
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

or

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

For the transition period from to .

Commission file no. 001-13831

Quanta Services, Inc.

(Exact name of registrant as specified in its charter)

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

74-2851603
*(I.R.S. Employer
Identification No.)*

1360 Post Oak Blvd.

Suite 2100
Houston, Texas 77056
(Address of principal executive offices)

Registrant's telephone number, including area code:

(713) 629-7600

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

Indicate by check mark whether the Registrant is an accelerated file (as defined in Exchange Act Rule 12b-2). Yes No

115,100,498 shares of Common Stock were outstanding as of May 1, 2003. As of the same date, 1,082,250 shares of Limited Vote Common Stock were outstanding.

TABLE OF CONTENTS

[CONSOLIDATED BALANCE SHEETS](#)
[CONSOLIDATED STATEMENTS OF OPERATIONS](#)
[CONSOLIDATED STATEMENTS OF CASH FLOWS](#)
[NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS](#)
[PART II -- OTHER INFORMATION](#)
[SIGNATURE](#)
[CERTIFICATIONS](#)
[2001 Stock Incentive Plan as amended](#)
[Certification of Periodic Report by CEO](#)
[Certification of Periodic Report by CFO](#)

QUANTA SERVICES, INC. AND SUBSIDIARIES

INDEX

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
QUANTA SERVICES, INC. AND SUBSIDIARIES	
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Cash Flows	3
Notes to Condensed Consolidated Financial Statements	4
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
ITEM 4. Controls and Procedures	25
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	25
ITEM 2. Changes in Securities	26
ITEM 6. Exhibits and Reports on Form 8-K	26
Signature	28
Certifications	29

QUANTA SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

	December 31, 2002	March 31, 2003
		(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27,901	\$ 61,433
Accounts receivable, net of allowances of \$37,585 and \$31,754, respectively	367,057	322,438
Costs and estimated earnings in excess of billings on uncompleted contracts	54,749	53,079
Inventories	25,646	27,204
Current deferred taxes	28,968	30,316
Prepaid expenses and other current assets	25,176	26,407
	<u>529,497</u>	<u>520,877</u>
PROPERTY AND EQUIPMENT, net	369,568	358,966
ACCOUNTS AND NOTES RECEIVABLE, net of allowances of \$28,389 and \$28,400, respectively	50,900	51,160
OTHER ASSETS, net	19,250	18,415
GOODWILL AND OTHER INTANGIBLES, net	395,597	395,531
	<u>1,364,812</u>	<u>1,344,949</u>
Total assets	<u>\$1,364,812</u>	<u>\$1,344,949</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 6,652	\$ 6,260
Accounts payable and accrued expenses	189,080	163,307
Billings in excess of costs and estimated earnings on uncompleted contracts	16,409	17,264
	<u>212,141</u>	<u>186,831</u>
Total current liabilities	212,141	186,831
LONG-TERM DEBT, net of current maturities	213,167	212,508
CONVERTIBLE SUBORDINATED NOTES	172,500	172,500
DEFERRED INCOME TAXES AND OTHER NON-CURRENT LIABILITIES	82,411	88,974
	<u>680,219</u>	<u>660,813</u>
Total liabilities	680,219	660,813
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE COMMON STOCK	72,922	—
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.00001 par value, 10,000,000 shares authorized:		
Series A Convertible Preferred Stock, 3,199,961 and — shares issued and outstanding, respectively	—	—
Common Stock, \$.00001 par value, 300,000,000 shares authorized, 70,632,899 and 114,835,149 shares issued and 69,706,528 and 113,908,778 outstanding, respectively(a)		
Limited Vote Common Stock, \$.00001 par value, 3,345,333 shares authorized, 1,083,750 and 1,077,750 shares issued and outstanding, respectively	—	—
Additional paid-in capital	980,303	1,064,212
Deferred compensation	(302)	(9,012)
Retained deficit	(356,605)	(359,339)
Treasury Stock, at cost, 926,371 common shares	(11,725)	(11,725)
	<u>611,671</u>	<u>684,136</u>
Total stockholders' equity	611,671	684,136
Total liabilities and stockholders' equity	<u>\$1,364,812</u>	<u>\$1,344,949</u>

- (a) Shares issued and outstanding as of December 31, 2002 do not include the 24,307,410 shares of Redeemable Common Stock valued at \$72.9 million which was reclassified to stockholders' equity on February 20, 2003.

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

QUANTA SERVICES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2002	2003
REVENUES	\$ 449,220	\$367,129
COST OF SERVICES (including depreciation)	373,533	329,372
Gross profit	75,687	37,757
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	50,720	38,970
Income (loss) from operations	24,967	(1,213)
OTHER INCOME (EXPENSE):		
Interest expense	(7,854)	(7,964)
Other, net	435	216
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT) AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	17,548	(8,961)
PROVISION (BENEFIT) FOR INCOME TAXES	7,282	(4,118)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	10,266	(4,843)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX	445,422	—
NET INCOME (LOSS)	(435,156)	(4,843)
DIVIDENDS ON PREFERRED STOCK, NET OF FORFEITURES	232	(2,109)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$(435,388)	\$ (2,734)
EARNINGS (LOSS) PER SHARE:		
Basic Earnings (Loss) per Share Before Cumulative Effect of Change in Accounting Principle	\$ 0.13	\$ (0.04)
Cumulative Effect of Change in Accounting Principle, Net of Tax	(5.69)	—
Basic Earnings (Loss) per Share	\$ (5.56)	\$ (0.04)
Diluted Earnings (Loss) per Share Before Cumulative Effect of Change in Accounting Principle	\$ 0.13	\$ (0.04)
Cumulative Effect of Change in Accounting Principle, Net of Tax	(5.69)	—
Diluted Earnings (Loss) per Share	\$ (5.56)	\$ (0.04)
SHARES USED IN COMPUTING EARNINGS (LOSS) PER SHARE:		
Basic	78,264	112,535
Diluted	78,264	112,535

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

QUANTA SERVICES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) attributable to common stock	\$(435,388)	\$ (2,734)
Adjustments to reconcile net income attributable to common stock to net cash provided by operating activities —		
Cumulative effect of change in accounting principle, net of tax	445,422	—
Depreciation and amortization	14,575	14,901
Loss on sale of property and equipment	252	433
Provision for doubtful accounts	25	243
Deferred income tax provision	4,598	2,055
Preferred stock dividend, net of forfeitures	232	(2,109)
Changes in operating assets and liabilities, net of non-cash transactions —		
(Increase) decrease in —		
Accounts receivable	54,586	44,387
Costs and estimated earnings in excess of billings on uncompleted contracts	(7,396)	1,670
Inventories	(5,044)	(1,558)
Prepaid expenses and other current assets	1,375	(1,231)
Increase (decrease) in —		
Accounts payable and accrued expenses and other non-current liabilities	3,892	(19,784)
Billings in excess of costs and estimated earnings on uncompleted contracts	(7,974)	855
Other, net	(648)	164
Net cash provided by operating activities	<u>68,507</u>	<u>37,292</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	556	213
Additions of property and equipment	(16,748)	(4,853)
Cash paid for acquisitions, net of cash acquired	(965)	—
Notes receivable	(16,796)	—
Net cash used in investing activities	<u>(33,953)</u>	<u>(4,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) under bank lines of credit	(36,220)	—
Proceeds from other long-term debt	629	914
Payments on other long-term debt	(2,864)	(1,965)
Issuances of stock, net of offering costs	3,658	1,931
Exercise of stock options	265	—
Net cash provided by (used in) financing activities	<u>(34,532)</u>	<u>880</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	22	33,532
CASH AND CASH EQUIVALENTS, beginning of period	6,287	27,901
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 6,309</u>	<u>\$ 61,433</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for —		
Interest	\$ 10,310	\$ 5,741
Income taxes, net of refunds	622	(197)

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

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BUSINESS AND ORGANIZATION:

Quanta Services, Inc. (Quanta) is a leading provider of specialized contracting services, offering end-to-end network solutions to the electric power, gas, telecommunications and cable television industries. Quanta's comprehensive services include designing, installing, repairing and maintaining network infrastructure. The consolidated financial statements of Quanta include the accounts of Quanta and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the course of its operations, Quanta is subject to certain risk factors, including but not limited to risks related to: economic downturn, access to capital, the financial condition of Quanta's customers, the collectibility of receivables, significant fluctuations in quarterly results, contracts, recoverability of goodwill, rapid technological and structural changes in the industries Quanta serves, competition, internal growth and operating strategies, management of growth, acquisition integration and financing, unionized workforce, dependence on key personnel, availability of qualified employees, potential exposure to environmental liabilities and anti-takeover measures.

Interim Condensed Consolidated Financial Information

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

It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Quanta Services, Inc. and subsidiaries included in Quanta's Annual Report on Form 10-K, which was filed with the SEC on March 31, 2003.

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, fair value assumption in analyzing goodwill and long-lived asset impairments, self-insured claims liabilities, revenue recognition under percentage-of-completion accounting and provision for income taxes. The accompanying consolidated balance sheets include preliminary allocations of the respective purchase price paid for the companies acquired during the latest 12 months using the "purchase" method of accounting and, accordingly, are subject to final adjustment.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Current and Long-Term Accounts and Notes Receivable and Provision for Doubtful Accounts

Quanta provides an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, our customer's access to capital, the customer's willingness or ability to pay, general economic conditions and the ongoing relationship with the customer. Under certain circumstances such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. As of March 31, 2003, Quanta has provided allowances for doubtful accounts of approximately \$60.2 million. Certain of Quanta's customers, several of them large public telecommunications carriers, have filed for bankruptcy or have been experiencing financial difficulties. Also, a number of Quanta's utility customers are experiencing financial difficulties in the current business climate. Should additional customers file for bankruptcy or continue to experience difficulties, 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. In addition, material changes in our customers' revenues or cash flows could affect our ability to collect amounts due from them.

In June 2002, one of Quanta's customers, Adelphia Communications Corporation (Adelphia), filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code, as amended. Quanta has filed liens on various properties to secure substantially all of its pre-petition receivables. The carrying value is based upon Quanta's understanding of the current status of the Adelphia bankruptcy proceeding and a number of assumptions, including assumptions about the validity, priority and enforceability of our security interests. Quanta currently believes it will collect a substantial majority of the balances owed. Should any of the factors underlying Quanta's estimate change, the amount of Quanta's allowance could change significantly. Quanta is uncertain as to whether such receivables will be collected within one year and therefore has included this amount in non-current assets as Accounts and Notes Receivable. Also included in Accounts and Notes Receivable are amounts due from another customer relating to the construction of independent power plants. Quanta has agreed to long-term payment terms for this customer. The notes receivable are partially secured and bear interest at 9.5% per year. During 2002, Quanta provided allowances for a significant portion of these notes receivable due to a change in the economic viability of the plants securing them. The collectibility of these notes may ultimately depend on the value of the collateral securing these notes. As of March 31, 2003, the total balance due from both of these customers was \$78.4 million, net of an allowance for doubtful accounts of \$28.4 million.

Concentration of Credit Risk

Quanta grants credit, generally without collateral, to its customers, which include electric power and gas companies, telecommunications and cable television system operators, governmental entities, general contractors, builders and owners and managers of commercial and industrial properties located primarily in the United States. Consequently, Quanta is subject to potential credit risk related to changes in business and economic factors throughout the United States. However, Quanta generally is entitled to payment for work performed and typically has certain lien rights on the services provided.

Stock-Based Compensation

Quanta accounts for its stock-based compensation under Accounting Principles Board Opinion No. 25 (APB Opinion No. 25), "Accounting for Stock Issued to Employees." Under this accounting method, no compensation expense is recognized in the consolidated statements of operations if no intrinsic value of the option exists at the date of grant. In October 1995, the Financial Accounting Standards Board (FASB) issued

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 encourages companies to account for stock-based compensation awards based on the fair value of the awards at the date they are granted. The resulting compensation cost would be shown as an expense in the consolidated statements of operations. Companies can choose not to apply the new accounting method and continue to apply current accounting requirements; however, disclosure is required as to what net income and earnings per share would have been had SFAS No. 123 been followed. In addition, Quanta has an Employee Stock Purchase Plan (ESPP). SFAS No. 123 requires the inclusion of stock issued pursuant to an ESPP in the as adjusted disclosure.

Had compensation costs for the 2001 Stock Incentive Plan and the ESPP been determined consistent with SFAS No. 123, Quanta's net income attributable to common stock and earnings per share would have been reduced to the following as adjusted amounts (in thousands, except per share information):

	Three Months Ended March 31,	
	2002	2003
Net income (loss) attributable to common stock		
As reported	\$(435,388)	\$(2,734)
As Adjusted — Basic	\$(440,642)	\$(7,321)
As Adjusted — Diluted	\$(440,642)	\$(7,321)
Earnings (loss) per share		
As Reported — Basic	\$ (5.56)	\$ (0.04)
As Adjusted — Basic	\$ (5.63)	\$ (0.08)
As Reported — Diluted	\$ (5.56)	\$ (0.04)
As Adjusted — Diluted	\$ (5.63)	\$ (0.08)

See Note 7 for additional discussion of the restricted stock issued under Quanta's 2001 Stock Incentive Plan and the effects thereof.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. PER SHARE INFORMATION:

Earnings (loss) per share amounts are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The weighted average number of shares used to compute basic and diluted earnings (loss) per share for the three months ended March 31, 2002 and 2003 is illustrated below (in thousands):

	Three Months Ended March 31,	
	2002	2003
NET INCOME (LOSS):		
Net income (loss) attributable to common stock	\$(435,388)	\$ (2,734)
Dividends on Series A Convertible Preferred Stock, net of forfeitures	232	(2,109)
Net income (loss) for basic earnings (loss) per share	(435,156)	(4,843)
Effect of convertible subordinated notes under the "if converted" method — interest expense addback, net of taxes	—	—
Net income (loss) for diluted earnings (loss) per share	\$(435,156)	\$ (4,843)
WEIGHTED AVERAGE SHARES:		
Weighted average shares outstanding for basic earnings (loss) per share, including Series A Convertible Preferred Stock	78,264	112,535
Effect of dilutive stock options	—	—
Effect of convertible subordinated notes under the "if converted" method — weighted convertible shares	—	—
Weighted average shares outstanding for diluted earnings (loss) per share	78,264	112,535

Pursuant to EITF Topic D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings Per Share," the impact of the Series A Convertible Preferred Stock has been included in the computation of basic earnings (loss) per share and, where applicable, prior period amounts have been restated accordingly. For the three months ended March 31, 2002 and 2003, stock options for approximately 7.5 million and 1.7 million, respectively, were excluded from the computation of diluted earnings (loss) per share because the options' exercise prices were greater than the average market price of Quanta's common stock. For the three months ended March 31, 2002 and 2003, stock options of 474,735 and 2,662, respectively, with exercise prices lower than the average market price of Quanta's common stock were also excluded from the computation of diluted earnings (loss) per share because the effect of including them would be antidilutive. For the three months ended March 31, 2002 and 2003, the effect of assuming conversion of the convertible subordinated notes would be antidilutive and they were therefore excluded from the calculation of diluted earnings (loss) per share.

3. INCOME TAXES:

Quanta follows the liability method of accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred 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 will be in effect when the underlying assets or liabilities are recovered or settled.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. NEW ACCOUNTING PRONOUNCEMENTS:

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the disclosures that are to be made by a guarantor in its interim and annual financial statements regarding obligations under certain guarantees issued. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 were effective for Quanta as of December 15, 2002. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for financial statements issued for fiscal years ending after December 15, 2002.

5. GOODWILL AND OTHER INTANGIBLES:

Effective January 1, 2002, Quanta adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective January 1, 2002. Material amounts of recorded goodwill attributable to each of Quanta's reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. These impairment tests are required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. On an ongoing basis (absent any impairment indicators), Quanta performs impairment tests annually during the fourth quarter.

Based on Quanta's transitional impairment test performed upon adoption of SFAS No. 142, Quanta recognized a \$488.5 million non-cash charge, (\$445.4 million, net of tax) to reduce the carrying value of goodwill to the implied fair value of Quanta's reporting units. This impairment is a result of adopting a fair value approach, under SFAS No. 142, to testing impairment of goodwill as compared to the previous method utilized, as permitted under accounting standards existing at that time, in which evaluations of goodwill impairment were made by Quanta using estimated future undiscounted cash flows to determine if goodwill would be recoverable. Under SFAS No. 142, the impairment adjustment recognized at adoption of the new rules was reflected as a cumulative effect of change in accounting principle, net of tax.

Quanta originally performed the transitional impairment test and recorded the impact in the second quarter of 2002. In accordance with SFAS No. 142, the effect of the adoption is required to be presented in the first interim period of 2002, irrespective of the period in which the transitional impairment loss was measured. Accordingly, the March 31, 2002 financial data has been restated to reflect the cumulative effect of change in accounting principle, net of tax, in the quarter ended March 31, 2002.

Impairment adjustments recognized after adoption are required to be recognized as operating expenses.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. DEBT:

Credit Facility

Quanta has a credit facility with 14 participating banks which matures on June 14, 2004. On March 31, 2003, the commitment reduced from \$250.0 million to \$225.0 million and will remain in effect at such amount through December 31, 2003. Effective January 1, 2004, the credit facility will reduce to \$200.0 million and remain in effect at such amount through maturity of the credit facility on June 14, 2004. Quanta's borrowing availability is further restricted by \$25.0 million until Quanta achieves, for two consecutive fiscal quarters beginning with the fourth quarter of 2002, certain minimum EBITDA (as defined in the credit facility) requirements. Quanta has not yet satisfied the EBITDA requirements. The credit facility is secured by a pledge of all of the capital stock of Quanta's subsidiaries and the majority of Quanta's assets and is to provide funds to be used for working capital and for other general corporate purposes. Quanta's subsidiaries guarantee the repayment of all amounts due under the facility and the facility restricts pledges on all material assets. Amounts borrowed under the credit facility bear interest at a rate equal to either (a) the London Interbank Offered Rate (the 30 day LIBOR rate was 1.31% at March 31, 2003) plus 1.50% to 3.50%, as determined by the ratio of Quanta's total funded debt to EBITDA or (b) the bank's prime rate (which was 4.25% at March 31, 2003) plus up to 2.00%, as determined by the ratio of Quanta's total funded debt to EBITDA. Commitment fees of 0.375% to 0.50%, based on Quanta's total funded debt to EBITDA, are due on any unused borrowing capacity under the credit facility. The amended credit facility is less restrictive with respect to certain financial ratios and indebtedness covenants, including the maximum funded debt to EBITDA ratio, minimum interest coverage ratios and non-cash impairment charges under SFAS Nos. 142 and 144. However, the amended credit facility is more restrictive with respect to Quanta's maximum senior debt to EBITDA ratio, capital expenditures and asset sales and prohibits any stock repurchase programs. Additionally, the amended credit facility prohibits the payment of dividends and requires a mandatory reduction in the banks' commitment by a portion of the proceeds from assets sales in excess of \$5.0 million annually or upon the issuance of additional debt in excess of \$15.0 million. Although the credit facility provides for borrowings of up to \$225.0 million, Quanta's borrowing availability under the credit facility varies from quarter to quarter depending upon our degree of compliance with certain financial ratios. As of March 31, 2003, Quanta was in compliance with all of its covenants. However, the lower than anticipated operating performance in the first quarter of 2003, if coupled with other conditions such as unforeseen project delays or cancellations, continued adverse weather conditions or poor contract performance, could adversely affect Quanta's ability to comply with the covenants in the future. As of March 31, 2003, Quanta had no outstanding borrowings under the credit facility and \$77.0 million of letters of credit outstanding, primarily to secure Quanta's potential obligations under casualty insurance programs. Quanta's senior debt to EBITDA ratio as of March 31, 2003 provides for \$33.5 million in borrowing availability under the credit facility.

Senior Secured Notes

In 2000, Quanta closed a private placement of \$210.0 million principal amount of senior secured notes, primarily with insurance companies, with maturities currently ranging from two to seven years. On August 12, 2002 and December 20, 2002, Quanta amended the senior secured notes and, as amended, they have financial covenants and restrictions substantially identical to those of the credit facility. The senior secured notes bear interest at a weighted average interest rate between 8.41% and 9.91% as determined by the ratio of Quanta's total funded debt to EBITDA. The current weighted average interest rate is 9.91%. In addition, the senior secured notes carry a make-whole provision customary for this type of debt instrument on prepayment of principal, including any mandatory prepayments. The senior secured notes carry cross-default provisions and rank equally in right of repayment with indebtedness under Quanta's credit facility.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Convertible Subordinated Notes

During the third quarter of 2000, Quanta issued \$172.5 million principal amount of convertible subordinated notes. The convertible subordinated notes bear interest at 4.0% per year and are convertible into shares of Quanta's common stock at a price of \$54.53 per share, subject to adjustment as a result of certain events. The convertible subordinated notes require semi-annual interest payments beginning December 31, 2000, until the notes mature on July 1, 2007. Quanta has the option to redeem the notes beginning July 3, 2003; however, redemption is currently prohibited by Quanta's credit facility and senior secured notes.

7. STOCKHOLDERS' EQUITY:

Series A Convertible Preferred Stock

In September 1999, Quanta issued shares of Series A Convertible Preferred Stock, \$.00001 par value per share, for an initial investment of \$186.0 million, before transaction costs. The holders of the Series A Convertible Preferred Stock were entitled to receive dividends in cash at a rate of 0.5% per annum on an amount equal to \$53.99 per share, plus all unpaid dividends accrued. In addition to the preferred dividend, the holders were entitled to participate in any cash or non-cash dividends or distributions declared and paid on the shares of common stock, as if each share of Series A Convertible Preferred Stock had been converted into common stock at the applicable conversion price immediately prior to the record date for payment of such dividends or distributions.

All outstanding shares of Series A Convertible Preferred Stock were converted into common stock during the first quarter of 2003. There are currently no outstanding shares of Series A Convertible Preferred Stock. \$2.3 million in dividends that had accrued on the respective outstanding shares of Series A Convertible Preferred Stock, which included \$0.2 million accrued during the first quarter of 2003, were reversed on the date of conversion. Therefore, as of March 31, 2003, there were no accrued dividends.

First Reserve Investment

During the fourth quarter of 2002, First Reserve Fund IX, L.P. (First Reserve) invested in Quanta through two transactions. In the first transaction, First Reserve purchased from Quanta approximately 8.7 million shares of newly issued common stock at \$3.00 per share, for a total purchase price of \$26.0 million, before transaction costs. In the second transaction, First Reserve purchased from Quanta approximately 2.4 million shares of newly issued Series E Preferred Stock at \$30.00 per share, for an additional investment of approximately \$72.9 million. The Series E Preferred Stock was converted into 24.3 million shares of common stock on December 31, 2002.

Through February 20, 2003, First Reserve had the right to require Quanta to repurchase for cash the shares of common stock issued as a result of the conversion of the shares of Series E Preferred Stock if Quanta had a change in control. As such, the \$72.9 million investment was reflected in the consolidated balance sheet as Redeemable Common Stock at December 31, 2002. On February 20, 2003, at the expiration of this right, the Redeemable Common Stock was reclassified to stockholders' equity.

In connection with their investment, First Reserve is entitled to a pre-emptive right to purchase shares of common stock upon Quanta's issuance of shares to third parties. During the first quarter of 2003, First Reserve acquired 22,037 shares pursuant to such right.

Restricted Stock

Pursuant to the 2001 Stock Incentive Plan, Quanta issues restricted common stock at the fair market value of the common stock as of the date of issuance. The shares of restricted common stock issued pursuant to the 2001 Stock Incentive Plan are subject to restrictions on transfer and certain other conditions. During the

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

restriction period, the plan participants are entitled to vote and receive dividends on such shares. Upon issuance of the common stock, an unamortized compensation expense equivalent to the market value of the shares on the date of grant is charged to stockholders' equity and is amortized over the restriction period, typically three years.

On January 21, 2003, Quanta offered eligible employees and consultants the opportunity to exchange certain outstanding stock options, with an exercise price of \$10.00 or more, for restricted shares of Quanta's common stock at an exchange ratio of one share of restricted stock for every 2.24 option shares tendered. As restricted stock, the shares are subject to forfeiture and other restrictions until they vest. Regardless of the vesting schedule of the eligible options offered for exchange, the restricted stock granted in the offer vests over three years in equal annual installments on February 28 of each year, beginning February 28, 2004, assuming the employee or consultant continues to meet the requirements for vesting. On March 10, 2003, Quanta accepted for exchange and canceled eligible options to purchase an aggregate of 6,769,483 shares of its common stock, representing approximately 93% of the 7,289,750 options that were eligible to be tendered in the offer as of the expiration date. Pursuant to the terms of the offer, Quanta granted restricted stock representing an aggregate of 3,022,112 shares of its common stock, or approximately \$9.0 million in value, in exchange for the tendered eligible options. This restricted stock issuance will require Quanta to recognize a non-cash compensation charge of approximately \$3.0 million per year over the three-year vesting period of the restricted stock. The remaining 520,267 eligible options that were not exchanged will be required to be accounted for under variable plan accounting under APB Opinion No. 25. The weighted average exercise price of these remaining eligible options is \$23.92. In the future, to the extent that Quanta's stock price exceeds an option's exercise price, the difference will be recorded as a non-cash compensation charge with an offset to additional paid-in capital.

As of March 31, 2002 and 2003, 72,701 and 3.3 million shares of restricted stock, respectively, were outstanding. The compensation expense recognized with respect to all restricted stock during the quarters ended March 31, 2002 and 2003 was approximately \$63,000 and \$206,000, respectively.

8. SEGMENT INFORMATION:

Quanta operates in one reportable segment as a specialty contractor. Quanta provides comprehensive network solutions to the electric power, gas, telecommunications and cable television industries, including designing, installing, repairing and maintaining network infrastructure. In addition, Quanta provides ancillary services such as inside electrical wiring, intelligent traffic networks, cable and control systems for light rail lines, airports and highways, and specialty rock trenching, directional boring and road milling for industrial and commercial customers. Each of these services is provided by various Quanta subsidiaries and discrete financial information is not provided to management at the service level. The following table presents information regarding revenues derived from the industries noted above.

	Three Months Ended March 31,	
	2002	2003
	(In thousands)	
Electric power network services	\$236,290	\$219,543
Telecommunications network services	72,774	51,031
Cable television network services	55,703	26,066
Ancillary services	84,453	70,489
	<u>\$449,220</u>	<u>\$367,129</u>

Quanta does not have significant operations or long-lived assets in countries outside of the United States.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. COMMITMENTS AND CONTINGENCIES:

Litigation

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, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, claims and proceedings, Quanta accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. Quanta does not believe that any of these proceedings, separately or in the aggregate, would be expected to have a material adverse effect on Quanta's results of operations or financial position.

Self-Insurance

Quanta is insured for employer's liability, auto liability and general liability claims, subject to a deductible of \$1,000,000 per occurrence. On March 1, 2003, Quanta increased the deductible for workers' compensation insurance from \$1,000,000 to \$2,000,000 per occurrence. Effective January 1, 2002, Quanta consolidated the various non-union employee related health care benefits plans that existed at certain of its subsidiaries into one corporate plan that is subject to a deductible of \$250,000 per claimant per year. Losses up to the deductible amounts are accrued based upon Quanta's estimates of the ultimate liability for claims incurred and an estimate of claims incurred but not reported. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate. At December 31, 2002 and March 31, 2003, the amounts accrued for self-insured claims were \$45.0 million and \$50.2 million, respectively, with \$27.4 million and \$31.2 million, respectively, considered to be long-term and included in Other Non-Current Liabilities.

In March 2003, Quanta agreed with its primary casualty insurance carrier to fund its self-insurance obligations applicable to the policy period from March 1, 2003 to February 29, 2004 with a combination of a cash trust account of \$14.4 million and letters of credit totaling \$23.4 million. As of March 31, 2003, Quanta had issued \$5.9 million in letters of credit pursuant to this agreement and will begin funding the cash trust account in the second quarter of 2003.

Derivatives

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, was effective for Quanta on January 1, 2001. These statements establish accounting and reporting standards requiring that all derivative instruments be recorded as either assets or liabilities measured at fair value. These statements also require that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

In April 2002, Quanta entered into a forward purchase contract with settlements through March 2003, in order to secure pricing on anticipated gas requirements related to a project completed during the quarter ended September 30, 2002. The objective was to mitigate the variability in the price of natural gas by securing the price Quanta would have to pay the contract counterparty. The contract expired on March 31, 2003.

Performance Bonds

In certain circumstances, Quanta is required to provide performance bonds in connection with its contractual commitments. Quanta has indemnified the surety for any expenses paid out under these performance bonds. As of March 31, 2003, the total amount of outstanding performance bonds was approximately \$467.8 million.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Leases

Quanta leases certain buildings and equipment under non-cancelable lease agreements including related party leases. The following schedule shows the future minimum lease payments under these leases as of March 31, 2003 (in thousands):

	Capital Leases	Operating Leases
Year Ending December 31 —		
2003	\$ 242	\$14,322
2004	103	10,198
2005	4	8,054
2006	—	3,508
2007	—	1,345
Thereafter	—	1,950
	<u>—</u>	<u>—</u>
Total minimum lease payments	\$ 349	\$39,377
	<u>—</u>	<u>—</u>
Less — Amounts representing interest	(9)	
	<u>—</u>	
Present value of minimum lease payments	340	
Less — Current portion	(241)	
	<u>—</u>	
Total long-term obligations	\$ 99	
	<u>—</u>	

Quanta has guaranteed a residual value on certain equipment operating leases. Quanta guarantees the difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At March 31, 2003, the maximum guaranteed residual value would have been approximately \$134.4 million. Quanta believes that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future significant payments will not be required.

Contingent Payments

Quanta is subject to an agreement with the former owners of an operating unit that was acquired in 2000. Under the terms of this agreement and depending upon the ultimate profitability of certain contracts obtained by the operating unit and the collection of the underlying receivables, Quanta may be required to make additional payments to such former owners with a combination of common stock and cash. At March 31, 2003, the amount of additional payments based on performance to date could equal up to \$15.9 million. This amount may be adjusted significantly higher or lower over the term of the agreement.

Employment Agreements

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

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Collective Bargaining Agreements

Certain of the subsidiaries are party to various collective bargaining agreements with certain of their employees. The agreements require such subsidiaries to pay specified wages and provide certain benefits to their union employees. These agreements expire at various times.

Other

During the course of operations, Quanta is subject to audit by tax authorities for varying periods in various federal, state and local foreign tax jurisdictions. Disputes arise during the course of such audits as to facts and matters of law.

Quanta has indemnified various parties against specified liabilities that those parties might incur in the future in connection with companies previously acquired or disposed of by Quanta. These indemnities usually are contingent upon the other party incurring liabilities that reach specified thresholds. As of March 31, 2003, Quanta is not aware of circumstances that would lead to future indemnity claims against it for material amounts in connection with these transactions.

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

Introduction

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K, which was filed with the SEC on March 31, 2003, and is available at the SEC's Web site at www.sec.gov.

We derive our revenues from one reportable segment by providing specialized contracting services and offering comprehensive network solutions. Our customers include electric power, gas, telecommunications and cable television companies, as well as commercial, industrial and governmental entities.

We enter into contracts principally on the basis of competitive unit price or fixed price bids, the final terms and prices of which we frequently negotiate with the customer. Although the terms of our contracts vary considerably, most are made on either a unit price or fixed price basis in which we agree to do the work for a price per unit of work performed (unit price) or for a fixed amount for the entire project (fixed price). We also perform services on a cost-plus or time and materials basis. We complete most installation projects within one year, while we frequently provide maintenance and repair work under open-ended, unit price or cost-plus master service agreements that are renewable annually. We generally recognize revenue when services are performed except when work is being performed under fixed price contracts. We typically record revenues from fixed price contracts on a percentage-of-completion basis, using the cost-to-cost method based on the percentage of total costs incurred to date in proportion to total estimated costs to complete the contract. Some of our customers require us to post performance and payment bonds upon execution of the contract, depending upon the nature of the work to be performed. Our fixed price contracts often include payment provisions pursuant to which the customer withholds a 5% to 10% retainage from each progress payment and remits the retainage to us upon completion and approval of the work.

Cost of services consists primarily of salaries, wages and benefits to employees, depreciation, fuel and other vehicle expenses, equipment rentals, subcontracted services, insurance, facilities expenses, materials and parts and supplies. Our gross margin, which is gross profit expressed as a percentage of revenues, is typically higher on projects where labor, rather than materials, constitutes a greater portion of the cost of services. We can predict materials costs more accurately than labor costs. Therefore, to compensate for the potential variability of labor costs, we seek higher margins on our labor-intensive projects. We have a deductible of \$1,000,000 per occurrence related to employer's liability, automobile and general liability claims and a deductible for workers' compensation insurance of \$2,000,000 per occurrence. We also have one corporate non-union employee related health care benefit plan that is subject to a deductible of \$250,000 per claimant per year. Fluctuations in insurance accruals related to these deductibles could have an impact on operating margins in the period in which such adjustments are made.

Selling, general and administrative expenses consist primarily of compensation and related benefits to management, administrative salaries and benefits, marketing, office rent and utilities, communications, professional fees and bad debt expense. Selling, general and administrative expenses can be impacted by our customers' inability to pay for services performed.

Seasonality; Fluctuations of Quarterly Results

Our results of operations can be subject to seasonal variations. During the winter months, demand for new projects and new maintenance service arrangements may be lower due to reduced construction activity. However, demand for repair and maintenance services attributable to damage caused by inclement weather during the winter months may partially offset the loss of revenues from lower demand for new projects and new maintenance service arrangements. Additionally, our industry can be highly cyclical. As a result, our volume of business may be adversely affected by declines in new projects in various geographic regions in the United States. Typically, we experience lower gross and operating margins during the winter months due to lower demand for our services and more difficult operating conditions. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular

quarter, the timing and magnitude of acquisition assimilation costs, regional economic conditions and timing of acquisitions may also materially affect quarterly results. Accordingly, our operating results in any particular quarter may not be indicative of the results that can be expected for any other quarter or for the entire year.

Significant Balance Sheet Changes

Total assets decreased approximately \$19.9 million as of March 31, 2003 compared to December 31, 2002. This decrease is primarily due to the following:

- Accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts decreased \$46.3 million primarily due to lower levels of revenue during the first three months of 2003 and collections on accounts that were outstanding at December 31, 2002.
- Property and equipment, net decreased \$10.6 million due to depreciation expense of \$14.8 million recorded during the period and the sale of equipment that was no longer being used by certain of our subsidiaries, offset by increases as a result of capital expenditures of \$4.9 million.
- Cash increased \$33.5 million primarily due to lower working capital requirements due to lower levels of revenue during the first three months of 2003 and collections on accounts receivable.

As of March 31, 2003, total liabilities decreased approximately \$19.4 million, redeemable common stock decreased \$72.9 million and stockholders' equity increased approximately \$72.4 million compared to December 31, 2002. These fluctuations were primarily due to the following:

- Accounts payable and accrued expenses decreased \$25.8 million primarily due to a \$12.7 million decrease in trade accounts payable due to lower levels of costs incurred during 2003, the payment of \$3.3 million in accrued debt amendment costs incurred during December 2002 associated with amendments of certain of our debt agreements and the forgiveness of \$2.1 million in accrued dividends payable due to the conversion of the Series A Convertible Preferred Stock.
- Deferred income taxes and other non-current liabilities increased \$6.6 million primarily as a result of the recording of \$3.4 million in additional long-term deferred tax liabilities due to increased differences between the book and tax bases of certain of our assets and an increase of \$3.9 million in the long-term portion of our self-insurance reserves.
- Redeemable common stock decreased \$72.9 million. On December 20, 2002, First Reserve purchased from us approximately 2.4 million shares of newly issued Series E Preferred Stock at \$30.00 per share, for an investment of approximately \$72.9 million. The shares of Series E Preferred Stock were converted into 24.3 million shares of common stock on December 31, 2002. Through February 20, 2003, First Reserve had the right to require us to repurchase for cash the shares of common stock issued as a result of the conversion of the shares of Series E Preferred Stock if we had a change in control. As such, the investment had been reflected in the consolidated balance sheet as Redeemable Common Stock at December 31, 2002. On February 20, 2003, at the expiration of the right, the Redeemable Common Stock was reclassified to stockholders' equity.
- Stockholders' equity increased \$72.4 million during the first three months of 2003. This was primarily the result of the reclass of redeemable common stock of \$72.9 million to stockholders' equity and the issuance of approximately \$1.9 million in shares of common stock pursuant to our Employee Stock Purchase Plan, partially offset by a net loss attributable to common stock of \$2.7 million.

Results of Operations

The following table sets forth selected unaudited statements of operations data and such data as a percentage of revenues for the periods indicated:

	Three Months Ended March 31,			
	2002		2003	
	(Dollars in thousands)			
Revenues	\$ 449,220	100.0%	\$367,129	100.0%
Cost of services (including depreciation)	373,533	83.2	329,372	89.7
Gross profit	75,687	16.8	37,757	10.3
Selling, general and administrative expense	50,720	11.3	38,970	10.6
Income (loss) from operations	24,967	5.5	(1,213)	(0.3)
Interest expense	(7,854)	(1.7)	(7,964)	(2.2)
Other income, net	435	0.1	216	0.1
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	17,548	3.9	(8,961)	(2.4)
Provision (benefit) for income taxes	7,282	1.6	(4,118)	(1.1)
Income (loss) before cumulative effect of change in accounting principle	10,266	2.3	(4,843)	(1.3)
Cumulative effect of change in accounting principle, net of tax	445,422	(99.2)	—	—
Net income (loss)	(435,156)	(96.9)	(4,843)	(1.3)
Dividends on preferred stock, net of forfeitures	232	—	(2,109)	(0.6)
Net income (loss) attributable to common stock	\$(435,388)	(96.9)%	\$ (2,734)	(0.7)%

Three months ended March 31, 2003, compared to the three months ended March 31, 2002

Revenues. Revenues decreased \$82.1 million, or 18.3%, to \$367.1 million for the three months ended March 31, 2003. This decrease was due to the continued decrease in capital spending by our customers, the inability of certain of these customers to raise new capital, and the continued downturn in the national economy, which have negatively impacted the award of work to specialty contractors. Pricing pressures have also contributed to lower revenues as the competitive bid environment tightens.

Gross profit. Gross profit decreased \$37.9 million, or 50.1%, to \$37.8 million for the three months ended March 31, 2003. As a percentage of revenues, gross margin decreased from 16.8% for the three months ended March 31, 2002, to 10.3% for the three months ended March 31, 2003. This decrease in gross margin resulted primarily from severe snowfall in the Northeast and Mountain regions of the United States and substantially higher than normal rainfall amounts in the South and Southeast which negatively impacted our operations. These inclement weather conditions caused shutdowns, delays and substantial operating inefficiencies. In addition, margins were negatively impacted by the economic factors noted above and significantly lower margins on work performed due to increased pricing pressures and to lower asset utilization and absorption of other fixed costs.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased \$11.8 million, or 23.2%, to \$39.0 million for the three months ended March 31, 2003. During the three months ended March 31, 2002, we recorded \$4.6 million in proxy costs associated with a proxy contest with Aquila. Excluding the impact of these proxy costs, selling, general and administrative expenses for the three months ended March 31, 2003 decreased approximately \$7.1 million, primarily due to reductions in personnel and bonuses, lower facility costs due to the closing of several field offices and reduced travel. As a percentage of

revenues, excluding the \$4.6 million in proxy costs in 2002, selling, general and administrative expenses increased slightly from 10.3% to 10.6% primarily due to the impact of lower revenues.

Interest expense. Interest expense increased \$0.1 million, or 1.4%, to \$8.0 million for the three months ended March 31, 2003 due to higher interest rates, offset by lower levels of debt in 2003.

Provision (benefit) for income taxes. The benefit for income taxes was \$4.1 million for the three months ended, March 31, 2003, with an effective tax rate of 46.0%, compared to a provision of \$7.3 million for the three months ended March 31, 2002, with an effective tax rate of 41.5%. The higher effective tax rate in 2003 is due to the impact of estimated non-deductible items on estimated 2003 annual income, as compared to the estimated impact of non-deductible items on estimated 2002 annual income as of March 31, 2002.

Cumulative effect of change in accounting principle, net of tax. Based on our transitional impairment test performed upon adoption of SFAS No. 142 in 2002, we recognized a charge, net of tax, of \$445.4 million to reduce the carrying value of the goodwill of our reporting units to its implied fair value. Under SFAS No. 142, the impairment adjustment recognized at adoption of the new rule was reflected as a cumulative effect of change in accounting principle in the three months ended March 31, 2002.

Net income (loss). Net loss decreased \$430.3 million to \$4.8 million for the three months ended March 31, 2003, compared to a net loss of \$435.2 million for the three months ended March 31, 2002, primarily due to the impact of the adoption of SFAS No. 142 in March 31, 2002.

Dividends on preferred stock, net of forfeitures. For the three months ended March 31, 2003, we recorded approximately \$2.1 million in forfeitures of dividends on the Series A Convertible Preferred Stock. On January 9, 2003, 939,380 shares of Series A Convertible Preferred Stock were converted into shares of common stock and on February 27, 2003, all remaining outstanding shares of Series A Convertible Preferred Stock were converted into shares of common stock. There are currently no outstanding shares of Series A Convertible Preferred Stock. Any dividends that had accrued on the respective shares of Series A Convertible Preferred Stock were reversed on the date of conversion. Therefore, as of February 27, 2003, there were no accrued dividends.

Liquidity and Capital Resources

As of March 31, 2003, we had cash and cash equivalents of \$61.4 million, working capital of \$334.0 million and long-term debt of \$212.5 million, net of current maturities. Our long-term debt balance at that date included borrowings of \$210.0 million of senior secured notes and \$2.5 million of other debt. In addition, we had \$172.5 million of convertible subordinated notes as of March 31, 2003. We also had \$77.0 million of letters of credit outstanding under the credit facility.

During the three months ended March 31, 2003, operating activities provided net cash flow of \$37.3 million resulting primarily from \$14.9 million in depreciation and amortization, and a \$44.6 million reduction in accounts receivable, net, partially offset by a \$19.8 million decrease in accounts payable and other accrued expenses. We used net cash in investing activities of \$4.6 million, including \$4.9 million used for capital expenditures. Financing activities provided a net cash flow of \$0.9 million, resulting primarily from \$1.9 million from the issuance of stock under the Employee Stock Purchase Plan (ESPP), offset by \$1.0 million of net repayments of other long-term debt.

We have a credit facility with 14 participating banks which matures on June 14, 2004. On March 31, 2003, the commitment reduced from \$250.0 million to \$225.0 million and will remain in effect at such amount through December 31, 2003. Effective January 1, 2004, the credit facility will reduce to \$200.0 million and remain in effect at such amount through maturity of the credit facility on June 14, 2004. Our borrowing availability is further restricted by \$25.0 million until we achieve, for two consecutive fiscal quarters beginning with the fourth quarter of 2002, certain minimum EBITDA (as defined in the credit facility) requirements. We have not yet satisfied the EBITDA requirements. Amounts borrowed under the credit facility bear interest at a rate equal to either (a) LIBOR plus 1.50% to 3.50%, as determined by the ratio of our total funded debt to EBITDA or (b) the bank's prime rate plus up to 2.00%, as determined by the ratio of our total funded debt to EBITDA. Commitment fees of 0.375% to 0.50%, based on our total funded debt to EBITDA, are due on any

unused borrowing capacity under the credit facility. The amended credit facility is less restrictive with respect to certain financial ratios and indebtedness covenants, including the maximum funded debt to EBITDA ratio, minimum interest coverage ratios and non-cash impairment charges under SFAS Nos. 142 and 144. However, the amended credit facility is more restrictive with respect to our maximum senior debt to EBITDA ratio, capital expenditures and asset sales and prohibits any stock repurchase programs. Additionally, the amended credit facility prohibits the payment of dividends and requires a mandatory reduction in the banks' commitment by a portion of the proceeds from asset sales in excess of \$5.0 million annually or upon the issuance of additional debt in excess of \$15.0 million. Although the credit facility provides for borrowings of up to \$225.0 million, our borrowing availability under the credit facility varies from quarter to quarter depending upon our degree of compliance with certain financial ratios. As of March 31, 2003, we were in compliance with all of our covenants. However, our lower than anticipated operating performance in the first quarter of 2003, if coupled with other conditions such as unforeseen project delays or cancellations, continued adverse weather conditions or poor contract performance, could adversely affect our ability to comply with the covenants in the future. As of May 1, 2003, we had no borrowings under the credit facility and \$77.4 million of letters of credit outstanding, primarily to secure our potential obligations under casualty insurance programs. Our senior debt to EBITDA ratio as of March 31, 2003 provides for \$33.1 million in borrowing availability under the credit facility. Our current borrowing rate is LIBOR plus 3.50%.

As of March 31, 2003, we had \$210.0 million of senior secured notes that have maturities ranging from two to seven years. The senior secured notes bear interest at a weighted average interest rate between 8.41% and 9.91% as determined by the ratio of our total funded debt to EBITDA. The current weighted average interest rate is 9.91%. On August 12, 2002 and December 20, 2002, we amended the senior secured notes, and as amended, they have financial covenants and restrictions substantially identical to those under the credit facility. In addition, the senior secured notes carry a make-whole provision customary for this type of debt instrument on prepayment of principal, including, any mandatory prepayments. The senior secured notes carry cross-default provisions and rank equally in right of repayment with indebtedness under our credit facility.

As of March 31, 2003, we had \$172.5 million in convertible subordinated notes that bear interest at 4.0% per year and are convertible into shares of our common stock at a price of \$54.53 per share, subject to adjustment as a result of certain events. The convertible subordinated notes require semi-annual interest payments until the notes mature on July 1, 2007. We have the option to redeem some or all of the convertible subordinated notes beginning July 3, 2003 at specified redemption prices, together with accrued and unpaid interest. If certain fundamental changes occur, as described in the indenture under which we issued the convertible subordinated notes, holders of the convertible subordinated notes may require us to purchase all or part of their notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest. In the event of such circumstance, consent to repurchase the convertible subordinated notes would be required under our credit facility and senior secured notes.

During the fourth quarter of 2002, First Reserve Fund IX, L.P. (First Reserve) invested in us through two transactions. In the first transaction, First Reserve purchased from us approximately 8.7 million shares of our newly issued common stock at \$3.00 per share, for a total purchase price of \$26.0 million, before transaction costs. In the second transaction, First Reserve purchased from us approximately 2.4 million shares of newly issued Series E Preferred Stock at \$30.00 per share, for an additional investment of approximately \$72.9 million. The Series E Preferred Stock was converted into 24.3 million shares of common stock on December 31, 2002.

Through February 20, 2003, First Reserve had the right to require us to repurchase for cash the shares of common stock issued as a result of the conversion of the shares of Series E Preferred Stock if we had a change in control. As such, the investment was reflected in the consolidated balance sheet as Redeemable Common Stock at December 31, 2002. On February 20, 2003, at the expiration of this right, the Redeemable Common Stock was reclassified to stockholders' equity.

On January 9, 2003, 939,380 shares of Series A Convertible Preferred Stock were converted into shares of common stock and on February 27, 2003, all remaining outstanding shares of Series A Convertible Preferred

Stock were converted into shares of common stock. There are currently no outstanding shares of Series A Convertible Preferred Stock. \$2.3 million in dividends that had accrued on the respective shares of Series A Convertible Preferred Stock, which included \$0.2 million accrued during the first quarter of 2003, were reversed on the date of conversion. Therefore, as of February 27, 2003, there were no accrued dividends.

We anticipate that our cash on hand, cash flow from operations and our credit facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and planned capital expenditures for property and equipment for at least the next 12 months. However, further deterioration in the markets we serve, material changes in our customers revenues or cash flows or adverse weather conditions may negatively impact our revenues and cash flows. These factors, coupled with the lowered capacity and restrictive covenants of our credit facility, may negatively impact our ability to meet such needs.

Other Commitments. As is common in our industry, we have entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. Our significant off-balance sheet transactions include liabilities associated with non-cancelable operating leases, letter of credit obligations and surety guarantees. We have not engaged in any off-balance sheet financing arrangements through special purpose entities.

We enter into non-cancelable operating leases for many of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for use of facilities, vehicles and equipment rather than purchasing them. At the end of the lease, we have no further obligation to the lessor. We may decide to cancel or terminate a lease before the end of its term, in which case we are typically liable to the lessor for the remaining lease payments under the term of the lease.

We have guaranteed a residual value on certain equipment operating leases. We guarantee the difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At March 31, 2003, the maximum guaranteed residual value would have been approximately \$134.4 million. We believe that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future significant payments will not be required.

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

We had \$77.4 million in letters of credit outstanding under our credit facility primarily to secure obligations under our casualty insurance program at May 1, 2003. While not actual borrowings, letters of credit do reflect potential liabilities under our credit facility and therefore are treated as a use of borrowing capacity under our credit facility. These are irrevocable stand-by letters of credit with maturities expiring at various times throughout 2003 and 2004. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods.

In March 2003, we agreed with our primary casualty insurance carrier to fund our self-insurance obligations applicable to the policy period from March 1, 2003 to February 29, 2004 with a combination of a cash trust account of \$14.4 million and letters of credit totaling \$23.4 million. As of March 31, 2003, we had issued \$5.9 million in letters of credit pursuant to this agreement and will begin funding the cash trust account in the second quarter of 2003.

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a financial institution known as a surety. These bonds provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. To date, we have not had any significant reimbursements to our surety for bond-related costs. We believe that it is unlikely that we will have to fund claims under our surety arrangements in the foreseeable future. As of March 31, 2003, the total amount of outstanding performance bonds was approximately \$467.8 million.

Our future contractual obligations, including interest under capital leases, are as follows (in thousands):

	Total	2003	2004	2005	2006	2007	Thereafter
Long-term debt obligations including capital leases	\$391,277	\$ 5,796	\$ 2,044	\$103,696	\$5,225	\$214,016	\$60,500
Operating lease obligations	\$ 39,377	\$14,322	\$10,198	\$ 8,054	\$3,508	\$ 1,345	\$ 1,950

Concentration of Credit Risk. We grant credit, generally without collateral, to our customers, which include electric power and gas companies, telecommunications and cable television system operators, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States. However, we generally are entitled to payment for work performed and have certain lien rights on our services provided. Under certain circumstances such as foreclosures or negotiated settlements, we may take title to the underlying assets in lieu of cash in settlement of receivables. As previously discussed herein, our customers in the telecommunications business have experienced significant financial difficulties and in several instances have filed for bankruptcy. Our utility customers are also experiencing business challenges in the current business climate. These economic conditions expose us to increased risk related to collectibility of receivables for services we have performed.

In June 2002, one of our customers, Adelphia Communications Corporation (Adelphia), filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code, as amended. We have filed liens on various properties to secure substantially all of our pre-petition receivables. Our carrying value is based upon our understanding of the current status of the Adelphia bankruptcy proceeding and a number of assumptions, including assumptions about the validity, priority and enforceability of our security interests. We currently believe we will collect a substantial majority of the balances owed. Should any of the factors underlying our estimate change, the amount of our allowance could change significantly. We are uncertain as to whether such receivables will be collected within one year and therefore have included this amount in non-current assets as accounts and notes receivable as of March 31, 2003. Also included in accounts and notes receivable are amounts due from another customer relating to the construction of independent power plants. We have agreed to long-term payment terms for this customer. The notes receivable are partially secured and bear interest at 9.5% per year. During 2002, we provided allowances for a significant portion of these notes receivable due to a change in the economic viability of the plants securing them. The collectibility of these notes may ultimately depend on the value of the collateral securing these notes. As of March 31, 2003, the total balance due from both of these customers was \$78.4 million, net of an allowance for doubtful accounts of \$28.4 million.

Litigation. We are from time to time a 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, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we accrue reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe that any of these proceedings, separately or in the aggregate would be expected to have a material adverse effect on our results of operations or financial position.

Change of Control. In March 2002, we entered into new employment agreements with certain employees which become effective upon a change of control of Quanta (as defined in the new employment agreements). The new employment agreements supplemented existing employment agreements already in effect. The new employment agreements provide that, following a change of control, if we terminate the employee's employment without cause (as defined in the new employment agreements), the employee terminates employment for good reason (as defined in the new employment agreements), or the employee's employment terminates due to death or disability, we will pay certain amounts to the employee, which may vary with the level of the employee's responsibility and the terms of the employee's prior employment arrangements. In addition, in the case of certain senior executives except Mr. Colson, our chief executive officer, these payments would also be due if the employee terminates his or her employment within the 30-day window period commencing six months after the change in control.

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

New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the disclosures that are to be made by a guarantor in its interim and annual financial statements regarding obligations under certain guarantees issued. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 were effective for us as of December 15, 2002. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

In December 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for financial statements issued for fiscal years ending after December 15, 2002.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates. Management has reviewed its development and selection of critical accounting estimates with the audit committee of our board of directors. We believe the following accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Current and Long-Term Accounts and Notes Receivable and Provision for Doubtful Accounts. We provide an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, our customer's access to capital, our customer's willingness or ability to pay, general economic conditions and the ongoing relationship with the customer. For example, certain

of our customers, primarily large public telecommunications carriers, have filed for bankruptcy or have been experiencing financial difficulties, and as a result we increased our allowance for doubtful accounts to reflect that certain customers may be unable to meet their obligations to us in the future. Should additional customers file for bankruptcy or experience difficulties, or should anticipated recoveries relating to the receivables in existing bankruptcies and other workout situations fail to materialize, we could experience reduced cash flows and losses in excess of current reserves.

Goodwill and Other Intangibles. As stated in Note 5 of Notes to Condensed Consolidated Financial Statements, SFAS No. 142 provides that goodwill and other intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. SFAS No. 142 also provides specific guidance for testing goodwill and other nonamortized intangible assets for impairment. Goodwill of a reporting unit shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances may include a significant change in business climate or a loss of key personnel, among others. SFAS No. 142 requires that management make certain estimates and assumptions in order to allocate goodwill to reporting units and to determine the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets, as compared to our accounting policy for the assessment of goodwill impairment in 2001, which was based on an undiscounted cash flow model. Estimating future cash flows requires significant judgment and our projections may vary from cash flows eventually realized.

Revenue Recognition. We typically record revenues from fixed price contracts on a percentage-of-completion basis, using the cost-to-cost method based on the percentage of total costs incurred to date in proportion to total estimated costs to complete the contract. Changes in job performance, job conditions and final contract settlements, among others, are factors that influence the assessment of the total estimated costs to complete these contracts.

Self-Insurance. We are insured for employer's liability, auto liability and general liability claims, subject to a deductible of \$1,000,000 per occurrence, and for workers' compensation insurance subject to a deductible of \$2,000,000 per occurrence. We also have one corporate non-union employee related health care benefit plan that is subject to a deductible of \$250,000 per claimant per year. Losses up to the deductible amounts are accrued based upon our estimates of the ultimate liability for claims incurred and an estimate of claims incurred but not reported. However, insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate.

Stock Options. We account for our stock-based compensation under Accounting Principles Board Opinion No. 25 (APB Opinion No. 25), "Accounting for Stock Issued to Employees." Under this accounting method, no compensation expense is recognized in the consolidated statements of operations if no intrinsic value of the option exists at the date of grant. In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock Based Compensation." SFAS No. 123 encourages companies to account for stock-based compensation awards based on the fair value of the awards at the date they are granted. The resulting compensation cost would be shown as an expense in the consolidated statements of operations. Companies can choose not to apply the new accounting method and continue to apply current accounting requirements; however, disclosure is required as to what net income and earnings per share would have been had the new accounting method been followed.

As a result of our stock option exchange offer during the first quarter of 2003, certain stock options will be required to be accounted for under variable plan accounting prospectively. See additional discussion in Note 7 to the Notes to Condensed Consolidated Financial Statements.

Outlook

The following statements are based on current expectations. These statements are forward looking, and actual results may differ materially.

Like many companies that provide installation and maintenance services to the electrical power, gas, telecommunications and cable television industries, we are facing a number of challenges. The telecommunications and utility markets experienced substantial change during 2002 as evidenced by an increased number of bankruptcies in the telecommunications market, continued devaluation of many of our customers' debt and equity securities and pricing pressures resulting from challenges faced by major industry participants. These factors have contributed to the delay and cancellation of projects and reduction of capital spending that have impacted our operations and ability to grow at historical levels.

We continue to focus on the elements of the business we can control, including cost control, the margins we accept on projects, collecting receivables, ensuring quality service and right sizing initiatives to match the markets we serve. These initiatives include aligning our work force with our current revenue base, evaluating opportunities to reduce the number of field offices and evaluating our non-core assets for potential sale. Such initiatives could result in future charges related to, among others, severance, facilities shutdown and consolidation, property disposal and other exit costs as we execute these initiatives.

We expect consistent demand for our services from our electric power and gas customers throughout 2003 with continued weakness in demand for our services from our telecommunications and cable customers and relatively level demand for our ancillary services. Financial and economic pressures have led our customers to return to their core competencies and focus on cost reductions, resulting in an increased focus on outsourcing services. We believe that we are adequately positioned to provide these services because of our proven full-service operating units with broad geographic reach, financial capability and technical expertise.

Capital expenditures in 2003 are expected to be approximately \$30.0 million. A majority of the expenditures will be for operating equipment. We expect expenditures for 2003 to be funded substantially through internal cash flows and, to the extent necessary, from borrowings under our credit facility.

Uncertainty of Forward-Looking Statements and Information

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

- Projected operating or financial results;
- Expectations regarding capital expenditures;
- The effects of competition in our markets;
- The duration and extent of the current economic downturn;
- Materially adverse changes in economic conditions in the markets served by us or by our customers, and;
- Our ability to achieve cost savings.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions and by known or unknown risks and uncertainties, including the following:

- The duration and extent of the current economic downturn;
- The cost of borrowing, availability of credit, debt covenant compliance and other factors affecting our financing activities;

- Quarterly variations in our operating results due to seasonality and adverse weather conditions;
- Material adverse changes in economic conditions in the markets served by us or by our customers;
- The adverse impact of goodwill impairments;
- Replacement of our contracts as they are completed or expire;
- Rapid technological and structural changes that could reduce the demand for the services we provide;
- Our ability to effectively compete for market share;
- Our ability to generate internal growth;
- Our growth outpacing our infrastructure;
- Retention of key personnel and qualified employees;
- The impact of our unionized workforce on our operations and acquisition strategy;
- Potential exposure to environmental liabilities;
- Our ability to integrate companies we acquire;
- Beliefs and assumptions about the collectibility of receivables;
- Our dependence on fixed price contracts; and
- Beliefs or assumptions about the outlook for markets we serve.

Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All of our forward-looking statements, whether written or oral, are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

ITEM 4. *Controls and Procedures*

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Quanta's disclosure controls and procedures, as defined in Exchange Act Rule 15d-14. Based upon that evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls or other factors that could significantly affect internal controls subsequent to the date of our evaluation.

PART II — OTHER INFORMATION

QUANTA SERVICES, INC. AND SUBSIDIARIES

ITEM 1. *Legal Proceedings.*

We are from time to time a 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, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we accrue reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe that any of these proceedings, separately or in the aggregate would be expected to have a material adverse effect on our results of operations or financial position.

ITEM 2. Changes in Securities.*(c) Recent Sales of Unregistered Securities*

On February 21, 2003, First Reserve purchased 22,037 shares of common stock for a total purchase price of \$71,583 pursuant to the exercise of their preemptive right to purchase a proportionate number of shares of common stock in respect of our issuance or sale of shares of common stock to third parties. We relied on Section 4(2) of the Securities Act of 1933 as the basis for exemption from registration. For this issuance, First Reserve was an “accredited investor” as defined in Rule 501 promulgated pursuant to the Securities Act.

ITEM 6. Exhibits and Reports on Form 8-K.*(a) Exhibits*

Exhibit Number	Description
3.1	— Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to Quanta’s Registration Statement on Form S-1 (No. 333-42957) and incorporated herein by reference)
3.2	— Amended and Restated Bylaws (previously filed as Exhibit 3.2 to Quanta’s 2000 Form 10-K (No. 001-13831) filed April 2, 2001 and incorporated herein by reference)
3.3	— Certificate of Amendment to the Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.3 to Quanta’s Registration Statement on Form S-3 (No. 333-81419) filed June 23, 1999 and incorporated herein by reference)
3.4	— Certificate of Designation for the Series A Preferred Stock (previously filed as Exhibit 3.4 to Quanta’s Registration Statement of Form S-3 (No. 333-90961) filed November 15, 1999 and incorporated herein by reference)
3.5	— Certificate of Designation for the Series B Preferred Stock (previously filed as Exhibit 3.5 to Quanta’s 1999 Form 10-K (No. 001-13831) filed March 30, 2000 and incorporated herein by reference)
3.6	— Certificate of Correction to Certificate of Designation for the Series A Preferred Stock (previously filed as Exhibit 3.6 to Quanta’s 1999 Form 10-K (No. 001-13831) filed March 30, 2000 and incorporated herein by reference)
3.7	— Certificate of Amendment of the Certificate of Designation, Rights and Limitations of the Series A Convertible Preferred Stock (previously filed as Exhibit 3.7 to Quanta’s 2001 Form 10-K (No. 001-13831) filed April 1, 2002 and incorporated herein by reference)
3.8	— Certificate of Amendment to the Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.8 to Quanta’s 2001 Form 10-K (No. 001-13831) filed April 1, 2002 and incorporated herein by reference)
3.9	— Certificate of Designation of Series C Junior Convertible Preferred Stock (previously filed as Exhibit 3.9 to the Company’s 2001 Form 10-K (No. 001-13831) filed April 1, 2002 and incorporated herein by reference)
3.10	— Certificate of Increase of Series B Junior Participating Preferred Stock (previously filed as Exhibit 3.10 to the Company’s 2001 Form 10-K (No. 001-13831) filed April 1, 2002 and incorporated herein by reference)
3.11	— Certificate of Elimination of the Designation of the Series B Junior Participating Preferred Stock (previously filed as Exhibit 3.11 to the Company’s Form 10-Q for the quarterly period ended September 30, 2002 (No. 001-13831) filed November 14, 2002 and incorporated herein by reference)
3.12	— Certificate of Elimination of the Designation of the Series C Junior Convertible Preferred Stock (previously filed as Exhibit 3.12 to the Company’s Form 10-Q for the quarterly period ended September 30, 2002 (No. 001-13831) filed November 14, 2002 and incorporated herein by reference)

Exhibit Number	Description
3.13	— Certificate of Designations of Series D Junior Participating Preferred Stock previously filed as Exhibit 3.13 to the Company's Form 10-Q for the quarterly period ended September 30, 2002 (No. 001-13831) filed November 14, 2002 and incorporated herein by reference)
3.14	— Amendment No. 2 to the Rights Agreement, dated as of February 13, 2002, by and between Quanta Services, Inc. and American Stock Transfer & Trust Company, as rights agent (previously filed as Exhibit 3.11 to the Company's Form 8-K (No. 001-13831) filed February 15, 2002 and incorporated herein by reference)
3.15	— Amendment No. 3 to the Rights Agreement, dated as of March 13, 2002, by and between Quanta Services Inc. and American Stock Transfer & Trust Company, as rights agent (previously filed as Exhibit 4.10 to the Company's Form 8-K (No. 001-13831) filed March 21, 2002 and incorporated herein by reference)
3.16	— Certificate of Designation, Rights and Limitations of the Series E Convertible Preferred Stock previously filed as Exhibit 3.16 to the Company's 2002 Form 10-K (No. 001-13831) filed March 31, 2003 and incorporated herein by reference)
3.17	— Certificate of Amendment to the Certificate of Designation of Series A Convertible Preferred Stock previously filed as Exhibit 3.17 to the Company's 2002 Form 10-K (No. 001-13831) filed March 31, 2003 and incorporated herein by reference)
10.43	— Quanta Services, Inc. 2001 Stock Incentive Plan (as amended and restated March 13, 2003) (filed herewith)
99.1	— Certification of Periodic Report by Chief Executive Officer (filed herewith)
99.2	— Certification of Periodic Report by Chief Financial Officer (filed herewith)

SIGNATURE

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

QUANTA SERVICES, INC.

By:

/s/ DERRICK A. JENSEN

Derrick A. Jensen
*Vice President, Controller and
Chief Accounting Officer*

Dated: May 15, 2003

CERTIFICATIONS

I, John R. Colson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanta Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ JOHN R. COLSON

John R. Colson,
Chairman and Chief Executive Officer

I, James H. Haddox, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanta Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ JAMES H. HADDOX

James H. Haddox,
Chief Financial Officer

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3.12	— Certificate of Elimination of the Designation of the Series C Junior Convertible Preferred Stock (previously filed as Exhibit 3.12 to the Company's Form 10-Q for the quarterly period ended September 30, 2002 (No. 001-13831) filed November 14, 2002 and incorporated herein by reference)
3.13	— Certificate of Designations of Series D Junior Participating Preferred Stock previously filed as Exhibit 3.13 to the Company's Form 10-Q for the quarterly period ended September 30, 2002 (No. 001-13831) filed November 14, 2002 and incorporated herein by reference)
3.14	— Amendment No. 2 to the Rights Agreement, dated as of February 13, 2002, by and between Quanta Services, Inc. and American Stock Transfer & Trust Company, as rights agent (previously filed as Exhibit 3.11 to the Company's Form 8-K (No. 001-13831) filed February 15, 2002 and incorporated herein by reference)
3.15	— Amendment No. 3 to the Rights Agreement, dated as of March 13, 2002, by and between Quanta Services Inc. and American Stock Transfer & Trust Company, as rights agent (previously filed as Exhibit 4.10 to the Company's Form 8-K (No. 001-13831) filed March 21, 2002 and incorporated herein by reference)

Exhibit Number	Description
3.16	— Certificate of Designation, Rights and Limitations of the Series E Convertible Preferred Stock previously filed as Exhibit 3.16 to the Company's 2002 Form 10-K (No. 001-13831) filed March 31, 2003 and incorporated herein by reference)
3.17	— Certificate of Amendment to the Certificate of Designation of Series A Convertible Preferred Stock previously filed as Exhibit 3.17 to the Company's 2002 Form 10-K (No. 001-13831) filed March 31, 2003 and incorporated herein by reference)
10.43	— Quanta Services, Inc. 2001 Stock Incentive Plan (as amended and restated March 13, 2003) (filed herewith)
99.1	— Certification of Periodic Report by Chief Executive Officer (filed herewith)
99.2	— Certification of Periodic Report by Chief Financial Officer (filed herewith)

QUANTA SERVICES, INC.
2001 STOCK INCENTIVE PLAN
(AS AMENDED AND RESTATED MARCH 13, 2003)

1. AMENDMENT AND RESTATEMENT. The Quanta Services, Inc. 2001 Stock Incentive Plan is amended and restated as set forth herein, effective as of March 13, 2003 (the "Effective Date"). Options granted under the Plan prior to the Effective Date shall be subject to the terms and conditions of the Plan in effect with respect to such Options prior to the Effective Date, including any prior amendments to the Plan, and Options granted after the Effective Date shall be subject to the terms and conditions of the Plan as set forth herein, as it may be amended from time to time.

2. PURPOSE. The purposes of the Plan are to attract and retain for the Company and its Affiliates the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to increase their respective interest in the Company's welfare, and to promote the success of the business of the Company and its Affiliates.

3. DEFINITIONS. As used herein, unless the context requires otherwise, the following terms shall have the meanings indicated below:

(a) "Affiliate" means (i) any corporation, partnership or other entity which owns, directly or indirectly, a majority of the voting equity securities of the Company, (ii) any corporation, partnership or other entity of which a majority of the voting equity securities or equity interest is owned, directly or indirectly, by the Company, and (iii) with respect to an Option that is intended to be an Incentive Stock Option, (A) any "parent corporation" of the Company, as defined in Section 424(e) of the Code or (B) any "subsidiary corporation" of the Company as defined in Section 424(f) of the Code, any other entity that is taxed as a corporation under Section 7701(a)(3) of the Code and is a member of the "affiliated group" as defined in Section 1504(a) of the Code of which the Company is the common parent, and any other entity as may be permitted from time to time by the Code or by the Internal Revenue Service to be an employer of Employees to whom Incentive Stock Options may be granted; provided, however, that in each case the Affiliate must be consolidated in the Company's financial statements.

(b) "Award" means any right granted under the Plan, including an Option and a Restricted Stock Award, whether granted singly or in combination, to a Grantor pursuant to the terms, conditions and limitations that the Committee may establish in order to fulfill the objectives of the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" of the Company means the occurrence of any of the following events: (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50 percent or more of the combined voting power of the Company's then outstanding securities; (ii) as a result of, or in connection with, any tender offer or exchange offer, merger, or other business combination (a "Transaction"), the persons who were directors of the Company immediately

before the Transaction shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company; (iii) the Company is merged or consolidated with another corporation and as a result of the merger or consolidation less than 75 percent of the outstanding voting securities of the surviving or resulting corporation shall then be owned in the aggregate by the former stockholders of the Company; (iv) a tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing 50 percent or more of the combined voting power of the Company's then outstanding voting securities; or (v) the Company transfers substantially all of its assets to another corporation which is not controlled by the Company.

(e) "Chief Executive Officer" means the individual serving at any relevant time as the chief executive officer of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended, and any successor statute. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any Treasury regulations promulgated under such section.

(g) "Committee" means the committee, as constituted from time to time, of the Board that is appointed by the Board to administer the Plan; provided, however, that while the Common Stock is publicly traded, the Committee shall be a committee of the Board consisting solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3, as necessary in each case to satisfy such requirements with respect to Awards granted under the Plan.

Within the scope of such authority, the Committee may (i) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Options to eligible persons who are either (A) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Options or (B) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (ii) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Options to eligible persons who are not then subject to Section 16 of the Exchange Act. Notwithstanding the foregoing provisions, the Chief Executive Officer has the authority to grant Non-Qualified Stock Options and Restricted Stock Awards to certain Employees, as described in Section 6 of this Plan.

(h) "Common Stock" means the Common Stock, \$0.00001 par value per share, of the Company or the common stock that the Company may in the future be authorized to issue (as long as the common stock varies from that currently authorized, if at all, only in amount of par value).

(i) "Company" means Quanta Services, Inc., a Delaware corporation.

(j) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Affiliate to render consulting or advisory services to the Company or such Affiliate and who is a "consultant or advisor" within the meaning of Rule 701 promulgated under the Securities Act or Form S-8 promulgated under the Securities Act.

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 2

(k) "Continuous Service" means that the provision of services to the Company or an Affiliate in any capacity of Employee, Director or Consultant is not interrupted or terminated. Except as otherwise provided in a particular Option Agreement or Restricted Stock Agreement, service shall not be considered interrupted or terminated for this purpose in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Affiliate, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or an Affiliate in any capacity of Employee, Director or Consultant. An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of each Incentive Stock Option, if such leave exceeds ninety (90) days, and re-employment upon expiration of such leave is not guaranteed by statute or contract, then the Incentive Stock Option shall be treated as a Non-Qualified Stock Option on the day that is three (3) months and one (1) day following the expiration of such ninety (90)-day period.

(l) "Covered Employee" means the Chief Executive Officer and the four other most highly compensated officers of the Company for whom total compensation is required to be reported to shareholders under Regulation S-K, as determined for purposes of Section 162(m) of the Code.

(m) "Director" means a member of the Board or the board of directors of an Affiliate.

(n) "Disability" means the "disability" of a person as defined in a then effective long-term disability plan maintained by the Company that covers such person, or if such a plan does not exist at any relevant time, "Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code. For purposes of determining the time during which an Incentive Stock Option may be exercised under the terms of an Option Agreement, "Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code. Section 22(e)(3) of the Code provides that an individual is totally and permanently disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

(o) "Employee" means any person, including an Officer or Director, who is employed by the Company or an Affiliate. The provision of compensation by the Company or an Affiliate to a Director solely with respect to such individual rendering services in the capacity of a Director, however, shall not be sufficient to constitute "employment" by the Company or that Affiliate.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and any successor statute. Reference in the Plan to any section of the Exchange Act shall be deemed to include any amendments or successor provisions to such section and any rules and regulations relating to such section.

(q) "Fair Market Value" means, as of any date, the value of the Common Stock determined as follows:

- (i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such a share of Common Stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the day of determination (or if no such price or bid is reported on that day, on last market trading day prior to the day of determination), as reported in The Wall Street Journal or such other source as the Committee deems reliable.
- (ii) In the absence of any such established markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee.

(r) "Grantee" means an Employee, Director or Consultant to whom an Award has been granted under the Plan, including an Option.

(s) "Incentive Stock Option" means an Option granted to an Employee under the Plan that meets the requirements of Section 422 of the Code.

(t) "Non-Employee Director" means a Director of the Company who either (i) is not an Employee or Officer, does not receive compensation (directly or indirectly) from the Company or an Affiliate in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(u) "Non-Qualified Stock Option" means an Option granted under the Plan that is not intended to be an Incentive Stock Option.

(v) "Officer" means a person who is an "officer" of the Company or any Affiliate within the meaning of Section 16 of the Exchange Act (whether or not the Company is subject to the requirements of the Exchange Act).

(w) "Option" means a stock option granted pursuant to the Plan to purchase a specified number of shares of Common Stock, whether granted as an Incentive Stock Option or as a Non-Qualified Stock Option.

(x) "Option Agreement" means the written agreement evidencing the grant of an Option executed by the Company and the Optionee, including any amendments thereto.

(y) "Optionee" means an individual to whom an Option has been granted under the Plan.

(z) "Outside Director" means a Director of the Company who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of the Treasury regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other

than benefits under a tax qualified pension plan), has not been an officer of the Company or an "affiliated corporation" at any time and is not currently receiving (within the meaning of the Treasury regulations promulgated under Section 162(m) of the Code) direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(aa) "Plan" means this Quanta Services, Inc. 2001 Stock Incentive Plan, as set forth herein and as it may be amended from time to time. Immediately prior to the Effective Date of this amendment and restatement, the Plan was known as the "Quanta Services, Inc. Amended and Restated 1997 Stock Option Plan".

(bb) "Qualifying Shares" means shares of Common Stock which either (i) have been owned by the Grantee for more than six (6) months and have been "paid for" within the meaning of Rule 144 promulgated under the Securities Act, or (ii) were obtained by the Grantee in the public market.

(cc) "Regulation S-K" means Regulation S-K promulgated under the Securities Act, as it may be amended from time to time, and successor to

Regulation S-K. Reference in the Plan to any item of Regulation S-K shall be deemed to include any amendments or successor provisions to such item.

(dd) "Restriction Period" means the period during which the Common Stock under a Restricted Stock Award is nontransferable and subject to "Forfeiture Restrictions" as defined in Section 11(a) of this Plan and set forth in the related Restricted Stock Agreement.

(ee) "Restricted Stock Agreement" means the written agreement evidencing the grant of a Restricted Stock Award executed by the Company and the Grantee, including any amendments thereto. Each Restricted Stock Agreement shall be subject to the terms and conditions of the Plan.

(ff) "Restricted Stock Award" means an Award granted under Section 10 of this Plan of shares of Common Stock issued to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions and other terms and conditions as are established by the Committee.

(gg) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act, as it may be amended from time to time, and any successor to Rule 16b-3.

(hh) "Section" means a section of the Plan unless otherwise stated or the context otherwise requires.

(ii) "Securities Act" means the Securities Act of 1933, as amended, and any successor statute. Reference in the Plan to any section of the Securities Act shall be deemed to include any amendments or successor provisions to such section and any rules and regulations relating to

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 5

such section.

(jj) "Stock" means (i) the Common Stock, (ii) limited vote common stock, par value \$.00001 per share, of the Company, and (iii) Common Stock into which the outstanding shares of the Company's Series A Preferred Stock, par value \$.00001 per share, are convertible.

(kk) "Ten Percent Shareholder" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) at the time an Option is granted stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

4. INCENTIVE AWARDS AVAILABLE UNDER THE PLAN. Awards granted under this Plan may be (a) Incentive Stock Options, (b) Non-Qualified Stock Options, and (c) Restricted Stock Awards.

5. SHARES SUBJECT TO PLAN. Subject to adjustment pursuant to Section 11(a) hereof, the total amount of Common Stock with respect to which Awards may be granted under the Plan shall not exceed the greater of (i) 3,571,275 shares or (ii) 12 percent of the total number of shares of Stock outstanding, determined at the time of a particular Award. Notwithstanding the foregoing, the total amount of Common Stock with respect to which Incentive Stock Options may be granted under the Plan shall not exceed 3,571,275 shares (subject to adjustment pursuant to Section 11(a) hereof). Any shares of Common Stock covered by an Award (or a portion of an Award) that are forfeited or canceled, or that expire shall be deemed not to have been issued for purposes of determining the maximum aggregate number of shares of Common Stock which may be issued under the Plan and shall again be available for Awards under the Plan. At all times during the term of the Plan, the Company shall reserve and keep available such number of shares of Common Stock as will be required to satisfy the requirements of outstanding Awards under the Plan. Nothing in this Section 5 shall impair the right of the Company to reduce the number of outstanding shares of Common Stock pursuant to repurchases, redemptions, or otherwise; provided, however, that no reduction in the number of outstanding shares of Common Stock shall (a) impair the validity of any outstanding Award, whether or not that Award is fully exercisable or fully vested, or (b) impair the status of any shares of Common Stock previously issued pursuant to an Award as duly authorized, validly issued, fully paid, and nonassessable. The shares to be delivered under the Plan shall be made available from (a) authorized but unissued shares of Common Stock, (b) Common Stock held in the treasury of the Company, or (c) previously issued shares of Common Stock reacquired by the Company, including shares purchased on the open market, in each situation as the Committee may determine from time to time in its sole discretion.

6. ELIGIBILITY. Awards other than Incentive Stock Options may be granted to Employees, Officers, Directors, and Consultants. Incentive Stock Options may be granted only to Employees (including Officers and Directors who are also Employees), as limited by clause (iii) of Section 3(a). The Committee in its sole discretion shall select the recipients of Awards; provided, however, that the Chief Executive Officer in his sole discretion may select the

recipients of Non-Qualified Stock Options and/or Restricted Stock Awards if (i) such recipients are not Officers, (ii) the aggregate number of shares of Common Stock subject to Options granted in any one calendar quarter does not exceed 100,000 shares and the aggregate value of the Restricted Stock Awards granted in any one calendar quarter does not exceed \$250,000 determined based on the Fair Market Value of the Common Stock at the time of the grants, and

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 6

(iii) the aggregate number of shares of Common Stock subject to such Options granted to any individual in any one calendar quarter does not exceed 20,000 shares of Common Stock and the aggregate value of the Restricted Stock Awards granted in any one calendar quarter to any individual does not exceed \$25,000 determined based on the Fair Market Value of the Common Stock at the time of the grants. A Grantee may be granted more than one Award under the Plan, and Awards may be granted at any time or times during the term of the Plan. The grant of an Award to an Employee, Officer, Director or Consultant shall not be deemed either to entitle that individual to, or to disqualify that individual from, participation in any other grant of Awards under the Plan.

7. LIMITATION ON INDIVIDUAL AWARDS. Subject to the provisions of Section 11(a), the maximum number of shares of Common Stock that may be subject to Awards granted to any one person under the Plan shall not exceed 1,500,000 shares of Common Stock. The limitation set forth in the preceding sentence shall be applied in a manner which will permit compensation generated under the Plan to constitute "performance-based" compensation for purposes of Section 162(m) of the Code, including counting against such maximum number of shares, to the extent required under Section 162(m) of the Code and applicable interpretive authority thereunder, any shares of Common Stock subject to Options that are canceled or repriced.

8. TERMS AND CONDITIONS OF OPTIONS. The Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, shall determine (a) whether each Option shall be granted as an Incentive Stock Option or a Non-Qualified Stock Option and (b) the provisions, terms and conditions of each Option including, but not limited to, the vesting schedule, the number of shares of Common Stock subject to the Option, the exercise price of the Option, the period during which the Option may be exercised, repurchase provisions, forfeiture provisions, methods of payment, and all other terms and conditions of the Option, subject to the following:

(a) Form of Option Grant. Each Option granted under the Plan shall be evidenced by a written Option Agreement in such form (which need not be the same for each Optionee) as the Committee, or if applicable the Chief Executive Officer, from time to time approves, but which is not inconsistent with the Plan, including any provisions that may be necessary to assure that any Option that is intended to be an Incentive Stock Option will comply with Section 422 of the Code.

(b) Date of Grant. The date of grant of an Option will be the date on which the Committee, or if applicable the Chief Executive Officer, makes the determination to grant such Option unless otherwise specified by the Committee. The Option Agreement evidencing the Option will be delivered to the Optionee with a copy of the Plan and other relevant Option documents, within a reasonable time after the date of grant.

(c) Exercise Price. The exercise price of a Non-Qualified Stock Option shall be not less than 85% of the Fair Market Value of the shares of Common Stock on the date of grant of the Option. The exercise price of any Incentive Stock Option shall be not less than 100% of the Fair Market Value of the shares of Common Stock on the date of grant of the Option. The exercise price of any Incentive Stock Option granted to a Ten Percent Shareholder shall not be

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 7

less than 110% of the Fair Market Value of the shares of Common Stock on the date of grant of the Option.

(d) Exercise Period. Options shall be exercisable within the time or times or upon the event or events determined by the Committee and set forth in the Option Agreement; provided, however, that no Option shall be exercisable later than the day prior to the expiration of ten (10) years from the date of grant of the Option, and provided further, that no Incentive Stock Option granted to a Ten Percent Shareholder shall be exercisable after the expiration of five (5) years from the date of grant of the Option.

(e) Limitations on Incentive Stock Options. The aggregate Fair Market Value (determined as of the date of grant of an Option) of Common Stock which any Employee is first eligible to purchase during any calendar year by exercise

of Incentive Stock Options granted under the Plan and by exercise of incentive stock options (within the meaning of Section 422 of the Code) granted under any other incentive stock option plan of the Company or an Affiliate shall not exceed \$100,000. If the Fair Market Value of stock with respect to which all incentive stock options described in the preceding sentence held by any one Optionee are exercisable for the first time by such Optionee during any calendar year exceeds \$100,000, the Options (that are intended to be Incentive Stock Options on the date of grant thereof) for the first \$100,000 worth of shares of Common Stock to become exercisable in such year shall be deemed to constitute incentive stock options within the meaning of Section 422 of the Code and the Options (that are intended to be Incentive Stock Options on the date of grant thereof) for the shares of Common Stock in the amount in excess of \$100,000 that become exercisable in that calendar year shall be treated as Non-Qualified Stock Options. If the Code or the Treasury regulations promulgated thereunder are amended after the effective date of the Plan to provide for a different limit than the one described in this Section 8(e), such different limit shall be incorporated herein and shall apply to any Options granted after the effective date of such amendment.

(f) Transferability of Options. Options granted under the Plan, and any interest therein, shall not be transferable or assignable by the Optionee, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Optionee only by the Optionee; provided, that the Optionee may, however, designate persons who or which may exercise his Options following his death. Notwithstanding the preceding sentence, Non-Qualified Stock Options may be transferred to such family members, family member trusts, family limited partnerships and other family member entities as the Committee, in its sole discretion, may provide for in the Optionee's Option Agreement and approve prior to any such transfer. No such transfer will be approved by the Committee if the Common Stock issuable under such transferred Option would not be eligible to be registered on Form S-8 promulgated under the Securities Act.

(g) Acquisitions and Other Transactions. The Committee may, from time to time, assume outstanding options granted by another entity, whether in connection with an acquisition of such other entity or otherwise, by either (i) granting an Option under the Plan in replacement of or in substitution for the option assumed by the Company, or (ii) treating the assumed option as if it had been granted under the Plan if the terms of such assumed option could be applied to an Option granted under the Plan. Such assumption shall be permissible if the holder of the assumed option would have been eligible to be granted an Option hereunder if the other entity

had applied the rules of this Plan to such grant. The Committee also may grant Options under the Plan in settlement of or substitution for, outstanding options or obligations to grant future options in connection with the Company or an Affiliate acquiring another entity, an interest in another entity or an additional interest in an Affiliate whether by merger, stock purchase, asset purchase or other form of transaction. Notwithstanding the foregoing provisions of this Section 8, in the case of an Option issued or assumed pursuant to this Section 8(g), the exercise price for the Option shall be determined in accordance with the principles of Section 424(a) of the Code and the Treasury regulations promulgated thereunder.

9. EXERCISE OF OPTIONS.

(a) Notice. Options may be exercised only by delivery to the Company of a written exercise notice approved by the Committee (which need not be the same for each Optionee), stating the number of shares of Common Stock being purchased, the method of payment, and such other matters as may be deemed appropriate by the Company in connection with the issuance of shares of Common Stock upon exercise of the Option, together with payment in full of the exercise price for the number of shares of Common Stock being purchased. Such exercise notice may be part of an Optionee's Option Agreement.

(b) Early Exercise. An Option Agreement may, but need not, include a provision that permits the Optionee to elect at any time while an Employee, Director or Consultant, to exercise any part or all of the Option prior to full vesting of the Option. Any unvested shares of Common Stock received pursuant to such exercise may be subject to a repurchase right in favor of the Company or an Affiliate or to any other restriction the Committee, or if applicable the Chief Executive Officer, determines to be appropriate

(c) Payment. Payment for the shares of Common Stock to be purchased upon exercise of an Option may be made in cash (by check) or, if elected by the Optionee and in one or more of the following methods stated in the Option Agreement (at the date of grant with respect to any Option granted as an Incentive Stock Option) and where permitted by law: (i) if a public market for the Common Stock exists, through a "same day sale" arrangement between the

Optionee and a broker-dealer that is a member of the National Association of Securities Dealers, Inc. (an "NASD Dealer") whereby the Optionee elects to exercise the Option and to sell a portion of the shares of Common Stock so purchased to pay for the exercise price and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; (ii) if a public market for the Common Stock exists, through a "margin" commitment from the Optionee and an NASD Dealer whereby the Optionee elects to exercise the Option and to pledge the shares of Common Stock so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; (iii) by surrender for cancellation of Qualifying Shares at the Fair Market Value per share at the time of exercise (provided that such surrender does not result in an accounting charge for the Company); or (iv) where approved by the Committee at the time of exercise, by delivery of the Optionee's promissory note with such recourse, interest, security, redemption and other provisions as the Committee may require, provided that the par value of each of the shares of Common Stock to be purchased is paid for in

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 9

cash. No shares of Common Stock may be issued until full payment of the purchase price therefor has been made.

(d) Withholding Taxes. The Committee may establish such rules and procedures as it considers desirable in order to satisfy any obligation of the Company to withhold the statutory prescribed minimum amount of federal or state income taxes or other taxes with respect to the exercise of any Option granted under the Plan. Prior to issuance of the shares of Common Stock upon exercise of an Option, the Optionee shall pay or make adequate provision acceptable to the Committee for the satisfaction of the statutory minimum prescribed amount of any federal or state income or other tax withholding obligations of the Company, if applicable. Upon exercise of an Option, the Company shall withhold or collect from the Optionee an amount sufficient to satisfy such tax withholding obligations.

(e) Exercise of Option Following Termination of Continuous Service.

- (i) An Option may not be exercised after the expiration date of such Option set forth in the Option Agreement and may be exercised following the termination of an Optionee's Continuous Service only to the extent provided in the Option Agreement.
- (ii) Where the Option Agreement permits an Optionee to exercise an Option following the termination of the Optionee's Continuous Service for a specified period, the Option shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Option, whichever occurs first.
- (iii) Any Option designated as an Incentive Stock Option, to the extent not exercised within the time permitted by law for the exercise of Incentive Stock Options following the termination of an Optionee's Continuous Service, shall convert automatically to a Non-Qualified Stock Option and thereafter shall be exercisable as such to the extent exercisable by its terms for the period specified in the Option Agreement.
- (iv) The Committee shall have discretion to determine whether the Continuous Service of an Optionee has terminated and the effective date on which such Continuous Service terminates and whether the Optionee's Continuous Service terminated as a result of the Disability of the Optionee.

(f) Limitations on Exercise.

- (i) The Committee, or if applicable the Chief Executive Officer, may specify a reasonable minimum number of shares of Common Stock or a percentage of the shares subject to an Option that may be purchased on any exercise of an Option; provided, that such minimum number will not prevent Optionee from exercising the full number of shares of Common Stock as to which the Option is then exercisable.
- (ii) The obligation of the Company to issue any shares of Common Stock pursuant to the exercise of any Option shall be subject to the condition that such exercise and the issuance and delivery of such shares pursuant thereto comply with the Securities Act, all applicable state securities laws and the requirements of any stock exchange or national market system upon which the shares of Common Stock may then be listed or

quoted, as in effect on the date of exercise. The Company shall be under no obligation to register the shares of Common Stock with the Securities and Exchange Commission or to effect compliance with the registration, qualification or listing requirements of any state securities laws or stock exchange or national market system, and the Company shall have no liability for any inability or failure to do so.

- (iii) As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the shares of Common Stock are being purchased only for investment and without any present intention to sell or distribute such shares of Common Stock if, in the opinion of counsel for the Company, such a representation is required by any securities or other applicable laws.

(g) Modification, Extension And Renewal of Options . The Committee shall have the power to modify, cancel, extend or renew outstanding Options and to authorize the grant of new Options and/or Restricted Stock Awards in substitution therefor (regardless of whether any such action would be treated as a repricing for financial accounting or other purposes), provided that (except as permitted by Section 11 of this Plan) any such action may not, without the written consent of any Optionee, impair any rights under any Option previously granted to such Optionee. Any outstanding Incentive Stock Option that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code.

(h) Privileges of Stock Ownership. No Optionee will have any of the rights of a shareholder with respect to any shares of Common Stock subject to an Option until such Option is properly exercised and the purchased shares are issued and delivered to the Optionee, as evidenced by an appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to such date of issuance and delivery, except as provided in the Plan.

10. TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS. Each Restricted Stock Agreement shall be in such form and shall contain such terms and conditions as the Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, shall deem appropriate. The terms and conditions of such Restricted Stock Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Agreements need not be identical, but each such Restricted Stock Agreement shall be subject to the terms and conditions of this Section 10.

(a) Forfeiture Restrictions. Shares of Common Stock that are the subject of a Restricted Stock Award shall be subject to restrictions on disposition by the Grantee and to an obligation of the Grantee to forfeit and surrender the shares to the Company under certain circumstances (the "Forfeiture Restrictions"). The Forfeiture Restrictions shall be determined by the Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, in its or his sole discretion, and the Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, may provide that the Forfeiture Restrictions shall lapse on the passage of time, the attainment of one or more performance targets established by the Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, or the occurrence of such other event or

events determined to be appropriate by the Committee, or if applicable pursuant to Section 6, the Chief Executive Officer. The Forfeiture Restrictions applicable to a particular Restricted Stock Award (which may differ from any other such Restricted Stock Award) shall be stated in the Restricted Stock Agreement.

(b) Restricted Stock Awards. At the time any Restricted Stock Award is granted under the Plan, the Company and the Grantee shall enter into a Restricted Stock Agreement setting forth each of the matters addressed in this Section 10 and such other matters as the Committee may determine to be appropriate. Shares of Common Stock awarded pursuant to a Restricted Stock Award shall be represented by a stock certificate registered in the name of the Grantee of such Restricted Stock Award or by a book entry account with the Company's transfer agent. The Grantee shall have the right to receive dividends with respect to the shares of Common Stock subject to a Restricted Stock Award, to vote the shares of Common Stock subject thereto and to enjoy all other

stockholder rights with respect to the shares of Common Stock subject thereto, except that, unless provided otherwise in the Restricted Stock Agreement, (i) the Grantee shall not be entitled to delivery of the shares of Common Stock certificate until the Forfeiture Restrictions have expired, (ii) the Company or an escrow agent shall retain custody of the shares of Common Stock (or such shares shall be held in a book entry account with the Company's transfer agent) until the Forfeiture Restrictions have expired, (iii) the Grantee may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the shares of Common Stock until the Forfeiture Restrictions have expired, and (iv) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Agreement shall cause a forfeiture of the Restricted Stock Award. At the time of such Award, the Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, may, in its or his sole discretion, prescribe additional terms, conditions or restrictions relating to Restricted Stock Award, including rules pertaining to the termination of the Grantee's Continuous Service (by retirement, Disability, death or otherwise) prior to expiration of the Forfeiture Restrictions. Such additional terms, conditions or restrictions shall also be set forth in a Restricted Stock Agreement made in connection with the Restricted Stock Award.

(c) Rights and Obligations of Grantee. One or more stock certificates representing shares of Common Stock, free of Forfeiture Restrictions, shall be delivered to the Grantee promptly after, and only after, the Forfeiture Restrictions have expired and Grantee has satisfied all applicable federal, state and local income and employment tax withholding requirements. Each Restricted Stock Agreement shall require that (i) the Grantee, by his or her acceptance of the Restricted Stock Award, shall irrevocably grant to the Company a power of attorney to transfer any shares so forfeited to the Company and agrees to execute any documents requested by the Company in connection with such forfeiture and transfer, and (ii) such provisions regarding transfers of forfeited shares of Common Stock shall be specifically performable by the Company in a court of equity or law.

(d) Restriction Period. The Restriction Period for a Restricted Stock Award shall commence on the date of grant of the Restricted Stock Award and, unless otherwise established by the Committee and stated in the Restricted Stock Award Agreement, shall expire upon satisfaction of the conditions set forth in the Restricted Stock Agreement pursuant to which the Forfeiture Restrictions will lapse.

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 12

(e) Securities Restrictions. The Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, may impose other conditions on any shares of Common Stock subject to a Restricted Stock Award as it may deem advisable, including (i) restrictions under applicable state or federal securities laws, and (ii) the requirements of any stock exchange or national market system upon which shares of Common Stock are then listed or quoted.

(f) Payment for Restricted Stock. The Committee, or if applicable pursuant to Section 6, the Chief Executive Officer, shall determine the amount and form of any payment for shares of Common Stock received pursuant to a Restricted Stock Award; provided, that in the absence of such a determination, the Grantee shall not be required to make any payment for shares of Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law.

(g) Forfeiture of Restricted Stock. Subject to the provisions of the particular Restricted Stock Agreement, on termination of the Grantee's Continuous Service during the Restriction Period, the shares of Common Stock subject to the Restricted Stock Award shall be forfeited by the Grantee. Upon any forfeiture, all rights of the Grantee with respect to the forfeited shares of the Common Stock subject to the Restricted Stock Award shall cease and terminate, without any further obligation on the part of the Company, except that if so provided in the Restricted Stock Agreement applicable to the Restricted Stock Award, the Company shall repurchase each of the shares of Common Stock forfeited for the purchase price per share paid by the Grantee. The Committee will have discretion to determine whether the Continuous Service of a Grantee has terminated and the date on which such Continuous Service terminates and whether the Grantee's Continuous Service terminated as a result of the Disability of the Grantee.

(h) Lapse of Forfeiture Restrictions in Certain Events; Committee's Discretion. Notwithstanding the provisions of Section 10(g) or any other provision in the Plan to the contrary, the Committee may, in its discretion and as of a date determined by the Committee, fully vest any or all Common Stock awarded to the Grantee pursuant to a Restricted Stock Award, and upon such vesting, all Forfeiture Restrictions applicable to such Restricted Stock Award shall lapse or terminate. Any action by the Committee pursuant to this Section 10(h) may vary among individual Grantees and may vary among the Restricted Stock Awards held by any individual Grantee. Notwithstanding the preceding provisions of this Section 10(h), the Committee may not take any action described in this

Section 10(h) with respect to a Restricted Stock Award that has been granted to a Covered Employee if such Award has been designed to meet the exception for performance-based compensation under Section 162(m) of the Code.

(i) Withholding Taxes. The Committee may establish such rules and procedures as it considers desirable in order to satisfy any obligation of the Company to withhold applicable federal, state and local income and employment taxes with respect to the lapse of Forfeiture Restrictions applicable to Restricted Stock Awards. Prior to delivery of shares of Common Stock upon the lapse of Forfeitures Restrictions applicable to a Restricted Stock Award, the Grantee shall pay or make adequate provision acceptable to the Committee for the satisfaction of all tax withholding obligations of the Company.

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 13

11. ADJUSTMENT UPON CHANGES IN CAPITALIZATION AND CORPORATE EVENTS.

(a) Capital Adjustments. The number of shares of Common Stock (i) covered by each outstanding Award granted under the Plan, the exercise or purchase price of such outstanding Award, and any other terms of the Award that the Committee determines requires adjustment and (ii) available for issuance under Sections 5, 7 and 8(h) shall be adjusted to reflect, as deemed appropriate by the Committee, any increase or decrease in the number of shares of Common Stock resulting from a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in the capital structure of the Company without receipt of consideration, subject to any required action by the Board or the shareholders of the Company and compliance with applicable securities laws; provided, however, that a fractional share will not be issued upon exercise of any Award, and either (i) any fraction of a share of Common Stock that would have resulted will be cashed out at Fair Market Value or (ii) the number of shares of Common Stock issuable under the Award will be rounded up to the nearest whole number, as determined by the Committee. Except as the Committee determines, no issuance by the Company of shares of capital stock of any class, or securities convertible into shares of capital stock of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) Dissolution or Liquidation. The Committee shall notify the Grantee at least twenty (20) days prior to any proposed dissolution or liquidation of the Company. Unless provided otherwise in an individual Option Agreement or Restricted Stock Agreement or in a then-effective written employment agreement between the Grantee and the Company or an Affiliate, to the extent that an Award has not been previously exercised, the Company's repurchase rights relating to an Award have not expired or the Forfeiture Restrictions have not lapsed, any such Award that is an Option shall expire and any such Award that is a Restricted Stock Award shall be forfeited and the shares of Common Stock subject to such Award shall be returned to the Company, in each case, immediately prior to consummation of such dissolution or liquidation, such Award shall terminate immediately prior to consummation of such dissolution or liquidation.

(c) Change in Control. Unless specifically provided otherwise with respect to Change in Control events in an individual Option Agreement or Restricted Stock Agreement or in a then-effective written employment agreement between the Grantee and the Company or an Affiliate, if, during the effectiveness of the Plan, a Change in Control occurs, (i) each Option which is at the time outstanding under the Plan shall (A) automatically become fully vested and exercisable and be released from any repurchase or forfeiture rights, immediately prior to the specified effective date of such Change in Control, for all of the shares of Common Stock at the time represented by such Option and (B) expire twenty (20) days after the Committee gives written notice to the Optionee specifying the terms and conditions of the acceleration of the Optionee's Options, and (ii) the Forfeiture Restrictions applicable to all outstanding Restricted Stock Awards shall lapse and shares of Common Stock subject to such Restricted Stock Awards shall be released from escrow (or transferred from book entry with the Company's transfer agent), if applicable, and delivered (subject to the Grantees' satisfaction of the requirements of Section 10(i)) to the Grantees of the Awards free of any Forfeiture Restriction.

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 14

To the extent that an Optionee exercises his Option before or on the effective date of the Change in Control, the Company shall issue all Common Stock purchased by exercise of that Option (subject to Optionee's satisfaction of the requirements of Section 9(d)), and those shares of Common Stock shall be treated as issued and outstanding for purposes of the Change in Control.

12. STOCKHOLDER APPROVAL. The Company shall obtain the approval of the Plan by the Company's stockholders to the extent required to satisfy Section 162(m) of the Code or to satisfy or comply with any applicable laws or the rules

of any stock exchange or national market system on which the Common Stock may be listed or quoted. No Award that is issued as a result of any increase in the number of shares of Common Stock authorized to be issued under the Plan may be exercised or forfeiture restrictions lapse prior to the time such increase has been approved by the stockholders of the Company, and all such Awards granted pursuant to such increase will similarly terminate if such shareholder approval is not obtained.

13. ADMINISTRATION. This Plan shall be administered by the Committee. The Committee shall interpret the Plan and any Awards granted pursuant to the Plan and shall prescribe such rules and regulations in connection with the operation of the Plan as it determines to be advisable for the administration of the Plan. The Committee may rescind and amend its rules and regulations from time to time. The interpretation by the Committee of any of the provisions of this Plan or any Award granted under this Plan shall be final and binding upon the Company and all persons having an interest in any Option or any shares of Common Stock acquired pursuant to an Award.

14. EFFECT OF PLAN. Neither the adoption of the Plan nor any action of the Board or the Committee shall be deemed to give any Employee, Director or Consultant any right to be granted an Award or any other rights except as may be evidenced by the Option Agreement or Restricted Stock Agreement, or any amendment thereto, duly authorized by the Committee, or if applicable the Chief Executive Officer, and executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein. The existence of the Plan and the Awards granted hereunder shall not affect in any way the right of the Board, the Committee or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation or other transaction involving the Company, any issue of bonds, debentures, or shares of preferred stock ahead of or affecting the Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding by or for the Company. Nothing contained in the Plan or in any Option Agreement, Restricted Stock Agreement, or in other related documents shall confer upon any Employee, Director or Consultant any right with respect to such person's Continuous Service or interfere or affect in any way with the right of the Company or an Affiliate to terminate such person's Continuous Service at any time, with or without cause.

15. NO EFFECT ON RETIREMENT AND OTHER BENEFIT PLANS. Except as specifically provided in a retirement or other benefit plan of the Company or an Affiliate, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or an Affiliate, and shall not affect any benefits under

Quanta Services, Inc.
2001 Stock Incentive Plan

Page 15

any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

16. AMENDMENT OR TERMINATION OF PLAN. The Board in its discretion may, at any time or from time to time after the date of adoption of the Plan, terminate or amend the Plan in any respect, including amendment of any form of Option Agreement, Restricted Stock Agreement, exercise agreement or instrument to be executed pursuant to the Plan; provided, however, to the extent necessary to comply with the Code, including Sections 162(m) and 422 of the Code, other applicable laws, or the applicable requirements of any stock exchange or national market system, the Company shall obtain stockholder approval of any Plan amendment in such manner and to such a degree as required. No Award may be granted after termination of the Plan. Any amendment or termination of the Plan shall not affect Awards previously granted, and such Awards shall remain in full force and effect as if the Plan had not been amended or terminated, unless mutually agreed otherwise in a writing (including an Option Agreement or Restricted Stock Agreement) signed by the Grantee and the Company.

17. EFFECTIVE DATE AND TERM OF PLAN. The amendment and restatement of Plan as set forth herein shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years from December 22, 1997, the original effective date of the Plan, unless sooner terminated by action of the Board. Subject to the terms and conditions of the Plan, as amended and restated herein, and applicable laws, Awards may be granted under the Plan upon its adoption.

18. SEVERABILITY AND REFORMATION. The Company intends all provisions of the Plan to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of the Plan is too broad to be enforced as written, the court should reform the provision to such narrower scope as it determines to be enforceable. If, however, any provision of the Plan is held to be wholly illegal, invalid, or

unenforceable under present or future law, such provision shall be fully severable and severed, and the Plan shall be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof, and the remaining provisions of the Plan shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance.

19. GOVERNING LAW. The Plan shall be construed and interpreted in accordance with the laws of the State of Texas.

20. INTERPRETIVE MATTERS. Whenever required by the context, pronouns and any variation thereof shall be deemed to refer to the masculine, feminine, or neuter, and the singular shall include the plural, and visa versa. The term "include" or "including" does not denote or imply any limitation. The captions and headings used in the Plan are inserted for convenience and shall not be deemed a part of the Plan for construction or interpretation.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Colson, as Chief Executive Officer of Quanta Services, Inc. (the "Company") certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-Q report for the period ending March 31, 2003 as filed with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2003

/s/ JOHN R. COLSON

John R. Colson,
Chief Executive Officer
of the Company

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James H. Haddox, as Chief Financial Officer of Quanta Services, Inc. (the "Company") certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-Q report for the period ending March 31, 2003 as filed with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2003

/s/ JAMES H. HADDOX

James H. Haddox,
Chief Financial Officer
of the Company