of billing milestones on certain projects that do not allow billing for partially completed units, as well as the timing of close-out and final retainage billings on certain projects that were near completion.

*Investing Activities*

During the three months ended June 30, 2015, investing activities used net cash of \$91.8 million as compared to \$62.0 million used in the three months ended June 30, 2014. Investing activities in the second quarter of 2015 included \$62.5 million used for capital expenditures and \$37.9 million used in connection with business acquisitions, partially offset by \$7.7 million of proceeds from the sale of equipment. Investing activities in the second quarter of 2014 included \$61.8 million used for capital expenditures and \$3.2 million used in connection with acquisitions, partially offset by \$4.1 million of proceeds from the sale of equipment.

During the six months ended June 30, 2015, we used net cash in investing activities of \$184.0 million as compared to \$193.8 million used in the six months ended June 30, 2014. Investing activities in the six months ended June 30, 2015 included \$121.0 million used for capital expenditures and \$72.7 million used in connection with business acquisitions, partially offset by \$9.0 million of proceeds from the sale of equipment. Investing activities in the six months ended June 30, 2014 included \$120.0 million used for capital expenditures and \$79.6 million used in connection with acquisitions, partially offset by \$6.5 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.

*Financing Activities*

During the three months ended June 30, 2015, net cash used in financing activities was \$83.2 million as compared to net cash used of \$44.8 million in the three months ended June 30, 2014. Financing activities in the

---

**Table of Contents**

three months ended June 30, 2015 included \$172.3 million of common stock repurchases under our stock repurchase program, \$4.2 million of debt repayments and \$2.5 million of cash payments to non-controlling interests as distributions of joint venture profits, partially offset by \$96.5 million of net proceeds associated with borrowings under our credit facility. Financing activities in the second quarter of 2014 included \$45.0 million of common stock repurchases under our stock repurchase program. We also had borrowings and repayments of \$333.8 million under our credit facility during the three months ended June 30, 2014.

During the six months ended June 30, 2015, net cash used in financing activities was \$225.4 million as compared to net cash used of \$55.1 million in the six months ended June 30, 2014. Financing activities in the six months ended June 30, 2015 included \$354.3 million of common stock repurchases under our stock repurchase program, \$5.2 million of debt repayments and \$5.0 million of cash payments to non-controlling interests as distributions of joint venture profits, partially offset by \$140.1 million of net proceeds associated with borrowings under our credit facility. Financing activities in the six months ended June 30, 2014 included \$45.0 million of common stock repurchases under our stock repurchase program and \$10.7 million of debt repayments, primarily related to debt of acquired companies that was repaid shortly after the respective acquisition dates. We also had borrowings and repayments of \$336.2 million under our credit facility during the six months ended June 30, 2014.

***Debt Instruments******Credit Facility***

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 maturing on October 30, 2018. The entire amount available may be used for revolving loans and letters of credit in U.S. dollars and certain foreign currencies. Swing line loans are limited to \$50.0 million in U.S. dollars, \$30.0 million in Canadian dollars and \$20.0 million in Australian dollars. In addition, subject to the conditions specified in the credit agreement, we have the option to increase the revolving commitments by up to \$300.0 million from time to time upon receipt of additional commitments from new or existing lenders. Borrowings under the credit agreement are to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes.

As of June 30, 2015, we had approximately \$324.7 million of outstanding letters of credit and bank guarantees, \$223.1 million of which was denominated in U.S. dollars and \$101.6 million of which was denominated in Australian and Canadian dollars, and \$204.3 million of outstanding borrowings under the credit facility, \$109.3 million of which was denominated in Canadian dollars and \$95.0 million of which was denominated in U.S. dollars. The remaining \$796.0 million was available for borrowings or issuing new letters of credit or bank guarantees.

Effective April 1, 2014, amounts borrowed under the credit agreement in U.S. dollars bear interest, at our option, at a rate equal to either (i) the Eurocurrency Rate (as defined in the credit agreement) plus 1.125% to 2.125%, as determined based on our Consolidated Leverage Ratio (as described below), or (ii) the Base Rate (as described below) plus 0.125% to 1.125%, as determined based on our Consolidated Leverage Ratio. Amounts borrowed as revolving loans under the credit agreement in any currency other than U.S. dollars bear interest at a rate equal to the Eurocurrency Rate plus 1.125% to 2.125%, as determined based on our Consolidated Leverage Ratio. Standby letters of credit issued under the credit agreement are subject to a letter of credit fee of 1.125% to 2.125%, 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 are subject to a letter of credit fee of 0.675% to 1.275%, based on our Consolidated Leverage Ratio. We are also subject to a commitment fee of 0.20% to 0.40%, based on our Consolidated Leverage Ratio, on any unused availability under the credit agreement.



Prior to April 1, 2014, amounts borrowed under the credit agreement in U.S. dollars bore interest, at our option, at a rate equal to either (i) the Eurocurrency Rate plus 1.25%, or (ii) the Base Rate plus 0.25%. Amounts

---

**Table of Contents**

borrowed as revolving loans 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%. Standby letters of credit issued under the credit agreement were subject to a letter of credit fee of 1.25%, and Performance Letters of Credit issued under the credit agreement in support of certain contractual obligations were subject to a letter of credit fee of 0.75%. We were also subject to a commitment fee of 0.20% on any unused availability under the credit agreement.

The Consolidated Leverage Ratio is the ratio of our Consolidated Funded Indebtedness to Consolidated EBITDA (as those terms are defined in the credit agreement). For purposes of calculating our Consolidated Leverage Ratio, Consolidated Funded Indebtedness is reduced by available cash and Cash Equivalents (as defined in the credit agreement) in excess of \$25.0 million. The Base Rate equals the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 0.5%, (ii) the prime rate publicly announced by Bank of America, N.A. and (iii) the Eurocurrency Rate plus 1.00%.

Subject to certain exceptions, the credit agreement is 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 U.S. subsidiaries and 65% of the capital stock of direct foreign subsidiaries of our wholly owned U.S. subsidiaries. Our wholly owned U.S. subsidiaries also guarantee the repayment of all amounts due under the credit agreement. Subject to certain conditions, all collateral will automatically be released from the liens at any time we maintain an Investment Grade Rating (defined in the credit agreement as two of the following three conditions being met: (i) a corporate credit rating that is BBB- or higher by Standard & Poor's Rating Services, (ii) a corporate family rating that is Baa3 or higher by Moody's Investors Services, Inc. or (iii) a corporate credit rating that is BBB- or higher by Fitch Ratings, Inc.).

The credit agreement contains certain covenants, including a maximum Consolidated Leverage Ratio and a minimum Consolidated Interest Coverage Ratio (as defined in the credit agreement). The credit agreement also limits certain acquisitions, mergers and consolidations, indebtedness, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on our assets. The credit agreement allows cash payments for dividends and stock repurchases subject to compliance with the following requirements (after giving effect to the dividend or stock repurchase): (i) no default or event of default under the credit agreement; (ii) continued compliance with the financial covenants in the credit agreement; and (iii) at least \$100 million of availability under the credit agreement and/or cash and cash equivalents on hand. As of June 30, 2015, we were in compliance with all of the covenants in the credit agreement.

The credit agreement provides for customary events of default and contains cross-default provisions with our underwriting, continuing indemnity and security agreement with our sureties and all other debt instruments exceeding \$75.0 million in borrowings or availability. If an Event of Default (as defined in the credit agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the credit agreement, the lenders may declare all amounts outstanding and accrued and unpaid interest immediately due and payable, require that we provide cash collateral for all outstanding letter of credit obligations, terminate the commitments under the credit agreement, and foreclose on the collateral.

**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 purchase equipment, surety guarantees, certain multi-employer pension plan liabilities and obligations relating to our investments and 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

## **Table of Contents**

obligations of the joint venture. In our joint venture arrangements, typically 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 discussed in this report, 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.

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 June 30, 2015, the maximum guaranteed residual value was approximately \$469.4 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 agreement. Each letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder claims 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 June 30, 2015, we had \$324.7 million in outstanding letters of credit and bank guarantees to secure our casualty insurance program and various contractual commitments. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2015 and 2016. Upon maturity, it is expected that the majority of the letters of credit related to the casualty insurance program 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 the lenders that are party to our credit agreement, 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 agreement, these security interests will

be automatically released if we maintain a corporate

**Table of Contents**

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 June 30, 2015, the total amount of outstanding performance bonds was estimated to be approximately \$2.7 billion. Our estimated maximum exposure as it relates to the value of performance bonds outstanding is lowered on each bonded project as the cost to complete is reduced, and each of our commitments under the performance bonds generally extinguishes concurrently with the expiration of our related contractual obligation. The estimated cost to complete these bonded projects was approximately \$744 million as of June 30, 2015.

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.

**Contractual Obligations**

As of June 30, 2015, our future contractual obligations were as follows (in thousands):

	<b>Total</b>	<b>Remainder of 2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Thereafter</b>
Long-term debt <sup>(1)</sup>	\$ 210,161	\$ 300	\$ 605	\$ 5,001	\$ 204,255	\$	\$
Operating lease obligations	232,415	44,682	60,654	47,767	34,649	18,608	26,055
Capital lease obligations <sup>(1)</sup>	6,732	1,190	1,857	1,705	1,440	540	
Equipment purchase commitments	6,255	6,255					
Capital commitment related to investment in unconsolidated affiliates <sup>(2)</sup>	71,751	3,515	8,534	34,345		25,357	
<b>Total</b>	<b>\$ 527,314</b>	<b>\$ 55,942</b>	<b>\$ 71,650</b>	<b>\$ 88,818</b>	<b>\$ 240,344</b>	<b>\$ 44,505</b>	<b>\$ 26,055</b>

(1) Amounts are recorded in our June 30, 2015 condensed consolidated balance sheet.

(2) A return of capital from an unconsolidated affiliate of approximately \$45.3 million is anticipated in August 2017 and is not included in these amounts.

**Capital Commitments**

We have committed capital for the expansion of our vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of June 30, 2015, production orders for approximately \$6.3 million had been issued with delivery dates scheduled to occur throughout the remainder of 2015. 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.

***Unrecognized Tax Benefits***

We are currently under examination by the Internal Revenue Service for tax years 2011 and 2012. Additionally, certain of our subsidiaries are under examination by various U.S. state, Canadian and other foreign 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 examinations.

---

**Table of Contents**

We believe it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease by up to \$10.3 million due to the expiration of certain statute of limitations periods or settlements of the examinations.

***Multi-Employer Pension Plans***

The previously presented table of estimated contractual obligations does not reflect the 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. The location and number of union employees that we employ at any given time and the plans in which they may participate vary depending on the projects we have ongoing at any time and the need for union resources in connection with those projects. Therefore, we are unable to accurately predict our union employee payroll and the amount of the resulting multi-employer pension plan contribution obligation for future periods.

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 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 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. The Central States Plan asserted that the withdrawal of the PLCA members was not effective in 2011, although we believed at that time that a legally effective withdrawal had occurred during the fourth quarter of 2011. Although the federal district court of Northern Illinois, Eastern Division, ruled that the withdrawal of the PLCA members was not effective in 2011, the PLCA appealed the decision, and the outcome of that appeal remains uncertain. Certain of our subsidiaries continued participation in the Central States Plan, and we believe we subsequently effected a complete withdrawal as of December 30, 2012.





**Table of Contents**

In December 2013, the Central States Plan filed separate lawsuits against two of our subsidiaries. In the first lawsuit, the Central States Plan alleged that one of our subsidiaries elected to participate in the Central States Plan pursuant to the collective bargaining agreement under which it participates. The subsidiary argued that no such election was made and that any payments made by the subsidiary to the Central States Plan were made in error. In July 2014, the parties reached an agreement to settle the lawsuit, and on July 16, 2014, the court dismissed the case with prejudice.

In the second lawsuit, the Central States Plan alleged that contributions made by another one of our subsidiaries, Infrasource Construction LLC (Infrasource), to a new industry fund that was created after we withdrew from the Central States Plan should have been made to the Central States Plan. This arguably would have extended the date of withdrawal for Infrasource to at least the end of 2013. We disputed these allegations on the basis that Infrasource had properly paid contributions to the new industry fund based on the terms of the collective bargaining agreement under which it participates. The parties both moved for summary judgment, and on March 30, 2015, the court granted our motion, denied the Central States Plan's motion, and entered judgment in our favor. The Central States Plan filed a notice of appeal in April 2015.

In March 2014, one of our subsidiaries was notified of a joint grievance committee decision relating to a separate grievance matter concluding that our subsidiary should have hired Teamsters under a specific collective bargaining agreement to perform certain jobs. This matter was subsequently resolved with the Teamsters, effectively resulting in an award of wages and benefits (including pension contributions) to the two Teamsters employees under an alternate collective bargaining agreement that is not related to the Central States Plan. In addition, in March 2014, the Central States Plan provided revised estimates indicating that the withdrawal liability based on certain withdrawal scenarios from 2011 through 2014 could range between \$40.1 million and \$55.4 million. In July 2014, the Central States Plan provided us with a Notice and Demand of partial withdrawal liability for certain of our subsidiaries in the amount of \$39.6 million. We continue to dispute the total withdrawal liability owed to the Central States Plan. However, monthly payments associated with this Notice and Demand began in the third quarter of 2014, and the parties continue the process to determine the final withdrawal liability. The amount owed upon resolution of this matter will be reduced by the payments made.

The ultimate liability associated with the complete withdrawal of our subsidiaries from the Central States 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. However, we recorded an adjustment to cost of services during the three months ended March 31, 2014 to increase the recognized withdrawal liability to an amount within the range communicated to us by the Central States Plan. We believe that the range of reasonable possible loss associated with the Central States Plan is up to \$55.4 million. Given the unknown nature of some of the factors mentioned above, the final withdrawal liability cannot yet be determined with certainty. Accordingly, it is reasonably possible that the amount owed upon final resolution of these matters could be materially higher than the liability we have recognized through June 30, 2015.

On October 9, 2013, we acquired a company that experienced a complete withdrawal from the Central States Plan prior to the date of our acquisition. The Central States Plan issued a Notice and Demand dated March 13, 2013 to the acquired company for a withdrawal liability in the total amount of \$6.9 million payable in installments. Based on legal arguments, the acquired company took the position that the amount of withdrawal liability payable to the Central States Plan as a result of its complete withdrawal was \$4.8 million, of which approximately \$2.6 million remained outstanding as of June 30, 2015. The acquired company and Quanta have taken steps to challenge the amount of the assessment by the Central States Plan; however, payments in accordance with the terms of the Central States Plan's

demand letter are required to be made while the dispute process is ongoing. Approximately \$2.1 million of the purchase price was deposited into an escrow account on

## **Table of Contents**

October 9, 2013 to fund any withdrawal obligation in excess of the \$4.8 million initially demanded. Accordingly, the acquired company's withdrawal from the Central States Plan is not expected to have a material impact on our results of operations, financial condition or cash flows.

For a more complete description of our obligations with respect to multi-employer pension plans, see *Collective Bargaining Agreements* in Note 11 of the Notes to Condensed Consolidated Financial Statements in Item 1. *Financial Statements* of Part I of this Quarterly Report.

### ***Letters of Credit Fees and Commitment Fees***

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 associated with borrowings under our credit facility, see Note 8 of the Notes to Condensed Consolidated Financial Statements in Item 1. *Financial Statements* of Part I of this Quarterly Report.

### ***Joint Venture Capital Commitments***

We have also excluded from the Contractual Obligations table additional capital commitments associated with investments in unconsolidated affiliates related to planned midstream infrastructure projects of approximately \$8.5 million because we are unable to determine the exact timing of these capital commitments but anticipate them to be paid by June 1, 2017. As specific amounts of capital commitments and their timing are determined, we will reflect such amounts in the Contractual Obligations table.

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

We are insured for employer's liability, general liability, auto liability and workers' compensation claims. Under these programs, the deductibles for general liability and auto liability were \$10.0 million per occurrence, the deductible for worker's compensation was \$5.0 million per occurrence, and the deductible for employer's liability was \$1.0 million per occurrence for the 2015-2016 and 2014-2015 policy years. We are generally self-insured for all claims that do not exceed the amount of the applicable deductible. In connection with our casualty insurance programs, we are required to issue letters of credit to secure our self-insured obligations. 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 June 30, 2015 and December 31, 2014, the gross amount accrued for insurance claims totaled \$177.0 million and \$170.2 million with \$144.1 million and \$130.8 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of June 30, 2015 and December 31, 2014 were \$10.1 million and \$9.1 million of which \$0.5 million and \$0.8 million were included in prepaid expenses and other current assets and \$9.6 million and \$8.3 million were 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.

## **Table of Contents**

### **Concentrations 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 and oil and gas companies, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States, Canada and Australia. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States, Canada and Australia, 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 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.

No customers represented 10% or more of our revenues for the three and six months ended June 30, 2015 and 2014, and no customers represented 10% or more of our consolidated net position as of June 30, 2015 or December 31, 2014.

### **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 *Legal Proceedings* and *Collective Bargaining Agreements* in Note 11 of the Notes to Condensed Consolidated Financial Statements in Item 1. *Financial Statements* of Part I of this Quarterly Report for additional information regarding litigation, claims and other legal proceedings, including our partial withdrawal liability under the Central States Plan.

### **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.***

In April 2014, the FASB issued an update that changes the requirement for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity will be required to be reported in

discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the entity or group of components of an entity meets the criteria to be classified as held for sale or when it is disposed of by sale or other than by sale. The update also

## **Table of Contents**

requires additional disclosures about discontinued operations, a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, and an entity's significant continuing involvement with a discontinued operation. We adopted this guidance effective January 1, 2015 and have incorporated the new requirements into our presentation of the disposition of our fiber optic licensing operations as discontinued operations as of June 30, 2015.

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

In May 2014, the FASB issued an update that supersedes most current revenue recognition guidance as well as some cost recognition guidance. The update requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires new qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, information about contract balances and performance obligations, and assets recognized from costs incurred to obtain or fulfill a contract. On July 9, 2015, the FASB affirmed its proposal to defer the effective date until fiscal years beginning on or after December 15, 2017. The guidance can be applied on a full retrospective or modified retrospective basis whereby the entity records a cumulative effect of initially applying this update at the date of initial application. We are currently evaluating the potential impact of this authoritative guidance on our consolidated financial statements and are planning to adopt this guidance effective January 1, 2018.

In August 2014, the FASB issued guidance to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when and how an entity must disclose certain relevant conditions and events. This update requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued). If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions or events. The guidance is effective for annual and interim periods ending after December 15, 2016. This guidance will impact the disclosure and presentation of any substantial doubt about our ability to continue as a going concern, if such substantial doubt were to exist. We will adopt this guidance effective January 1, 2017.

In February 2015, the FASB issued an update which amends existing consolidation guidance, including amending the guidance related to determining whether an entity is a variable interest entity. The update is effective for interim and annual periods beginning after December 15, 2015, although early adoption is permitted. The guidance may be applied using a modified retrospective approach whereby the entity records a cumulative effect of adoption at the beginning of the fiscal year of initial application. A reporting entity may also apply the amendments on a full retrospective basis. We are currently evaluating the potential impact of this authoritative guidance on our consolidated financial statements.

In April 2015, the FASB issued an update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts and premiums. The standard is effective for interim and annual reporting periods beginning after December 15, 2015, although early adoption is permitted. The update is required to be adopted retroactively for all periods presented. The adoption of the update is not expected to have a significant impact on our



consolidated financial statements or related disclosures. We will adopt this guidance effective January 1, 2016.

## **Table of Contents**

### **Outlook**

We believe there are growth opportunities across all the industries we serve. However, we and our customers continue to operate in a somewhat uncertain business environment, with gradual improvement in the economy yet continuing uncertainty in the marketplace. Our customers are also facing stringent regulatory and environmental requirements as they develop projects to enhance and expand their infrastructure. More recently, the decline in oil prices has adversely impacted certain of our end markets, and we could continue to experience softness in the market should prices remain at lower levels for an extended period of time. In addition, regulatory delays have impacted our business, particularly for large electric transmission and mainline pipe projects. These economic, regulatory and other 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, maintenance and expansion to meet current and future demands for power delivery. 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. In the near-term, our electric power infrastructure services operations and outlook for 2015 have been impacted by regulatory delays, particularly for large transmission projects. However, we expect many of these projects to move forward over a multi-year period. 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 for the remainder of 2015.

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 regulation 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 resulting 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 will be replaced over the coming years by newly developed natural gas-fired 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.

---

**Table of Contents**

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, has the potential to favorably impact electric transmission line development over time.

We benefited from increases in distribution spending throughout the last four years, despite continued economic and political uncertainties. Furthermore, 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. In addition, a number of utilities are implementing system upgrades or hardening programs in response to severe weather events that have occurred over the past few years, which is also increasing distribution investment in some regions of the United States. We also anticipate that utilities will continue to integrate smart grid technologies into their distribution systems over time to improve grid management and create efficiencies.

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 developments of renewable energy projects, primarily utility-scale solar facilities, which could create increased demand for our engineering, procurement and construction services, we believe there is some uncertainty with these projects advancing towards award and construction.

The need to ensure available specialized labor resources for projects also drives strategic relationships with customers. In addition, several industry and market trends are prompting customers in the electric power industry to seek outsourcing partners. These trends include an aging utility workforce and labor availability issues, increasing pressure to reduce cost and improve reliability, and increasing duration and complexity of customer capital programs. As the economy and financial markets continue to recover, customer demand for labor resources will continue to increase, possibly outpacing the supply of industry resources. As a result, we believe the number of opportunities for strategic partnerships is growing.

***Oil and Gas Infrastructure Services Segment***

We believe there will continue to be growth opportunities in our oil and gas infrastructure operations, primarily in the installation and maintenance of mainline pipe, midstream 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 oil and gas 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 negatively impacted the



**Table of Contents**

development of these natural resources and related infrastructure. The recent decline in oil prices has adversely impacted demand for some of our services in the near term, primarily infrastructure services in Australia, Canada and the Gulf of Mexico. Those markets could continue to experience softness as long as prices remain at lower levels for an extended period of time. In addition, environmental scrutiny, stringent regulatory requirements and cumbersome permitting processes 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, 2012 and 2013. However, the mainline pipe market, in our view, began to improve in the later part of 2013 and has continued to improve since then, though regulatory delays for some projects have moderated the pace of recovery.

The lack of mainline pipe opportunities in 2011, 2012 and 2013 negatively impacted our Oil and Gas Infrastructure Services segment margins, in part as a result of our inability to adequately 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 from the Canadian oil sands and North American shale formations to refineries and other demand centers are in various stages of development. Many of these projects are still developing, though several mainline pipe projects have been awarded to us and other pipeline construction contractors. Given the costs and time required to bring a mainline pipe project from conception to construction, we believe many of our customers view such projects as important, strategic pieces of infrastructure. For the most part, industry participants with this view have a long term perspective regarding their needs and are less influenced by short term commodity fluctuations. However, if oil and natural gas prices remain at lower levels for a prolonged period, demand for our oil and natural gas infrastructure services could be materially impacted. 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 pipe projects being awarded to contractors, which could create an improved and favorable mainline pipe market over the next several years for us and the industry in North America. A number of the proposed oil mainline pipe projects that are under development have already secured oil production customers under contractual arrangements, making these projects economically viable despite the decline in oil prices. There are also a number of natural gas mainline projects in development, and we expect an increase in proposed natural gas mainline projects in the coming years, which could result in additional demand for our mainline services going forward.

A number of LNG export facilities are under construction and proposed for development in Australia, Canada and the United States, and pipelines and related infrastructure will be required to serve these facilities. We believe there are significant mainline pipe opportunities in Australia driven by the production of coal seam gas for LNG export.

Our customers continue to invest in the infrastructure needed to support the development of unconventional shale formations. We have established a strong presence in select unconventional shale formations to position us to successfully pursue projects associated with midstream gathering infrastructure development. Even though oil prices have declined recently, demand for pipeline services to support shale gathering infrastructure has remained active in the markets we are strategically focused on, principally the Marcellus and Utica shale formations, which are primarily driven by natural gas. However, we believe demand for infrastructure services in areas where oil is the primary product, such as certain oil driven shale formations elsewhere in the United States, Australia, the Canadian Oil Sands and the Gulf of Mexico, has been negatively impacted by low oil prices. These markets could remain challenged if oil prices remain at lower levels for an extended period of time. The majority of our midstream gathering work is performed in shale formations where natural gas is the primary product being produced, and our services in these areas have not been materially impacted. Over the medium and longer term, however, we believe oil, natural gas and natural gas liquids should achieve prices that support their continued exploitation, which will require additional

infrastructure to be built to support increased North American hydrocarbon production.

## **Table of Contents**

Over the past several years, we have expanded our service offerings in this segment through various acquisitions, including the acquisition of two pipeline construction and related services companies in Canada and the acquisition of a mainline construction company in Australia, which has different market drivers and seasonality as compared to North America. In addition, our recent acquisitions of companies that provide pipeline logistics services to the natural gas and oil 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 believe there are growth opportunities for some of our other pipeline services. The U.S. Department of Transportation has implemented regulatory legislation through the Pipeline and Hazardous Materials Safety Administration (PHMSA) relating to pipeline integrity requirements. PHMSA is in the later stages of developing and implementing additional safety and pipeline integrity regulation that is anticipated to be incremental to previous regulations. PHMSA has stated that it expects to release these new regulations by the end of 2015. We expect that these regulations 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.

Despite near-term challenges due to low oil and natural gas prices, we believe there are meaningful long-term opportunities for us to penetrate the offshore and inland water energy markets, primarily the Gulf of Mexico but also in select international markets, by providing various infrastructure design, installation and maintenance services. The offshore infrastructure service opportunities we see are very similar to what we perform onshore in this segment, and several of our existing onshore customers that also have offshore assets have expressed interest in our ability to provide offshore infrastructure services. Demand for offshore energy infrastructure services is similar to that on land, including the need for engineering, construction and maintenance services for new and existing offshore exploration and production platforms. In addition, the majority of the thousands of miles of marine based pipelines and related production facilities are approaching or are beyond the end of their useful lives. We see this as an opportunity to leverage our onshore pipeline integrity services and technology to the offshore market's aging infrastructure. Further, new regulations and the more stringent enforcement of existing regulations administered by the Bureau of Safety and Environmental Enforcement should create opportunities for offshore energy infrastructure construction, repair and replacement services.

Overall, we are optimistic about this segment's operations going forward. The recent decline in oil and natural gas prices has impacted demand for some of our infrastructure services and could continue to do so if oil and natural gas prices remain at lower levels. We believe the market will naturally correct the current oversupply situation over time, and as a result, oil prices could recover to higher levels. The timing of when that process occurs, however, is uncertain. From a medium- and longer-term perspective, we believe commodity prices will reach appropriate levels that encourage the development of North American hydrocarbons, leading to demand for our oil and gas infrastructure services. 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 cyclicity and execution risk than our other service offerings. We have also taken steps to diversify our operations in this segment through other services, such as pipeline integrity, pipeline logistics, and offshore specialty services. 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.



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

On August 4, 2015, we completed the sale of our fiber optic licensing operations for a purchase price of approximately \$1 billion in cash, resulting in after-tax net proceeds of approximately \$830 million. The

## **Table of Contents**

transaction did not include the operations in this segment that provide various telecommunications infrastructure services on a limited and ancillary basis, which are included in our Electric Power Infrastructure Services segment.

### ***Conclusion***

We continue to see growth opportunities in all of the industry segments we serve, despite continuing challenges from uncertain economic conditions and restrictive regulatory requirements, including recent regulatory delays that have impacted our business and outlook for 2015, particularly for large electric transmission and mainline pipe projects. However, we expect many of these delayed projects to move forward in 2016 once regulatory approvals have been received.

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, particularly 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 the challenges associated with their aging workforce. We believe that we remain the partner of choice for many utilities in need of broad infrastructure expertise, specialty equipment and workforce resources, particularly as capital budgets and infrastructure projects have become larger and more complex.

The recent decline in oil prices creates uncertainty and has adversely impacted demand for some of our oil and gas infrastructure services. This dynamic could continue should oil prices remain at lower levels for an extended period of time. However, we believe near-term and longer-term dynamics create growth opportunities going forward for our oil and gas infrastructure services operations. We believe that our overall size and breadth of service offerings provide competitive advantages that allow us to leverage opportunities driven by the development and production of resources from North American unconventional shale formations, the Canadian oil sands and coal seam gas and unconventional shale formations in Australia. Development activity in the shale formations in which we are strategically focused remains active, and North American oil and natural gas production is expected to continue to increase, thereby driving demand for gathering system infrastructure. Further, we are seeing encouraging indications that increases in mainline pipe project activity in late 2013, 2014 and 2015 could continue through 2016. We also believe that our strategy to pursue midstream gathering system opportunities in certain unconventional shale formations in the United States, 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 our service offerings in both the near and long term.

Our electric distribution and gas distribution services were both significantly affected by the uncertain economic conditions that existed during the prior recession. Demand for our electric distribution services has increased over the past several years as the economy has stabilized and spending on maintenance to improve reliability has returned. We are optimistic that continued implementation of electric distribution reliability programs and the potential for improvement in the housing market will facilitate continued 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.

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, as well as 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.

## **Table of Contents**

Capital expenditures for 2015 related to continuing operations are expected to be between \$225 million to \$255 million. We expect 2015 capital expenditures to be funded substantially from cash on hand, internal cash flows and borrowings under our credit facility.

We continue to evaluate potential strategic acquisitions and similar 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, entrepreneurial operating model 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 full-service operations with broad geographic reach, our financial strength and our technical expertise. Additionally, we believe the industry opportunities and trends discussed herein will increase the demand for our services over the long-term, although the actual timing, magnitude and impact of these opportunities and trends on our operating results and financial position are 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;

Future capital allocation initiatives, including any proposed strategy with respect to future stock repurchases;

The effects or results of the sale of our fiber optic licensing operations;

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

The development of oil and natural gas mainline pipe projects and their impact on our business or demand for our services;

The level of oil, natural gas and natural gas liquids prices and their impact on our business or demand for our services;

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 expected 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:

Market conditions;

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 further increases 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;

The outcome of pending or threatened litigation;

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 customers' capital programs and the resulting impact on demand for our services;

The future development of natural resources in shale formations;

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, receivables 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**

Beliefs and assumptions about the collectability of receivables;

The cost of borrowing, availability of cash and 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;

The impact of regulatory changes on labor costs;

The impact of significant fluctuations in foreign currency exchange rates;

The business, accounting and other effects from the sale of our fiber optic licensing operations;

The potential for claims or damages associated with the sale of our fiber optic licensing operations, including as a result of indemnity claims following closing of the transaction;

The terms of the any accelerated stock repurchase arrangement or any other transaction we enter into to facilitate the repurchase of shares under our stock repurchase program, including factors affecting the amount of shares to be purchased thereunder;

Events or actions by counterparties that result in termination of, or adjustments in the amount of shares purchased under, any accelerated stock repurchase arrangement or any other transaction we enter into to facilitate the repurchase of shares under our stock repurchase program; and

The other risks and uncertainties as are described elsewhere herein and in Item 1A. *Risk Factors* of Part I of our Annual Report on Form 10-K for the year ended December 31, 2014 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 Item 7A. *Quantitative and Qualitative Disclosures About Market Risk* of Part II of our Annual Report on Form 10-K for the year ended December 31, 2014. 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 and money market mutual funds with original maturities of three months or less. Although we do not currently believe the principal amounts of these

---

**Table of Contents**

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.

*Interest Rate Risk.* As of June 30, 2015, we had no derivative financial instruments to manage interest rate risk. As such, we were exposed to earnings and fair value risk due to changes in interest rates with respect to our long-term obligations. As of June 30, 2015, the fair value of our variable rate debt of \$204.3 million approximated book value. Our weighted average interest rates for the three and six months ended June 30, 2015 were 2.01% and 2.13%. The effect on our pretax earnings of a hypothetical 50 basis point increase or decrease in variable interest rates would be negligible.

*Foreign Currency Risk.* We conduct operations primarily in the United States, Canada and Australia, and our financial performance is subject to fluctuation due to changes in foreign currency exchange rates relative to the U.S. dollar. We are subject to foreign currency risk with respect to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of our operating units. To minimize the risk from changes in foreign currency exchange rates, we may enter into foreign currency derivative contracts to hedge our foreign currency risk on a cash flow basis. There were no outstanding foreign currency derivative contracts at June 30, 2015.

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

Attached as exhibits to this Quarterly Report 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 June 30, 2015, 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 June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**Design and Operation of Control Systems**

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple errors or mistakes. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**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 *Legal Proceedings* and *Collective Bargaining Agreements* in Note 11 of the Notes to Condensed Consolidated Financial Statements in Item 1. *Financial Statements* of Part I of this Quarterly Report, which are incorporated by reference in this Item 1. *Legal Proceedings* of Part II of this Quarterly Report, for additional information regarding litigation, claims and other 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. *Risk Factors* of Part I of our Annual Report on Form 10-K for the year ended December 31, 2014 (2014 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 2014 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**

On July 15, 2015, we completed an acquisition in which a portion of the consideration consists of the unregistered issuance of shares of our common stock. For additional information about this acquisition, see *Acquisitions* in Note 13 of the Notes to Condensed Consolidated Financial Statements in Item 1 of Part 1 of this Quarterly Report. The aggregate consideration paid for this acquisition consisted of approximately \$20.1 million in cash and shares of our common stock valued at approximately \$7.7 million. The final number of shares to be issued in connection with this acquisition will be determined as of August 25, 2015.

**Issuer Purchases of Equity Securities During the Second Quarter of 2015**

The following table contains information about our purchases of equity securities during the three months ended June 30, 2015.

**Period****Total Number**

	<b>Total Number of Shares Purchased <sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs <sup>(2)(3)</sup></b>
April 1-30, 2015	8,330	\$ 26.32		
May 1-31, 2015	2,953,043	\$ 29.44	2,944,648	
June 1-30, 2015	2,902,723	\$ 29.49	2,902,723	
Total	5,864,096		5,847,371	\$ 52,239,753

- (1) Includes shares purchased from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock and RSU awards in the following amounts: (i) 8,330 for April 2015, (ii) 8,395 for May 2015, and (iii) 16,725 for the second quarter of 2015.



**Table of Contents**

- (2) On December 6, 2013, we issued a press release announcing that our board of directors approved a stock repurchase program authorizing us to purchase, from time to time through December 31, 2016, up to \$500.0 million of our outstanding common stock. These repurchases could be made in open market transactions or in privately negotiated transactions, including block purchases or otherwise, at management's discretion based on market and business conditions, applicable legal requirements and other factors. This program did not obligate us to acquire any specific amount of common stock and could be modified or terminated by our board of directors at any time at its sole discretion and without notice. As of June 30, 2015, we had repurchased an aggregate \$447.8 million in Quanta common stock under this program. In July 2015, we purchased an additional 1.8 million shares for an aggregate value of \$52.2 million, completing this stock repurchase program. As discussed in *Liquidity and Capital Resources - Debt Instruments - Credit Facility* in Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations* of Part I, our credit agreement includes limitations on the repurchase of common stock without consent of our lenders.
- (3) On August 5, 2015, we issued a press release announcing that our board of directors approved a stock repurchase program authorizing us to purchase, from time to time through February 28, 2017, up to \$1.25 billion of our outstanding common stock. These repurchases can be made in open market or privately negotiated transactions, including pursuant to an accelerated stock repurchase arrangement, issuer repurchase plan or otherwise, at our discretion, based on market and business conditions, applicable contractual and legal requirements and other factors. This program does not obligate us to acquire any specific amount of common stock and may be modified or terminated by our board of directors at any time at its sole discretion and without notice.

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

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit No.	Description
2.1	Stock Purchase Agreement dated as of April 29, 2015, by and among Quanta Services, Inc., CC SCN Fiber LLC, and Crown Castle International Corp. (previously filed as Exhibit 2.1 to the Company's Form 8-K filed May 4, 2015 and incorporated herein by reference)
3.1	Restated Certificate of Incorporation of Quanta Services, Inc. (previously filed as Exhibit 3.3 to the Company's Form 8-K filed May 25, 2011 and incorporated herein by reference)

Edgar Filing: QUANTA SERVICES INC - Form 10-Q

- 3.2 Certificate of Designation of Series G Preferred Stock (previously filed as Exhibit 3.1 to the Company's Form 8-K filed January 17, 2014 and incorporated herein by reference)
- 3.3 Bylaws of Quanta Services, Inc., as amended and restated March 27, 2014 (previously filed as Exhibit 3.1 to the Company's Form 8-K filed March 31, 2014 and incorporated herein by reference)
- 10.1 \*^ Form of Restricted Stock Unit Award Agreement for awards to non-employee directors pursuant to the 2011 Omnibus Equity Incentive Plan (Settled in Stock Unless Cash Settlement Elected)

**Table of Contents**

10.2	First Amendment to Third Amended and Restated Credit Agreement dated as of April 22, 2015, 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, Domestic Swing Line Lender and an L/C Issuer, and the other Lenders party thereto (previously filed as Exhibit 10.4 to the Company's Form 10-Q filed May 8, 2015 and incorporated herein by reference)
10.3	Second Amendment to Third Amended and Restated Credit Agreement dated as of May 4, 2015, 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, Domestic Swing Line Lender and an L/C Issuer, and the Lenders party thereto (previously filed as Exhibit 10.5 to the Company's Form 10-Q filed May 8, 2015 and incorporated herein by reference)
31.1 *	Certification by Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2 *	Certification by Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1 *	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	XBRL Instance Document
INS *	
101	XBRL Taxonomy Extension Schema Document
SCH *	
101	XBRL Taxonomy Extension Calculation Linkbase Document
CAL *	
101	XBRL Taxonomy Extension Label Linkbase Document
LAB *	
101	XBRL Taxonomy Extension Presentation Linkbase Document
PRE *	
101	XBRL Taxonomy Extension Definition Linkbase Document
DEF *	

\* Filed or furnished herewith

^ Management contracts or compensatory plans or arrangements



**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: August 10, 2015

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

<b>Exhibit No.</b>	<b>Description</b>
2.1	Stock Purchase Agreement dated as of April 29, 2015, by and among Quanta Services, Inc. , CC SCN Fiber LLC, and Crown Castle International Corp. (previously filed as Exhibit 2.1 to the Company s Form 8-K filed May 4, 2015 and incorporated herein by reference)
3.1	Restated Certificate of Incorporation of Quanta Services, Inc. (previously filed as Exhibit 3.3 to the Company s Form 8-K filed May 25, 2011 and incorporated herein by reference)
3.2	Certificate of Designation of Series G Preferred Stock (previously filed as Exhibit 3.1 to the Company s Form 8-K filed January 17, 2014 and incorporated herein by reference)
3.3	Bylaws of Quanta Services, Inc., as amended and restated March 27, 2014 (previously filed as Exhibit 3.1 to the Company s Form 8-K filed March 31, 2014 and incorporated herein by reference)
10.1 *^	Form of Restricted Stock Unit Award Agreement for awards to non-employee directors pursuant to the 2011 Omnibus Equity Incentive Plan (Settled in Stock Unless Cash Settlement Elected)
10.2	First Amendment to Third Amended and Restated Credit Agreement dated as of April 22, 2015, 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, Domestic Swing Line Lender and an L/C Issuer, and the other Lenders party thereto (previously filed as Exhibit 10.4 to the Company s Form 10-Q filed May 8, 2015 and incorporated herein by reference)
10.3	Second Amendment to Third Amended and Restated Credit Agreement dated as of May 4, 2015, 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, Domestic Swing Line Lender and an L/C Issuer, and the Lenders party thereto (previously filed as Exhibit 10.5 to the Company s Form 10-Q filed May 8, 2015 and incorporated herein by reference)
31.1 *	Certification by Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2 *	Certification by Chief Financial Officer pursuant to Rule 13a -14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1 *	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	XBRL Instance Document

INS \*

101	XBRL Taxonomy Extension Schema Document
SCH *	
101	XBRL Taxonomy Extension Calculation Linkbase Document
CAL *	
101	XBRL Taxonomy Extension Label Linkbase Document
LAB *	

**Table of Contents**

101 XBRL Taxonomy Extension Presentation Linkbase Document

PRE \*

101 XBRL Taxonomy Extension Definition Linkbase Document

DEF \*

\* Filed or furnished herewith

^ Management contracts or compensatory plans or arrangements