

QUANTA SERVICES INC  
Form 10-K/A  
May 31, 2013  
Index to Financial Statements

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K/A**  
**(Amendment No. 1)**

(Mark One)

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

For the fiscal year ended December 31, 2012

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

Commission file number 1-13831

**Quanta Services, Inc.**

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

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

**2800 Post Oak Boulevard, Suite 2600**

**Houston, Texas 77056**

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

**(713) 629-7600**

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

**Securities registered pursuant to Section 12(b) of the Act:**

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<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
Common Stock, \$.00001 par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**Title of Each Class**

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if smaller reporting company)

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

As of June 30, 2012 (the last business day of the Registrant's most recently completed second fiscal quarter), the aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant, based on the last sale price of the Common Stock reported by the New York Stock Exchange on such date, was approximately \$5.0 billion.

As of February 20, 2013, the number of outstanding shares of Common Stock of the Registrant was 209,333,557. As of the same date, 3,909,110 Exchangeable Shares and one share of Series F Preferred Stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement for the 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (the Amendment ) amends our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, originally filed with the Securities and Exchange Commission (the SEC ) on March 1, 2013 (the Original Filing ). We are filing this Amendment solely for the purpose of filing an amended Report of Independent Registered Public Accounting Firm to include a reference to the consolidated statements of comprehensive income, which was inadvertently omitted. Part IV is also being amended to add as exhibits a new auditor consent and new certifications in accordance with Rule 13a-14(a) promulgated by the SEC under the Securities Exchange Act of 1934.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing.

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**ITEM 8. *Financial Statements and Supplementary Data***

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**REPORT OF MANAGEMENT**

**Management's Report on Financial Information and Procedures**

The accompanying financial statements of Quanta Services, Inc. and its subsidiaries were prepared by management. These financial statements were prepared in accordance with accounting principles generally accepted in the United States, applying certain estimates and judgments as required.

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

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurances and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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The effectiveness of Quanta Services, Inc.'s internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears herein.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012 excluded the four acquisitions we completed in 2012. Such exclusion was in accordance with SEC guidance that an assessment of recently acquired businesses may be omitted in management's report on internal control over financial reporting, provided the acquisition took place within twelve months of management's evaluation. These acquisitions comprised approximately 2.1% of our consolidated assets at December 31, 2012 and 2.5% of our consolidated revenues for the year ended December 31, 2012.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Quanta Services, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows and equity, present fairly, in all material respects, the financial position of Quanta Services, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded its 2012 acquisitions from its assessment of internal control over financial reporting as of December 31, 2012 because these acquisitions were made by the Company through purchase business combinations during 2012. We have also excluded the Company's 2012 acquisitions from our audit of internal control over financial reporting. The 2012 acquisitions of the Company and its related subsidiaries are wholly owned subsidiaries of the Company and have total assets and revenues which represent approximately 2.1% and 2.5%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP

Houston, Texas

March 1, 2013

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	December 31, 2012                      2011 (In thousands, except share information)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 394,701	\$ 315,349
Accounts receivable, net of allowances of \$5,447 and \$3,751	1,328,081	959,887
Costs and estimated earnings in excess of billings on uncompleted contracts	342,777	189,167
Inventories	38,261	62,519
Prepaid expenses and other current assets	97,907	105,001
Current assets of discontinued operations		133,231
<b>Total current assets</b>	<b>2,201,727</b>	<b>1,765,154</b>
Property and equipment, net of accumulated depreciation of \$555,030 and \$474,670	1,045,983	938,902
Other assets, net	171,566	150,079
Other intangible assets, net of accumulated amortization of \$198,082 and \$159,996	183,836	200,876
Goodwill	1,537,645	1,470,811
Non-current assets of discontinued operations		173,292
<b>Total assets</b>	<b>\$ 5,140,757</b>	<b>\$ 4,699,114</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Notes payable	\$ 9	\$ 56
Accounts payable and accrued expenses	707,285	570,572
Billings in excess of costs and estimated earnings on uncompleted contracts	173,885	144,599
Current liabilities of discontinued operations		65,849
<b>Total current liabilities</b>	<b>881,179</b>	<b>781,076</b>
Deferred income taxes	225,050	233,644
Insurance and other non-current liabilities	262,612	292,552
Non-current liabilities of discontinued operations		2,579
<b>Total liabilities</b>	<b>1,368,841</b>	<b>1,309,851</b>
Commitments and Contingencies		
Equity:		
Common stock, \$.00001 par value, 600,000,000 shares authorized, 220,917,050 and 217,479,462 shares issued, and 209,270,586 and 206,203,005 shares outstanding	2	2
Exchangeable Shares, no par value, 3,909,110 shares authorized, issued and outstanding		
Series F Preferred Stock, \$.00001 par value, 1 share authorized, issued and outstanding		
Additional paid-in capital	3,287,086	3,216,206
Retained earnings	668,156	361,527
Accumulated other comprehensive income	14,453	710
Treasury stock, 11,646,464 and 11,276,457 common shares, at cost	(203,149)	(196,493)
<b>Total stockholders' equity</b>	<b>3,766,548</b>	<b>3,381,952</b>
Noncontrolling interests	5,368	7,311



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Total equity	3,771,916	3,389,263
Total liabilities and equity	\$ 5,140,757	\$ 4,699,114

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

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

	Year Ended December 31,		
	2012	2011	2010
	(In thousands, except per share information)		
Revenues	\$ 5,920,269	\$ 4,193,764	\$ 3,629,433
Cost of services (including depreciation)	4,982,562	3,632,048	3,039,912
Gross profit	937,707	561,716	589,521
Selling, general and administrative expenses	434,894	337,835	307,875
Amortization of intangible assets	37,691	29,039	37,655
Operating income	465,122	194,842	243,991
Interest expense	(3,746)	(1,803)	(4,902)
Interest income	1,471	1,066	1,417
Loss on early extinguishment of debt, net			(7,107)
Equity in earnings of unconsolidated affiliates	2,084		
Other income (expense), net	(351)	(597)	559
Income from continuing operations before income taxes	464,580	193,508	233,958
Provision for income taxes	158,859	63,096	88,884
Net income from continuing operations	305,721	130,412	145,074
Income from discontinued operations, net of taxes	16,935	14,004	10,483
Net income	322,656	144,416	155,557
Less: Net income attributable to noncontrolling interests	16,027	11,901	2,381
Net income attributable to common stock	\$ 306,629	\$ 132,515	\$ 153,176
Amounts attributable to common stock:			
Net income from continuing operations	\$ 289,694	\$ 118,511	\$ 142,693
Net income from discontinued operations	16,935	14,004	10,483
Net income attributable to common stock	\$ 306,629	\$ 132,515	\$ 153,176
Earnings per share attributable to common stock basic:			
Continuing operations	\$ 1.36	\$ 0.56	\$ 0.68
Discontinued operations	0.08	0.06	0.05
Net income attributable to common stock	\$ 1.44	\$ 0.62	\$ 0.73
Earnings per share attributable to common stock diluted:			
Continuing operations	\$ 1.36	\$ 0.56	\$ 0.67
Discontinued operations	0.08	0.06	0.05
Net income attributable to common stock	\$ 1.44	\$ 0.62	\$ 0.72
Shares used in computing earnings per share:			
Weighted average basic shares outstanding	212,777	212,648	210,046

Weighted average diluted shares outstanding	212,835	213,168	211,796
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The accompanying notes are an integral part of these consolidated financial statements.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Net income	\$ 322,656	\$ 144,416	\$ 155,557
Other comprehensive income (loss), net of tax provision:			
Foreign currency translation adjustment, net of tax of \$0, \$0 and \$0	13,949	(12,235)	10,210
Other, net of tax of \$69, \$392 and \$0	(206)	(1,177)	
Change in unrealized gain on foreign currency cash flow hedges, net of tax of \$0, \$0 and \$0			410
Other comprehensive income (loss)	13,743	(13,412)	10,620
Comprehensive income	336,399	131,004	166,177
Less: Comprehensive income attributable to noncontrolling interests	16,027	11,901	2,381
Total comprehensive income attributable to Quanta shareholders	\$ 320,372	\$ 119,103	\$ 163,796

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

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 322,656	\$ 144,416	\$ 155,557
Income from discontinued operations	(16,935)	(14,004)	(10,483)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	120,303	109,874	101,199
Amortization of intangible assets	37,691	29,039	37,655
Equity in earnings of unconsolidated affiliates	(2,084)		
Non-cash interest expense			1,704
Amortization of debt issuance costs	904	901	642
Amortization of deferred revenues	(10,149)	(11,415)	(12,471)
(Gain) loss on sale of property and equipment	(970)	897	4,577
Non-cash loss on early extinguishment of debt			4,797
Foreign currency (gain) loss	691	1,196	(328)
Provision for (recovery of) doubtful accounts	3,693	1,163	(142)
Deferred income tax provision	22,533	556	33,156
Non-cash stock-based compensation	25,990	19,480	20,640
Tax impact of stock-based equity awards	(297)	(1,365)	(2,161)
Changes in operating assets and liabilities, net of non-cash transactions			
(Increase) decrease in			
Accounts and notes receivable	(341,825)	(270,248)	(17,483)
Costs and estimated earnings in excess of billings on uncompleted contracts	(150,486)	(64,478)	(59,423)
Inventories	26,435	(13,581)	(16,591)
Prepaid expenses and other current assets	(12,599)	10,490	(12,551)
Increase (decrease) in			
Accounts payable and accrued expenses and other non-current liabilities	123,143	201,890	(17,502)
Billings in excess of costs and estimated earnings on uncompleted contracts	26,624	63,066	10,088
Other, net	(8,479)	(3,799)	(3,322)
Net cash provided by operating activities of continuing operations	166,839	204,078	217,558
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sale of property and equipment	12,362	9,142	24,373
Additions of property and equipment	(209,445)	(162,285)	(144,042)
Cash paid for acquisitions, net of cash acquired	(68,727)	(79,660)	(130,251)
Payments to acquire equity method investments	(53,750)	(35,000)	
Cash paid for other investments		(4,000)	
Cash paid for other intangibles	(1,541)	(455)	
Net cash used in investing activities of continuing operations	(321,101)	(272,258)	(249,920)
<b>Cash Flows from Financing Activities:</b>			
Borrowings under credit facility	1,052,700		
Payments under credit facility	(1,052,700)		
Proceeds from other long-term debt		4,343	1,183
Payments on other long-term debt	(56)	(5,680)	(3,438)
Payments on convertible subordinated notes			(143,750)
Debt issuance and amendment costs		(4,127)	

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Distributions to noncontrolling interests	(17,970)	(5,954)	(2,395)
Tax impact of stock-based equity awards	297	1,365	2,161
Exercise of stock options	2,385	867	534
Repurchase of common stock		(149,547)	
Net cash used in financing activities of continuing operations	(15,344)	(158,733)	(145,705)

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Discontinued operations:			
Net cash provided by (used in) operating activities	(60,622)	13,952	22,700
Net cash provided by (used in) investing activities	307,522	(8,959)	(4,333)
Net cash provided by discontinued operations	246,900	4,993	18,367
Effect of foreign exchange rate changes on cash and cash equivalents	2,058	(1,952)	(708)
Net increase (decrease) in cash and cash equivalents	79,352	(223,872)	(160,408)
Cash and cash equivalents, beginning of year	315,349	539,221	699,629
Cash and cash equivalents, end of year	\$ 394,701	\$ 315,349	\$ 539,221
Supplemental disclosure of cash flow information:			
Cash (paid) received during the year for			
Interest paid	\$ (2,734)	\$ (701)	\$ (3,479)
Redemption premium on convertible subordinated notes			(2,310)
Income tax paid	(155,494)	(13,306)	(108,700)
Income tax refunds	4,106	6,502	9,707

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

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Exchangeable Shares		Limited Vote Common Stock		Series F Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
(In thousands, except share information)														
Balance, December 31, 2009	209,378,308	\$ 2		\$	662,293	\$		\$ 3,065,581	\$ 75,836	\$ 3,502	\$ (35,738)	\$ 3,109,183	\$ 1,378	\$ 3,110,561
Other comprehensive income										10,620		10,620		10,620
Acquisitions	623,720		3,909,110				1	83,354				83,354		83,354
Exchange of Limited Vote Common Stock for common stock	241,300				(229,808)									
Restricted stock activity	845,980							23,048			(4,622)	18,426		18,426
Stock options exercised	48,783							534				534		534
Income tax expense from long-term incentive plans								(2,161)				(2,161)		(2,161)
Redemption of convertible subordinated notes								(7,577)				(7,577)		(7,577)
Distributions to noncontrolling interests													(2,395)	(2,395)
Net income									153,176			153,176	2,381	155,557
Balance, December 31, 2010	211,138,091	2	3,909,110		432,485		1	3,162,779	229,012	14,122	(40,360)	3,365,555	1,364	3,366,919
Other comprehensive loss										(13,412)		(13,412)		(13,412)
Acquisitions	1,939,813							32,368				32,368		32,368
Exchange of Limited Vote Common Stock for common stock	454,107				(432,485)									
Restricted stock activity	729,688							21,618			(6,586)	15,032		15,032
Stock options exercised	74,635							867				867		867
Income tax expense from long-term incentive plans								(1,426)				(1,426)		(1,426)
	(8,133,329)										(149,547)	(149,547)		(149,547)



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Common stock repurchases													
Distributions to noncontrolling interests												(5,954)	(5,954)
Net income						132,515			132,515			11,901	144,416
Balance, December 31, 2011	206,203,005	2	3,909,110		1	3,216,206	361,527	710	(196,493)	3,381,952	7,311		3,389,263
Other comprehensive income								13,743		13,743			13,743
Acquisitions	1,927,113					37,291				37,291			37,291
Restricted stock activity	915,816					31,501			(6,656)	24,845			24,845
Stock options exercised	224,652					2,385				2,385			2,385
Income tax benefit from long-term incentive plans						(297)				(297)			(297)
Distributions to noncontrolling interests												(17,970)	(17,970)
Net income						306,629			306,629			16,027	322,656
Balance, December 31, 2012	209,270,586	\$ 2	3,909,110	\$	\$ 1	\$ 3,287,086	\$ 668,156	\$ 14,453	\$ (203,149)	\$ 3,766,548	\$ 5,368		\$ 3,771,916

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

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND ORGANIZATION:**

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

***Electric Power Infrastructure Services Segment***

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

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

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

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

The Fiber Optic Licensing and Other segment designs, procures, constructs, maintains and owns fiber optic telecommunications infrastructure in select markets and licenses the right to use these point-to-point fiber optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under these agreements, customers are provided the right to use a portion of the capacity of a fiber optic network, with the network owned and maintained by Quanta. The Fiber Optic Licensing and Other segment provides services to enterprise, education, carrier, financial services and healthcare customers, as well as other entities with high bandwidth telecommunication needs. The telecommunication services provided through this segment are subject to regulation by the Federal Communications Commission and certain state public utility commissions. The Fiber Optic Licensing and Other segment also provides various telecommunication infrastructure services on a limited basis primarily to Quanta's customers in the electric power industry.

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

***Acquisitions***

During the first and second quarters of 2012, Quanta acquired four businesses, which included one electric power infrastructure services company based in Canada, two electric power infrastructure services companies based in the United States and one natural gas and pipeline infrastructure services company based in the United States. During the third and fourth quarters of 2011, Quanta acquired five businesses, which included three electric power infrastructure services companies based in Canada, one electric power infrastructure services company based in the United States and one natural gas and pipeline infrastructure services company based in Australia. On October 25, 2010, Quanta acquired Valard Construction LP and certain of its affiliated entities (Valard), an electric power infrastructure services company based in Alberta, Canada. The financial results of acquisitions have been included in the consolidated financial statements as of their respective acquisition dates.

***Dispositions***

On December 3, 2012, Quanta sold substantially all of its domestic telecommunications infrastructure services operations and related subsidiaries to Dycom Industries, Inc. for net proceeds of approximately \$265.0 million. Accordingly, Quanta has presented the results of operations, financial position and cash flows of such telecommunications subsidiaries as discontinued operations for all periods presented in the accompanying consolidated financial statements. See Note 4 for more information.

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

***Principles of Consolidation***

The consolidated financial statements of Quanta include the accounts of Quanta Services, Inc. and its wholly owned subsidiaries, which are also referred to as its operating units. The consolidated financial statements also include the accounts of certain of Quanta's investments in joint ventures, which are either consolidated or proportionately consolidated, as discussed in the following summary of significant accounting policies. Investments in affiliated entities in which Quanta does not have a controlling interest, but over which Quanta has significant influence, usually because Quanta holds a voting interest of 20% to 50%, are accounted for using the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, references to Quanta include Quanta and its consolidated subsidiaries.

***Use of Estimates and Assumptions***

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

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

***Reclassifications***

Certain reclassifications have been made in prior years segment disclosures to conform to classifications used in the current year.

***Cash and Cash Equivalents***

Quanta had cash and cash equivalents of \$394.7 million and \$315.3 million as of December 31, 2012 and 2011. Cash consisting of interest-bearing demand deposits is carried at cost, which approximates fair value. Quanta considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are carried at fair value. At December 31, 2012 and 2011, cash equivalents were \$92.5 million and \$165.9 million, which consisted primarily of money market mutual funds and investment grade commercial paper and are discussed further in *Fair Value Measurements* below. As of December 31, 2012 and 2011, cash and cash equivalents held in domestic bank accounts were approximately \$254.1 million and \$230.9 million and cash and cash equivalents held in foreign bank accounts were approximately \$140.6 million and \$84.4 million.

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

Quanta provides an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful, and receivables are written off against the allowance when deemed uncollectible. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the customer's access to capital, the customer's willingness or ability to pay, general economic and market conditions and the ongoing relationship with the customer. Quanta considers accounts receivable delinquent after 30 days but does not generally include delinquent accounts in its analysis of the allowance for doubtful accounts unless the accounts receivable have been outstanding for at least 90 days. In addition to balances that have been outstanding for 90 days or more, Quanta also includes accounts receivable balances that relate to customers in bankruptcy or with other known difficulties in its analysis of the allowance for doubtful accounts. Material changes in Quanta's customers' business or cash flows, which may be impacted by negative economic and market conditions, could affect Quanta's ability to collect amounts due from them. As of December 31, 2012 and 2011, Quanta had total allowances for doubtful accounts of approximately \$5.4 million and \$3.8 million, all of which were included as a reduction of net current accounts receivable. Should customers experience financial difficulties or file for bankruptcy, or should anticipated recoveries relating to receivables in existing bankruptcies or other workout situations fail to materialize, Quanta could experience reduced cash flows and losses in excess of current allowances provided.

The balances billed but not paid by customers pursuant to retainage provisions in certain contracts are generally due upon completion of the contracts and acceptance by the customer. Based on Quanta's experience with similar contracts in recent years, the majority of the retainage balances at each balance sheet date are expected to be collected within the next twelve months. Current retainage balances as of December 31, 2012 and 2011 were approximately \$180.6 million and \$111.9 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, 2012 and 2011 were \$22.5 million and \$28.3 million.

Within accounts receivable, Quanta recognizes unbilled receivables in circumstances such as when revenues have been earned and recorded but the amount cannot be billed under the terms of the contract until a later date; costs have been incurred but are yet to be billed under cost-reimbursement type contracts; or amounts arise from routine lags in billing (for example, work completed one month but not billed until the next month). These balances do not include revenues accrued for work performed under fixed-price contracts as these amounts are

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

recorded as costs and estimated earnings in excess of billings on uncompleted contracts. At December 31, 2012 and 2011, the balances of unbilled receivables included in accounts receivable were approximately \$127.5 million and \$121.1 million.

***Inventories***

Inventories consist primarily of parts and supplies held for use in the ordinary course of business, which are valued by Quanta at the lower of cost or market as determined by using either the first-in, first-out (FIFO) method or the average costing method. Inventories also include certain job specific materials not yet installed which are valued using the specific identification method.

***Property and Equipment***

Property and equipment are stated at cost, and depreciation is computed using the straight-line method, net of estimated salvage values, over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense related to property and equipment was approximately \$120.3 million, \$109.9 million and \$101.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Quanta capitalizes costs associated with internally developed or constructed assets primarily associated with fiber optic licensing networks and software systems for internal applications. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use assets, as well as payroll and payroll-related expenses for employees who are directly associated with and devote time to placing the assets into service. Capitalization of such costs is recorded to construction work-in-process beginning when the preliminary project stage is complete and ceases no later than the point at which the project is substantially complete and ready for its intended purpose, at which point in time the asset is placed into service. As of December 31, 2012 and 2011, approximately \$19.0 million and \$14.1 million related to fiber optic licensing networks and \$2.1 million and \$8.0 million associated with internally developed software systems were recorded in construction work-in-process. These capitalized costs are depreciated on a straight-line basis over the economic useful life of the asset, beginning when the asset is ready for its intended use. Capitalized costs are included in property and equipment on the consolidated balance sheets.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated over the adjusted remaining useful life of the assets. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in selling, general and administrative expenses.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable. If an evaluation is required, fair value would be determined by estimating the future undiscounted cash flows associated with the asset. Management compares the estimated fair value of the asset to the asset's carrying amount to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value in the period incurred.

During 2010, approximately \$8.2 million in net property and equipment was reclassified to prepaid expenses and other current assets as they were deemed to be assets held for sale. In conjunction with this

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

assessment, approximately \$0.1 million in net losses from the impairment of assets held for sale were included in selling, general and administrative expenses in 2010. During 2012 and 2011, there was no property and equipment classified as assets held for sale.

***Other Assets, Net***

Other assets, net consists primarily of equity investments, debt issuance costs, long term receivables, non-current inventory, refundable security deposits for leased properties and insurance claims in excess of deductibles that are due from Quanta's insurers.

***Debt Issuance Costs***

Capitalized debt issuance costs related to Quanta's credit facility and any other debt outstanding at a given balance sheet date are included in other assets, net and are amortized into interest expense on a straight-line basis over the terms of the respective agreements giving rise to the debt issuance costs, which Quanta believes approximates the effective interest rate method. During 2011, Quanta incurred \$4.1 million of debt issuance costs related to the amendment and restatement of its credit facility and recorded a \$0.3 million charge to interest expense for the write-off of a portion of the debt issuance costs related to the prior facility. As of December 31, 2012 and 2011, capitalized debt issuance costs were \$4.4 million and \$4.4 million, with accumulated amortization of \$1.3 million and \$0.4 million. For the years ended December 31, 2012, 2011 and 2010, amortization expense related to capitalized debt issuance costs was \$0.9 million, \$0.9 million and \$0.6 million, respectively.

***Goodwill and Other Intangibles***

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

As further discussed in Note 3, Quanta adopted an update issued by the Financial Accounting Standards Board (FASB), which gives entities the option to first assess qualitative factors to determine whether it is necessary to perform the two-step fair value-based impairment test described below. If an entity believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. An entity can also bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. This update also includes new qualitative indicators that replaced those previously used to determine whether an annual or interim goodwill impairment test is required to be performed. For instance, deterioration in macroeconomic conditions, declining financial performance, or a sustained decrease in share price, among other things, may trigger the need for annual or interim impairment testing of goodwill associated with one or all of the reporting units.

Quanta's goodwill impairment assessment is performed at year-end, or more frequently if events or circumstances arise which indicate that goodwill may be impaired. For instance, a decrease in Quanta's market capitalization below book value, a significant change in business climate or loss of a significant customer, as well

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as the qualitative indicators referenced above, may trigger the need for interim impairment testing of goodwill for one or all of its reporting units. The first step of the two-step fair value-based test involves comparing the fair value of each of Quanta's reporting units with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the reporting unit's goodwill to the implied fair value of its goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss would be recorded as a reduction to goodwill with a corresponding charge to operating expense.

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

Under the discounted cash flow method, Quanta determines fair value based on the estimated future cash flows of each reporting unit, discounted to present value using risk-adjusted industry discount rates, which reflect the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Cash flow projections are derived from budgeted amounts and operating forecasts (typically a two-year model) plus an estimate of later period cash flows, all of which are evaluated by management. Subsequent period cash flows are developed for each reporting unit using growth rates that management believes are reasonably likely to occur, along with a terminal value derived from the reporting unit's earnings before interest, taxes, depreciation and amortization (EBITDA). The EBITDA multiples for each reporting unit are based on trailing twelve-month comparable industry data.

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

The projected cash flows and estimated levels of EBITDA by reporting unit were used to determine fair value under the three approaches discussed herein. The following table presents the significant estimates used by management in determining the fair values of Quanta's reporting units at December 31, 2012, 2011 and 2010:

	Operating Units Providing Predominantly Electric Power and Natural Gas and Pipeline Infrastructure Services			Operating Unit Providing Fiber Optic Licensing		
	2012	2011	2010	2012	2011	2010
Years of cash flows before terminal value	5	5	5	15	15	15
Discount rates	12% to 13%	13%	15%	12%	14%	14%
EBITDA multiples	4.5 to 8.0	4.5 to 8.0	4.5 to 8.0	9.5	9.5	9.5
Weighting of three approaches:						
Discounted cash flows	70%	70%	70%	90%	90%	90%
Market multiple	15%	15%	15%	5%	5%	5%
Market capitalization	15%	15%	15%	5%	5%	5%

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

For recently acquired reporting units, a step one impairment test may indicate an implied fair value that is substantially similar to the reporting unit's carrying value. Such similarities in value are generally an indication that management's estimates of future cash flows associated with the recently acquired reporting unit remain relatively consistent with the assumptions that were used to derive its initial fair value. During the fourth quarter of 2012, a goodwill impairment analysis was performed for each of Quanta's reporting units, which indicated that the implied fair value of each of Quanta's reporting units, other than recently acquired reporting units, was substantially in excess of its carrying value. Following the analysis, management concluded that no impairment was indicated at any reporting unit. As discussed generally above, when evaluating the 2012 step one impairment test results, management considered many factors in determining whether or not an impairment of goodwill for any reporting unit was reasonably likely to occur in future periods, including future market conditions and the economic environment in which Quanta's reporting units were operating. Additionally, management considered the sensitivity of its fair value estimates to changes in certain valuation assumptions and, after giving consideration to at least a 10% decrease in the fair value of each of Quanta's reporting units, the results of the assessment at December 31, 2012 did not change. However, circumstances such as market declines, unfavorable economic conditions, the loss of a major customer or other factors could impact the valuation of goodwill in future periods.

The goodwill analysis performed for each reporting unit was based on estimates and industry comparables obtained from the electric power, natural gas and oil pipeline and fiber optic licensing industries, and no impairment was indicated. The 15-year discounted cash flow model used for fiber optic licensing is based on the long-term nature of the underlying fiber optic network licensing agreements.

Quanta assigned a higher weighting to the discounted cash flow approach in all periods to reflect increased expectations of market value being determined from a held and used model. Discount rates for the 2012 and 2011 analyses declined from those of the year prior for the operating units providing predominately electric power and natural gas and pipeline infrastructure services due to generally more favorable market conditions for these operating units in 2012 as compared to 2011 and in 2011 as compared to 2010. Additionally, discount rates for the 2012 analysis declined from those of the prior years for the operating unit providing predominately fiber optic licensing due to generally more favorable market conditions for this operating unit in 2012 as compared to 2011 and 2010.

Quanta's intangible assets include customer relationships, backlog, trade names, non-compete agreements, patented rights and developed technology, all subject to amortization, along with other intangible assets not subject to amortization. The value of customer relationships is estimated as of the date a business is acquired based on the value-in-use concept utilizing the income approach, specifically the excess earnings method. The excess earnings analysis consists of discounting to present value the projected cash flows attributable to the customer relationships, with consideration given to customer contract renewals, the importance or lack thereof of existing customer relationships to Quanta's business plan, income taxes and required rates of return. Quanta values backlog for acquired businesses as of the acquisition date based upon the contractual nature of the backlog within each service line, using the income approach to discount back to present value the cash flows attributable to the backlog. The value of trade names is estimated using the relief-from-royalty method of the income approach. This approach is based on the assumption that in lieu of ownership, a company would be willing to pay a royalty in order to exploit the related benefits of this intangible asset.

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



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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

other things, may trigger the need for interim impairment testing of intangible assets. An impairment loss would be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

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

In the normal course of business, Quanta enters into various types of investment arrangements, each having unique terms and conditions. These investments may include equity interests held by Quanta in business entities, including general or limited partnerships, contractual joint ventures, or other forms of equity participation. These investments may also include Quanta's participation in different finance structures such as the extension of loans to project specific entities, the acquisition of convertible notes issued by project specific entities, or other strategic financing arrangements. Quanta determines whether such investments involve a variable interest entity (VIE) based on the characteristics of the subject entity. If the entity is determined to be a VIE, then management determines if Quanta is the primary beneficiary of the entity and whether or not consolidation of the VIE is required. The primary beneficiary consolidating the VIE must normally have both (i) the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE, in either case that could potentially be significant to the VIE. When Quanta is deemed to be the primary beneficiary, the VIE is consolidated and the other party's equity interest in the VIE is accounted for as a noncontrolling interest. In cases where Quanta determines that it has an undivided interest in the assets, liabilities, revenues and profits of an unincorporated VIE (e.g., a general partnership interest), such amounts are consolidated on a basis proportional to Quanta's ownership interest in the unincorporated entity.

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

On June 22, 2011, Quanta acquired an equity ownership interest of approximately 39% in Howard Midstream Energy Partners, LLC (HEP) for an initial capital contribution of \$35.0 million. HEP is engaged in the business of owning, operating and constructing midstream plant and pipeline assets in the natural gas and oil pipeline industry. HEP commenced operations in June 2011 with the acquisitions of Texas Pipeline LLC, a pipeline operator in the Eagle Ford shale region of South Texas, and Bottom Line Services, LLC, a construction services company. Quanta contributed an additional \$52.3 million in the aggregate to HEP in March and April 2012 in exchange for an aggregate 45,435 Class D units of HEP. Howard Midstream Energy Partners, LLC used the proceeds of Quanta's investment, together with capital contributed by other third party investors, to purchase additional pipeline assets in the Eagle Ford shale region. As a result of this transaction and the other third party investments in HEP, Quanta's total equity ownership interest in HEP decreased from approximately 39% at March 31, 2012 to approximately 31%. Quanta accounts for this investment using the equity method of accounting. During the fourth quarter of 2012, HEP sold its interest in Bottom Line Services, LLC and is expected to use the proceeds from the transaction for other strategic development opportunities.

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

***Revenue Recognition***

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

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

Quanta may incur costs subject to change orders, whether approved or unapproved by the customer, and/or claims related to certain contracts. Quanta determines the probability that such costs will be recovered based upon evidence such as past practices with the customer, specific discussions or preliminary negotiations with the customer or verbal approvals. Quanta treats items as a cost of contract performance in the period incurred if it is not probable that the costs will be recovered or will recognize revenue if it is probable that the contract price will be adjusted and can be reliably estimated. As of December 31, 2012 and 2011, Quanta had approximately \$205.0 million and \$77.3 million of change orders and/or claims that had been included as contract price adjustments on certain contracts which were in the process of being negotiated in the normal course of business. These contract price adjustments represent management's best estimate of additional contract revenues which have been earned and which management believes are probable of collection. The amounts ultimately realized by Quanta upon final acceptance by its customers could be higher or lower than such estimated amounts.

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.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Fiber Optic Licensing* The fiber optic licensing business constructs and licenses the right to use fiber optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber optic facility, with the facility owned and maintained by Quanta. Revenues, including any initial fees or advance billings, are recognized ratably over the expected length of the agreements, including probable renewal periods. As of December 31, 2012 and 2011, initial fees and advance billings on these licensing agreements not yet recorded in revenue were \$46.4 million and \$47.4 million and are recognized as deferred revenue, with \$37.7 million and \$38.3 million considered to be long-term and included in other non-current liabilities. Minimum future licensing revenues expected to be recognized by Quanta pursuant to these agreements at December 31, 2012 are as follows (in thousands):

	<b>Minimum Future Licensing Revenues</b>
Year Ending December 31	
2013	\$ 84,104
2014	62,014
2015	40,234
2016	31,277
2017	23,443
Thereafter	125,225
Fixed non-cancelable minimum licensing revenues	\$ 366,297

*Income Taxes*

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

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

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

As of December 31, 2012, the total amount of unrecognized tax benefits relating to uncertain tax positions was \$51.2 million, an increase from December 31, 2011 of \$3.9 million. This increase in unrecognized tax benefits primarily results from a \$15.4 million increase due to the tax positions expected to be taken for 2012,



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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

partially offset by a \$12.0 million decrease due to the expiration of certain statutes of limitations for the 2008 tax year. Although the Internal Revenue Service completed its examination related to calendar year 2009 during 2012, certain subsidiaries remain under examination by various state and Canadian tax authorities for multiple periods, and the amount of unrecognized tax benefits could therefore increase or decrease as a result of settlements of these audits or as a result of the expiration of certain statutes of limitations. Quanta believes that it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease up to \$11.5 million as a result of settlements of these audits or as a result of the expiration of certain statutes of limitations.

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

***Earnings Per Share***

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

***Collective Bargaining Agreements***

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

***Stock-Based Compensation***

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

Compensation expense associated with liability based awards such as restricted stock units (RSUs) that are expected to be settled in cash is recognized based on a remeasurement of the fair value of the award at the end of

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**Index to Financial Statements****QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

each reporting period. RSUs granted by Quanta under the Plans are intended to provide plan participants with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta. RSUs vest over a designated period, typically three years, and are subject to forfeiture under certain conditions, primarily termination of service. Upon vesting of RSUs, the holders receive for each vested RSU either (i) one share of Quanta common stock, or (ii) an amount in cash equal to the fair market value on the vesting date of one share of Quanta common stock, as specified in the applicable award agreement. Generally, RSUs granted to plan participants residing in the U.S. provide for settlement in shares of common stock, and RSUs granted to plan participants residing outside the U.S. provide for settlement in cash.

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

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

***Derivatives***

From time to time, Quanta enters into forward currency contracts that qualify as derivatives in order to hedge the risks associated with fluctuations in foreign currency exchange rates related to certain forecasted foreign currency denominated transactions. Quanta does not enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for cash flow hedge accounting. For a hedge to qualify for cash flow hedge accounting treatment, a hedge must be documented at the inception of the contract, with the objective and strategy stated, along with an explicit description of the methodology used to assess hedge effectiveness. The dates (or periods) for the expected forecasted events and the nature of the exposure involved (including quantitative measures of the size of the exposure) must also be documented. At the inception of the hedge and on an ongoing basis, the hedge must be deemed to be highly effective at minimizing the risk of the identified exposure. Effectiveness measures relate the gains or losses of the derivative to changes in the cash flows associated with the hedged item, and the forecasted transaction must be probable of occurring.

For forward contracts that qualify as cash flow hedges, Quanta accounts for the change in fair value of the forward contracts directly in equity as part of accumulated other comprehensive income (loss). Any ineffective portion of cash flow hedges is recognized in earnings in the period in which ineffectiveness occurs. For instance, if a forward contract is discontinued as a cash flow hedge because it is probable that the original forecasted transaction will not occur by the end of the originally specified time period, the related amounts in accumulated other comprehensive income (loss) would be reclassified to other income (expense) in the consolidated statement

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

of operations in the period such determination is made. When a forecasted transaction occurs, the portion of the accumulated gain or loss applicable to the forecasted transaction is reclassified from equity to earnings. Changes in fair value related to transactions that do not meet the criteria for cash flow hedge accounting are recorded in the consolidated results of operations and are included in other income (expense).

***Comprehensive Income***

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

***Litigation Costs and Reserves***

Quanta records reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Costs incurred for litigation are expensed as incurred. Further details are presented in Note 15.

***Fair Value Measurements***

The carrying values of cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. For disclosure purposes, qualifying assets and liabilities are categorized into three broad levels based on the priority of the inputs used to determine their fair values. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). All of Quanta's cash equivalents are categorized as Level 1 assets at December 31, 2012 and 2011, as all values are based on unadjusted quoted prices for identical assets in an active market that Quanta has the ability to access.

In connection with Quanta's acquisitions, identifiable intangible assets acquired include goodwill, backlog, customer relationships, trade names, covenants not-to-compete, patented rights and developed technology. Quanta utilizes the fair value premise as the primary basis for its valuation procedures, which is a market-based approach to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Quanta periodically engages the services of an independent valuation firm when a new business is acquired to assist management with this valuation process, including assistance with the selection of appropriate valuation methodologies and the development of market-based valuation assumptions. Based on these considerations, management utilizes various valuation methods, including an income approach, a market approach and a cost approach, to determine the fair value of intangible assets acquired based on the appropriateness of each method in relation to the type of asset being valued. The assumptions used in these valuation methods are analyzed and compared, where possible, to available market data, such as industry-based weighted average costs of capital and discount rates, trade name royalty rates, public company valuation multiples and recent market acquisition multiples. The level of inputs used for these fair value measurements is the lowest level (Level 3). Quanta believes that these valuation methods appropriately represent the methods that would be used by other market participants in determining fair value.

Quanta uses fair value measurements on a routine basis in its assessment of assets classified as goodwill, other intangible assets and long-lived assets held and used. In accordance with its annual impairment test during the quarter ended December 31, 2012, the carrying amounts of such assets, including goodwill, were compared to their fair values. The inputs used for fair value measurements for goodwill, other intangible assets and long-lived assets held and used are the lowest level (Level 3) inputs, and Quanta uses the assistance of third party specialists to develop valuation assumptions.

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**Index to Financial Statements****QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**3. NEW ACCOUNTING PRONOUNCEMENTS:*****Adoption of New Accounting Pronouncements***

On January 1, 2012, Quanta adopted an update issued by the FASB that amends certain accounting and disclosure requirements related to fair value measurements. Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a nonfinancial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of the update did not have a material impact on Quanta's financial position, results of operations or cash flows.

Also on January 1, 2012, Quanta adopted an update issued by the FASB that eliminates the option to present the components of other comprehensive income only as part of the statement of equity. This guidance is intended to increase the prominence of other comprehensive income in financial statements by requiring that such amounts be presented either in a single continuous statement of income and comprehensive income or separately in consecutive statements of income and comprehensive income. Quanta now presents separate consolidated statements of comprehensive income as a result of adopting the update.

On January 1, 2012, Quanta also adopted an update issued by the FASB that gives entities the option to first assess qualitative factors to determine whether it is necessary to perform a two-step goodwill impairment test. If an entity believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. An entity can also bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. The update also includes new qualitative indicators that replace those previously used to determine whether an annual or interim goodwill impairment test is required to be performed. The adoption of the update did not have a material impact on Quanta's financial position, results of operations or cash flows.



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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Accounting Standards Not Yet Adopted*

In July 2012, the FASB issued an update that gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that its indefinite-lived intangible assets are impaired. If, based on its qualitative assessment, an entity concludes that it is more likely than not that the fair value of its indefinite-lived intangible assets is less than their carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. Quanta does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

**4. DISCONTINUED OPERATIONS:**

On December 3, 2012, Quanta sold substantially all of its domestic telecommunications infrastructure services operations and related subsidiaries to Dycom Industries, Inc. for net proceeds of approximately \$265.0 million. Quanta recognized a pre-tax gain of approximately \$18.0 million and a corresponding tax expense of approximately \$32.2 million, which resulted in a loss on the sale, net of tax, of \$14.2 million in the fourth quarter of 2012. Quanta has presented the results of operations, financial position and cash flows of such telecommunications subsidiaries as discontinued operations for all periods presented in the accompanying consolidated financial statements. The results of operations of these telecommunications subsidiaries were previously included primarily in the Telecommunications Infrastructure Services segment.

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

	Year Ended December 31,		
	2012	2011	2010
Revenues	\$ 493,233	\$ 430,065	\$ 301,785
Income from discontinued operations before taxes	46,576	22,862	12,296
Gain on disposal of discontinued operations before taxes	17,962		
Provision for income taxes	(47,603)	(8,858)	(1,813)
Income from discontinued operations, net of taxes	\$ 16,935	\$ 14,004	\$ 10,483

In connection with the sale of the telecommunications operations, Quanta will remain liable for all income related taxes and insured claims against the subsidiaries outstanding or arising as of December 3, 2012. Additionally, Quanta accelerated the vesting of unvested shares of restricted stock held by certain employees of the disposed telecommunications subsidiaries on December 3, 2012, the closing date of the sale. Accordingly, Quanta recorded incremental expense related to this accelerated vesting of \$3.7 million during the fourth quarter of 2012. This incremental expense is included in income from discontinued operations, net of taxes in the accompanying consolidated statement of operations for the year ended December 31, 2012.

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

**5. ACQUISITIONS:**

***2012 Acquisitions***

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

***2011 Acquisitions***

In the third and fourth quarters of 2011, Quanta acquired five businesses, which included three electric power infrastructure services companies based in Canada, one electric power infrastructure services company based in the United States and one natural gas and pipeline infrastructure services company based in Australia. These businesses have been reflected in Quanta's consolidated financial statements as of their respective acquisition dates. The aggregate consideration for these acquisitions consisted of approximately \$80.8 million in cash, 1,939,813 shares of Quanta common stock valued at approximately \$32.4 million and the repayment of \$3.4 million in debt. These acquisitions allow Quanta to further expand its capabilities and scope of services internationally and in the United States. The financial results of these businesses are generally included in the corresponding segment.

***2010 Acquisition***

On October 25, 2010, Quanta acquired Valard. In connection with the acquisition, Quanta paid the former owners of Valard approximately \$118.9 million in cash and issued 623,720 shares of Quanta common stock and 3,909,110 exchangeable shares of a Canadian subsidiary of Quanta. In addition, Quanta issued one share of Quanta Series F preferred stock to a voting trust on behalf of the holders of the exchangeable shares. The Series F preferred stock provides the holders of exchangeable shares with voting rights in Quanta common stock equivalent to the number of exchangeable shares outstanding at any time. The aggregate value of the common stock and exchangeable shares issued was approximately \$83.4 million. The exchangeable shares are substantially equivalent to, and exchangeable on a one-for-one basis for, Quanta common stock. As part of the consideration paid for Valard, Quanta also repaid \$12.8 million in Valard debt at the closing of the acquisition. As this transaction was effective October 25, 2010, the results of Valard have been included in the consolidated financial statements beginning on such date. This acquisition allows Quanta to further expand its capabilities and scope of services in Canada. Valard's financial results are generally included in Quanta's Electric Power Infrastructure Services segment.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the aggregate consideration paid for the 2012 and 2011 acquisitions and presents the allocation of these amounts to the net tangible and identifiable intangible assets based on their estimated fair values as of the respective acquisition dates. This allocation requires the significant use of estimates and is based on information that was available to management at the time these consolidated financial statements were prepared (in thousands).

	2012 All Acquisitions	2011 All Acquisitions
Consideration:		
Value of Quanta common stock issued	\$ 37,291	\$ 32,368
Cash paid	68,507	84,208
Fair value of total consideration transferred	\$ 105,798	\$ 116,576
Current assets	\$ 20,516	\$ 30,198
Property and equipment	18,821	19,878
Other assets	123	379
Identifiable intangible assets	17,931	40,229
Current liabilities	(10,008)	(10,226)
Deferred tax liabilities, net	(6,173)	(7,190)
Other long-term liabilities	(191)	(450)
Total identifiable net assets	41,019	72,818
Goodwill	64,779	43,758
	\$ 105,798	\$ 116,576

The fair value of current assets acquired in 2012 includes accounts receivable with a fair value of \$15.3 million. The fair value of current assets acquired in 2011 included accounts receivable with a fair value of \$16.1 million.

Goodwill represents the excess of the purchase price over the net amount of the fair values assigned to assets acquired and liabilities assumed. The 2012, 2011 and 2010 acquisitions strategically expanded Quanta's Canadian service offering, added an Australian service offering and enhanced its domestic electric power and natural gas and oil pipeline service offerings, which Quanta believes contributes to the recognition of the goodwill. In connection with the 2012 acquisitions, goodwill of \$57.5 million was recorded for reporting units included within Quanta's electric power division and \$7.3 million was recorded for the reporting unit included within Quanta's natural gas and pipeline division at December 31, 2012. In connection with the 2011 acquisitions, goodwill of \$34.9 million was recorded for reporting units included within Quanta's electric power division and \$8.9 million was recorded for the reporting unit included within Quanta's natural gas and pipeline division at December 31, 2011. Goodwill of approximately \$52.9 million and \$13.1 million is expected to be deductible for income tax purposes related to the businesses acquired in 2012 and 2011.

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The unaudited supplemental pro forma results of operations have been provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented or that may be achieved by the combined companies in the future. Future results may vary significantly from the results reflected in the following pro forma financial information because of future events and transactions, as well as other factors (in thousands, except per share amounts):

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenues	\$ 5,933,830	\$ 4,378,213	\$ 3,910,662
Gross profit	\$ 939,663	\$ 613,047	\$ 656,413
Selling, general and administrative expenses	\$ 436,022	\$ 359,514	\$ 335,576
Amortization of intangible assets	\$ 37,780	\$ 39,252	\$ 54,843
Net income from continuing operations	\$ 306,124	\$ 143,423	\$ 159,259
Net income attributable to common stock	\$ 307,032	\$ 145,526	\$ 167,361
Net income from continuing operations attributable to common stock	\$ 290,097	\$ 131,522	\$ 156,878
Earnings per share from continuing operations attributable to common stock:			
Basic	\$ 1.36	\$ 0.61	\$ 0.73
Diluted	\$ 1.36	\$ 0.61	\$ 0.72

The pro forma combined results of operations for the years ended December 31, 2012 and 2011 have been prepared by adjusting the historical results of Quanta to include the historical results of the 2012 acquisitions as if they occurred January 1, 2011. The pro forma combined results of operations for the year ended December 31, 2011 have also been prepared by adjusting the historical results of Quanta to include the historical results of the 2011 acquisitions as if they occurred January 1, 2010. The pro forma combined results of operations for the year ended December 31, 2010 have been prepared by adjusting the historical results of Quanta to include the historical results of the 2011 acquisitions as if they occurred January 1, 2010 and the historical results of the 2010 acquisition as if it occurred January 1, 2009. These pro forma combined historical results were then adjusted for the following: a reduction of interest expense and interest income as a result of the repayment of outstanding indebtedness, a reduction of interest income as a result of the cash consideration paid, an increase in amortization expense due to the incremental intangible assets recorded related to the 2012, 2011 and 2010 acquisitions, an increase or decrease in depreciation expense within cost of services related to the net impact of adjusting acquired property and equipment to the acquisition date fair value and conforming depreciable lives with Quanta's accounting policies, an increase in the number of outstanding shares of Quanta common stock and certain reclassifications to conform the acquired companies' presentation to Quanta's accounting policies. The pro forma results of operations do not include any adjustments to eliminate the impact of acquisition related costs or any cost savings or other synergies that may result from the 2012, 2011 and 2010 acquisitions. As noted above, the pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future.

Revenues of \$125.7 million and income from continuing operations before income taxes of \$6.2 million are included in Quanta's consolidated results of operations for the year ended December 31, 2012 related to the four 2012 acquisitions following their respective dates of acquisition. Additionally, revenues of approximately \$43.8 million and income from continuing operations before income taxes of approximately \$4.4 million are included in Quanta's consolidated results of operations for the year ended December 31, 2011 related to the five 2011 acquisitions following their respective dates of acquisition. Revenues of \$25.7 million and income from continuing operations before income taxes of \$3.4 million following Valard's date of acquisition on October 25, 2010 are included in Quanta's consolidated results of operations for the year ended December 31, 2010.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	Electric Power Division	Natural Gas and Pipeline Division	Fiber Optic Licensing and Other Division	Total
Balance at December 31, 2010:				
Goodwill	\$ 741,276	\$ 320,969	\$ 368,511	\$ 1,430,756
Goodwill acquired during 2011	34,900	8,858		43,758
Foreign currency translation related to goodwill	(3,564)	(78)		(3,642)
Operating unit reorganization	216,090	(216,090)		
Purchase price adjustments related to prior periods		(61)		(61)
Balance at December 31, 2011:				
Goodwill	988,702	113,598	368,511	1,470,811
Goodwill acquired during 2012	57,451	7,328		64,779
Foreign currency translation related to goodwill	2,087	(32)		2,055
Operating unit reorganizations	16,912	16,809	(33,721)	
Balance at December 31, 2012:				
Goodwill	\$ 1,065,152	\$ 137,703	\$ 334,790	\$ 1,537,645

As described in Note 2, Quanta's operating units are organized into one of Quanta's three internal divisions and accordingly, Quanta's goodwill associated with each of its operating units has been aggregated on a divisional basis and reported in the table above. These divisions are closely aligned with Quanta's reportable segments based on the predominant type of work performed by the operating units within the divisions. From time to time, operating units may be reorganized among Quanta's internal divisions, as Quanta periodically re-evaluates strategies to better align its operations as business environments evolve. The table above presents these changes as reclassifications during the period in which the reorganization occurred.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	As of December 31, 2011		Twelve Months Ended December 31, 2012			As of December 31, 2012	
	Intangible Assets	Accumulated Amortization	Amortization Expense	Additions	Foreign Currency Translation	Intangible Assets, Net	Remaining Weighted Average Amortization Period
Customer relationships	\$ 164,259	\$ (36,300)	\$ (11,180)	\$ 5,311	\$ 598	\$ 122,688	11.2
Backlog	120,682	(100,056)	(18,944)	4,906	401	6,989	2.1
Trade names	29,661	(1,948)	(1,064)	2,768	128	29,545	27.2
Non-compete agreements	25,392	(16,154)	(4,523)	1,926	59	6,700	3.2
Patented rights and developed technology	16,378	(5,538)	(1,980)	4,561	(7)	13,414	6.8
Total intangible assets subject to amortization	356,372	(159,996)	(37,691)	19,472	1,179	179,336	12.9
Other intangible assets not subject to amortization	4,500					4,500	N/A
Total intangible assets	\$ 360,872	\$ (159,996)	\$ (37,691)	\$ 19,472	\$ 1,179	\$ 183,836	N/A

Amortization expense for intangible assets was \$37.7 million, \$29.0 million and \$37.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. The estimated future aggregate amortization expense of intangible assets as of December 31, 2012 is set forth below (in thousands):

## For the Fiscal Year Ending December 31,

2013	\$ 20,197
2014	18,340
2015	15,994
2016	15,122
2017	14,132
Thereafter	95,551
<b>Total</b>	<b>\$ 179,336</b>

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**7. PER SHARE INFORMATION:**

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period, and diluted earnings per share is computed using the weighted average number of common shares outstanding during the period adjusted for all potentially dilutive common stock equivalents, except in cases where the effect of the common stock equivalent would be antidilutive. The amounts used to compute the basic and diluted earnings per share for the years ended December 31, 2012, 2011 and 2010 are illustrated below (in thousands):

	Year Ended December 31,		
	2012	2011	2010
<b>AMOUNTS ATTRIBUTABLE TO COMMON STOCK:</b>			
Net income from continuing operations	\$ 289,694	\$ 118,511	\$ 142,693
Net income from discontinued operations	16,935	14,004	10,483
Net income attributable to common stock	\$ 306,629	\$ 132,515	\$ 153,176
<b>WEIGHTED AVERAGE SHARES:</b>			
Weighted average shares outstanding for basic earnings per share	212,777	212,648	210,046
Effect of dilutive stock options	58	126	218
Effect of shares in escrow		394	1,532
Weighted average shares outstanding for diluted earnings per share	212,835	213,168	211,796

For purposes of calculating diluted earnings per share, there were no adjustments required to derive Quanta's net income attributable to common stock. For the years ended December 31, 2012, 2011 and 2010, a nominal number of stock options were excluded from the computation of diluted earnings per share because the exercise prices of the stock options were greater than the average market price of Quanta's common stock. The 3.9 million exchangeable shares of a Canadian subsidiary of Quanta that were issued pursuant to the acquisition of Valard on October 25, 2010, which are exchangeable on a one-for-one basis with shares of Quanta common stock, are included in weighted average shares outstanding for basic and diluted earnings per share for the full years of 2012 and 2011 and are weighted for the portion of 2010 they were outstanding. Shares of Quanta common stock placed in escrow related to a previous acquisition are included in the computation of diluted earnings per share for the years ended December 31, 2011 and 2010, and are weighted based on the portion of the year they were held in escrow. These shares were released from escrow on April 4, 2011. For the year ended December 31, 2010, the effect of assuming conversion of Quanta's 3.75% convertible subordinated notes due 2026 (3.75% Notes) would have been antidilutive and therefore the shares issuable upon conversion were excluded from the calculation of diluted earnings per share. The 3.75% Notes were not outstanding after May 1, 2010 and therefore had no impact on diluted shares during the years ended December 31, 2012 and 2011.

**Index to Financial Statements****QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:**

Activity in Quanta's current and long-term allowance for doubtful accounts consists of the following (in thousands):

	December 31,	
	2012	2011
Balance at beginning of year	\$ 3,751	\$ 5,962
Charged to expense	3,693	1,163
Deductions for uncollectible receivables written off, net of recoveries	(1,997)	(3,374)
Balance at end of year	\$ 5,447	\$ 3,751

Contracts in progress are as follows (in thousands):

	December 31,	
	2012	2011
Costs incurred on contracts in progress	\$ 3,744,337	\$ 2,257,719
Estimated earnings, net of estimated losses	612,000	270,113
	4,356,337	2,527,832
Less Billings to date	(4,187,445)	(2,483,264)
	\$ 168,892	\$ 44,568
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 342,777	\$ 189,167
Less Billings in excess of costs and estimated earnings on uncompleted contracts	(173,885)	(144,599)
	\$ 168,892	\$ 44,568

Property and equipment consists of the following (in thousands):

	Estimated Useful Lives in Years	December 31,	
		2012	2011
Land	N/A	\$ 16,101	\$ 15,759
Buildings and leasehold improvements	5-30	59,818	50,457
Operating equipment and vehicles	5-25	1,045,248	917,269
Fiber optic and related assets	5-20	350,521	319,303
Office equipment, furniture and fixtures and information technology systems	3-15	95,779	81,282
Construction work in progress	N/A	33,546	29,502
		1,601,013	1,413,572
Less Accumulated depreciation and amortization		(555,030)	(474,670)



Property and equipment, net	\$ 1,045,983	\$ 938,902
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Accounts payable and accrued expenses consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Accounts payable, trade	\$ 373,947	\$ 316,525
Accrued compensation and related expenses	111,688	97,779
Accrued insurance, current portion	44,503	48,388
Accrued loss on contracts	4,770	2,771
Deferred revenues, current portion	22,499	15,052
Income and franchise taxes payable	85,663	47,703
Other accrued expenses	64,215	42,354
	<b>\$ 707,285</b>	<b>\$ 570,572</b>

**9. DEBT OBLIGATIONS:**

Quanta's debt obligations consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Notes payable to various financial institutions, interest rate ranging from 0.0% to 8.0%, secured by certain equipment and other assets	\$ 9	\$ 56
Less Current maturities	(9)	(56)
<b>Total long-term debt obligations</b>	<b>\$</b>	<b>\$</b>

***Credit Facility***

Quanta has a credit agreement with various lenders that provides for a \$700.0 million senior secured revolving credit facility maturing on August 2, 2016. Up to \$100.0 million of the facility is available for revolving loans and letters of credit in certain alternative currencies in addition to the U.S. dollar. Borrowings under the credit agreement are to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes. Quanta entered into the credit agreement on August 2, 2011, which amended and restated its prior credit agreement.

As of December 31, 2012, Quanta had approximately \$183.2 million of letters of credit issued and no outstanding borrowings under the credit facility. The remaining \$516.8 million was available for borrowings or issuing new letters of credit. Information on credit facility borrowings and the applicable interest rates during the year ended December 31, 2012 is as follows (dollars in thousands):

	<b>Year Ended</b>
	<b>December 31, 2012</b>
Maximum amount outstanding during the period	\$ 171,520

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Average daily credit facility borrowings	\$	45,731
Weighted-average interest rate		2.85%

Amounts borrowed under the credit agreement in U.S. dollars bear interest, at Quanta's option, at a rate equal to either (a) the Eurocurrency Rate (as defined in the credit agreement) plus 1.25% to 2.50%, as determined based on Quanta's Consolidated Leverage Ratio (as described below), plus, if applicable, any Mandatory Cost

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

(as defined in the credit agreement) required to compensate lenders for the cost of compliance with certain European regulatory requirements, or (b) the Base Rate (as described below) plus 0.25% to 1.50%, as determined based on Quanta's Consolidated Leverage Ratio. Amounts borrowed under the credit agreement in any currency other than U.S. dollars bear interest at a rate equal to the Eurocurrency Rate plus 1.25% to 2.50%, as determined based on Quanta's Consolidated Leverage Ratio, plus, if applicable, any Mandatory Cost. Standby letters of credit issued under the credit agreement are subject to a letter of credit fee of 1.25% to 2.50%, based on Quanta's Consolidated Leverage Ratio, and Performance Letters of Credit (as defined in the credit agreement) issued under the credit agreement in support of certain contractual obligations are subject to a letter of credit fee of 0.75% to 1.50%, based on Quanta's Consolidated Leverage Ratio. Quanta is also subject to a commitment fee of 0.20% to 0.45%, based on Quanta's Consolidated Leverage Ratio, on any unused availability under the credit agreement. The Consolidated Leverage Ratio is the ratio of Quanta's total funded debt to Consolidated EBITDA (as defined in the credit agreement). For purposes of calculating both the Consolidated Leverage Ratio and the maximum senior debt to Consolidated EBITDA ratio discussed below, total funded debt and total senior debt are reduced by all unrestricted cash and Cash Equivalents (as defined in the credit agreement) held by Quanta in excess of \$25.0 million. The Base Rate equals the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 1/2 of 1%, (ii) Bank of America's prime rate and (iii) the Eurocurrency Rate plus 1.00%.

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

The credit agreement contains certain covenants, including a maximum Consolidated Leverage Ratio and a minimum interest coverage ratio, in each case as specified in the credit agreement. The credit agreement also contains a maximum senior debt to Consolidated EBITDA ratio, as specified in the credit agreement, which will be in effect at any time that the collateral securing the credit agreement has been and remains released. The credit agreement limits certain acquisitions, mergers and consolidations, indebtedness, capital expenditures, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on assets. The credit agreement also includes limits on the payment of dividends and stock repurchase programs in any fiscal year except those payments or other distributions payable solely in capital stock. As of December 31, 2012, Quanta was in compliance with all of the covenants in the credit agreement.

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

Prior to August 2, 2011, Quanta had a credit agreement that provided for a \$475.0 million senior secured revolving credit facility maturing on September 19, 2012. Subject to the conditions specified in the prior credit agreement, borrowings under the prior credit facility were to be used for working capital, capital expenditures and other general corporate purposes. The entire unused portion of the prior credit facility was available for the issuance of letters of credit.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amounts borrowed under the prior credit facility bore interest, at Quanta's option, at a rate equal to either (a) the Eurodollar Rate (as defined in the prior credit agreement) plus 0.875% to 1.75%, as determined by the ratio of Quanta's total funded debt to Consolidated EBITDA (as defined in the prior credit agreement), 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 prior credit facility were 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 was 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 prior credit facility. The base rate equaled the higher of (i) the Federal Funds Rate (as defined in the prior credit agreement) plus 1/2 of 1% or (ii) the bank's prime rate.

**3.75% Convertible Subordinated Notes**

As of December 31, 2012 and 2011, none of Quanta's 3.75% Notes were outstanding. The 3.75% Notes were originally issued in April 2006 in an aggregate principal amount of \$143.8 million and required semi-annual interest payments on April 30 and October 30 until maturity. On May 14, 2010, Quanta redeemed all of the \$143.8 million aggregate principal amount outstanding of the 3.75% Notes at a redemption price of 101.607% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the date of redemption. The redemption resulted in a payment of the aggregate redemption price of \$146.1 million and the recognition of a loss on early extinguishment of debt of approximately \$7.1 million. Included in the loss on early extinguishment of debt was a non-cash loss of \$3.5 million related to the difference between the net carrying value and the estimated fair value of the 3.75% Notes, calculated as of the date of redemption, the payment of \$2.3 million representing the 1.607% redemption premium above par value and a non-cash loss of \$1.3 million from the write-off of the remaining unamortized deferred financing costs related to the 3.75% Notes.

**10. INCOME TAXES:**

The components of income from continuing operations before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Income from continuing operations before income taxes:			
Domestic	\$ 390,734	\$ 181,520	\$ 215,263
Foreign	73,846	11,988	18,695
Total	\$ 464,580	\$ 193,508	\$ 233,958

The components of the provision for income taxes for continuing operations are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Current:			
Federal	\$ 109,272	\$ 42,874	\$ 39,818
State	12,397	11,998	9,650
Foreign	14,657	7,668	6,260
Total current tax provision	136,326	62,540	55,728

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Deferred:			
Federal	16,134	4,487	31,539
State	1,627	965	2,062
Foreign	4,772	(4,896)	(445)
Total deferred tax provision	22,533	556	33,156
Total provision for income taxes	\$ 158,859	\$ 63,096	\$ 88,884

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The actual income tax provision differs from the income tax provision computed by applying the U.S. federal statutory corporate rate to income from continuing operations before provision for income taxes as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Provision at the statutory rate	\$ 162,603	\$ 67,727	\$ 81,885
Increases (decreases) resulting from			
State taxes	10,980	6,375	8,058
Foreign taxes	(5,841)	(2,815)	182
Contingency reserves, net	(3,880)	(7,262)	(4,184)
Production activity deduction	(7,081)	(2,394)	(2,650)
Employee per diems, meals and entertainment	6,441	4,149	4,725
Taxes on unincorporated joint ventures	(5,609)	(4,142)	(833)
Other	1,246	1,458	1,701
	\$ 158,859	\$ 63,096	\$ 88,884

Deferred income taxes result from temporary differences in the recognition of income and expenses for financial reporting purposes and tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following (in thousands):

	December 31,	
	2012	2011
Deferred income tax liabilities		
Property and equipment	\$ (205,977)	\$ (204,918)
Goodwill	(48,201)	(43,057)
Other intangibles	(46,661)	(54,206)
Book/tax accounting method difference	(45,159)	(27,924)
Total deferred income tax liabilities	(345,998)	(330,105)
Deferred income tax assets		
Accruals and reserves	33,357	40,619
Accrued insurance	53,163	55,169
Deferred revenue	16,259	14,243
Net operating loss carryforwards	17,115	15,615
Other	20,540	13,140
Subtotal	140,434	138,786
Valuation allowance	(9,344)	(8,783)
Total deferred income tax assets	131,090	130,003
Total net deferred income tax liabilities	\$ (214,908)	\$ (200,102)





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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The net deferred income tax assets and liabilities are comprised of the following (in thousands):

	December 31,	
	2012	2011
Current deferred income taxes:		
Assets	\$ 41,961	\$ 51,373
Liabilities	(31,819)	(17,831)
	10,142	33,542
Non-current deferred income taxes:		
Assets	89,129	78,630
Liabilities	(314,179)	(312,274)
	(225,050)	(233,644)
Total net deferred income tax liabilities	\$ (214,908)	\$ (200,102)

The valuation allowance for deferred income tax assets at December 31, 2012, 2011 and 2010 was \$9.3 million, \$8.8 million and \$11.4 million, respectively. These valuation allowances relate to state net operating loss carryforwards, foreign net operating loss carryforwards and foreign tax credit carryforwards. The net change in the total valuation allowance for each of the years ended December 31, 2012, 2011 and 2010 was an increase of \$0.5 million, a decrease of \$2.6 million and an increase of \$2.8 million, respectively. The valuation allowance was established primarily as a result of uncertainty in Quanta's outlook as to future taxable income in particular tax jurisdictions. Quanta believes it is more likely than not that it will realize the benefit of its deferred tax assets, net of existing valuation allowances.

At December 31, 2012, Quanta had state and foreign net operating loss carryforwards, the tax effect of which is approximately \$17.1 million. These carryforwards will expire as follows: 2013, \$0.6 million; 2014, \$0.8 million; 2015, \$0.2 million; 2016, \$0.2 million; 2017, \$0.5 million and \$14.8 million thereafter. A valuation allowance of \$4.9 million has been recorded against certain state net operating loss carryforwards.

Through December 31, 2012, Quanta has not provided U.S. income taxes on approximately \$105.0 million of unremitted foreign earnings because such earnings are intended to be indefinitely reinvested outside the U.S. It is not practicable to determine the amount of any additional U.S. tax liability that may result if Quanta decides to no longer indefinitely reinvest foreign earnings outside the U.S. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes, as a result of recording an incremental tax liability, in the period such change occurs.

A reconciliation of unrecognized tax benefit balances is as follows (in thousands):

	December 31,		
	2012	2011	2010
Balance at beginning of year	\$ 47,379	\$ 50,632	\$ 45,201
Additions based on tax positions related to the current year	15,411	10,133	10,602
Additions for tax positions of prior years	1,607	131	5,183
Reductions for tax positions of prior years	(293)		
Reductions for audit settlements	(895)	(4,877)	(93)
Reductions resulting from a lapse of the applicable statutes of limitations	(11,965)	(8,640)	(10,261)

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Balance at end of year	\$ 51,244	\$ 47,379	\$ 50,632
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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2012, the \$12.0 million reduction is primarily due to the expiration of certain federal and state statutes of limitations for the 2008 tax year. For the year ended December 31, 2011, the \$8.6 million reduction is primarily due to the expiration of certain federal and state statutes of limitations for the 2007 tax year and the \$4.9 million reduction primarily relates to settlement with tax authorities regarding a foreign tax credit position taken in a pre-acquisition tax return of an acquired business. For the year ended December 31, 2010, the \$10.3 million reduction is primarily due to the expiration of certain federal and state statutes of limitations for the 2006 tax year.

The balances of unrecognized tax benefits, the amount of related interest and penalties and what Quanta believes to be the range of reasonably possible changes in the next 12 months are as follows (in thousands):

	2012	December 31, 2011	2010
Unrecognized tax benefits	\$ 51,244	\$ 47,379	\$ 50,632
Portion that, if recognized, would reduce tax expense and effective tax rate	43,910	39,824	43,077
Accrued interest on unrecognized tax benefits	6,088	7,180	6,524
Accrued penalties on unrecognized tax benefits	127	163	163
Reasonably possible reduction to the balance of unrecognized tax benefits in succeeding 12 months	\$ 0 to \$11,479	\$ 0 to \$12,110	\$ 0 to \$8,786
Portion that, if recognized, would reduce tax expense and effective tax rate	\$ 0 to \$9,645	\$ 0 to \$10,221	\$ 0 to \$6,896

Quanta classifies interest and penalties within the provision for income taxes. Quanta recognized \$1.1 million of interest income, \$0.7 million of interest expense and \$2.2 million of interest income in the provision for income taxes for the years ended December 31, 2012, 2011 and 2010, respectively.

Quanta is subject to income tax in the United States, multiple state jurisdictions and some foreign jurisdictions. Quanta remains open to examination by the IRS for tax years 2009 through 2012 as these statutes of limitations have not yet expired. Quanta does not consider any state in which it does business to be a major tax jurisdiction.

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

In connection with the acquisition of Valard as discussed in Note 5, certain former owners of Valard received exchangeable shares of a Canadian subsidiary of Quanta which may be exchanged at the option of the holder for Quanta common stock on a one-for-one basis. The holders of exchangeable shares can make an exchange only once in any calendar quarter and must exchange a minimum of either 50,000 shares or, if less, the total number of remaining exchangeable shares registered in the name of the holder making the request. Quanta also issued one share of Quanta Series F preferred stock to a voting trust on behalf of the holders of the exchangeable shares. The Series F preferred stock provides the holders of the exchangeable shares voting rights in Quanta common stock equivalent to the number of exchangeable shares outstanding at any time. The combination of the exchangeable shares and the share of Series F preferred stock gives the holders of the exchangeable shares rights equivalent to Quanta common stockholders with respect to dividends, voting and other economic rights.

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

***Limited Vote Common Stock***

Effective May 19, 2011, each outstanding share of Quanta's Limited Vote Common Stock was reclassified and converted into 1.05 shares of Quanta common stock, as set forth in a Certificate of Amendment to Restated Certificate of Incorporation approved by the stockholders of Quanta and filed with the Secretary of State of the State of Delaware on May 19, 2011. At December 31, 2012 and 2011, there were no shares of Limited Vote Common Stock outstanding. The Certificate of Amendment also eliminated entirely the class of Limited Vote Common Stock. The shares of Limited Vote Common Stock had rights similar to shares of common stock, except with respect to voting. Holders of Limited Vote Common Stock were entitled to vote as a separate class to elect one director and did not vote in the election of other directors. Holders of Limited Vote Common Stock were entitled to one-tenth of one vote for each share held on all other matters submitted for stockholder action. Shares of Limited Vote Common Stock were convertible into Quanta common stock upon disposition by the holder of such shares in accordance with the transfer restrictions applicable to such shares. During the years ended December 31, 2012, 2011 and 2010, no shares of Limited Vote Common Stock were converted to common stock upon transfer. In 2011, 432,485 shares of Limited Vote Common Stock were reclassified and converted into 454,107 shares of Quanta common stock pursuant to the Certificate of Amendment approved by the stockholders. In 2010, Quanta issued an aggregate 241,300 shares of its common stock in exchange for an aggregate 229,808 shares of Limited Vote Common Stock through voluntary exchanges initiated by individual stockholders.

***Treasury Stock***

Under the stock incentive plans described in Note 12, the tax withholding obligations of employees upon vesting of restricted stock are typically satisfied by Quanta making such tax payments and withholding a number of vested shares having a value on the date of vesting equal to the tax withholding obligation. As a result, Quanta withheld 370,007 shares of Quanta common stock in 2012 with a total market value of \$6.7 million, 299,804 shares of Quanta common stock in 2011 with a total market value of \$6.6 million and 243,821 shares of Quanta common stock in 2010 with a total market value of \$4.6 million, in each case for settlement of employee tax liabilities. These shares and the related cost to acquire them were accounted for as an adjustment to the balance of treasury stock.

During the second quarter of 2011, Quanta's board of directors approved a stock repurchase program authorizing Quanta to purchase, from time to time, up to \$150.0 million of its outstanding common stock. The program was completed in August 2011 and resulted in the repurchase of 8.1 million shares of Quanta's common stock at an aggregate cost of \$149.5 million. These shares and the related cost to acquire them were accounted for as an adjustment to the balance of treasury stock. Under Delaware corporate law, treasury stock is not entitled to vote or be counted for quorum purposes.

***Noncontrolling Interests***

Quanta holds investments in several joint ventures that provide infrastructure services under specific customer contracts. Each joint venture is owned equally by its members. Quanta has determined that certain of these joint ventures are variable interest entities, with Quanta providing the majority of the infrastructure services to the joint venture, which management believes most significantly influences the economic performance of the joint venture. Management has concluded that Quanta is the primary beneficiary of each of these joint ventures and has accounted for each on a consolidated basis. The other parties' equity interests in these joint ventures have been accounted for as a noncontrolling interest in the consolidated financial statements. Income attributable to the other joint venture members has been accounted for as a reduction of reported net income attributable to

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**

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

common stock in the amount of \$16.0 million, \$11.9 million and \$2.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. Equity in the consolidated assets and liabilities of these joint ventures that is attributable to the other joint venture members has been accounted for as a component of noncontrolling interests within total equity in the accompanying balance sheets.

The carrying value of the investments held by Quanta in all of its variable interest entities was approximately \$5.4 million and \$7.3 million at December 31, 2012 and 2011. The carrying value of investments held by the noncontrolling interests in these variable interest entities at December 31, 2012 and 2011 was \$5.4 million and \$7.3 million. During the years ended December 31, 2012, 2011 and 2010, distributions to noncontrolling interests were \$18.0 million, \$6.0 million and \$2.4 million. There were no other changes in equity as a result of transfers to or from the noncontrolling interests. See Note 15 for further disclosures related to Quanta's joint venture arrangements.

**12. EQUITY-BASED COMPENSATION:**

*Stock Incentive Plans*

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

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

Equity awards also remain outstanding under a prior plan adopted by Quanta, as well as under plans assumed by Quanta in connection with its acquisition of InfraSource Services, Inc. in 2007. While no further awards may be made under these plans, the awards outstanding under the plans continue to be governed by their terms. These plans, together with the 2011 Plan, the 2007 Plan and the RSU Plan, are referred to as the Plans.

The Plans are administered by the Compensation Committee of the Board of Directors of Quanta. The Compensation Committee has, subject to applicable regulation and the terms of the Plans, the authority to grant awards under the Plans, to construe and interpret the Plans and to make all other determinations and take any and all actions necessary or advisable for the administration of the Plans. The Board also delegated to the Equity Grant Committee, a committee of the Board consisting of one or more directors, the authority to grant limited awards to eligible persons who are not executive officers or non-employee directors.

*Stock Options*

Awards in the form of stock options are exercisable during the period specified in each stock option agreement and generally become exercisable in installments pursuant to a vesting schedule designated by the

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Compensation Committee or, if applicable, the Equity Grant Committee. No option will remain exercisable later than 10 years after the date of award (or five years in the case of ISOs awarded to employees owning more than 10% of Quanta's voting capital stock). The exercise price for ISOs awarded under the 2011 and 2007 Plans may be no less than the fair market value of a share of common stock on the date of award (or 110% in the case of ISOs awarded to employees owning more than 10% of Quanta's voting capital stock). Upon the exercise of stock options, Quanta has historically issued shares of common stock rather than treasury shares or shares purchased on the open market, although the plan permits any of the three. Quanta did not grant any awards of stock options under any of the Plans during the years ended December 31, 2012, 2011 or 2010.

*Restricted Stock*

During the years ended December 31, 2012, 2011 and 2010, Quanta granted 1.3 million, 1.1 million and 1.0 million shares of restricted stock under the Plans with a weighted average grant date fair value price of \$21.84, \$21.38 and \$19.20 per share, respectively. The grant date fair value for awards of restricted stock is based on the market value of Quanta common stock on the date of grant. Restricted stock awards are subject to forfeiture, restrictions on transfer and certain other conditions until vesting, which generally occurs over three years in equal annual installments. During the restriction period, holders are entitled to vote and receive dividends on such shares.

During the years ended December 31, 2012, 2011 and 2010, 0.9 million, 0.8 million and 0.7 million shares of restricted stock vested, respectively, with an approximate fair value at the time of vesting of \$22.3 million, \$18.9 million and \$12.9 million, respectively.

A summary of the restricted stock activity for the year ended December 31, 2012 is as follows (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value (Per share)
Unvested at January 1, 2012	1,959	\$ 20.79
Granted	1,250	\$ 21.84
Vested	(934)	\$ 20.98
Forfeited	(81)	\$ 21.23
Unvested at December 31, 2012	2,194	\$ 21.29

As of December 31, 2012, there was approximately \$23.0 million of total unrecognized compensation cost related to unvested restricted stock granted to both employees and non-employees. This cost is expected to be recognized over a weighted average period of 1.66 years.

*Restricted Stock Units*

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

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Quanta common stock, as specified in the applicable award agreement. Generally, RSUs granted to plan participants residing in the U.S. provide for settlement in shares of common stock, and RSUs granted to plan participants residing outside the U.S. provide for settlement in cash. As of December 31, 2012, there were no RSUs outstanding that provided for settlement in common stock.

Compensation expense related to RSUs was \$2.0 million, \$1.3 million and \$0.5 million for the years ended December 31, 2012, 2011 and 2010. Such expense is recorded in selling, general and administrative expenses. RSUs that may be settled only in cash are not included in the calculation of earnings per share, and the estimated earned value of such RSUs is classified as a liability. Quanta paid \$1.7 million, \$1.0 million and \$0.3 million to settle liabilities related to RSUs in the years ended December 31, 2012, 2011 and 2010, respectively. Liabilities recorded for the estimated earned value of the RSUs outstanding were \$0.8 million and \$0.5 million at December 31, 2012 and 2011.

**13. EMPLOYEE BENEFIT PLANS:*****Unions Multi-Employer Pension Plans***

Quanta contributes to a number of multi-employer defined benefit pension plans under the terms of collective bargaining agreements with various unions that represent certain of Quanta's employees. Quanta's multi-employer pension plan contribution rates generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans on a pay-as-you-go basis based on its union employee payrolls. Quanta may also have additional liabilities imposed by law as a result of its participation in multi-employer defined benefit pension plans. The Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon an employer who is a contributor to a multi-employer pension plan if the employer withdraws from the plan or the plan is terminated or experiences a mass withdrawal. In the fourth quarter of 2011, Quanta recorded a partial withdrawal liability of approximately \$32.6 million related to the withdrawal by certain Quanta subsidiaries from the Central States, Southeast and Southwest Areas Pension Plan (Central States Plan) following an amendment to the applicable collective bargaining agreement which eliminated their obligations to contribute to the Central States Plan. See further information regarding these subsidiaries' withdrawal from the Central States Plan in *Collective Bargaining Agreements* in Note 15.

The Pension Protection Act of 2006 (the PPA) also added special funding and operational rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as endangered, seriously endangered or critical status based on multiple factors (including, for example, the plan's funded percentage, cash flow position and whether it is projected to experience a minimum funding deficiency). Plans in these classifications must adopt measures to improve their funded status through a funding improvement or rehabilitation plan, as applicable, which may require additional contributions from employers (which may take the form of a surcharge on benefit contributions) and/or modifications to retiree benefits. Certain plans to which Quanta contributes or may contribute in the future are in endangered, seriously endangered or critical status. The amount of additional funds, if any, that Quanta may be obligated to contribute to these plans in the future cannot be estimated due to the uncertainty of the future levels of work that require the specific use of union employees covered by these plans, as well as the future contribution levels and possible surcharges on contributions applicable to these plans.

The following table summarizes plan information relating to Quanta's participation in multi-employer defined benefit pension plans, including company contributions for the last three years, the status under the PPA of the plans and whether the plans are subject to a funding improvement or rehabilitation plan or contribution surcharges. The most recent PPA zone status available in 2012 and 2011 relates to the plan's fiscal year-end in 2011 and 2010. Forms 5500 were not yet available for the plan years ending in 2012. The PPA zone status is

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

based on information that Quanta received from the respective plans, as well as publicly available information on the U.S. Department of Labor website, and is certified by the plan's actuary. Although multiple factors or tests may result in red zone or yellow zone status, plans in the red zone generally are less than 65 percent funded, plans in the yellow zone generally are less than 80 percent funded, and plans in the green zone generally are at least 80 percent funded. Under the PPA, red zone plans are classified as critical status, yellow zone plans are classified as endangered status and green zone plans are classified as neither endangered nor critical status. The Subject to Financial Improvement/Rehabilitation Plan column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of Quanta's collective-bargaining agreements to which the plans are subject. Changes in annual contribution levels to these plans will vary because the number of union employees, the duration of their employment and the plans in which they participate will vary from period to period based on the number and location of projects that Quanta has ongoing at any given time and the need for union resources in connection with those projects. Total contributions made to these plans increased each year for the years ended December 31, 2012, 2011 and 2010 primarily due to an increase in the number and size of projects that required the use of union employees during these periods. Information has been presented separately for individually significant plans and in the aggregate for all other plans.

Fund	Employee Identification Number/ Pension Plan Number	PPA Zone Status		Subject to Financial Improvement/ Rehabilitation Plan	Contributions (in thousands)			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2012	2011		2012	2011	2010		
National Electrical Benefit Fund	53-0181657-001	Green	Green	No	\$ 18,509	\$ 9,704	\$ 8,174	No	Varies through November 2015
Pipeline Industry Pension Fund	73-6146433-001	Green	Green	No	7,434	101	60	No	December 2012
Central Pension Fund of the IUOE & Participating Employers	36-6052390-001	Green	Green	No	6,843	4,439	10,446	No	Varies through January 2013
Eighth District Electrical Pension Fund	84-6100393-001	Green	Green	No	4,415	3,533	1,917	No	Varies through May 2015
Laborers National Pension Fund	75-1280827-001	Green	Green	No	1,906	1,903	4,329	No	April 2013
NECA-IBEW Pension Trust	51-6029903-001	Green	Green	No	19	6,707	5,928	No	Varies through June 2014
Joint Pension Local Union 164 IBEW	22-6031199-001	Yellow	Yellow	Yes	515	2,887	39	No	May 2014
IBEW Local 246 Pension Plan	34-6582842-001	Red	Red	Yes	130	1,977	61	Yes	October 2012
Central States, Southeast, and Southwest Areas Pension Plan	36-6044243-001	Red	Red	Yes	22	540	2,100	Yes	Varies through April 2014
All other plans					23,779	13,411	7,651		
<b>Total</b>					<b>\$ 63,572</b>	<b>\$ 45,202</b>	<b>\$ 40,705</b>		



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Quanta's contributions to the following plans were five percent or more of the total contributions to these plans for the periods indicated based on the Forms 5500 for these plans. Forms 5500 were not yet available for these plans for the year ending in 2012.

<b>Pension Fund</b>	<b>Plan Years in which Quanta Contributions Were Five Percent or More of Total Plan Contributions</b>
NECA - IBEW Pension Trust	2011 and 2010
Eighth District Electrical Pension Fund	2011 and 2010
Joint Pension Local Union 164 IBEW	2011
IBEW Local 246 Pension Plan	2011
Laborers National Pension Fund	2010

In addition to the contributions made to multi-employer defined benefit pension plans noted above, Quanta also contributed to multi-employer defined contribution or other benefit plans on behalf of certain union employees. Contributions to union multi-employer defined contribution or other benefit plans by Quanta were approximately \$87.0 million, \$46.7 million and \$35.8 million for the years ended December 31, 2012, 2011 and 2010. Total contributions made to these plans increased each year for the years ended December 31, 2012, 2011 and 2010 primarily due to an increase in the number and size of projects that required the use of union employees during these periods.

***Quanta 401(k) Plan***

Quanta maintains a 401(k) plan pursuant to which employees who are not provided retirement benefits through a collective bargaining agreement may make contributions through a payroll deduction. Quanta makes matching cash contributions of 100% of each employee's contribution up to 3% of that employee's salary and 50% of each employee's contribution between 3% and 6% of such employee's salary, up to the maximum amount permitted by law. Contributions to non-union defined contribution plans by Quanta were approximately \$11.0 million, \$9.5 million and \$8.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**14. RELATED PARTY TRANSACTIONS:**

Certain of Quanta's operating units have entered into related party lease arrangements for operational facilities, typically with prior owners of certain acquired businesses. These lease agreements generally have terms of up to five years. Related party lease expense for the years ended December 31, 2012, 2011 and 2010 was approximately \$4.2 million, \$3.2 million and \$2.3 million, respectively.

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

As described in Note 11, Quanta holds investments in certain joint ventures with third parties for the purpose of providing infrastructure services under certain customer contracts. Losses incurred by these joint ventures are shared equally by the joint venture members. However, each member of the joint venture is jointly and severally liable for all of the obligations of the joint venture under the contract with the customer and therefore can be liable for full performance of the contract with the customer. In circumstances where Quanta's participation in a joint venture qualifies as a general partnership, the joint venture partners are jointly and severally liable for all of the obligations of the joint venture including obligations owed to the customer or any other person or entity. Quanta is not aware of circumstances that would lead to future claims against it for material amounts in connection with these joint and several liabilities.



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

***Leases***

Quanta leases certain land, buildings and equipment under non-cancelable lease agreements, including related party leases as discussed in Note 14. 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 December 31, 2012 (in thousands):

Year Ending December 31	Operating Leases
2013	\$ 24,264
2014	19,689
2015	15,324
2016	11,929
2017	6,767
Thereafter	16,192
Total minimum lease payments	\$ 94,165

Rent expense related to operating leases was approximately \$92.3 million, \$110.1 million and \$100.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Quanta has guaranteed the residual value on certain of its equipment operating leases. Quanta has agreed to pay any difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At December 31, 2012, the maximum guaranteed residual value was approximately \$208.1 million. Quanta believes that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that significant payments will not be required in the future.

***Committed Capital Expenditures***

Quanta has committed capital for the expansion of its fiber optic network, although Quanta typically does not commit capital to new network expansions until it has a committed licensing arrangement in place with at least one customer. The amounts of committed capital expenditures are estimates of costs required to build the networks under contract. The actual capital expenditures related to building the networks could vary materially from these estimates. As of December 31, 2012, Quanta estimates these committed capital expenditures to be approximately \$17.4 million for the year ended December 31, 2013. Also during 2012, Quanta committed capital for the expansion of its vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of December 31, 2012, production orders for approximately \$13.5 million had been issued with delivery dates expected to occur throughout 2013. Although Quanta has committed to purchase these vehicles at the time of their delivery, Quanta intends that these orders will be assigned to third party leasing companies and made available to Quanta under certain of its master equipment lease agreements, which will release Quanta from its capital commitment.

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**Index to Financial Statements****QUANTA SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Litigation and Claims***

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

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

Numerous lawsuits have been filed directly against SDG&E and its parent company, Sempra, claiming SDG&E's power lines caused the fire. The court ordered that the claims be organized into the four lawsuits mentioned above and grouped the matters by type of plaintiff, namely, insurance subrogation claimants, individual/business claimants, governmental claimants, and a class action matter, for which class certification has since been denied. PAR is not named as a direct defendant in any of these lawsuits against SDG&E or its parent. SDG&E has reportedly settled many of the claims. On June 18, 2010, SDG&E joined PAR to the four lawsuits as a third party defendant, seeking contractual and equitable indemnification for losses related to the Witch Creek fire. SDG&E's claims for indemnity relate to work done by PAR involving the replacement of one pole on TL 637 about four months prior to the Witch Creek fire. While Quanta did not believe that the work done by PAR was the cause of the contact between the conductors, PAR notified its various insurers of the claims. All but one of the insurers contested coverage. On August 5, 2011, PAR and Quanta filed a lawsuit in California state court against those insurers seeking a determination that coverage exists under the policies.

On November 5, 2012, PAR, Quanta, PAR's insurers and SDG&E entered into a mutual settlement agreement pursuant to which SDG&E released PAR, Quanta and PAR's insurers in exchange for payment by PAR's insurers of a negotiated settlement amount and payment by PAR of \$33.8 million, of which \$7.5 million had been previously expensed, and \$26.3 million was funded by an insurer as part of the previously recorded \$35.0 million liability and corresponding insurance recovery receivable associated with a reimbursement-type policy. In the settlement, one other insurer reserved its rights to contest coverage and seek reimbursement from PAR of the \$25.0 million this insurer paid to SDG&E as part of the settlement. That insurer subsequently agreed not to contest coverage or seek reimbursement from PAR, and pursuant to mutual releases executed by the parties, the coverage lawsuit was dismissed as to all parties in January 2013.

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*California Fire Claim Amador County.* In October 2004, a wildfire in Amador County, California, burned 16,800 acres. The United States Forest Service alleged that the fire originated as a result of the activities of a Quanta subsidiary crew performing vegetation management under a contract with Pacific Gas & Electric Co. (PG&E). In November 2007, the United States Department of Agriculture (USDA) sent a written demand to the Quanta subsidiary for payment of fire suppression costs of approximately \$8.5 million. Quanta recorded a liability and corresponding insurance recovery receivable of approximately \$8.5 million associated with this matter based on the written demand received from the USDA.

The USDA informally communicated that it also intends to seek past and future restoration and other damages of approximately \$51.3 million, as well as other unspecified damages. PG&E tendered defense and indemnification for the matter to Quanta in 2010. On August 3, 2012, the USDA filed suit in the United States District Court, Eastern District of California, against Quanta, its subsidiary and PG&E, seeking unspecified damages for fire suppression costs, rehabilitation and restoration expenses, and loss of timber, habitat and environmental values, among other things, including recovery of fees and expenses. Quanta and its subsidiary are prepared to vigorously defend against any liability and damage allegations.

Quanta notified its insurers, and two insurers are participating under a reservation of rights. Two other insurers are also participating but have not stated a position regarding coverage. In January 2013, Quanta and its subsidiary filed a lawsuit in Amador County seeking a declaration that the insurers have a duty at their respective levels to pay any damages resulting from the USDA claims. The parties attended mediation in January 2013. While a resolution was not reached at the mediation, the parties have subsequently continued negotiating through the mediator. As a result of these continued negotiations, a settlement-in-principle has been reached with the USDA, subject to approval by the United States Department of Justice, for an amount within Quanta's available insurance coverage. However, should the terms of the settlement-in-principle fail to be agreed in writing by the parties and approved by the Department of Justice, these claims could result in a significant uninsured loss and a material adverse effect on Quanta's consolidated financial condition, results of operations and cash flows.

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

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

NGC counterclaimed in the arbitration, asserting that Mears breached the contract and performed negligently by failing to provide a drilling component capable of withstanding loads during pullback and providing a hole of insufficient cleanliness such that debris and other materials contributed to excess forces

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experienced during Mears' pullback of the pipeline. NGC seeks recovery for the costs of the salvage operations, the cost of the reworks, as well as other costs, totaling approximately \$79.5 million, and additionally seeks recovery of pre-judgment interest and attorneys' fees and expenses.

The arbitration hearings were completed during the third quarter of 2012, but no decision has been reached. Mears believes that it provided a hole of sufficient cleanliness, that its drilling components were fit for the purposes intended under the contract, and that pullback would not have failed had NGC provided a pipeline conforming to contractual weight specifications. Thus, Mears continues to vigorously pursue its claims and defend NGC's counterclaims, and Mears believes it will prevail in the arbitration. Mears also notified its insurers of the counterclaims, and although coverage was denied, Mears is continuing to pursue its insurers for coverage. Due to the nature of these claims, however, an adverse result in these proceedings could result in a significant uninsured loss that could have a material adverse effect on Quanta's consolidated financial condition, results of operations and cash flows.

***Concentrations of Credit Risk***

Quanta is subject to concentrations of credit risk related primarily to its cash and cash equivalents and accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of Quanta's cash investments are managed by what it believes to be high credit quality financial institutions. In accordance with Quanta's investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what Quanta believes to be high quality investments, which consist primarily of interest-bearing demand deposits, money market mutual funds and investment grade commercial paper with original maturities of three months or less. Although Quanta does not currently believe the principal amount of these investments is subject to any material risk of loss, changes in economic conditions could impact the interest income Quanta receives from these investments. In addition, Quanta grants credit under normal payment terms, generally without collateral, to its customers, which include electric power, natural gas and oil pipeline companies, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States and Canada. Consequently, Quanta is subject to potential credit risk related to changes in business and economic factors throughout the United States and Canada, which may be heightened as a result of uncertain economic and financial market conditions that have existed in recent years. However, Quanta generally has certain statutory lien rights with respect to services provided. Historically, some of Quanta's customers have experienced significant financial difficulties, and others may experience financial difficulties in the future. These difficulties expose Quanta to increased risk related to collectability of billed and unbilled receivables and costs and estimated earnings in excess of billings on uncompleted contracts for services Quanta has performed. For each of the years ended December 31, 2011 and 2010, one customer accounted for approximately 11% of consolidated revenues. The services provided to these customers relate primarily to Quanta's Electric Power Infrastructure Services segment in 2011 and its Natural Gas and Pipeline Infrastructure Services segment in 2010. As of December 31, 2012, two customers accounted for approximately 16% and 11% of consolidated billed and accrued accounts receivable. Substantially all of the balance for the customer with 11% of consolidated billed and accrued accounts receivable relates to one contract and is comprised primarily of certain contract change orders for which the customer acceptance process is ongoing. Additionally, as of December 31, 2011, one customer accounted for approximately 10% of consolidated billed and accrued accounts receivable. The services provided to these customers, with billed and accrued accounts receivable balances greater than 10% of the consolidated balance, relate primarily to Quanta's Electric Power Infrastructure Services segment. No other customers represented 10% or more of revenues for the years ended December 31, 2012, 2011 and 2010 or of billed and unbilled accounts receivable as of December 31, 2012 and 2011.

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***Self-Insurance***

Quanta is insured for employer's liability, general liability, auto liability and workers' compensation claims. Since August 1, 2009, all policy deductible levels are \$5.0 million per occurrence, other than employer's liability, which is subject to a deductible of \$1.0 million. Quanta also has employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$375,000 per claimant per year.

Losses under all of these insurance programs are accrued based upon Quanta's estimates of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries. These insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the extent of damage, the determination of Quanta's liability in proportion to other parties and the number of incidents not reported. The accruals are based upon known facts and historical trends, and management believes such accruals are adequate. As of December 31, 2012 and 2011, the gross amount accrued for insurance claims totaled \$160.8 million and \$201.2 million, with \$120.2 million and \$155.4 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of December 31, 2012 and 2011 were \$22.2 million and \$63.1 million, of which \$2.3 million and \$9.8 million are included in prepaid expenses and other current assets and \$19.9 million and \$53.3 million are included in other assets, net. These balance sheet amounts include liabilities and recoveries/receivables related to the insurance claims retained by Quanta associated with the sale of its telecommunication operating units on December 3, 2012.

Quanta renews its insurance policies on an annual basis, and therefore deductibles and levels of insurance coverage may change in future periods. In addition, insurers may cancel Quanta's coverage or determine to exclude certain items from coverage, or Quanta may elect not to obtain certain types or incremental levels of insurance if it believes that the cost to obtain such coverage exceeds the additional benefits obtained. In any such event, Quanta's overall risk exposure would increase, which could negatively affect its results of operations, financial condition and cash flows.

***Letters of Credit***

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

As of December 31, 2012, Quanta had \$183.2 million in letters of credit outstanding under its credit facility primarily to secure obligations under its casualty insurance program. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2013. 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

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

of December 31, 2012, the total amount of outstanding performance bonds was approximately \$2.0 billion, and the estimated cost to complete these bonded projects was approximately \$643.4 million.

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

***Employment Agreements***

Quanta has various employment agreements with certain executives and other employees, which provide for compensation and certain other benefits and for severance payments under certain circumstances. Certain employment agreements also contain clauses that become effective upon a change of control of Quanta. Quanta may be obligated to pay certain amounts to employees upon the occurrence of any of the defined events in the various employment agreements.

***Collective Bargaining Agreements***

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

The PPA also added special funding and operational rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as endangered, seriously endangered or critical status based on multiple factors (including, for example, the plan's funded percentage, cash flow position and whether it is projected to experience a minimum funding deficiency). Plans in these classifications must adopt measures to improve their funded status through a funding improvement or rehabilitation plan, as applicable, which may require additional contributions from employers (which may take the form of a surcharge on benefit contributions) and/or modifications to retiree benefits. Certain plans to which Quanta contributes or may contribute in the future are in endangered, seriously endangered or critical status. The amount of additional funds, if any, that Quanta may be obligated to contribute to these plans in the future cannot be estimated due to uncertainty of the future levels of work that require the specific use of union employees covered by these plans, as well as the future contribution levels and possible surcharges on contributions applicable to these plans.

Quanta may be subject to additional liabilities imposed by law as a result of its participation in multi-employer defined benefit pension plans. For example, the Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon an employer who is a contributor to a multi-employer pension plan if the employer withdraws from the plan or the plan is terminated or experiences a mass withdrawal. These liabilities include an allocable share of the unfunded vested benefits in the plan for all plan participants, not merely the benefits payable to a contributing employer's own retirees. As a result, participating employers may bear a higher proportion of liability for unfunded vested



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benefits if other participating employers cease to contribute or withdraw, with the reallocation of liability being more acute in cases when a withdrawn employer is insolvent or otherwise fails to pay its withdrawal liability. Other than as described below, Quanta is not aware of any material amounts of withdrawal liability that have been incurred as a result of a withdrawal by any of Quanta's operating units from any multi-employer defined benefit pension plans.

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

The Central States Plan has asserted that the withdrawal of the PLCA members was not effective in 2011, although Quanta believes that a legally effective withdrawal occurred in the fourth quarter of 2011. During the third quarter of 2012, the Central States Plan provided Quanta with an estimate of the potential withdrawal liability, indicating that the withdrawal liability is approximately \$32.8 million based on a partial withdrawal in the fourth quarter of 2011, approximately \$39.7 million based on a partial withdrawal in the first quarter of 2012, or approximately \$40.1 million based on a complete withdrawal in 2012. Quanta continues to dispute the assertions of the Central States Plan regarding the effective date of the partial withdrawal. Once an assessment is received, Quanta may seek to challenge and further negotiate the amount of the assessment. As a result, the final partial withdrawal liability cannot yet be determined with certainty and could be materially higher or lower than the \$32.6 million Quanta recognized in the fourth quarter of 2011.

Certain other Quanta subsidiaries continued to participate in the Central States Plan through the end of 2012. The consequences of withdrawal of these subsidiaries from the plan will depend on various factors, including negotiation of the terms of the collective bargaining agreements under which the subsidiaries participate and whether exemptions from withdrawal liability applicable to construction industry employers will be available. Given the unknown nature of some of these factors, the amount or timing of any liability upon withdrawal of the subsidiaries remaining in the Central States Plan is uncertain. However, Quanta currently does not expect the incremental liability upon withdrawal of the subsidiaries remaining in the Central States Plan to be material.

***Indemnities***

Quanta generally indemnifies its customers for the services it provides under its contracts, as well as other specified liabilities, which may subject Quanta to indemnity claims and liabilities and related litigation. Quanta has also indemnified various parties against specified liabilities that those parties might incur in the future in connection with Quanta's previous acquisition or disposition of certain companies. The indemnities under acquisition or disposition agreements are usually contingent upon the other party incurring liabilities that reach specified thresholds. As of December 31, 2012, except as otherwise set forth above in *Litigation and Claims*, Quanta does not believe any material liabilities for asserted claims exist against it in connection with any of these indemnity obligations.

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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**16. SEGMENT INFORMATION:**

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

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

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

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

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

	Year Ended December 31,		
	2012	2011	2010
<b>Revenues:</b>			
Electric Power	\$ 4,206,509	\$ 3,022,659	\$ 2,028,734
Natural Gas and Pipeline	1,534,713	1,011,248	1,392,824
Fiber Optic Licensing and Other	179,047	159,857	207,875
<b>Consolidated</b>	<b>\$ 5,920,269</b>	<b>\$ 4,193,764</b>	<b>\$ 3,629,433</b>
<b>Operating income (loss):</b>			
Electric Power	\$ 520,834	\$ 337,726	\$ 204,088
Natural Gas and Pipeline	55,410	(78,307)	118,816
Fiber Optic Licensing and Other	61,299	53,476	52,952
Corporate and non-allocated costs	(172,421)	(118,053)	(131,865)
<b>Consolidated</b>	<b>\$ 465,122</b>	<b>\$ 194,842</b>	<b>\$ 243,991</b>
<b>Depreciation:</b>			
Electric Power	\$ 55,205	\$ 49,038	\$ 40,249
Natural Gas and Pipeline	43,285	41,051	43,407
Fiber Optic Licensing and Other	15,173	14,736	13,749
Corporate and non-allocated costs	6,640	5,049	3,794

Consolidated	\$ 120,303	\$ 109,874	\$ 101,199
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## QUANTA SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

*Foreign Operations*

During 2012, 2011, and 2010, Quanta derived \$861.5 million, \$535.0 million and \$256.1 million, respectively, of its revenues from foreign operations. Of Quanta's foreign revenues, approximately 96%, 97% and 88% was earned in Canada during the years ended December 31, 2012, 2011 and 2010, respectively. In addition, Quanta held property and equipment of \$151.9 million and \$114.8 million in foreign countries, primarily Canada, as of December 31, 2012 and 2011. The increase in foreign revenues and assets is primarily due to the timing of the acquisitions of Valard, McGregor Construction 2000 Ltd. and certain of its affiliated entities and Coe Drilling Pty. Ltd.

**17. QUARTERLY FINANCIAL DATA (UNAUDITED):**

The table below sets forth the unaudited consolidated operating results by quarter for the years ended December 31, 2012 and 2011 (in thousands, except per share information).

	March 31,	For the Three Months Ended		December 31,
		June 30,	September 30,	
<b>2012:</b>				
Revenues	\$ 1,328,764	\$ 1,386,162	\$ 1,532,001	\$ 1,673,342
Gross profit	186,064	212,904	252,000	286,739
Net income	49,994	69,797	100,856	102,009
Net income attributable to common stock	45,707	65,538	96,398	98,986
Net income from continuing operations attributable to common stock	45,798	57,918	83,628	102,350
Basic earnings per share from continuing operations attributable to common stock	\$ 0.22	\$ 0.27	\$ 0.39	\$ 0.48
Diluted earnings per share from continuing operations attributable to common stock	\$ 0.22	\$ 0.27	\$ 0.39	\$ 0.48
<b>2011:</b>				
Revenues	\$ 783,305	\$ 904,781	\$ 1,112,674	\$ 1,393,004
Gross profit	69,575	140,795	172,055	179,291
Net income (loss)	(16,305)	34,313	55,600	70,808
Net income (loss) attributable to common stock	(17,594)	31,801	51,994	66,314
Net income (loss) from continuing operations attributable to common stock	(13,134)	28,674	44,256	58,715
Basic earnings (loss) per share from continuing operations attributable to common stock	\$ (0.06)	\$ 0.13	\$ 0.21	\$ 0.28
Diluted earnings (loss) per share from continuing operations attributable to common stock	\$ (0.06)	\$ 0.13	\$ 0.21	\$ 0.28

The sum of the individual quarterly earnings per share amounts may not equal year-to-date earnings per share as each period's computation is based on the weighted average number of shares outstanding during the period.



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**PART IV**

**ITEM 15. *Exhibits and Financial Statement Schedules***

The following financial statements, schedules and exhibits are filed as part of this Report:

- (1) *Financial Statements*. Reference is made to the Index to Consolidated Financial Statements on page 1 of this Report.
- (2) All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.
- (3) *Exhibits*

**Index to Financial Statements****EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Stock Purchase Agreement dated as of November 19, 2012, among Quanta Services, Inc., Infracore FI LLC, Dycom Industries, Inc. and PBG Acquisition III, LLC (previously filed as Exhibit 2.1 to the Company's Form 8-K (No. 001-13831) filed November 21, 2012 and incorporated herein by reference)
3.1	Restated Certificate of Incorporation of Quanta Services, Inc. (previously filed as Exhibit 3.3 to the Company's Form 8-K (No. 001-13831) filed May 25, 2011 and incorporated herein by reference)
3.2	Bylaws of Quanta Services, Inc., as amended and restated August 16, 2012 (previously filed as Exhibit 3.2 to the Company's Form 8-K (No. 001-13831) filed August 21, 2012 and incorporated herein by reference)
4.1	Form of Common Stock Certificate (previously filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1/Amendment No. 2 (No. 333-42957) filed February 9, 1998 and incorporated herein by reference)
10.1*	Quanta Services, Inc. 2007 Stock Incentive Plan (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed May 29, 2007 and incorporated herein by reference)
10.2*	Amendment No. 1 to the Quanta Services, Inc. 2007 Stock Incentive Plan (previously filed as Exhibit 99.2 to the Company's Form 8-K (No. 001-13831) filed November 21, 2012 and incorporated herein by reference)
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10.4*	Form of Restricted Stock Agreement for awards to non-employee directors pursuant to the 2007 Stock Incentive Plan (previously filed as Exhibit 99.3 to the Company's Form 8-K (No. 001-13831) filed May 29, 2007 and incorporated herein by reference)
10.5*	InfraSource Services, Inc. 2003 Omnibus Stock Incentive Plan, as amended (previously filed as Exhibit 10.5 to InfraSource Services' Registration Statement on Form S-1 (Registration No. 333-112375) filed January 30, 2004 and incorporated herein by reference)
10.6*	InfraSource Services, Inc. 2004 Omnibus Stock Incentive Plan, as amended (previously filed as Exhibit 10.1 to InfraSource Services' Form 8-K (Registration No. 001-32164) filed November 14, 2006 and incorporated herein by reference)
10.7*	Quanta Services, Inc. 2011 Omnibus Equity Incentive Plan (previously filed as Exhibit 4.5 to the Company's Form S-8 (No. 333-174374) filed May 20, 2011 and incorporated herein by reference)
10.8*	Form of Restricted Stock Agreement for awards to employees/consultants pursuant to the 2011 Omnibus Equity Incentive Plan accommodating electronic acceptance (previously filed as Exhibit 10.12 to the Company's Form 10-K (No. 001-13831) filed February 29, 2012 and incorporated herein by reference)
10.9*	Form of Restricted Stock Agreement for awards to non-employee directors pursuant to the 2011 Omnibus Equity Incentive Plan accommodating electronic acceptance (previously filed as Exhibit 10.13 to the Company's Form 10-K (No. 001-13831) filed February 29, 2012 and incorporated herein by reference)
10.10*	Employment Agreement dated March 24, 2011, effective as of May 19, 2011, by and between Quanta Services, Inc. and John R. Colson (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed March 25, 2011 and incorporated herein by reference)

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Exhibit No.	Description
10.11*	Employment Agreement dated March 24, 2011, effective as of May 19, 2011, by and between Quanta Services, Inc. and James F. O Neil III (previously filed as Exhibit 10.2 to the Company s Form 8-K (No. 001-13831) filed March 25, 2011 and incorporated herein by reference)
10.12*	Employment Agreement dated December 20, 2012, effective as of January 1, 2012, by and between Quanta Services, Inc. and Earl C. Austin, Jr. (previously filed as Exhibit 10.1 to the Company s Form 8-K (No. 001-13831) filed December 21, 2012 and incorporated herein by reference)
10.13*	Employment Agreement dated as of March 29, 2012, effective as of May 17, 2012, by and between Quanta Services, Inc. and James H. Haddox (previously filed as Exhibit 10.1 to the Company s Form 8-K (No. 001-13831) filed April 2, 2012 and incorporated herein by reference)
10.14*	Employment Agreement dated March 29, 2012, effective as of May 17, 2012, by and between Quanta Services, Inc. and Derrick A. Jensen (previously filed as Exhibit 10.2 to the Company s Form 8-K (No. 001-13831) filed April 2, 2012 and incorporated herein by reference)
10.15*	2012 Incentive Bonus Plan (previously filed as Exhibit 10.1 to the Company s Form 8-K (No. 001-13831) filed March 7, 2012 and incorporated herein by reference)
10.16*	Director Compensation Summary effective as of the 2012 Annual Meeting of the Board of Directors (previously filed as Exhibit 10.7 to the Company s Form 10-Q for the quarter ended March 31, 2012 (No. 001-13831) filed May 9, 2012 and incorporated herein by reference)
10.17*	Form of Amended and Restated Indemnity Agreement (previously filed as Exhibit 10.1 to the Company s Form 8-K (No. 001-13831) filed January 31, 2012 and incorporated herein by reference)
10.18*	Letter Agreement dated November 19, 2012, effective as of December 3, 2012, by and between Quanta Services, Inc. and Kenneth W. Trawick
10.19*	Letter Agreement dated November 19, 2012, effective as of December 3, 2012, by and between Quanta Services, Inc. and Darren B. Miller
10.20*	Consulting Agreement dated effective December 4, 2012, by and between Quanta Services, Inc. and Darren B. Miller
10.21	Second Amended and Restated Credit Agreement dated as of August 2, 2011, among Quanta Services, Inc., as Borrower, the subsidiaries of Quanta Services, Inc. identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the Lenders party thereto (previously filed as Exhibit 99.1 to the Company s Form 8-K (No. 001-13831) filed August 8, 2011 and incorporated herein by reference)
10.22	Second Amended and Restated Security Agreement dated as of August 2, 2011, among Quanta Services, Inc., the other Debtors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.2 to the Company s Form 8-K (No. 001-13831) filed August 8, 2011 and incorporated herein by reference)
10.23	Second Amended and Restated Pledge Agreement dated as of August 2, 2011, among Quanta Services, Inc., the other Pledgors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.3 to the Company s Form 8-K (No. 001-13831) filed August 8, 2011 and incorporated herein by reference)
10.24	Assignment and Assumption Agreement dated as of August 30, 2007, by and between InfraSource Services, Inc. and Quanta Services, Inc. (previously filed as Exhibit 10.3 to Quanta s Form 8-K (001-13831) filed September 6, 2007 and incorporated herein by reference)



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Exhibit No.	Description
10.25	Underwriting, Continuing Indemnity and Security Agreement dated as of March 14, 2005 by Quanta Services, Inc. and the subsidiaries and affiliates of Quanta Services, Inc. identified therein, in favor of Federal Insurance Company (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed March 16, 2005 and incorporated herein by reference)
10.26	Intercreditor Agreement dated March 14, 2005 by and between Federal Insurance Company and Bank of America, N.A., as Lender Agent on behalf of the other Lender Parties (under the Company's Credit Agreement, as amended) and agreed to by Quanta Services, Inc. and the subsidiaries and affiliates of Quanta Services, Inc. identified therein (previously filed as Exhibit 10.2 to the Company's Form 8-K (No. 001-13831) filed March 16, 2005 and incorporated herein by reference)
10.27	Joinder Agreement and Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of November 28, 2006, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed December 4, 2006 and incorporated herein by reference)
10.28	Second Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of January 9, 2008, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 10.34 to the Company's Form 10-K for the year ended December 31, 2007 (No. 001-13831) filed February 29, 2008 and incorporated herein by reference)
10.29	Joinder Agreement and Third Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of December 19, 2008, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2012 (No. 001-13831) filed August 8, 2012 and incorporated herein by reference)
10.30	Joinder Agreement and Fourth Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of March 31, 2009, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, Safeco Insurance Company of America, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed April 1, 2009 and incorporated herein by reference)
10.31	Joinder Agreement and Fifth Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of May 17, 2012, among Federal Insurance Company, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, Safeco Insurance Company of America, American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, PA, The Insurance Company of the State of Pennsylvania, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2012 (No. 001-13831) filed August 8, 2012 and incorporated herein by reference)

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**Exhibit**

No.	Description
10.32	Sixth Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of December 3, 2012, among Federal Insurance Company, American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, PA, The Insurance Company of the State of Pennsylvania, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, Safeco Insurance Company of America, Quanta Services, Inc., and the other Indemnitors identified therein
10.33	Support Agreement dated as of October 25, 2010, by and among Quanta Services, Inc., Quanta Services EC Canada Ltd., Quanta Services CC Canada Ltd., and certain stockholders of Valard Construction (2008) Ltd., Valard Construction Ltd. and Sharp's Construction Services 2006 Ltd. (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed October 28, 2010 and incorporated herein by reference)
21.1	Subsidiaries
23.1 <sup>#</sup>	Consent of PricewaterhouseCoopers LLP
31.1 <sup>#</sup>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 <sup>#</sup>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 <sup>&amp;</sup>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\* Management contracts or compensatory plans or arrangements  
Filed with the Original Filing.

# Filed with this Amendment.

& Furnished with this Amendment.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Quanta Services, Inc. has duly caused this Amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on May 31, 2013.

QUANTA SERVICES, INC.

By:            /s/ JAMES F. O NEIL III  
                  James F. O Neil III  
                  *President and Chief Executive Officer*

**Index to Financial Statements****EXHIBIT INDEX****Exhibit**

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**Index to Financial Statements****Exhibit**

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10.15*	2012 Incentive Bonus Plan (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed March 7, 2012 and incorporated herein by reference)
10.16*	Director Compensation Summary effective as of the 2012 Annual Meeting of the Board of Directors (previously filed as Exhibit 10.7 to the Company's Form 10-Q for the quarter ended March 31, 2012 (No. 001-13831) filed May 9, 2012 and incorporated herein by reference)
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10.21	Second Amended and Restated Credit Agreement dated as of August 2, 2011, among Quanta Services, Inc., as Borrower, the subsidiaries of Quanta Services, Inc. identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the Lenders party thereto (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed August 8, 2011 and incorporated herein by reference)
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10.23	Second Amended and Restated Pledge Agreement dated as of August 2, 2011, among Quanta Services, Inc., the other Pledgors identified therein, and Bank of America, N.A., as Administrative Agent for the ratable benefit of the Secured Parties (previously filed as Exhibit 99.3 to the Company's Form 8-K (No. 001-13831) filed August 8, 2011 and incorporated herein by reference)

**Index to Financial Statements****Exhibit**

No.	Description
10.24	Assignment and Assumption Agreement dated as of August 30, 2007, by and between InfraSource Services, Inc. and Quanta Services, Inc. (previously filed as Exhibit 10.3 to Quanta's Form 8-K (001-13831) filed September 6, 2007 and incorporated herein by reference)
10.25	Underwriting, Continuing Indemnity and Security Agreement dated as of March 14, 2005 by Quanta Services, Inc. and the subsidiaries and affiliates of Quanta Services, Inc. identified therein, in favor of Federal Insurance Company (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed March 16, 2005 and incorporated herein by reference)
10.26	Intercreditor Agreement dated March 14, 2005 by and between Federal Insurance Company and Bank of America, N.A., as Lender Agent on behalf of the other Lender Parties (under the Company's Credit Agreement, as amended) and agreed to by Quanta Services, Inc. and the subsidiaries and affiliates of Quanta Services, Inc. identified therein (previously filed as Exhibit 10.2 to the Company's Form 8-K (No. 001-13831) filed March 16, 2005 and incorporated herein by reference)
10.27	Joinder Agreement and Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of November 28, 2006, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed December 4, 2006 and incorporated herein by reference)
10.28	Second Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of January 9, 2008, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 10.34 to the Company's Form 10-K for the year ended December 31, 2007 (No. 001-13831) filed February 29, 2008 and incorporated herein by reference)
10.29	Joinder Agreement and Third Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of December 19, 2008, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2012 (No. 001-13831) filed August 8, 2012 and incorporated herein by reference)
10.30	Joinder Agreement and Fourth Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of March 31, 2009, among American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., The Insurance Company of the State of Pennsylvania, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, Safeco Insurance Company of America, Federal Insurance Company, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 99.1 to the Company's Form 8-K (No. 001-13831) filed April 1, 2009 and incorporated herein by reference)
10.31	Joinder Agreement and Fifth Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of May 17, 2012, among Federal Insurance Company, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, Safeco Insurance Company of America, American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, PA, The Insurance Company of the State of Pennsylvania, Quanta Services, Inc., and the other Indemnitors identified therein (previously filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2012 (No. 001-13831) filed August 8, 2012 and incorporated herein by reference)

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**Exhibit**

No.	Description
10.32	Sixth Amendment to Underwriting, Continuing Indemnity and Security Agreement dated as of December 3, 2012, among Federal Insurance Company, American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, PA, The Insurance Company of the State of Pennsylvania, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, Safeco Insurance Company of America, Quanta Services, Inc., and the other Indemnitors identified therein
10.33	Support Agreement dated as of October 25, 2010, by and among Quanta Services, Inc., Quanta Services EC Canada Ltd., Quanta Services CC Canada Ltd., and certain stockholders of Valard Construction (2008) Ltd., Valard Construction Ltd. and Sharp's Construction Services 2006 Ltd. (previously filed as Exhibit 10.1 to the Company's Form 8-K (No. 001-13831) filed October 28, 2010 and incorporated herein by reference)
21.1	Subsidiaries
23.1 <sup>#</sup>	Consent of PricewaterhouseCoopers LLP
31.1 <sup>#</sup>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 <sup>#</sup>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 <sup>&amp;</sup>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\* Management contracts or compensatory plans or arrangements  
Filed with the Original Filing.

# Filed with this Amendment.

& Furnished with this Amendment.