QUANTA SERVICES INC
Form 10-Q
August 11, 2008

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file no. 001-13831

Quanta Services, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**74-2851603**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1360 Post Oak Blvd.
Suite 2100
Houston, Texas 77056
(Address of principal executive offices, including zip code)

(Registrant s telephone number, including area code)
(713) 629-7600

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

174,675,352 shares of Common Stock were outstanding as of August 1, 2008. As of the same date, 748,381 shares of Limited Vote Common Stock were outstanding.

QUANTA SERVICES, INC. AND SUBSIDIARIES

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Certification by CEO Pursuant to Section 302
Certification by CFO Pursuant to Section 302
Certification by CEO and CFO Pursuant to Section 906

QUANTA SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)
(Unaudited)

	December 31, 2007	June 30, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 407,081	$ 304,791
Accounts receivable, net of allowances of $4,620 and $5,699, respectively	719,672	821,110
Costs and estimated earnings in excess of billings on uncompleted contracts	72,424	82,116
Inventories	25,920	31,033
Prepaid expenses and other current assets	79,665	78,571
Total current assets	1,304,762	1,317,621
Property and equipment, net of accumulated depreciation of $300,178 and $326,679, respectively	532,285	605,536
Other assets, net	42,992	34,404
Intangible assets, net of accumulated amortization of $20,915 and $41,381 respectively	152,695	152,684
Goodwill	1,355,098	1,380,249
Total assets	$ 3,387,832	$ 3,490,494
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 271,011	$ 270,098
Accounts payable and accrued expenses	420,815	435,724
Billings in excess of costs and estimated earnings on uncompleted contracts	65,603	48,688
Total current liabilities	757,429	754,510
Convertible subordinated notes	143,750	143,750
Deferred income taxes	101,416	98,900
Insurance and other non-current liabilities	200,094	215,491
Total liabilities	1,202,689	1,212,651
Commitments and Contingencies		
Stockholders Equity:		
Common stock, $.00001 par value, 300,000,000 shares authorized, 172,455,951 and 174,576,213 shares issued and 170,255,631 and 172,196,517 shares outstanding, respectively	2	2

Limited Vote Common Stock, $.00001 par value, 3,345,333 shares authorized, 760,171 and 748,381 shares issued and outstanding, respectively		
Additional paid-in capital	2,423,349	2,456,601
Accumulated deficit	(214,191)	(149,421)
Accumulated other comprehensive income	3,663	2,646
Treasury stock, 2,200,320 and 2,379,696 common shares, at cost	(27,680)	(31,985)
Total stockholders equity	2,185,143	2,277,843
Total liabilities and stockholders equity	$ 3,387,832	$ 3,490,494

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

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QUANTA SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share information)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2008**	**2007**	**2008**
Revenues	$ 552,220	$ 960,882	$ 1,121,179	$ 1,805,324
Cost of services (including depreciation)	466,973	802,192	958,360	1,522,757
Gross profit	85,247	158,690	162,819	282,567
Selling, general and administrative expenses	47,021	76,292	95,976	147,008
Amortization of intangible assets	692	9,876	1,464	20,466
Operating income	37,534	72,522	65,379	115,093
Interest expense	(5,544)	(5,219)	(11,096)	(10,419)
Interest income	5,654	2,088	9,952	6,083
Other income (expense), net	82	278	111	482
Income from continuing operations before income tax provision	37,726	69,669	64,346	111,239
Provision for income taxes	15,943	29,151	11,696	46,469
Income from continuing operations	21,783	40,518	52,650	64,770
Discontinued operation:				
Income from discontinued operation (net of income tax expense of $50 and $270 in the three and six months ended June 30, 2007)	83		420	
Net income	$ 21,866	$ 40,518	$ 53,070	$ 64,770
Basic earnings per share:				
Income from continuing operations	$ 0.18	$ 0.24	$ 0.45	$ 0.38
Income from discontinued operation				
Net income	$ 0.18	$ 0.24	$ 0.45	$ 0.38
Weighted average basic shares outstanding	118,578	171,063	118,306	170,556
Diluted earnings per share:				
Income from continuing operations	$ 0.17	$ 0.22	$ 0.39	$ 0.35
Income from discontinued operation			0.01	

Net income	$ 0.17	$ 0.22	$ 0.40	$ 0.35
Weighted average diluted shares outstanding	149,964	202,535	149,736	201,940

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

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QUANTA SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
Cash Flows from Operating Activities:				
Net income	$ 21,866	$ 40,518	$ 53,070	$ 64,770
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	12,522	19,188	24,869	38,180
Amortization of intangibles	692	9,876	1,464	20,466
Amortization of debt issuance costs	675	655	1,350	1,309
Amortization of deferred revenue		(2,123)		(4,251)
Loss (gain) on sale of property and equipment	(93)	(458)	231	(306)
Provision for doubtful accounts	(28)	1,550	373	2,902
Provision for insurance receivable		3,375		3,375
Deferred income tax provision (benefit)	1,543	(2,527)	1,487	(2,223)
Non-cash stock-based compensation	1,771	4,583	3,620	8,359
Tax impact of stock-based equity awards	(3,525)	(1,073)	(5,587)	(2,307)
Changes in operating assets and liabilities, net of non-cash transactions				
(Increase) decrease in				
Accounts and notes receivable	(5,589)	(61,830)	39,684	(94,657)
Costs and estimated earnings in excess of billings on uncompleted contracts	(8,680)	(951)	(13,006)	(3,506)
Inventories	2,039	(5,851)	5,374	(4,911)
Prepaid expenses and other current assets	(2,743)	(1,333)	(223)	(422)
Increase (decrease) in				
Accounts payable and accrued expenses and other non-current liabilities	(12,810)	23,758	(34,304)	22,717
Billings in excess of costs and estimated earnings on uncompleted contracts	897	(9,967)	(4,713)	(17,097)
Other, net	(108)	726	(1,211)	904
Net cash provided by operating activities	8,429	18,116	72,478	33,302
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	3,419	6,919	4,274	9,064
Additions of property and equipment	(16,671)	(59,983)	(42,065)	(113,149)
Cash paid for acquisitions, net of cash acquired	(1,998)	(22,722)	(19,734)	(22,909)
Cash paid for developed technology		(14,573)		(14,573)

Purchases of short-term investments			(309,055)	
Proceeds from the sale of short-term investments			309,055	
Net cash used in investing activities	(15,250)	(90,359)	(57,525)	(141,567)
Cash Flows from Financing Activities:				
Proceeds from other long-term debt	378		4,875	635
Payments on other long-term debt	(466)	(654)	(6,531)	(1,598)
Tax impact of stock-based equity awards	3,525	1,073	5,587	2,307
Exercise of stock options	2,744	4,236	3,221	5,648
Net cash provided by financing activities	6,181	4,655	7,152	6,992
Net increase (decrease) in cash and cash equivalents	(640)	(67,588)	22,105	(101,273)
Effect of foreign exchange rate changes on cash and cash equivalents		185		(1,017)
Cash and cash equivalents, beginning of period	406,432	372,194	383,687	407,081
Cash and cash equivalents, end of period	$ 405,792	$ 304,791	$ 405,792	$ 304,791
Supplemental disclosure of cash flow information				
Cash (paid) received during the period for				
Interest paid	$ (8,903)	$ (8,951)	$ (9,736)	$ (9,137)
Income taxes paid	$ (17,770)	$ (31,119)	$ (28,593)	$ (35,455)
Income tax refunds	$ 35	$ 92	$ 156	$ 485

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

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BUSINESS AND ORGANIZATION:

Quanta Services, Inc. (Quanta) is a leading national provider of specialized contracting services. Beginning January 1, 2008, Quanta began reporting its results under two business segments. The infrastructure services (Infrastructure Services) segment provides specialized contracting services, offering end-to-end network solutions to the electric power, gas, telecommunications and cable television industries, including the design, installation, repair and maintenance of network infrastructure, as well as certain ancillary services. Additionally, the dark fiber (Dark Fiber) segment designs, procures, constructs and maintains fiber-optic telecommunications infrastructure in select markets and licenses the right to use point-to-point fiber-optic telecommunications facility to its customers. Prior to January 1, 2008, Quanta reported results under one business segment, which consisted primarily of the services now under the Infrastructure Services segment.

On August 30, 2007, Quanta acquired, through a merger transaction (the Merger), all of the outstanding common stock of InfraSource Services, Inc. (InfraSource). For accounting purposes, the transaction was effective as of August 31, 2007, and results of InfraSource s operations have been included in the consolidated financial statements subsequent to August 31, 2007. Accordingly, the condensed consolidated financial statements for the three and six month periods ended June 30, 2007 do not include any results from InfraSource. Similar to Quanta, InfraSource provided specialized infrastructure contracting services to the electric power, gas and telecommunications industries primarily in the United States. The acquisition enhanced and expanded Quanta s capabilities in its existing service areas and added the Dark Fiber segment.

On August 31, 2007, Quanta sold the operating assets associated with the business of Environmental Professional Associates, Limited (EPA), a Quanta subsidiary. Accordingly, Quanta has presented EPA s results of operations for the 2007 periods as a discontinued operation in the accompanying consolidated statements of operations.

Interim Condensed Consolidated Financial Information

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. Quanta believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. The results of Quanta historically have 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, 2007, which was filed with the SEC on February 29, 2008.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date the financial statements are published and the reported amount of revenues and expenses recognized during the periods presented. Quanta reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustments prior to their publication. Judgments and estimates are

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, self-insured claims liabilities, revenue recognition under percentage-of-completion accounting and for dark fiber licensing, share-based compensation, provision for income taxes and purchase price allocations.

Reclassifications

Certain reclassifications have been made in prior year s financial statements to conform to classifications used in the current year.

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing demand deposits and investment grade commercial paper with original maturities of three months or less and are carried at cost, which approximates fair value. As of December 31, 2007 and June 30, 2008, cash held in domestic bank accounts was approximately $405.4 million and $298.6 million and cash held in foreign bank accounts was approximately $1.7 million and $6.2 million.

Short-Term Investments

Quanta held no short-term investments as of December 31, 2007 or June 30, 2008; however, during the first quarter of 2007, Quanta invested from time to time in variable rate demand notes (VRDNs), which were classified as short-term investments, available for sale when held. The income from VRDNs was tax-exempt to Quanta.

Accounts Receivable and Allowance for Doubtful Accounts

Quanta provides an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful, and receivables are written off against the allowance when deemed uncollectible. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the customer s access to capital, the customer s willingness or ability to pay, general economic conditions and the ongoing relationship with the customer. Under certain circumstances such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. Material changes in Quanta s customers revenues or cash flows could affect its ability to collect amounts due from them. As of June 30, 2008, Quanta had total allowances for doubtful accounts of approximately $5.7 million. Should customers experience financial difficulties or file for bankruptcy, or should anticipated recoveries relating to receivables in existing bankruptcies or other workout situations fail to materialize, Quanta could experience reduced cash flows and losses in excess of current allowances provided.

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

fiscal year. Current retainage balances as of December 31, 2007 and June 30, 2008 were approximately $60.2 million and $72.2 million and are included in accounts receivable. Retainage balances with settlement dates beyond the next twelve months are included in other assets, net and as of December 31, 2007 and June 30, 2008 were $2.1 million and $4.2 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, for work completed one month but not billed until the next month). These

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 December 31, 2007 and June 30, 2008, the balances of unbilled receivables included in accounts receivable were approximately $132.3 million and $181.9 million.

As of December 31, 2007, other assets, net included accounts and notes receivable due from a customer relating to the construction of independent power plants. During 2006, the underlying assets which had secured these notes receivable were sold pursuant to liquidation proceedings and the net proceeds were being held by a trustee. Quanta recorded allowances for a significant portion of these notes receivable in prior periods. As of December 31, 2007, the collection of amounts owed Quanta were subject to further legal proceedings; however, in March 2008, the parties reached a settlement resulting in the payment of the net receivable amount and the release of any future claims against Quanta. The remaining note receivable balance was written off against the related allowance of approximately $43.0 million in March 2008, without any significant impact to Quanta s results of operations for the first half of 2008.

Income Taxes

Quanta follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the underlying assets or liabilities are recovered or settled.

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

Quanta accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of SFAS No. 109, Accounting for Income Taxes (FIN No. 48). FIN No. 48 prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or to be taken on a tax return.

As of June 30, 2008, the total amount of unrecognized tax benefits relating to uncertain tax positions was $54.3 million, an increase from December 31, 2007 of $5.0 million related to tax positions expected to be taken in 2008. Additionally, for the three and six months ended June 30, 2008, Quanta recognized $1.5 million and $2.8 million of interest and penalties in the provision for income taxes.

The income tax laws and regulations are voluminous and 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.

Revenue Recognition

Infrastructure Services Quanta designs, installs and maintains networks for the electric power, gas, telecommunications and cable television industries, as well as provides various ancillary services to commercial, industrial and governmental entities. 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,

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QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the utilization of an output-based measurement is appropriate for revenue recognition. Under these contracts, Quanta recognizes revenue when units are completed based on pricing established between Quanta and the customer for each unit of delivery, which best reflects the pattern in which the obligation to the customer is fulfilled. Under cost-plus/hourly and time and materials type contracts, Quanta recognizes revenue on an input-basis, as labor hours are incurred and services are performed.

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

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.

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.

Dark Fiber Quanta has fiber-optic facility licensing agreements with various customers, pursuant to which it recognizes revenues, including any initial fees or advance billings, ratably over the expected length of the agreements, including probable renewal periods. As of December 31, 2007 and June 30, 2008, initial fees and advanced billings on these licensing agreements not yet recorded in revenue were $23.2 million and $27.0 million and are recognized as deferred revenue, with $15.6 million and $19.5 million considered to be long-term and included in other non-current liabilities.

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dark Fiber Licensing

The Dark Fiber segment constructs and licenses the right to use fiber-optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber-optic facility, with the facility owned and maintained by Quanta. Minimum future licensing revenue expected to be received by Quanta pursuant to these agreements at June 30, 2008 are as follows (in thousands):

	Minimum Future Licensing Revenues
Year Ending December 31	
Remainder of 2008	$ 20,973
2009	36,275
2010	29,109
2011	21,091
2012	14,711
Thereafter	37,208
Fixed non-cancelable minimum licensing revenues	$ 159,367

Stock-Based Compensation

Effective January 1, 2006, Quanta adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), using the modified prospective method of adoption, which requires recognition of compensation expense for all stock-based compensation beginning on the effective date. Under this method of accounting, compensation cost for stock-based compensation awards is based on the fair value of the awards granted, net of estimated forfeitures, at the date of grant. Quanta calculates the fair value of stock options using the Black-Scholes option pricing model. The fair value of restricted stock awards is determined based on the number of shares granted and the closing price of Quanta s common stock on the date of the grant. Forfeitures are estimated based upon historical activity. 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, and from performance based awards is recognized using the graded vesting method over the requisite service period. SFAS No. 123(R) requires the cash flows resulting from the tax deductions in excess of the compensation cost recognized during the applicable period to be classified as financing cash flows.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes methods used to measure fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal periods, as it relates to financial assets and liabilities, as well as for any non-financial assets and liabilities that are carried at fair value. SFAS No. 157 also requires certain tabular disclosure related to results of applying SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets and SFAS No. 142, Goodwill and Other Intangible Assets. On November 14, 2007, the FASB provided a one year deferral for the implementation of SFAS No. 157 for non-financial assets and liabilities. SFAS No. 157 excludes from its scope SFAS No. 123(R) and its related interpretive accounting pronouncements that address share-based payment transactions. Quanta adopted SFAS No. 157 on January 1, 2008 as it applies to its financial assets and liabilities, and based on the November 14, 2007 deferral of SFAS No. 157 for non-financial assets and liabilities, Quanta will begin following the guidance of SFAS No. 157 with respect to its non-financial

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets and liabilities in the quarter ended March 31, 2009. Quanta does not currently have any material financial assets and liabilities recognized on its balance sheet that are impacted by the partial adoption of SFAS No. 157. Additionally, Quanta does not currently have any material non-financial assets or liabilities that are carried at fair value on a recurring basis; however, Quanta does have non-financial assets that are evaluated against measures of fair value on a non-recurring or as-needed basis, including goodwill, other intangibles and long-term assets held and used. Based on the financial and non-financial assets and liabilities on its balance sheet as of June 30, 2008, Quanta does not expect the adoption of SFAS No. 157 to have a material impact on its consolidated financial position, results of operations or cash flows.

On January 1, 2008, Quanta adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB No. 115. SFAS No. 159 permits entities to choose to measure at fair value many financial instruments and certain other items that were not previously required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The adoption of SFAS No. 159 did not have any material impact on Quanta s consolidated financial position, results of operations or cash flows.

On January 1, 2008, Quanta adopted EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires that a realized income tax benefit from dividends or dividend equivalent units paid on unvested restricted shares and restricted share units be reflected as an increase in contributed surplus and reflected as an addition to the company s excess tax benefit pool, as defined under SFAS No. 123(R). Because Quanta did not declare any dividends during the first six months of 2008 and does not currently anticipate declaring dividends in the near future, EITF 06-11 did not have any impact during the first six months of 2008, and is not expected to have a material impact in the near term, on Quanta s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 addresses the accounting and reporting framework for minority interests by a parent company. SFAS No. 160 is to be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Accordingly, Quanta will adopt SFAS No. 160 on January 1, 2009. Because Quanta does not currently have any subsidiaries with non-controlling interests, the adoption of SFAS No. 160 is not anticipated to have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Earlier application is prohibited. Assets and liabilities that arose from business combinations occurring prior to the adoption of SFAS No. 141(R) cannot be adjusted upon the adoption of SFAS No. 141(R). SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the business combination; establishes the acquisition date as the measurement date to determine the fair value for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. As it relates to recognizing all (and only) the assets acquired and liabilities assumed in a business combination, costs an acquirer expects but is not obligated to incur in the future to exit an activity of an acquiree or to terminate or relocate an acquiree s employees are not liabilities at the acquisition

date but must be expensed in accordance with other applicable generally accepted accounting principles. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer must report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which must not exceed one year from the acquisition date, the acquirer will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The acquirer

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

will be required to expense all acquisition-related costs in the periods such costs are incurred, other than costs to issue debt or equity securities in connection with the acquisition. SFAS No. 141(R) will not have an impact on Quanta s consolidated financial position, results of operations or cash flows at the date of adoption, but it could have a material impact on its consolidated financial position, results of operations or cash flows in future periods when it is applied to acquisitions that occur in 2009 and beyond.

In December 2007, the SEC published Staff Accounting Bulletin (SAB) No. 110 (SAB 110). SAB 110 expresses the views of the SEC staff regarding the use of a simplified method, as discussed in SAB No. 107 (SAB 107), in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS No. 123(R). In particular, the SEC staff indicated in SAB 107 that it will accept a company s election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of the expected term. However, the SEC staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. In SAB 110, the SEC staff states that they would continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. Because Quanta currently does not anticipate issuing stock options in the near future, SAB 110 is not anticipated to have a material impact on its consolidated financial position, results of operations or cash flows in the near term.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB No. 133. SFAS No. 161 requires enhanced disclosures to enable investors to better understand how a reporting entity s derivative instruments and hedging activities impact the entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued after November 15, 2008, including interim financial statements. Although early application is encouraged, Quanta will adopt SFAS No. 161 on January 1, 2009. As Quanta has not entered into any material derivatives or hedging activities, SFAS No. 161 is not anticipated to have a material impact on Quanta s consolidated financial position, results of operations, cash flows or disclosures.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of FSP 142-3 is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value and to enhance existing disclosure requirements relating to intangible assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008 and should be applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. Accordingly, Quanta will adopt FSP 142-3 on January 1, 2009. Quanta has not yet determined the impact of FSP 142-3 on its consolidated financial position, results of operations, cash flows or disclosures.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Quanta will adopt SFAS No. 162 once it is effective, but has not yet determined the impact, if any, on its consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1: Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 will require issuers of convertible debt instruments within its scope to first determine the carrying amount of the liability component of the convertible debt by measuring the fair value of a similar liability that does not have an associated equity component. Issuers will then calculate the carrying amount of the equity component represented by the

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

embedded conversion option by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. The excess of the principal amount of the liability component over its initial fair value will be amortized to interest expense using the effective interest method. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Accordingly, Quanta will adopt FSP APB 14-1 on January 1, 2009, and will apply FSP APB 14-1 retrospectively to all periods presented. For periods prior to those presented, Quanta will record a cumulative effect of the change in accounting principle as of the beginning of the first period presented. The impact of FSP APB 14-1 may be material to Quanta s results of operations during certain periods but is not expected to impact its cash flows. Quanta is in the process of determining the cumulative effect of change in accounting principle and the impacts to its results of operations for all periods presented.

In June 2008, the FASB issued Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities under the definition of SFAS No. 128, Earnings per Share and should be included in the computation of both basic and diluted earnings per share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Accordingly, Quanta will adopt FSP EITF 03-6-1 on January 1, 2009. All prior period earnings per share data presented will be adjusted retrospectively to conform to the provisions of FSP EITF 03-6-1. Early application is not permitted. Quanta has granted unvested share-based payment awards that have non-forfeitable rights to dividends in the form of restricted stock awards, which are currently accounted for under the treasury stock method in diluted earnings per share. The treasury stock method specifies that only unvested restricted common shares that are dilutive be included in weighted average diluted shares outstanding. Under FSP EITF 03-6-1, Quanta will retrospectively restate earnings per share data for prior periods beginning in the first quarter of 2009 to include all unvested restricted common shares as participating securities as of the date of grant. FSP EITF 03-6-1 is not anticipated to have any material impact on Quanta s consolidated financial position, results of operations or cash flows but may lower basic and diluted earnings per share amounts previously reported due to the inclusion of the additional shares in computing these amounts.

In June 2008, the FASB ratified EITF Issue 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock (EITF 07-5). The primary objective of EITF 07-5 is to provide guidance for determining whether an equity-linked financial instrument or embedded feature within a contract is indexed to an entity s own stock, which is a key criterion of the scope exception to paragraph 11 (a) of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). This criterion is also important in evaluating whether EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock applies to certain financial instruments that are not derivatives under SFAS No. 133. An equity-linked financial instrument or embedded feature within a contract that is not considered indexed to an entity s own stock could be required to be classified as an asset or liability and marked-to-market through earnings. EITF 07-5 specifies a two-step approach in evaluating whether an equity-linked financial instrument or embedded feature within a contract is indexed to its own stock. The first step involves evaluating the instrument s contingent exercise provisions, if any, and the second step involves evaluating the instrument s settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and must be applied to all instruments outstanding as of the effective date. Accordingly, Quanta will adopt EITF 07-5 on January 1, 2009, but has not yet determined the impact, if any, on its consolidated financial position, results of operations and cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS:

InfraSource Acquisition

On August 30, 2007, Quanta acquired through the Merger all of the outstanding common stock of InfraSource. In connection with the acquisition, Quanta issued to InfraSource s stockholders 1.223 shares of Quanta common stock for each outstanding share of InfraSource common stock, resulting in the issuance of a total of 49,975,553 shares of common stock for an aggregate purchase price of approximately $1.3 billion.

The following summarizes the allocation of the purchase price and estimated transaction costs related to the InfraSource acquisition. This allocation is based on the significant use of estimates and on information that was available to management at the time these condensed consolidated financial statements were prepared. The allocation of the purchase price associated with deferred taxes is preliminary. Accordingly, the allocation will change as management continues to assess available information, and the impact of such changes may be material.

The following table summarizes the estimated fair values (in thousands):

	August 31, 2007
Current assets	287,205
Non-current assets	9,296
Property and equipment	209,724
Intangible assets	158,840
Goodwill	985,343
Total assets acquired	1,650,408
Current liabilities	201,969
Long-term liabilities	172,443
Total liabilities assumed	374,412
Net assets acquired	1,275,996

Additionally, Quanta incurred approximately $12.1 million of costs related to the Merger which have been included in goodwill but are not in the above purchase price allocation.

The amounts assigned to various intangible assets at August 31, 2007 related to the InfraSource acquisition are customer relationships of $95.3 million, backlog of $50.5 million and non-compete agreements of $13.0 million. The customer relationships are being amortized on a straight-line basis over 15 years, backlog is being amortized based on

the estimated pattern of the consumption of the economic benefit over an original weighted average period of 1.3 years and the non-compete agreements are being amortized on a straight-line basis over the lives of the underlying contracts over the original weighted average period of 2.0 years.

Goodwill represents the excess of the purchase price over the fair value of the acquired net assets. Quanta anticipates it will continue to realize meaningful operational and cost synergies, such as enhancing the combined service offerings, expanding the geographic reach and resource base of the combined company, improving the utilization of personnel and fixed assets, eliminating duplicate corporate functions, as well as accelerating revenue growth through enhanced cross-selling and marketing opportunities. Quanta believes these opportunities contribute to the recognition of the substantial goodwill.

The following 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 company for the periods presented or that may be achieved by the combined company in the future. Future results may vary significantly from the results reflected in the following pro forma financial information

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

because of future events and transactions, as well as other factors. The following pro forma results of operations have been provided for the three and six months ended June 30, 2007 as though the Merger had been completed as of January 1, 2007 (in thousands except per share amounts).

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
Revenues	$	791,792	$	1,564,555
Gross profit	$	125,270	$	231,879
Selling, general and administrative expenses	$	72,512	$	151,102
Amortization of intangible assets	$	10,487	$	24,040
Income from continuing operations	$	25,468	$	48,102
Net income	$	25,557	$	48,511
Earnings per share from continuing operations:				
Basic	$	0.15	$	0.29
Fully diluted	$	0.14	$	0.27

The pro forma combined results of operations have been prepared by adjusting the historical results of Quanta to include the historical results of InfraSource, the reduction in interest expense and interest income as a result of the repayment of InfraSource s outstanding indebtedness on the acquisition date, certain reclassifications to conform InfraSource s presentation to Quanta s accounting policies and the impact of the preliminary purchase price allocation discussed above. The pro forma results of operations do not include any cost savings that may result from the Merger or any estimated costs that have been or will be incurred by Quanta to integrate the businesses. 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. For example, included in the pro forma results for the six months ended June 30, 2007 is a $15.3 million tax benefit recorded by Quanta in the first quarter of 2007 primarily due to a decrease in reserves for uncertain tax positions resulting from the settlement of a multi-year IRS audit. Additionally, InfraSource incurred $0.5 million and $4.1 million of Merger-related costs in the three and six months ended June 30, 2007 that have not been eliminated in the pro forma results of operations above. Items such as these, coupled with other risk factors that could have affected the combined company and its operations, make it difficult to use the pro forma results of operations to project future results of operations.

Other Acquisition

In April 2008, Quanta acquired a telecommunication and cable construction company for a purchase price of approximately $37.7 million, consisting of approximately $23.7 million in cash and 593,470 shares of Quanta common stock valued at approximately $14.0 million at the date of acquisition on a discounted basis as a result of the restricted nature of the shares. The acquisition allows Quanta to further expand its telecommunications and cable capabilities in the southwestern United States. The estimated fair value of the tangible assets was $21.2 million and consisted of current assets of $14.3 million, property and equipment of $6.8 million and other non-current assets of

$0.1 million. Net tangible assets acquired were $14.4 million after considering the assumed liabilities of $6.8 million. The excess of the purchase price over net tangible assets acquired was recorded as goodwill in the amount of $17.4 million and intangible assets in the amount of $5.9 million, consisting of customer relationships, backlog and a non-compete agreement. This allocation is based on the significant use of estimates and on information that was available to management at the time these condensed consolidated financial statements were prepared. Portions of the allocation of purchase price are preliminary. Accordingly, the allocation will change as management continues to assess available information, and the impact of such changes may be material.

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QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. GOODWILL AND INTANGIBLE ASSETS:

A summary of changes in Quanta s goodwill between December 31, 2007 and June 30, 2008 is as follows (in thousands):

	Total
Balance at December 31, 2007	$ 1,355,098
Acquisition of a telecommunication and cable construction company in April 2008	17,413
Purchase price adjustments related to acquisitions which closed subsequent to June 30, 2007	7,738
Balance at June 30, 2008	$ 1,380,249

Intangible assets are comprised of (in thousands):

	December 31, 2007	June 30. 2008
Intangible assets:		
Customer relationships	$ 104,834	$ 109,474
Backlog	53,242	53,500
Non-compete agreements	14,030	15,013
Patented rights and developed technology	1,504	16,078
Total intangible assets	173,610	194,065
Accumulated amortization:		
Customer relationships	(4,054)	(7,660)
Backlog	(14,274)	(28,598)
Non-compete agreements	(1,644)	(4,048)
Patented rights and developed technology	(943)	(1,075)
Total accumulated amortization	(20,915)	(41,381)
Intangible assets, net	$ 152,695	$ 152,684

In the quarter ended June 30, 2008, Quanta acquired the rights to certain developed technology, along with pending and issued patent protections to this technology, for approximately $14.6 million. This developed technology will enhance Quanta s energized services capabilities and is being amortized on a straight-line basis over an estimated

economic life of approximately 13 years. The acquired technology is included in patented rights and developed technology in the table above.

Expenses for the amortization of intangible assets were $0.7 million and $9.9 million for the three months ended June 30, 2007 and 2008, and $1.5 million and $20.5 million for the six months ended June 30, 2007 and 2008. The remaining weighted average amortization period for all intangible assets as of June 30, 2008 is 11.0 years, while the remaining weighted average amortization periods for customer relationships, backlog, non-compete agreements and the patented rights and developed technology are 14.1 years, 1.5 years, 2.4 years and 12.2 years, respectively. The

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estimated future aggregate amortization expense of intangible assets as of June 30, 2008 is set forth below (in thousands):

For the Fiscal Year Ended December 31,	
Remainder of 2008	$ 15,673
2009	17,795
2010	12,882
2011	11,738
2012	12,536
Thereafter	82,060
Total	$ 152,684

4. DISCONTINUED OPERATION:

On August 31, 2007, Quanta sold the operating assets associated with the business of EPA, a Quanta subsidiary, for approximately $6.0 million in cash. Quanta has presented EPA s results of operations for the three and six months ended June 30, 2007 as a discontinued operation in the accompanying condensed consolidated statements of operations. Quanta does not allocate corporate debt or interest expense to discontinued operations.

The amounts of revenues and pre-tax income related to EPA and included in income from discontinued operation are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
Revenues	$ 5,380	$	$ 11,301	$
Income before income tax provision	$ 133	$	$ 690	$

The assets, liabilities and cash flows associated with EPA have historically been immaterial to Quanta s balance sheet and cash flows.

5. STOCK-BASED COMPENSATION:

Stock Incentive Plans

Pursuant to the Quanta Services, Inc. 2007 Stock Incentive Plan (the 2007 Plan), which was adopted on May 24, 2007, Quanta may award restricted common stock, incentive stock options and non-qualified stock options. The purpose of

the 2007 Plan is to provide directors, key employees, officers and certain consultants and advisors with additional performance incentives by increasing their proprietary interest in Quanta. Prior to the adoption of the 2007 Plan, Quanta had issued awards of restricted common stock and stock options under its 2001 Stock Incentive Plan (as amended and restated March 13, 2003) (the 2001 Plan), which was terminated effective May 24, 2007, except that outstanding awards will continue to be governed by the terms of the 2001 Plan. The 2007 Plan and the 2001 Plan are referred to as the Quanta Plans.

In connection with the Merger, Quanta assumed InfraSource s 2003 Omnibus Stock Incentive Plan and 2004 Omnibus Stock Incentive Plan, in each case as amended (the InfraSource Plans). Outstanding awards of InfraSource stock options were converted to options to acquire Quanta common stock, and outstanding awards of InfraSource restricted common stock were converted to Quanta restricted common stock, each as described in further detail below. The InfraSource Plans were terminated in connection with the Merger, and no further awards will be made under these plans, although the terms of these plans will govern outstanding awards.

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

In connection with the Merger, each option to purchase shares of InfraSource common stock granted under the InfraSource Plans that was outstanding on August 30, 2007 was converted into an option to purchase the number of whole shares of Quanta common stock that was equal to the number of shares of InfraSource common stock subject to that option immediately prior to the effective time of the Merger multiplied by 1.223. These options were converted on the same terms and conditions as applied to each such option immediately prior to the Merger. The exercise price for each InfraSource option granted was also adjusted by dividing the exercise price in effect immediately prior to the Merger for each InfraSource option by 1.223. The former InfraSource options generally vest over four years and have a maximum term of ten years; however, some options vested on August 30, 2007 due to change of control provisions in place in certain InfraSource option or management agreements, and there has been and may be additional accelerated vesting if the employment of certain option holders is terminated within a certain period following the Merger.

In connection with the Merger, Quanta calculated the fair value of the former InfraSource stock options as of August 30, 2007 using the Black-Scholes model. Assumptions used in this model were based on estimates derived from historic estimates of both Quanta and InfraSource. Quanta estimated expected stock price volatility based on the historical volatility of Quanta s common stock. The risk-free interest rate assumption included in the calculation is based upon observed interest rates appropriate for the expected life of the InfraSource options. The dividend yield assumption is based on Quanta s intent not to issue a dividend. Quanta used the simplified method to calculate expected term. Forfeitures were estimated based on Quanta s historical experience. These assumptions remained unchanged at June 30, 2008.

	August 30, 2007
Weighted Average Assumptions:	
Expected volatility	40%
Dividend yield	0%
Risk-free interest rate	4.13-4.20%
Annual forfeiture rate	8%
Expected term (in years)	6.25

The following tables summarize information for all of the former InfraSource options:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (In thousands)

Total outstanding, December 31, 2007	1,312,661	$	10.73				
Granted							
Exercised	(576,380)	$	9.45				
Canceled	(22,812)	$	11.03				
Total outstanding, June 30, 2008	713,469	$	11.75		7.21	$	15,355
As of June 30, 2008:							
Fully vested options and options expected to ultimately vest	680,524	$	11.63		7.17	$	14,730
Options exercisable	329,179	$	9.48		6.42	$	7,831

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QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of June 30, 2008				
	Stock Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
$3.76 - $3.76	94,987	5.26	$ 3.76	94,987	$ 3.76
$6.44 - $9.80	216,743	7.39	$ 9.55	66,254	$ 9.56
$10.63 - $13.09	112,077	5.87	$ 10.63	109,019	$ 10.63
$13.84 - $16.80	276,209	8.22	$ 16.25	55,557	$ 16.23
$20.29 - $20.55	13,453	8.57	$ 20.38	3,362	$ 20.38
	713,469			329,179	

The aggregate intrinsic value above represents the total pre-tax intrinsic value, based on Quanta s closing stock price of $33.27 on June 30, 2008, which would have been received by the option holders had all option holders exercised their options as of that date. Former InfraSource options exercised during the six months ended June 30, 2008 had an intrinsic value of $10.6 million, generated $5.4 million of cash proceeds and generated $4.1 million of associated income tax benefit. When stock options are exercised, Quanta has historically issued new shares to the option holders.

As of June 30, 2008, there was approximately $4.2 million of total unrecognized compensation cost related to unvested stock options issued under the InfraSource Plans. That cost is expected to be recognized over a weighted average period of 1.9 years. The total fair value of the stock options issued under the InfraSource Plans that vested during the six months ended June 30, 2008 was $1.6 million.

Restricted Stock

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

In connection with the Merger, each share of restricted common stock issued under the InfraSource Plans that was outstanding on August 30, 2007 was converted into 1.223 restricted shares of Quanta common stock. The shares of restricted common stock issued under the InfraSource Plans remain subject to forfeiture, restrictions on transfer and certain other conditions of the awards until they vest, which generally occurs in equal annual installments over three or four year periods commencing on the first anniversary of the grant date, with certain exceptions. During the restriction period, the restricted stockholders are entitled to vote and receive dividends on such shares. The vesting

period for some holders of restricted stock accelerated and the forfeiture and transfer restrictions lapsed when their employment was terminated following the Merger.

During the three months ended June 30, 2007 and 2008, Quanta granted 28,866 and 78,591 shares of restricted stock under the Quanta Plans with a weighted average grant price of $28.96 and $29.07. During the six months ended June 30, 3007 and 2008, Quanta granted approximately 0.4 million and 0.8 million shares of restricted stock under the Quanta Plans with a weighted average grant price of $25.67 and $23.62. Additionally, during the three months ended June 30, 2007 and 2008, approximately 0.1 million and 0.1 million shares vested with an approximate fair value at the time of vesting of $1.9 million and $1.9 million. During the six months ended June 30, 2007 and 2008, approximately 0.6 million and 0.6 million shares vested with an approximate fair value at the time of vesting of $15.8 million and $14.5 million.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the restricted stock activity for the six months ended June 30, 2008 is as follows (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value (Per Share)
Unvested at December 31, 2007	1,129	$ 15.84
Granted	797	$ 23.62
Vested	(560)	$ 14.97
Forfeited	(37)	$ 22.77
Unvested at June 30, 2008	1,329	$ 22.69

As of June 30, 2008, there was approximately $22.2 million of total unrecognized compensation cost related to unvested restricted stock granted to both employees and non-employees. That cost is expected to be recognized over a weighted average period of 2.17 years.

Compensation expense is measured based on the fair value of the restricted stock and for discretionary awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period, and for performance based awards is recognized using the graded vesting method over the requisite service period. The fair value of the restricted stock is determined based on the number of shares granted and the closing price of Quanta s common stock on the date of grant. SFAS No. 123(R) requires estimating future forfeitures in determining the period expense, rather than recording forfeitures when they occur as previously permitted. Quanta uses historical data to estimate the forfeiture rate. The estimate of unrecognized compensation cost uses the expected forfeiture rate; however, the estimate may not necessarily represent the value that will ultimately be realized as compensation expense.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-Cash Compensation Expense and Related Tax Benefits

The amounts of non-cash compensation expense and related tax benefits, as well as the amount of actual tax benefits related to vested restricted stock and options exercised and Quanta s and InfraSource s employee stock purchase plans, both of which have been terminated, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2008**	**2007**	**2008**
Non-cash compensation expense related to restricted stock	$ 1,771	$ 3,646	$ 3,620	$ 6,447
Non-cash compensation expense related to stock options		937		1,912
Total stock-based compensation included in selling, general and administrative expenses	$ 1,771	$ 4,583	$ 3,620	$ 8,359
Actual tax benefit for the tax deductions from vested restricted stock	$ 683	$ 388	$ 2,340	$ 1,426
Actual tax benefit for the tax deductions from options exercised	2,823	3,637	3,210	4,279
Actual tax benefit related to the employee stock purchase plans	19		37	
Actual tax benefit related to stock-based compensation expense	3,525	4,025	5,587	5,705
Income tax benefit related to non-cash compensation expense	691	1,787	1,412	3,260
Total tax benefit related to stock-based compensation expense	$ 4,216	$ 5,812	$ 6,999	$ 8,965

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PER SHARE INFORMATION:

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period, and diluted earnings per share is computed using the weighted average number of common shares outstanding during the period adjusted for all potentially dilutive common stock equivalents, except in cases where the effect of the common stock equivalent would be antidilutive. The weighted average number of shares used to compute the basic and diluted earnings per share for the three and six months ended June 30, 2007 and 2008 is illustrated below (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2008**	**2007**	**2008**
Income for basic earnings per share:				
From continuing operations	$ 21,783	$ 40,518	$ 52,650	$ 64,770
From discontinued operation	83		420	
Net income	$ 21,866	$ 40,518	$ 53,070	$ 64,770
Weighted average shares outstanding for basic earnings per share	118,578	171,063	118,306	170,556
Basic earnings per share:				
From continuing operations	$ 0.18	$ 0.24	$ 0.45	$ 0.38
From discontinued operation				
Net income	$ 0.18	$ 0.24	$ 0.45	$ 0.38
Income for diluted earnings per share:				
Income from continuing operations	$ 21,783	$ 40,518	$ 52,650	$ 64,770
Effect of convertible subordinated notes under the if-converted method interest expense addback, net of taxes	3,199	3,199	6,398	6,398
Income from continuing operations for diluted earnings per share	24,982	43,717	59,048	71,168
Income from discontinued operation	83		420	
Net income for diluted earnings per share	$ 25,065	$ 43,717	$ 59,468	$ 71,168

Calculation of weighted average shares for diluted earnings per share:								
Weighted average shares outstanding for basic earnings per share		118,578		171,063		118,306		170,556
Effect of dilutive stock options and restricted stock		734		822		778		734
Effect of convertible subordinated notes under the if-converted method weighted convertible shares issuable		30,652		30,650		30,652		30,650
Weighted average shares outstanding for diluted earnings per share		149,964		202,535		149,736		201,940
Diluted earnings per share:								
From continuing operations	$	0.17	$	0.22	$	0.39	$	0.35
From discontinued operation						0.01		
Net income	$	0.17	$	0.22	$	0.40	$	0.35

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended June 30, 2007 and 2008, stock options and restricted stock of approximately 0.2 million and 0.5 million shares, respectively, were excluded from the computation of diluted earnings per share because the grant prices of these common stock equivalents were greater than the average market price of Quanta s common stock. For the six months ended June 30, 2007 and 2008, stock options and restricted stock of approximately 0.3 million and 0.5 million shares, respectively, were excluded from the computation of diluted earnings per share because the grant prices of these common stock equivalents were greater than the average market price of Quanta s common stock. For the three months and six months ended June 30, 2007, the effect of assuming conversions of the 4.0% convertible subordinated notes would have been antidilutive and they were therefore excluded from the calculation of diluted earnings per share.

7. DEBT:

Credit Facility

Quanta has a credit facility with various lenders that provides for a $475.0 million senior secured revolving credit facility maturing on September 19, 2012. Subject to the conditions specified in the credit facility, Quanta has the option to increase the revolving commitments under the credit facility by up to an additional $125.0 million from time to time upon receipt of additional commitments from new or existing lenders. Borrowings under the credit facility are to be used for working capital, capital expenditures and other general corporate purposes. The entire unused portion of the credit facility is available for the issuance of letters of credit.

As of June 30, 2008, Quanta had approximately $173.9 million of letters of credit issued under the credit facility and no outstanding revolving loans. The remaining $301.1 million was available for revolving loans or issuing new letters of credit. Amounts borrowed under the credit facility bear interest, at Quanta s option, at a rate equal to either (a) the Eurodollar Rate (as defined in the credit facility) plus 0.875% to 1.75%, as determined by the ratio of Quanta s total funded debt to consolidated EBITDA (as defined in the credit facility), or (b) the base rate (as described below) plus 0.00% to 0.75%, as determined by the ratio of Quanta s total funded debt to consolidated EBITDA. Letters of credit issued under the credit facility are subject to a letter of credit fee of 0.875% to 1.75%, based on the ratio of Quanta s total funded debt to consolidated EBITDA. Quanta is also subject to a commitment fee of 0.15% to 0.35%, based on the ratio of its total funded debt to consolidated EBITDA, on any unused availability under the credit facility. The base rate equals the higher of (i) the Federal Funds Rate (as defined in the credit facility) plus 1/2 of 1% and (ii) the bank s prime rate.

The credit facility contains certain covenants, including covenants with respect to maximum funded debt to consolidated EBITDA, maximum senior debt to consolidated EBITDA and minimum interest coverage, in each case as specified in the credit facility. For purposes of calculating the maximum funded debt to consolidated EBITDA ratio and the maximum senior debt to consolidated EBITDA ratio, Quanta s maximum funded debt and maximum senior debt are reduced by all cash and cash equivalents (as defined in the credit facility) held by Quanta in excess of $25.0 million. As of June 30, 2008, Quanta was in compliance with all of its covenants. The credit facility limits certain acquisitions, mergers and consolidations, capital expenditures, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on material assets. The credit facility also limits the payment of dividends and stock repurchase programs in any fiscal year except those payments or other distributions payable solely in capital stock. The credit facility provides for customary events of default and carries cross-default provisions

with all of Quanta s existing subordinated notes, its continuing indemnity and security agreement with its sureties and all of its other debt instruments exceeding $15.0 million in borrowings. If an event of default (as defined in the credit facility) occurs and is continuing, on the terms and subject to the conditions set forth in the credit facility, amounts outstanding under the credit facility may be accelerated and may become or be declared immediately due and payable.

The credit facility is secured by a pledge of all of the capital stock of Quanta s U.S. subsidiaries, 65% of the capital stock of its foreign subsidiaries and substantially all of its assets. Quanta s U.S. subsidiaries guarantee the repayment of all amounts due under the credit facility. Quanta s obligations under the credit facility constitute

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

designated senior indebtedness under its 3.75% and 4.5% convertible subordinated notes. The capital stock and assets of certain of Quanta s regulated U.S. subsidiaries acquired in the Merger will not be pledged under the credit facility, and these subsidiaries will also not be included as guarantors under the credit facility, until regulatory approval to do so is obtained.

4.0% Convertible Subordinated Notes

During the first half of 2007, Quanta had outstanding $33.3 million aggregate principal amount of 4.0% convertible subordinated notes (4.0% Notes), which matured on July 1, 2007. The outstanding principal balance of the 4.0% Notes plus accrued interest were repaid on July 2, 2007, the first business day after the maturity date.

4.5% Convertible Subordinated Notes

At June 30, 2008, Quanta had outstanding approximately $270.0 million aggregate principal amount of 4.5% convertible subordinated notes due 2023 (4.5% Notes). The resale of the notes and the shares issuable upon conversion thereof was registered for the benefit of the holders in a shelf registration statement filed with the SEC. The 4.5% Notes require semi-annual interest payments on April 1 and October 1, until the notes mature on October 1, 2023.

The 4.5% Notes are convertible into shares of Quanta s common stock based on an initial conversion rate of 89.7989 shares of Quanta s common stock per $1,000 principal amount of 4.5% Notes (which is equal to an initial conversion price of approximately $11.14 per share), subject to adjustment as a result of certain events. The 4.5% Notes are convertible by the holder (i) during any fiscal quarter if the last reported sale price of Quanta s common stock is greater than or equal to 120% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the first trading day of such fiscal quarter, (ii) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of that period was less than 98% of the product of the last reported sale price of Quanta s common stock and the conversion rate, (iii) upon Quanta calling the notes for redemption or (iv) upon the occurrence of specified corporate transactions. If the notes become convertible under any of these circumstances, Quanta has the option to deliver cash, shares of Quanta s common stock or a combination thereof, with the amount of cash determined in accordance with the terms of the indenture under which the notes were issued. The market price condition described in clause (i) above has been satisfied for each of the quarters since the fourth quarter of 2005, and therefore the notes were convertible at the option of the holder. The outstanding notes are presently convertible at the option of each holder, and the conversion period will expire on September 30, 2008, but may continue or resume in future periods upon the satisfaction of the market price condition or other conditions. Conversions that may occur in the future could result in the recording of losses on extinguishment of debt if the conversions are settled in cash for an amount in excess of the principal amount.

Beginning October 8, 2008, Quanta may redeem for cash some or all of the 4.5% Notes at the principal amount thereof plus accrued and unpaid interest. The holders of the 4.5% Notes may require Quanta to repurchase all or some of their notes at the principal amount thereof plus accrued and unpaid interest on each of October 1, 2008, October 1, 2013 or October 1, 2018, or upon the occurrence of a fundamental change, as defined by the indenture under which Quanta issued the notes. Quanta must pay any required repurchases on October 1, 2008 in cash. For all other required repurchases, Quanta has the option to deliver cash, shares of its common stock or a combination thereof to satisfy its

repurchase obligation. If Quanta were to satisfy any required repurchase obligation with shares of its common stock, the number of shares delivered will equal the dollar amount to be paid in common stock divided by 98.5% of the market price of Quanta s common stock, as defined by the indenture. The right to settle for shares of common stock can be surrendered by Quanta. The 4.5% Notes carry cross-default provisions with Quanta s other debt instruments exceeding $10.0 million in borrowings, which includes Quanta s existing credit facility.

In October 2007, Quanta reclassified the $270.0 million aggregate principal amount outstanding of the 4.5% Notes into a current obligation as the holders may elect repayment of the 4.5% Notes in cash on October 1,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008. Quanta has not yet determined whether it will use cash on hand, issue equity or incur debt to fund this cash obligation in the event the holders elect repayment or if Quanta elects to redeem the 4.5% Notes.

3.75% Convertible Subordinated Notes

At June 30, 2008, Quanta had outstanding $143.8 million aggregate principal amount of 3.75% convertible subordinated notes due 2026 (3.75% Notes). The resale of the notes and the shares issuable upon conversion thereof was registered for the benefit of the holders in a shelf registration statement filed with the SEC. The 3.75% Notes mature on April 30, 2026 and bear interest at the annual rate of 3.75%, payable semi-annually on April 30 and October 30, until maturity.

The 3.75% Notes are convertible into Quanta s common stock, based on an initial conversion rate of 44.6229 shares of Quanta s common stock per $1,000 principal amount of 3.75% Notes (which is equal to an initial conversion price of approximately $22.41 per share), subject to adjustment as a result of certain events. The 3.75% Notes are convertible by the holder (i) during any fiscal quarter if the closing price of Quanta s common stock is greater than 130% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter, (ii) upon Quanta calling the 3.75% Notes for redemption, (iii) upon the occurrence of specified distributions to holders of Quanta s common stock or specified corporate transactions or (iv) at any time on or after March 1, 2026 until the business day immediately preceding the maturity date of the 3.75% Notes. If the 3.75% Notes become convertible under any of these circumstances, Quanta has the option to deliver cash, shares of Quanta s common stock or a combination thereof, with the amount of cash determined in accordance with the terms of the indenture under which the notes were issued. The 3.75% Notes are presently convertible at the option of each holder, and the conversion period will expire on September 30, 2008, but may continue or resume in future periods upon the satisfaction of the market condition or other conditions. Conversions that may occur in the future could result in the recording of losses on extinguishment of debt if the conversions are settled in cash for an amount in excess of the principal amount. The holders of the 3.75% Notes who convert their notes in connection with certain change in control transactions, as defined in the indenture, may be entitled to a make whole premium in the form of an increase in the conversion rate. In the event of a change in control, in lieu of paying holders a make whole premium, if applicable, Quanta may elect, in some circumstances, to adjust the conversion rate and related conversion obligations so that the 3.75% Notes are convertible into shares of the acquiring or surviving company.

Beginning on April 30, 2010 until April 30, 2013, Quanta may redeem for cash all or part of the 3.75% Notes at a price equal to 100% of the principal amount plus accrued and unpaid interest, if the closing price of Quanta s common stock is equal to or greater than 130% of the conversion price then in effect for the 3.75% Notes for at least 20 trading days in the 30 consecutive trading day period ending on the trading day immediately prior to the date of mailing of the notice of redemption. In addition, Quanta may redeem for cash all or part of the 3.75% Notes at any time on or after April 30, 2010 at certain redemption prices, plus accrued and unpaid interest. Beginning with the six-month interest period commencing on April 30, 2010, and for each six-month interest period thereafter, Quanta will be required to pay contingent interest on any outstanding 3.75% Notes during the applicable interest period if the average trading price of the 3.75% Notes reaches a specified threshold. The contingent interest payable within any applicable interest period will equal an annual rate of 0.25% of the average trading price of the 3.75% Notes during a five trading day reference period.

The holders of the 3.75% Notes may require Quanta to repurchase all or a part of the notes in cash on each of April 30, 2013, April 30, 2016 and April 30, 2021, and in the event of a change in control of Quanta, as defined in the indenture, at a purchase price equal to 100% of the principal amount of the 3.75% Notes plus accrued and unpaid interest. The 3.75% Notes carry cross-default provisions with Quanta s other debt instruments exceeding $20.0 million in borrowings, which includes Quanta s existing credit facility.

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Convertible Subordinated Notes

The fair market value of Quanta s convertible subordinated notes is subject to interest rate risk because of their fixed interest rates and market risk due to the convertible feature of the convertible subordinated notes. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of Quanta s convertible subordinated notes will also increase as the market price of our stock increases and decrease as the market price falls. The interest and market value changes affect the fair market value of our convertible subordinated notes but do not impact their carrying value. As of December 31, 2007 and June 30, 2008, the fair value of Quanta s convertible subordinated notes of $413.8 million was approximately $825.6 million and $1.034 billion based upon market prices on or before such date.

8. STOCKHOLDERS EQUITY:

Treasury Stock

Pursuant to the stock incentive plans described in Note 5, employees may elect to satisfy their tax withholding obligations upon vesting of restricted stock by having Quanta make such tax payments and withhold a number of vested shares having a value on the date of vesting equal to their tax withholding obligation. As a result of such employee elections, during the six months ended June 30, 2008, Quanta withheld 179,376 shares of Quanta common stock with a total market value of $4.3 million for settlement of employee tax liabilities. These shares were accounted for as treasury stock. Under Delaware corporate law, treasury stock is not entitled to vote or be counted for quorum purposes.

Comprehensive Income

Quanta s foreign operations are translated into U.S. dollars, and a translation adjustment is recorded in other comprehensive income as a result. The following table presents the components of comprehensive income for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
Net income	$ 21,866	$ 40,518	$ 53,070	$ 64,770
Foreign currency translation adjustment		185		(1,017)
Comprehensive income	$ 21,866	$ 40,703	$ 53,070	$ 63,753

9. SEGMENT INFORMATION:

Prior to January 1, 2008, Quanta aggregated each of its individual operating units into one reportable segment as a specialty contractor. Beginning January 1, 2008, Quanta began reporting its results under two business segments, which are the Infrastructure Services and Dark Fiber segments described in Note 1. The Infrastructure Services segment provides comprehensive network solutions to the electric power, gas, telecommunications and cable television industries, including designing, installing, repairing and maintaining network infrastructure. In addition, the Infrastructure Services segment provides ancillary services such as inside electrical wiring, intelligent traffic networks, cable and control systems for light rail lines, airports and highways, and specialty rock trenching, directional boring and road milling for industrial and commercial customers. The Dark Fiber segment designs, procures, constructs and maintains fiber-optic telecommunications infrastructure in select markets and licenses the right to use point-to-point fiber-optic telecommunications facilities to its customers. The Dark Fiber segment services large industrial and financial services customers, school districts and other entities with high bandwidth telecommunication needs. The telecommunication services provided through this business are subject to regulation by the Federal Communications Commission and certain state public utility commissions. The Dark Fiber segment was acquired August 30, 2007 as part of the InfraSource Merger. Accordingly, Quanta s results of operations for the

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three and six months ended June 30, 2007 did not include any impact from the dark fiber business, and segment reporting is only provided for the three and six month periods ended June 30, 2008.

As discussed previously, the allocation of the purchase price related to the Merger with respect to the valuation of deferred taxes is preliminary. The current allocations are based on estimates and information that was available to management at the time these condensed consolidated financial statements were prepared. Therefore, the following results by segment are subject to change and may change materially. Corporate costs not readily identifiable to a reportable segment are allocated based upon each segment s revenue contribution to consolidated revenues. The assets as of June 30, 2008 and the revenues, operating income and capital expenditures for the three and six months ended June 30, 2008 by segment are as follows (in thousands):

As of June 30, 2008:	**Infrastructure Services Segment**	**Dark Fiber Segment**	**Total Reportable Segments**
Assets	$ 1,343,750	$ 184,325	$ 1,528,075

The following is a reconciliation of reportable segment assets to Quanta s consolidated assets as of June 30, 2008 (in thousands):

Assets:	
Total assets for reportable segments	$ 1,528,075
Unallocated amounts:	
Cash at corporate	312,156
Goodwill	1,380,249
Intangible assets, net of accumulated amortization	152,684
Other unallocated amounts, net	117,330
Consolidated total assets	$ 3.490,494

For the Three Months Ended June 30, 2008:	**Infrastructure Services Segment**	**Dark Fiber Segment**	**Total Reportable Segments**
Revenues (unaffiliated)	$ 947,418	$ 13,464	$ 960,882
Operating income from external customers before amortization	$ 74,511	$ 7,887	$ 82,398
Capital expenditures	$ 26,712	$ 33,709	$ 60,421

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following are reconciliations of reportable segment revenues, operating income and capital expenditures to Quanta s consolidated totals for the three months ended June 30, 2008 (in thousands):

Operating income from external customers:	
Total operating income before amortization for reportable segments (from external customers)	$ 82,398
Unallocated amounts:	
Amortization of intangible assets	(9,876)
Consolidated total operating income	$ 72,522
Capital expenditures:	
Total capital expenditures for reportable segments	$ 60,421
Elimination of intersegment profits	(2,298)
Corporate capital expenditures	1,860
Consolidated total capital expenditures	$ 59,983

For the Six Months Ended June 30, 2008:	Infrastructure Services Segment	Dark Fiber Segment	Total Reportable Segments
Revenues (unaffiliated)	$ 1,778,652	$ 26,672	$ 1,805,324
Operating income from external customers before amortization	$ 121,419	$ 14,140	$ 135,559
Capital expenditures	$ 59,123	$ 53,849	$ 112,972

The following are reconciliations of reportable segment revenues, operating income and capital expenditures to Quanta s consolidated totals for the six months ended June 30, 2008 (in thousands):

Operating income from external customers:	
Total operating income before amortization for reportable segments (from external customers)	$ 135,559
Unallocated amounts:	
Amortization of intangible assets	(20,466)
Consolidated total operating income	$ 115,093
Capital expenditures:	
Total capital expenditures for reportable segments	$ 112,972
Elimination of intersegment profits	(3,440)
Corporate capital expenditures	3,617

Consolidated total capital expenditures	$ 113,149

The following table presents information regarding revenues derived from the various industries served by Quanta aggregated by type of work. For the three and six months ended June 30, 2007, this information had previously been reported by type of customer. Accordingly, revenues for the three and six months ended June 30,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2007 have been reallocated as necessary to reflect revenue by type of work rather than by type of customer. Revenues by type of work are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2008**	**2007**	**2008**
Infrastructure Services:				
Electric power services	$ 314,214	$ 532,052	$ 651,872	$ 1,020,190
Gas services	65,576	201,925	143,802	338,487
Telecommunications and cable television network services	90,452	156,805	160,179	300,863
Ancillary services	81,978	56,636	165,326	119,112
Total Infrastructure Services	552,220	947,418	1,121,179	1,778,652
Dark Fiber		13,464		26,672
Total Revenues	$ 552,220	$ 960,882	$ 1,121,179	$ 1,805,324

Foreign Operations

Quanta does not have significant operations or long-lived assets in countries outside of the United States. Quanta derived $13.4 million and $29.1 million of its revenues from foreign operations during the three and six months ended June 30, 2007 and $27.1 million and $51.5 million of its revenues from foreign operations during the three and six months ended June 30, 2008. The majority of revenues from foreign operations was earned in Canada during the three and six months ended June 30, 2007 and 2008.

10. COMMITMENTS AND CONTINGENCIES:

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, 2008 (in thousands):

	Operating Leases
Year Ending December 31	

Remainder of 2008	$	33,950
2009		47,375
2010		34,824
2011		27,890
2012		17,816
Thereafter		25,398
Total minimum lease payments	$	187,253

Rent expense related to operating leases was approximately $17.6 million and $33.7 million for the three and six months ended June 30, 2007 and approximately $26.3 million and $52.7 million for the three and six months ended June 30, 2008.

Quanta has guaranteed the residual value on certain of its equipment operating leases. Quanta guarantees the difference between this residual value and the fair market value of the underlying asset at the date of termination of

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the leases. At June 30, 2008, the maximum guaranteed residual value was approximately $154.0 million. Quanta believes that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that significant payments will not be required in the future.

Committed Capital Expenditures

Quanta has committed various amounts of capital for expansion of its dark fiber network. Quanta does not commit capital to new network expansions until it has a committed licensing arrangement in place with at least one customer. The amounts of committed capital expenditures are estimates of costs required to build the networks under contract. The actual capital expenditures related to building the networks could vary materially from these estimates. As of June 30, 2008, Quanta estimates these expenditures to be approximately $40.0 million for the period July 1, 2008 through December 31, 2008 and $53.8 million and $0.5 million for the years ended December 31, 2009 and 2010.

Litigation

InfraSource, certain of its officers and directors and various other parties, including David R. Helwig, the former chief executive officer of InfraSource and a former director of Quanta, were defendants in a lawsuit seeking unspecified damages filed in the State District Court in Harris County, Texas on September 21, 2005. The plaintiffs alleged that the defendants violated their fiduciary duties and committed constructive fraud by failing to maximize shareholder value in connection with certain acquisitions by InfraSource Incorporated that closed in 1999 and 2000 and the acquisition of InfraSource Incorporated by InfraSource in 2003 and committed other acts of misconduct following the filing of the petition. The parties to this litigation settled the material claims in January 2008, and the lawsuit was dismissed by the court on March 4, 2008. The amount of the settlement was reserved in 2007, and therefore the payment of the settlement amount had no impact on Quanta s results of operations for the first half of 2008.

Quanta is also from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, Quanta records reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Quanta does not believe that any of these proceedings, separately or in the aggregate, would be expected to have a material adverse effect on Quanta s financial position, results of operations or cash flows.

Concentration of Credit Risk

Financial instruments that may potentially subject Quanta to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Quanta maintains substantially all of its cash investments with what it believes to be high credit quality financial institutions. Quanta grants credit under normal payment terms, generally without collateral, to its customers, which include electric power and gas companies, telecommunications and cable television system operators, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States. Consequently, Quanta is subject to potential credit risk related to changes in business and economic factors throughout the United States. However,

Quanta generally has certain statutory lien rights with respect to services provided. Under certain circumstances such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. Some of Quanta s customers have experienced significant financial difficulties. These economic conditions expose Quanta to increased risk related to collectibility of receivables for services Quanta has performed. No customer accounted for more than 10% of accounts receivable as of December 31, 2007 or June 30, 2008 or revenues for the three and six months ended June 30, 2007 or 2008.

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Self-Insurance

Quanta is insured for employer s liability claims, subject to a deductible of $1.0 million per occurrence, and for general liability and auto liability subject to a deductible of $3.0 million per occurrence. Quanta is also insured for workers compensation claims, subject to a deductible of $2.0 million per occurrence. Additionally, Quanta is subject to an annual cumulative aggregate liability of up to $1.0 million on workers compensation claims in excess of $2.0 million per occurrence. Quanta also has an employee health care benefits plan for employees not subject to collective bargaining agreements, which is subject to a deductible of $350,000 per claimant per year beginning January 1, 2008.

Effective upon the Merger, InfraSource became insured under Quanta s property and casualty and health insurance programs. Previously, InfraSource was insured for workers compensation, general liability and employer s liability, each subject to a deductible of $0.75 million per occurrence. InfraSource was also insured for auto liability, subject to a deductible of $0.5 million per occurrence. InfraSource continued to operate its own health plan for employees not subject to collective bargaining agreements through December 31, 2007, which was subject to a deductible of $150,000 per claimant per year.

Losses under all of these insurance programs are accrued based upon Quanta s estimates of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries. However, insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of Quanta s liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate. As of December 31, 2007 and June 30, 2008, the gross amount accrued for self-insurance claims totaled $152.0 million and $149.3 million, with $110.1 million and $107.4 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of December 31, 2007 and June 30, 2008 were $22.1 million and $24.7 million, of which $11.9 million and $13.8 million are included in prepaid expenses and other current assets and $10.2 million and $10.9 million are included in other assets, net.

Quanta s casualty insurance carrier for the policy periods from August 1, 2000 to February 28, 2003 has been experiencing financial distress but is currently paying valid claims. In the event that this insurer s financial situation further deteriorates, Quanta may be required to pay certain obligations that otherwise would have been paid by this insurer. Quanta estimates that the total future claim amount that this insurer is currently obligated to pay on its behalf for the above mentioned policy periods is approximately $4.5 million. During the second quarter of 2008, based on management s current evaluation of collectibility, Quanta provided an allowance of $3.4 million for potentially uncollectible amounts that are estimated to be ultimately due from this insurer. The estimate of the potential range of these future claim amounts is between $1.9 million and $7.4 million. The actual amounts ultimately paid by Quanta in connection with such claims, if any, may vary materially from the above range and could be impacted by further claims development and the extent to which the insurer could not honor its obligations. Quanta continues to monitor the financial situation of this insurer and analyze any alternative actions that could be pursued. In any event, Quanta does not expect any failure by this insurer to honor its obligations to it, or any alternative actions that Quanta may pursue, to have a material adverse impact on its financial condition; however, the impact could be material to Quanta s consolidated results of operations or cash flow in a given period.

Letters of Credit

Certain of Quanta s vendors require letters of credit to ensure reimbursement for amounts they are disbursing on its behalf, such as to beneficiaries under its self-funded insurance programs. In addition, from time to time some customers require Quanta to post letters of credit to ensure payment to its subcontractors and vendors under those contracts and to guarantee performance under its contracts. Such letters of credit are generally issued by a bank or similar financial institution. The letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that Quanta has failed to perform specified actions. If this were to occur,

QUANTA SERVICES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quanta would be required to reimburse the issuer of the letter of credit. Depending on the circumstances of such a reimbursement, Quanta may also have to record a charge to earnings for the reimbursement. Quanta does not believe that it is likely that any material claims will be made under a letter of credit in the foreseeable future.

As of June 30, 2008, Quanta had $173.9 million in letters of credit outstanding under its credit facility primarily to secure obligations under its casualty insurance program. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2008 and 2009. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods.

Performance Bonds and Parent Guarantees

In certain circumstances, Quanta is required to provide performance bonds in connection with its contractual commitments. Quanta has indemnified its sureties for any expenses paid out under these performance bonds. As of June 30, 2008, the total amount of outstanding performance bonds was approximately $997.9 million, and the estimated cost to complete these bonded projects was approximately $262.9 million.

Quanta, from time to time, guarantees the obligations of its wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease obligations and, in some states, obligations in connection with obtaining contractors licenses.

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. In addition, employment agreements between InfraSource and certain of its executives and employees included provisions that became effective upon termination of employment within a specified time period following the change of control of InfraSource. Upon the occurrence of any of the defined events in the various employment agreements, Quanta will pay certain amounts to the employee, which vary with the level of the employee s responsibility.

Collective Bargaining Agreements

Certain of Quanta s subsidiaries are party to various collective bargaining agreements with certain of their employees. The agreements require such subsidiaries to pay specified wages and provide certain benefits to their union employees. These agreements expire at various times and have typically been renegotiated and renewed on terms similar to the ones contained in the expiring agreements.

Indemnities

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

may subject Quanta to indemnity claims and liabilities and related litigation. As of June 30, 2008, Quanta is not aware of circumstances that would lead to future indemnity claims against it for material amounts in connection with these indemnity obligations.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission (SEC) on February 29, 2008 and is available on the SEC s website at www.sec.gov and on our website, which is 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 expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified under the headings Uncertainty of Forward-Looking Statements and Information below in this Item 2 and Risk Factors in Item 1A of Part II of this Quarterly Report.

Introduction

We are a leading national provider of specialty contracting services. Beginning January 1, 2008, we began reporting our results under two business segments. The infrastructure services (Infrastructure Services) segment provides specialized contracting services, offering end-to-end network solutions to the electric power, gas, telecommunications and cable television industries. Specifically, the comprehensive services provided by the Infrastructure Services segment include designing, installing, repairing and maintaining network infrastructure, as well as certain ancillary services. Additionally, the dark fiber (Dark Fiber) segment designs, procures, constructs and maintains fiber-optic telecommunication infrastructures and licenses the right to use point-to-point fiber-optic telecommunications facility to our customers. The Dark Fiber segment services large industrial and financial services customers, school districts and other entities with high bandwidth telecommunication needs. The telecommunication services provided through this business are subject to regulation by the Federal Communications Commission and certain state public utility commissions. Prior to January 1, 2008, we reported results under one business segment, which consisted primarily of the services now under the Infrastructure Services segment.

On August 30, 2007, we acquired, through a merger transaction (the Merger), all of the outstanding common stock of InfraSource Services, Inc. (InfraSource). Similar to us, InfraSource provided design, procurement, construction, testing and maintenance services to electric power utilities, natural gas utilities, telecommunication customers, government entities and heavy industrial companies, such as petrochemical, processing and refining businesses, primarily in the United States. As a result of the Merger, we enhanced and expanded our position as a leading specialized contracting services company serving the electric power, gas, telecommunications and cable television industries and added the Dark Fiber segment.

We had consolidated revenues for the six months ended June 30, 2008 of approximately $1.8 billion, of which 57% was attributable to electric power work, 19% to gas work, 16% to telecommunications and cable television work and 6% to ancillary services, such as inside electrical wiring, intelligent traffic networks, fueling systems, cable and control systems for light rail lines, airports and highways and specialty rock trenching, directional boring and road milling for industrial and commercial customers. In addition, 2% of our consolidated revenues for the six months ended June 30, 2008 was generated by our Dark Fiber 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. In our Infrastructure Services segment, we enter into various types of contracts, including competitive unit price, hourly rate, cost-plus (or time and materials basis), and fixed price (or lump sum basis), the final terms and prices of which we frequently negotiate with the customer. Although the terms of our contracts vary considerably, most are made on either a unit price or fixed price basis in which we agree to do the work for a price per unit of work performed (unit price) or for a fixed amount for the entire project (fixed price). We complete a substantial majority of

our fixed price projects within one year, while we frequently provide maintenance and repair work under open-ended unit price or cost-plus master service agreements that are renewable annually.

For our Infrastructure Services segment, we recognize revenue on our unit price and cost-plus contracts when units are completed or services are performed. For our fixed price contracts, we record revenues as work on the contract progresses on a percentage-of-completion basis. Under this valuation method, revenue is recognized based

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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.

The Dark Fiber segment constructs and licenses the right to use fiber-optic telecommunications facilities to our customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber-optic facility, with the facility owned and maintained by us. Revenues earned pursuant to these fiber-optic facility licensing agreements, including any initial fees or advanced billings, are recognized ratably over the expected length of the agreements, including probable renewal periods.

Seasonality; Fluctuations of Results

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 schedules and timing and holidays. Typically, our revenues are lowest in the first quarter of the year because cold, snowy or wet conditions cause delays. The second quarter is typically better than the first, as some projects begin, but continued cold and wet weather can often impact second quarter productivity. The third quarter is typically the best of the year, as a greater number of projects are underway and weather is more accommodating to work on projects. Revenues during the fourth quarter of the year are typically lower than the third quarter but higher than the second quarter. Many projects are completed in the fourth quarter and revenues often are impacted positively by customers seeking to spend their capital budget before the end of the year; however, the holiday season and inclement weather sometimes can cause delays and thereby reduce revenues and increase costs.

Additionally, our industry can be highly cyclical. As a result, our volume of business may be adversely affected by declines or delays in new projects in various geographic regions in the United States. Project schedules, in particular in connection with larger, longer-term projects, can also create fluctuations in the services provided under projects, which may adversely affect us in a given quarter. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular quarter, regional and national economic conditions, timing of acquisitions, the timing and magnitude of acquisition assimilation costs and interest rate fluctuations may also materially affect quarterly results. Accordingly, our operating results in any particular quarter or year may not be indicative of the results that can be expected for any other quarter or for any other year. You should read *Understanding Gross Margins* and *Outlook* for additional discussion of trends and challenges that may affect our financial condition and results of operations.

Understanding Gross Margins

Our gross margin is gross profit 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. Various factors some controllable, some not impact our gross margins on a quarterly or annual basis.

Seasonal and Geographical. As discussed above, seasonal patterns can have a significant impact on gross margins. Generally, business is slower in the winter months versus the warmer months of the year. This can be offset somewhat by increased demand for electrical service and repair work resulting from severe weather. In addition, the mix of business conducted in different parts of the country will affect margins, as some parts of the country offer the opportunity for higher gross margins than others.

Weather. Adverse or favorable weather conditions can impact gross margins in a given period. For example, it is typical in the first quarter of any fiscal year that parts of the country may experience snow or rainfall that may negatively impact our revenues and gross margin due to reduced productivity. In many cases, projects may be delayed or temporarily placed on hold. 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 gross margins. In some cases, severe weather, such as hurricanes and ice storms, can provide us with higher margin emergency service restoration work, which generally has a positive impact on margins.

Revenue Mix. The mix of revenues derived from the industries we serve will impact gross 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 the industry we served.

Service and Maintenance versus Installation. Installation work is often obtained on a fixed price basis, while maintenance work is often performed under pre-established or negotiated prices or cost-plus pricing arrangements. Gross margins for installation work will vary from project to project, and can be higher than maintenance work, because work obtained on a fixed price basis has higher risk than other types of pricing arrangements. We typically derive approximately 50% 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 gross margins. An increase in subcontract work in a given period may contribute to a decrease in gross margin. We typically subcontract approximately 10% to 15% of our work to other service providers.

Materials versus Labor. Margins may be lower on projects on which we furnish materials as our mark-up on materials is generally lower than on labor costs. In a given period, a higher percentage of work that has a higher materials component may decrease overall gross margin.

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

Insurance. Gross margins could be impacted by fluctuations in insurance accruals as additional claims arise and as circumstances and conditions of existing claims change. We are insured for employer s liability claims, subject to a deductible of $1.0 million per occurrence, and for general liability and auto liability subject to a deductible of $3.0 million per occurrence. We are also insured for workers compensation claims, subject to a deductible of $2.0 million per occurrence. Additionally, we are subject to an annual cumulative aggregate liability of up to $1.0 million on workers compensation claims in excess of $2.0 million per occurrence. We also have an employee health care benefits plan for employees not subject to collective bargaining agreements, which is subject to a deductible of $350,000 per claimant per year beginning January 1, 2008.

Effective upon the Merger, InfraSource became insured under our property and casualty and health insurance programs. Previously, InfraSource was insured for workers compensation, general liability and employer s liability, each subject to a deductible of $0.75 million per occurrence. InfraSource was also insured for auto liability, subject to a deductible of $0.5 million per occurrence. InfraSource continued to operate its own health plan for employees not subject to collective bargaining agreements through December 31, 2007, which was subject to a deductible of $150,000 per claimant per year.

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, letter of credit fees and gains and losses on the sale of property and equipment.

Results of Operations

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of operations data below does not reflect the operations of Environmental Professional Associates, Limited (EPA) in any periods as EPA s results of operations are reported as discontinued operations in our accompanying condensed consolidated statements of operations. Accordingly, the 2007 amounts below do not agree to the amounts previously reported. Additionally, the results of operations for the three and six months ended June 30, 2007 do not include any results of operations from InfraSource as the Merger did not occur until August 30, 2007.

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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):