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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2004

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

1360 Post Oak Blvd.

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

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 filer (as defined in Rule 12b-2 of the Exchange Act). Yes☑ No ☐

116,176,223 shares of Common Stock were outstanding as of November 3, 2004. As of the same date, 1,046,067 shares of Limited Vote Common Stock were outstanding.

QUANTA SERVICES, INC. AND SUBSIDIARIES

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QUANTA SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)
(Unaudited)

	December 31, 2003	September 30, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 179,626	$ 217,738
Accounts receivable, net of allowances of $27,306 and $9,920, respectively	365,840	394,223
Costs and estimated earnings in excess of billings on uncompleted contracts	44,477	52,241
Inventories	23,809	25,425
Prepaid expenses and other current assets	62,341	27,714
Total current assets	676,093	717,341
Property and equipment, net	341,542	324,774
Accounts and notes receivable, net of allowances of $46,374 and $42,953, respectively	34,327	19,419
Other assets, net	25,591	23,929
Goodwill and other intangibles, net	388,882	388,685
Total assets	$1,466,435	$1,474,148
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 5,034	$ 4,084
Accounts payable and accrued expenses	177,241	216,594
Billings in excess of costs and estimated earnings on uncompleted contracts	17,115	16,498
Total current liabilities	199,390	237,176
Long-term debt, net of current maturities	58,051	27,807
Convertible subordinated notes	442,500	442,500
Deferred income taxes and other non-current liabilities	103,362	107,272
Total liabilities	803,303	814,755
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, $.00001 par value, 300,000,000 shares authorized, 116,426,215 and 118,698,670 shares issued and 115,499,775 and 117,432,771 outstanding, respectively	—	—
Limited Vote Common Stock, $.00001 par value, 3,345,333 shares authorized, 1,067,750 and 1,051,067 shares issued and outstanding, respectively	—	—
Additional paid-in capital	1,071,701	1,083,097
Deferred compensation	(7,359)	(8,558)
Retained deficit	(389,485)	(400,515)
Treasury stock, 926,440 and 1,265,899 common shares, at cost	(11,725)	(14,631)
Total stockholders' equity	663,132	659,393
Total liabilities and stockholders' equity	$1,466,435	$1,474,148

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 September 30,		Nine Months Ended September 30,	
	2003	2004	2003	2004
Revenues	$436,133	$463,077	$1,211,564	$1,207,268
Cost of services (including depreciation)	381,125	404,652	1,065,281	1,075,778
Gross profit	55,008	58,425	146,283	131,490
Selling, general and administrative expenses	39,193	44,265	136,964	128,396
Income from operations	15,815	14,160	9,319	3,094
Other income (expense):				
Interest expense	(8,080)	(6,379)	(24,182)	(18,973)
Other, net	489	823	1,073	1,545
Income (loss) before income tax provision (benefit)	8,224	8,604	(13,790)	(14,334)
Provision (benefit) for income taxes	2,825	4,448	(4,511)	(3,304)
Net income (loss)	5,399	4,156	(9,279)	(11,030)
Dividends on preferred stock, net of forfeitures	—	—	(2,109)	—
Net income (loss) attributable to common stock	$ 5,399	$ 4,156	$ (7,170)	$ (11,030)
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.05	$ 0.04	$ (0.06)	$ (0.10)
Diluted earnings (loss) per share	$ 0.05	$ 0.04	$ (0.06)	$ (0.10)
Shares used in computing earnings (loss) per share:				
Basic	116,567	114,683	112,484	114,343
Diluted	116,645	115,385	112,484	114,343

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 September 30,		Nine Months Ended September 30,	
	2003	2004	2003	2004
Cash Flows from Operating Activities:				
Net income (loss) attributable to common stock	$ 5,399	$ 4,156	$ (7,170)	$ (11,030)
Adjustments to reconcile net income (loss) attributable to common stock to net cash provided by operating activities —				
Depreciation and amortization	14,920	14,564	45,128	44,331
Loss (gain) on sale of property and equipment	307	782	1,001	(473)
Provision for doubtful accounts	504	56	19,761	239
Deferred income tax provision (benefit)	3,558	4,270	35,862	(7,175)
Amortization of deferred compensation	839	1,178	1,923	3,468
Preferred stock dividend, net of forfeitures	—	—	(2,109)	—
Changes in operating assets and liabilities, net of non-cash transactions —				
(Increase) decrease in —				
Accounts and notes receivable	(34,053)	(40,621)	(23,517)	(13,714)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,240)	552	(3,096)	(7,764)
Inventories	1,173	1,100	(19)	(1,616)
Prepaid expenses and other current assets	(3,582)	23,775	(3,597)	28,466
Increase (decrease) in —				
Accounts payable and accrued expenses and other non-current liabilities	10,901	33,950	7,227	49,325
Billings in excess of costs and estimated earnings on uncompleted contracts	3,902	475	2,317	(617)
Other, net	959	1,589	3,038	2,018
Net cash provided by operating activities	3,587	45,826	76,749	85,458
Cash Flows from Investing Activities:				
Proceeds from sale of property and equipment	1,009	169	1,913	3,439
Additions of property and equipment	(11,459)	(10,495)	(23,936)	(29,987)
Cash (restricted) released for self-insurance programs	(1,248)	2,382	(8,448)	8,409
Net cash used in investing activities	(11,698)	(7,944)	(30,471)	(18,139)
Cash Flows from Financing Activities:				
Net borrowings (payments) under bank lines of credit	—	(18,800)	—	(29,500)
Proceeds from other long-term debt	353	1,770	2,491	2,014
Payments on other long-term debt	(1,882)	(652)	(5,631)	(3,709)
Debt issuance and amendment costs	(315)	(1,224)	(315)	(1,224)
Issuances of stock, net of offering costs	1,667	1,392	7,103	3,042
Exercise of stock options	—	53	—	170
Net cash provided by (used in) financing activities	(177)	(17,461)	3,648	(29,207)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,288)	20,421	49,926	38,112
Cash and Cash Equivalents, beginning of period	86,115	197,317	27,901	179,626
Cash and Cash Equivalents, end of period	$ 77,827	$217,738	$ 77,827	$217,738
Supplemental Disclosure of Cash Flow Information Cash paid (received) for —				
Interest	$ 9,093	$ 4,180	$ 20,042	$ 11,207
Income taxes, net of refunds	$ (1,144)	$ (29,494)	$(39,566)	$ (29,950)

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.

In the course of its operations, Quanta is subject to certain risk factors, including, but not limited to, risks related to significant fluctuations in quarterly results, economic downturns, contract terms, competition, occupational health and safety matters, rapid technological and structural changes in the industries Quanta serves, ability to obtain or maintain performance bonds, management of growth, dependence on key personnel, unionized workforce, availability of qualified employees, being self-insured against potential liabilities or for claims that its insurance carrier fails to pay, potential exposure to environmental liabilities, the pursuit of additional work in the government arena, the requirements of the Sarbanes-Oxley Act of 2002, access to capital, internal growth and operating strategies, recoverability of goodwill, replacing cancelled or completed contracts, acquisition integration and financing 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 and its subsidiaries included in Quanta's Annual Report on Form 10-K that was filed with the SEC on March 15, 2004.

Reclassifications

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

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date the financial statements are published and the reported amount of revenues and expenses recognized during the periods presented. Quanta reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustments prior to their publication. Judgments and estimates are based on Quanta's beliefs and assumptions derived from information available at the time such judgments and estimates are made. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. Estimates are primarily used in Quanta's assessment of the allowance for doubtful accounts, valuation of inventory, useful lives of property and equipment, fair value assumptions in analyzing goodwill and long-lived asset impairments, self-insured claims liabilities, revenue recognition under percentage-of-completion accounting and provision for income taxes.

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, the customer's access to capital, the customer's willingness or ability to pay, general economic conditions and the ongoing relationship with the customer. Under certain circumstances such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. As of September 30, 2004, Quanta had allowances for doubtful accounts of approximately $52.9 million. Certain of Quanta's customers, several of them large public telecommunications carriers and utility customers, have been experiencing financial difficulties. Should any major 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 Quanta's customers' revenues or cash flows could affect its 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. During the third quarter of 2004, Quanta sold its prepetition receivable due from Adelphia to a third party for approximately $29.5 million which approximated its net carrying value. Quanta received $23.5 million in proceeds during the third quarter with the remaining $6.0 million of proceeds being held by the buyer pending the resolution of certain preferential payment claims. The account receivable associated with the $6.0 million holdback is recorded in Accounts and Notes Receivable as of September 30, 2004.

Quanta is involved in a dispute with one of its customers and is uncertain whether the balance will be collected within one year; therefore, as of September 30, 2004, Quanta has included the balance in Accounts and Notes Receivable. Also included in Accounts and Notes Receivable are amounts due from a customer relating to the construction of independent power plants. Quanta has agreed to long-term payment terms for this customer. The notes receivable from this customer are partially secured. Quanta has 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 September 30, 2004, the total balance due from these two customers was $54.8 million, net of an allowance for doubtful accounts of $42.8 million.

Concentration of Credit Risk

Quanta grants credit under normal payment terms, generally without collateral, to its customers, which include electric power and gas companies, telecommunications and cable television system operators, governmental entities, general contractors, 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 has certain lien rights with respect to 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 Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensa-

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

tion." SFAS No. 123, as amended, 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 employee stock purchase plan in the as adjusted disclosure. The accounting for the restricted stock awards are the same under APB Opinion No. 25 and SFAS No. 123. See Note 7 for additional discussion of the restricted stock issued under Quanta's 2001 Stock Incentive Plan and the effects thereof.

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 September 30,		Nine Months Ended September 30,	
	2003	2004	2003	2004
Net income (loss) attributable to common stock as reported	$ 5,399	$ 4,156	$ (7,170)	$(11,030)
Add: stock-based employee compensation expense included in net income, net of tax	839	1,178	1,923	3,468
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(1,341)	(1,449)	(7,458)	(4,189)
Net income (loss) attributable to common stock — As Adjusted — Basic and Diluted	$ 4,897	$ 3,885	$(12,705)	$(11,751)
Earnings (loss) per share				
As Reported — Basic and Diluted	$ 0.05	$ 0.04	$ (0.06)	$ (0.10)
As Adjusted — Basic and Diluted	$ 0.04	$ 0.03	$ (0.11)	$ (0.10)

The effects of applying SFAS No. 123 in the as adjusted disclosure may not be indicative of future amounts as additional awards may or may not be granted.

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 (in thousands, except share information).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2004	2003	2004
NET INCOME (LOSS):				
Net income (loss) attributable to common stock	$ 5,399	$ 4,156	$ (7,170)	$ (11,030)
Dividends on convertible preferred stock, if assumed conversion is dilutive	—	—	—	—
Net income (loss) for basic earnings (loss) per share	5,399	4,156	(7,170)	(11,030)
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	$ 5,399	$ 4,156	$ (7,170)	$ (11,030)
WEIGHTED AVERAGE SHARES:				
Weighted average shares outstanding for basic earnings (loss) per share, including convertible preferred stock, if dilutive	116,567	114,683	112,484	114,343
Effect of dilutive stock options and restricted stock	78	702	—	—
Effect of convertible subordinated notes under the “if converted” method — weighted convertible shares issuable	—	—	—	—
Weighted average shares outstanding for diluted earnings (loss) per share	116,645	115,385	112,484	114,343

For the three and nine months ended September 30, 2003, options to purchase approximately 1.0 million and 1.4 million shares of common stock were outstanding during the period but were not included in the computation of diluted earnings (loss) per share because the options’ exercise prices were greater than the average market price of the common shares, and therefore, the effect would be antidilutive. Also for the nine months ended September 30, 2003, options to purchase 9,237 shares of common stock, with exercise prices lower than the average market price of Quanta’s common stock were excluded from the computation of diluted earnings (loss) per share because the effect of including them would be antidilutive as Quanta incurred a net loss attributable to common stock for the period. The effect of assuming conversion of the convertible subordinated notes would also be antidilutive and they were therefore excluded from the calculation of diluted earnings (loss) per share for the three and nine months ended September 30, 2003.

For the three and nine months ended September 30, 2004, options to purchase approximately 713,000 shares of common stock were outstanding during the period but were not included in the computation of diluted earnings (loss) per share because the options’ exercise prices were greater than the average market price of the common shares, and therefore, the effect would be antidilutive. Also for the nine months ended September 30, 2004, options to purchase 35,797 shares of common stock, with exercise prices lower than the average market price of Quanta’s common stock were excluded from the computation of diluted earnings (loss) per share because the effect of including them would be antidilutive as Quanta incurred a net loss attributable to common stock for the period. For the nine months ended September 30, 2004, approximately 613,559 shares of non-vested restricted stock, computed under the treasury stock method, were excluded from the calculation of diluted earnings (loss) per share as the impact would have been antidilutive. The effect of assuming conversion of the convertible subordinated notes would also be antidilutive and they were therefore excluded from the calculation of diluted earnings (loss) per share for the three and nine months ended September 30, 2004.

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.

4. New Pronouncements:

In September 2004, the Emerging Issues Task Force (EITF) discussed EITF Issue 04-08, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share." The EITF reached a consensus that would require all issued securities with contingent conversion features containing market price contingencies based on a company's stock price to be accounted for using the "if converted" method in calculating earnings per share. This EITF would require that earnings per share be retroactively restated for the effect of conversion of any contingently convertible debt instruments starting with the issuance date of the contingently convertible debt instrument. Quanta's 4.5% convertible subordinated notes contain contingent conversion features; however the adoption of EITF 04-08 would not require the restatement of Quanta's earnings per share as the effect of assuming conversion of the 4.5% convertible subordinated notes would be antidilutive for all periods since the date of issuance.

5. Goodwill and Other Intangibles:

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," material amounts of recorded goodwill attributable to each of Quanta's reporting units are tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. These impairment tests are performed annually during the fourth quarter and upon the occurrence of any impairment indicators. 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. Impairment adjustments recognized after adoption are required to be recognized as operating expenses.

6. Debt:

Credit Facility

Quanta has a $185.0 million credit facility with various lenders. The credit facility consists of a $150.0 million letter of credit facility maturing on June 19, 2008, which also provides for term loans, and a $35.0 million revolving credit facility maturing on December 19, 2007, which provides for revolving loans and letters of credit.

The letter of credit facility is linked to a $150.0 million deposit made by the lenders, which is held in an account with Bank of America, N.A. This deposit may be used either to support letters of credit or, to the extent that amounts available under the facility are not used to support letters of credit, for term loans. Quanta is currently required to maintain total borrowings outstanding under the letter of credit facility equal to the $150.0 million available through a combination of letters of credit or term loans. As of September 30, 2004, Quanta had approximately $120.3 million of letters of credit issued under the letter of credit facility. Additionally, $26.5 million of the letter of credit facility was outstanding as a term loan with an interest rate of 4.89%, and the remaining $3.2 million was available for issuing new letters of credit. In the event that Quanta desires to issue additional letters of credit under the letter of credit facility, Quanta is required to make cash repayments of debt outstanding under the term loan portion of the letter of credit facility in an amount that approximates the additional letters of credit.

Under the letter of credit facility, Quanta is subject to a fee equal to 3.00% to 3.25% of the letters of credit outstanding, depending upon the occurrence of certain events, plus an additional 0.15% of the amount outstanding to the extent the funds in the deposit account do not earn London Interbank Offered Rate (LIBOR), as defined in the credit facility. Term loans under the letter of credit facility bear interest at a rate equal to either (a) the Eurodollar Rate (as defined in the credit facility) plus 3.00% to 3.25% or (b) the Base Rate (as described below) plus 3.00% to 3.25%, depending upon the occurrence of certain events. The Base Rate equals the higher of (i) the Federal Funds Rate (as defined in the credit facility) plus 1/2 of 1% and (ii) the bank's prime rate. The maximum availability under the letter of credit facility is automatically reduced on December 31 of each year by $1.5 million, beginning December 31, 2004.

Quanta had approximately $2.7 million of letters of credit issued under the revolving credit facility, and borrowing availability under the revolving credit facility was $32.3 million as of September 30, 2004. Amounts borrowed under the revolving credit facility bear interest at a rate equal to either (a) the Eurodollar Rate plus 1.75% to 3.00%, as determined by the ratio of Quanta's total funded debt to EBITDA, or (b) the Base Rate plus 0.25% to 1.50%, as determined by the ratio of Quanta's total funded debt to EBITDA. Letters of credit issued under the revolving credit facility are subject to a letter of credit fee of 1.75% to 3.00%, based on the ratio of Quanta's total funded debt to EBITDA. If Quanta chooses to cash collateralize letters of credit issued under the revolving credit facility, those letters of credit will be subject to a letter of credit fee of 0.50%. Quanta is also subject to a commitment fee of 0.375% to 0.625%, based on the ratio of its total funded debt to EBITDA, on any unused availability under the revolving credit facility.

The credit facility contains certain covenants, including a maximum funded debt to EBITDA ratio, a maximum senior debt to EBITDA ratio, a minimum interest coverage ratio, a minimum asset coverage ratio and a minimum consolidated net worth covenant. As of September 30, 2004, Quanta was in compliance with all of its covenants. However, other conditions such as, but not limited to, unforeseen project delays or cancellations, adverse weather conditions or poor contract performance, could adversely affect Quanta's ability to comply with its covenants in the future. The credit facility also limits acquisitions, capital expenditures and asset sales and, subject to some exceptions, prohibits liens on material assets, stock repurchase programs and the payment of dividends (other than dividend payments or other distributions payable solely in capital stock). After December 31, 2004, however, the credit facility allows Quanta to pay dividends and engage in stock repurchase programs in any fiscal year in an aggregate amount up to twenty-five percent of Quanta's consolidated net income (plus the amount of non-cash charges that reduced such consolidated net income) for the prior fiscal year. The credit facility carries cross-default provisions with all of Quanta's other debt instruments exceeding $2.0 million in borrowings.

The credit facility is secured by a pledge of all of the capital stock of Quanta's U.S. subsidiaries, 65% of the capital stock of Quanta's foreign subsidiaries and substantially all of Quanta's assets. Borrowings under the credit facility are to be used for working capital, capital expenditures and for other general corporate purposes. Quanta's U.S. subsidiaries guarantee the repayment of all amounts due under the credit facility. Quanta's obligations under the credit facility constitute designated senior indebtedness under its 4.0% and 4.5% convertible subordinated notes.

4.0% Convertible Subordinated Notes

As of September 30, 2004, Quanta had $172.5 million of 4.0% convertible subordinated notes outstanding. These 4.0% convertible subordinated notes 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. These 4.0% convertible subordinated notes require semi-annual interest payments on July 1 and December 31 until the notes mature on July 1, 2007. Quanta has the option to redeem the 4.0% convertible subordinated notes beginning July 3, 2003 at specified redemption prices, together with accrued and unpaid interest; however redemption is prohibited by Quanta's credit facility. If certain fundamental changes occur, as described in the indenture, holders of the 4.0% convertible subordinated notes may require Quanta to purchase all or part of the notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

4.5% Convertible Subordinated Notes

As of September 30, 2004, Quanta had $270.0 million of 4.5% convertible subordinated notes outstanding. These 4.5% convertible subordinated notes are convertible into shares of Quanta's common stock at a price of $11.14 per share, subject to adjustment as a result of certain events. The 4.5% convertible subordinated notes require semi-annual interest payments on April 1 and October 1, until they mature on October 1, 2023.

The 4.5% convertible subordinated notes are convertible by the holder if (i) during any fiscal quarter commencing after December 31, 2003 the last reported sale price of Quanta's common stock is greater than or equal to 120% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the first trading day of such fiscal quarter, (ii) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of that period was less than 98% of the product of the last reported sale price of Quanta's common stock and the conversion rate, (iii) upon Quanta calling the notes for redemption or (iv) upon the occurrence of specified corporate transactions. If the notes become convertible under one of these circumstances, Quanta has the option to deliver cash, shares of Quanta's common stock or a combination thereof, with a value equal to the par value of the notes divided by the conversion price multiplied by the average trading price of Quanta's common stock. The maximum number of shares of common stock that could be issued under these circumstances is equal to the par value of the notes divided by the conversion price. During the nine months ended September 30, 2004, none of the circumstances permitting conversion had occurred.

Beginning October 8, 2008, Quanta may redeem for cash some or all of the 4.5% convertible subordinated notes at par value plus accrued and unpaid interest; however redemption is prohibited by Quanta's credit facility. The holders of the 4.5% convertible subordinated notes may require Quanta to repurchase all or some of the notes at par value plus accrued and unpaid interest on October 1, 2008, 2013 or 2018, or upon the occurrence of a fundamental change, as defined by the indenture under which Quanta issued the notes. Quanta must pay any required repurchases on October 1, 2008 in cash. For all other required repurchases, Quanta has the option to deliver cash, shares of its common stock or a combination thereof to satisfy its repurchase obligation. Quanta presently does not anticipate using stock to satisfy any future obligations. If Quanta were to satisfy the obligation with shares of its common stock, the number of shares delivered will equal the dollar amount to be paid in common stock divided by 98.5% of the market price of Quanta's common stock, as defined by the indenture. The number of shares to be issued under this circumstance is not limited. The right to settle for shares of common stock can be surrendered by Quanta. The 4.5% convertible subordinated notes carry cross-default provisions with Quanta's credit facility and any other debt instrument that exceeds $10.0 million in borrowings.

7. Stockholders' Equity:

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 are subject to restrictions on transfer and certain other conditions. During the restriction period, the plan participants are entitled to vote and receive dividends on such shares. Upon issuance of the restricted stock, an unamortized compensation expense equivalent to the market value of the shares on the date of grant is charged to stockholders' equity, and assuming the employee or consultant continues to meet the requirements for vesting, is amortized to expense as non-cash compensation over the restriction period, typically three years.

In 2003, Quanta offered eligible employees and consultants the opportunity to exchange certain outstanding stock options for restricted shares of Quanta's common stock. Of the eligible options pursuant to the offer, 520,267 options were not exchanged. Of those options, 283,434 remain outstanding and 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 $25.19. 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.

During the first nine months of 2004, approximately 827,000 shares of additional restricted stock, with $5.8 million in market value, were granted to Quanta employees and eligible consultants. As of September 30, 2003 and 2004, 3.2 million and 2.5 million shares of unvested restricted stock were outstanding. The non-cash compensation expense recognized with respect to all restricted stock during the three and nine months ended September 30, 2003 was approximately $0.8 million and $1.9 million, and for the three and nine months ended September 30, 2004, was approximately $1.2 million and $3.5 million.

Treasury Stock

Pursuant to the 2001 Stock Incentive Plan, employees may elect to satisfy their tax withholding obligations upon the vesting of restricted stock by having Quanta make such tax payments and withhold a number of vested shares having a value on the date of vesting equal to their tax withholding obligation. As a result of such employee elections, Quanta has withheld 339,459 shares during 2004 at a total value of $2.9 million and these shares have been accounted for as Treasury Stock.

8. Segment Information:

Quanta has aggregated each of its individual operating units into 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.

	Nine Months Ended September 30,	
	2003	2004
	(In thousands)	
Electric power and gas network services	$ 736,631	$ 776,273
Telecommunications network services	180,523	149,701
Cable television network services	84,809	51,913
Ancillary services	209,601	229,381
	$1,211,564	$1,207,268

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

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 all such lawsuits, claims and proceedings, Quanta accrues reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Quanta does not believe that any of these proceedings, separately or in the aggregate, would be expected to have a material adverse effect on Quanta's results of operations or financial position.

Self-Insurance

Quanta is insured for employer's liability and general liability claims, subject to a deductible of $1,000,000 per occurrence and for auto liability and workers' compensation, subject to a deductible of $2,000,000 per occurrence. In addition, Quanta maintains a non-union employee related health care benefits 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 undiscounted liability for claims incurred, an estimate of claims incurred but not reported and future expected legal costs associated with the claims. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate. At December 31, 2003 and September 30, 2004, the amounts accrued for self-insurance claims were $62.3 million and $78.1 million, with $36.2 million and $45.8 million considered to be long-term and included in Other Non-Current Liabilities.

As of September 30, 2004, Quanta had restricted cash pursuant to an obligation under its casualty insurance policy for the period from March 1, 2003 to February 29, 2004. The total restricted cash will be reduced by amounts used to pay claims in the future. As of September 30, 2004, the balance of restricted cash was $0.9 million, which is classified in Other Current Assets.

Quanta's casualty insurance carrier for the policy periods from August 1, 2000 to February 28, 2003 is experiencing financial distress but is currently paying valid claims. In the event that this insurer's financial situation further deteriorates, Quanta may be required to pay certain obligations that otherwise would have been paid by this insurer. Quanta estimates that the total future claim amounts that this insurer is currently obligated to pay on Quanta's behalf for the above-mentioned policy periods is between $2.0 million and $8.0 million. The actual amounts ultimately paid by Quanta related to these claims, if any, may vary materially from the above range and could be impacted by further claims development and the extent to which the insurer could not honor its obligations. In any event, Quanta does not expect any failure by this insurer to honor its obligations to Quanta to have a material adverse impact on Quanta's financial condition; however, the impact could be material to Quanta's results of operations or cash flow in a given period. Quanta continues to monitor the financial situation of this insurer and analyze any alternative actions that could be pursued.

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 September 30, 2004, the total amount of outstanding performance bonds was approximately $454.3 million.

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 September 30, 2004 (in thousands):

	Capital Leases	Operating Leases
Year Ending December 31 —		
2004	$ 78	$ 5,220
2005	319	16,605
2006	616	10,450
2007	—	7,021
2008	—	6,113
Thereafter	—	14,557
Total minimum lease payments	$1,013	$59,966
Less — Amounts representing interest	36	
Present value of minimum lease payments	977	
Less — Current portion	291	
Total long-term obligations	$ 686	

Quanta has guaranteed the residual value of the underlying assets under certain equipment operating leases at the date of termination of such leases. Quanta has agreed to pay any difference between this residual value and the fair market value of each underlying asset as of the lease termination date. At September 30, 2004, the maximum guaranteed residual value would have been approximately $103.3 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.

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 the occurrence of any of the defined events in the various employment agreements, Quanta will pay certain amounts to the employee, which vary with the level of the employee's responsibility.

Collective Bargaining Agreements

Certain subsidiaries are party to various collective bargaining agreements covering 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 its operations, Quanta is subject to audit by tax authorities for varying periods in various federal, state, local and 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 September 30, 2004, Quanta is not aware of circumstances that would lead to future indemnity claims against it for material amounts in connection with these transactions.

As of September 30, 2004, Quanta has agreed to issue up to $26.4 million in additional letters of credit during 2004 and 2005 relating to Quanta's casualty insurance programs.

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 15, 2004, and is available at the SEC's website 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 had consolidated revenues for the nine months ended September 30, 2004 of $1.2 billion, of which 64% was attributable to electric power and gas customers, 12% to telecommunications customers, 4% to cable television operators and 20% to 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.

We enter into various types of contracts including competitive unit price, cost-plus or time and materials basis, or fixed price, the final terms and prices of which we frequently negotiate with the customer. Although the terms of our contracts vary considerably, most are made on either a unit price or fixed price basis in which we agree to do the work for a price per unit of work performed (unit price) or for a fixed amount for the entire project (fixed price). We complete a substantial majority of our fixed price projects within one year, while we frequently provide maintenance and repair work under open-ended, unit price or cost-plus master service agreements which are renewable annually. 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.

Cost of services consists primarily of salaries, wages and benefits to employees, depreciation, fuel and other equipment expenses, equipment rentals, subcontracted services, insurance, facilities expenses, materials and parts and supplies. Our gross margin, which is gross profit expressed as a percentage of revenues, is typically higher on projects where labor, rather than materials, constitute a greater portion of the cost of services. We seek higher margins on our labor-intensive projects because we can generally predict materials costs more accurately than labor costs. Operating margins could be impacted by fluctuations in insurance accruals related to our deductibles in the period in which such adjustments are made. As of September 30, 2004, we have a deductible of $1,000,000 per occurrence related to employer's liability and general liability claims and a deductible of $2,000,000 per occurrence for automobile liability and workers' compensation insurance. We also have a non-union employee related health care benefit plan that is subject to a deductible of $250,000 per claimant per year.

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

Seasonality; Fluctuations of 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 or year may not be indicative of the results that can be expected for any other quarter or for any other year. You should read "Outlook" for additional discussion of trends and challenges that may affect our business financial condition and results of operations.

Significant Balance Sheet Changes

Total assets increased approximately $7.7 million as of September 30, 2004 compared to December 31, 2003. This increase includes an increase in cash of $38.1 million, as discussed in Liquidity and Capital Resources, which was partially offset by the net impact of the following increases and decreases:

- Accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts increased $36.1 million primarily due to higher revenues during the third quarter of 2004 as compared to the fourth quarter of 2003. The increase was also the result of a significant volume of storm restoration services provided in the Southeastern United States in the wake of four hurricanes near the end of the third quarter of 2004.

- Prepaid expenses and other current assets decreased $34.6 million primarily due to the receipt of a federal tax refund of $30.2 million and the use of $7.8 million in current restricted cash to pay casualty insurance claims. These decreases were partially offset by a net change in prepayments for insurance policy renewals of $1.0 million.

- Property and equipment, net decreased $16.8 million due to depreciation expense of $43.8 million recorded during the period in addition to the sale of certain property and equipment, offset by increases as a result of capital expenditures of $30.0 million.

- Accounts and notes receivable, net decreased $14.9 million primarily due to the receipt of $23.5 million from the sale of receivables due from Adelphia Communications Corporation (Adelphia), offset by an increase due to the reclassification of $6.9 million from current accounts receivable due to uncertainty related to the collectibility of the receivable within the next twelve months and an increase of $1.4 million in long term retainage.

As of September 30, 2004, total liabilities increased approximately $11.5 million and stockholders' equity decreased approximately $3.7 million compared to December 31, 2003. These fluctuations were primarily due to the following:

- Accounts payable and accrued expenses increased $39.4 million primarily due to a $16.9 million increase in accrued compensation and benefits related to a significant volume of storm restoration services provided near the end of the third quarter, coupled with the timing of payroll cut-off at the end of the third quarter 2004 as compared to a reduced work week at the end of 2003 due to the holidays. The increase was also due to a $10.4 million increase in accrued insurance resulting primarily from higher than anticipated claims development, a $6.4 million increase in trade accounts payable as a result of higher revenues during the third quarter of 2004 as compared to the fourth quarter of 2003, and a $5.1 million increase in accrued interest and fees due to the timing of interest payments.

- Long-term debt, including current maturities, decreased $31.2 million due to $29.5 million in repayments of the term loan under the letter of credit facility and net repayments of other long-term debt of $1.7 million.

- Deferred income taxes and other non-current liabilities increased $3.9 million due to an increase of $9.6 million in the long-term portion of our self-insurance reserves and $3.6 million in additional long-term tax liabilities. These increases were offset by a $9.0 million net decrease in non-current deferred tax liabilities primarily resulting from an increase in the net operating loss carryforward relating to the net loss for the period. Non-current deferred tax assets are netted against non-current deferred tax liabilities for financial statement presentation purposes.

- Stockholders' equity decreased $3.7 million as a result of the net loss attributable to common stock of $11.0 million and treasury stock recorded in the amount of $2.9 million for shares withheld from employees' restricted stock upon vesting to satisfy their tax withholding obligations. These decreases were partially offset by an income tax benefit of $2.3 million relating to stock based compensation, the issuance of approximately $3.0 million in shares of common stock pursuant to our Employee Stock Purchase Plan and amortization of the deferred compensation component of stockholders' equity in the amount of $3.5 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 September 30,				Nine Months Ended September 30,			
	2003		2004		2003		2004	
	(Dollars in thousands)							
Revenues	$436,133	100.0%	$463,077	100.0%	$1,211,564	100.0%	$1,207,268	100.0%
Cost of services (including depreciation)	381,125	87.4	404,652	87.4	1,065,281	87.9	1,075,778	89.1
Gross profit	55,008	12.6	58,425	12.6	146,283	12.1	131,490	10.9
Selling, general and administrative expenses	39,193	9.0	44,265	9.5	136,964	11.3	128,396	10.6
Income from operations	15,815	3.6	14,160	3.1	9,319	0.8	3,094	0.3
Interest expense	(8,080)	(1.8)	(6,379)	(1.4)	(24,182)	(2.0)	(18,973)	(1.6)
Other income, net	489	0.1	823	0.2	1,073	0.1	1,545	0.1
Income (loss) before income tax provision (benefit)	8,224	1.9	8,604	1.9	(13,790)	(1.1)	(14,334)	(1.2)
Provision (benefit) for income taxes	2,825	0.7	4,448	1.0	(4,511)	(0.3)	(3,304)	(0.3)
Net income (loss)	5,399	1.2	4,156	0.9	(9,279)	(0.8)	(11,030)	(0.9)
Dividends on preferred stock, net of forfeitures	—	—	—	—	(2,109)	(0.2)	—	—
Net income (loss) attributable to common stock	$ 5,399	1.2%	$ 4,156	0.9%	$ (7,170)	(0.6)%	$ (11,030)	(0.9)%

Three Months Ended September 30, 2004, Compared to the Three Months Ended September 30, 2003

Revenues. Revenues increased $26.9 million, or 6.2%, to $463.1 million for the three months ended September 30, 2004 with revenues derived from the electric power and gas network services industry increasing by $55.2 million and revenues derived from ancillary services increasing $6.5 million, partially offset by revenues from the cable television network services industry decreasing by approximately $19.6 million and revenues from the telecommunications network service industry decreasing by approximately $15.2 million. The increase in revenues was primarily due to a larger volume of storm restoration services provided during the three months ended September 30, 2004 to our electric power and gas customers in the Southeastern United States in the wake of four hurricanes. This increase was partially offset by the continued decrease in capital spending by our customers as many of them continue to face significant financial pressures, which have negatively impacted the award of work to specialty contractors. We have also become more selective in the jobs we pursue, and pricing pressures have contributed to lower revenues as the competitive bid environment has tightened.

Gross profit. Gross profit increased $3.4 million, or 6.2%, to $58.4 million for the three months ended September 30, 2004. As a percentage of revenues, gross margin remained constant at 12.6% for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. For the three months ended September 30, 2004, margins from our electric power and gas network services industry were higher due to a larger volume of higher margin storm restoration services discussed above, while margins in the other industries we serve were approximately the same as last year's third quarter. For the third quarter of 2004, overall margins were negatively impacted by an incremental increase in casualty insurance expense of $10.7 million primarily due to higher than anticipated claims development during the quarter.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $5.1 million, or 12.9%, to $44.3 million for the three months ended September 30, 2004. The increase is primarily due to $2.6 million in increased professional fees primarily due to costs associated with meeting the requirements of the Sarbanes-Oxley Act of 2002, an increase in salaries and benefits of $0.9 million primarily related to higher insurance and benefits costs and cost of living increases, and an increase of $0.4 million due to higher non-cash compensation expense associated with the issuance of restricted stock. In addition, we incurred approximately $0.5 million in expenses related to the secondary offering of a portion of our largest stockholder's shares of common stock during the quarter as well as an increase in the net loss on the sale of property and equipment of $0.5 million as compared to the third quarter of last year.

Interest expense. Interest expense decreased $1.7 million, or 21.1%, to $6.4 million for the three months ended September 30, 2004. The decrease was due to our refinancing of the majority of our outstanding debt during the fourth quarter of 2003 at lower interest rates.

Provision (benefit) for income taxes. The provision for income taxes was $4.4 million for the three months ended September 30, 2004, with an effective tax rate of 51.7%, compared to a provision of $2.8 million for the three months ended September 30, 2003, with an effective tax rate of 34.4%. The provision for income taxes for both periods is the result of recording a provision on a year to date basis using the estimated annual effective tax rate.

Nine Months Ended September 30, 2004, Compared to the Nine Months Ended September 30, 2003

Revenues. Revenues for the nine months ended September 30, 2004 were relatively constant, at approximately $1.2 billion, compared to revenues for the nine months ended September 30, 2003, with revenues derived from the electric power and gas network service industry increasing by $39.6 million, revenues from the telecommunications network services industry decreasing by approximately $30.8 million, revenues from the cable television network services industry decreasing by approximately $32.9 million and revenues from ancillary services increasing by approximately $19.8 million. Offsetting the increase in revenue provided by the storm restoration services in the third quarter of 2004 discussed above, were negative impacts due to the continued decline in capital spending by our customers as many of them continue to face significant financial pressures, which have negatively impacted the award of work to specialty contractors. We have also become more selective in the jobs we pursue, and pricing pressures have contributed to lower revenues as the competitive bid environment has tightened.

Gross profit. Gross profit decreased $14.8 million, or 10.1%, to $131.5 million for the nine months ended September 30, 2004. As a percentage of revenue, gross margin decreased from 12.1% for the nine months ended September 30, 2003 to 10.9% for the nine months ended September 30, 2004. This decrease in gross margin resulted primarily from the increased insurance costs impacting the third quarter of 2004 as discussed above, pricing pressures on work performed for utility and cable customers, and increased fuel and safety costs, as well as cost overruns and weather delays on certain projects during the first quarter of 2004. These decreases were partially offset by a larger volume of higher margin storm restoration services performed during the third quarter of 2004 as previously discussed.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased $8.6 million, or 6.3%, to $128.4 million for the nine months ended September 30, 2004. During the nine months ended September 30, 2003, we recorded $19.8 million in bad debt expense related primarily to notes receivable from one customer, compared to only $0.2 million during the nine months ended September 30, 2004. Excluding bad debt expense, selling, general and administrative expenses for the nine months ended September 30, 2004 increased $11.0 million primarily due to $5.5 million in increased professional fees primarily due to costs associated with meeting the requirements of the Sarbanes-Oxley Act of 2002, $1.7 million in costs associated with the start up of our government solutions subsidiary, an increase of $1.9 million in salaries and benefits primarily due to higher insurance and benefits costs and cost of living increases and an increase of $1.5 million due to higher non-cash compensation expense associated with the issuance of restricted stock. In addition, we incurred approximately $0.5 million in expenses related to the secondary offering of a portion of our largest stockholder's shares of common stock during the third quarter of 2004. The increases were partially offset by the recording of $0.5 million in net gains on sale of property and equipment during 2004, as compared to $1.0 million of net losses on sale of property and equipment during 2003.

Interest expense. Interest expense decreased $5.2 million, or 21.5%, to $19.0 million for the nine months ended September 30, 2004. This decrease was due to our refinancing of the majority of our outstanding debt during the fourth quarter of 2003 at lower interest rates.

Provision (benefit) for income taxes. The benefit for income taxes was $3.3 million for the nine months ended September 30, 2004, with an effective tax rate of 23.1%, compared to a benefit of $4.5 million, with an effective tax rate of 32.7% for the nine months ended September 30, 2003. The estimated annual effective tax rates for both periods reflect a benefit for income taxes at rates that are lower than the combined federal and blended state tax rates due to tax expense on estimated non-deductible items.

Dividends on preferred stock, net of forfeitures. For the nine months ended September 30, 2003, we recorded approximately $2.1 million in forfeitures of dividends on the Series A Convertible Preferred Stock. In the first quarter of 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 and the series was eliminated during the second quarter of 2003. Any dividends that had accrued on the respective shares of Series A Convertible Preferred Stock were reversed on the date of conversion.

Liquidity and Capital Resources

Cash Requirements

We anticipate that our cash on hand, which totaled $217.7 million as of September 30, 2004, our credit facility and our future cash flow from operations will provide sufficient cash to enable us to meet our future operating needs, debt service requirements and planned capital expenditures and to ensure our future ability to grow. Momentum in deployment of fiber to the premise or initiatives to rebuild the United States electric power grid might require a significant amount of additional working capital. However, we feel that we have adequate cash and availability under our credit facility to meet such needs.

Sources and Uses of Cash

As of September 30, 2004, we had cash and cash equivalents of $217.7 million, working capital of $480.2 million and long-term debt of $470.3 million, net of current maturities. Our long-term debt balance at that date included borrowings of $442.5 million of convertible subordinated notes and $27.8 million of other debt. We also had $123.0 million of letters of credit outstanding under our credit facility.

During the nine months ended September 30, 2004, operating activities provided net cash flow of $85.5 million. Operating cash flow before changes in working capital and other operating accounts totaled $29.4 million. Net changes in working capital and other operating accounts provided $56.1 million of cash flow from operations. Cash flow from operations is primarily influenced by demand for our services, operating margins and the type of services we provide. The receipt of a tax refund of $30.2 million and $23.5 million received from the sale of our receivable due from Adelphia positively impacted cash flow from operating activities during the nine months ended September 30, 2004. We used net cash in investing activities of $18.1 million, including $30.0 million used for capital expenditures, partially offset by an $8.4 million reduction in restricted cash required by our casualty insurance program coupled with $3.4 million of proceeds from the sale of equipment. We used net cash in financing activities of $29.2 million, resulting primarily from a $29.5 million repayment under the term loan portion of the credit facility in order to be able to issue additional letters of credit and maintain our total borrowing requirement of $150.0 million discussed below.

Debt Instruments

Credit Facility

We have a $185.0 million credit facility with various lenders. The credit facility consists of a $150.0 million letter of credit facility maturing on June 19, 2008, which also provides for term loans, and a $35.0 million revolving credit facility maturing on December 19, 2007, which provides for revolving loans and letters of credit.

The letter of credit facility is linked to a $150.0 million deposit made by the lenders, which is held in an account with Bank of America, N.A. This deposit may be used either to support letters of credit or, to the extent that amounts available under the facility are not used to support letters of credit, for term loans. We are currently required to maintain total borrowings outstanding under the letter of credit facility equal to the $150.0 million available through a combination of letters of credit or term loans. As of September 30, 2004, we had approximately $120.3 million of letters of credit issued under the letter of credit facility. Additionally, $26.5 million of the letter of credit facility was outstanding as a term loan with an interest rate of 4.89%, and the remaining $3.2 million was available for issuing new letters of credit. In the event that we desire to issue additional letters of credit under the letter of credit facility, we are required to make cash repayments of debt outstanding under the term loan portion of the letter of credit facility in an amount that approximates the additional letters of credit.

Under the letter of credit facility, we are subject to a fee equal to 3.00% to 3.25% of the letters of credit outstanding, depending upon the occurrence of certain events, plus an additional 0.15% of the amount outstanding to the extent the funds in the deposit account do not earn the LIBOR, as defined in the credit facility. Term loans under the letter of credit facility bear interest at a rate equal to either (a) the Eurodollar Rate (as defined in the credit facility) plus 3.00% to 3.25% or (b) the Base Rate (as described below) plus 3.00% to 3.25% depending upon the occurrence of certain events. The Base Rate equals the higher of (i) the Federal Funds Rate (as defined in the credit facility) plus 1/2 of 1% and (ii) the bank's prime rate. The maximum availability under the letter of credit facility is automatically reduced on December 31 of each year by $1.5 million, beginning December 31, 2004.

We had approximately $2.7 million of letters of credit issued under the revolving credit facility, and borrowing availability under the revolving credit facility was $32.3 million as of September 30, 2004. Amounts borrowed under the revolving credit facility bear interest at a rate equal to either (a) the Eurodollar Rate plus 1.75% to 3.00%, as determined by the ratio of our total funded debt to EBITDA, or (b) the Base Rate plus 0.25% to 1.50%, as determined by the ratio of our total funded debt to EBITDA. Letters of credit issued under the revolving credit facility are subject to a letter of credit fee of 1.75% to 3.00%, based on the ratio of our total funded debt to EBITDA. If we choose to cash collateralize letters of credit issued under the revolving credit facility, those letters of credit will be subject to a letter of credit fee of 0.50%. We are also subject to a commitment fee of 0.375% to 0.625%, based on the ratio of our total funded debt to EBITDA, on any unused availability under the revolving credit facility.

The credit facility contains certain covenants, including a maximum funded debt to EBITDA ratio, a maximum senior debt to EBITDA ratio, a minimum interest coverage ratio, a minimum asset coverage ratio and a minimum consolidated net worth covenant. As of September 30, 2004, we were in compliance with all of our covenants. However, other conditions such as, but not limited to, unforeseen project delays or cancellations, adverse weather conditions or poor contract performance, could adversely affect our ability to comply with our covenants in the future. The credit facility also limits acquisitions, capital expenditures and asset sales and, subject to some exceptions, prohibits liens on material assets, stock repurchase programs and the payment of dividends (other than dividend payments or other distributions payable solely in capital stock). After December 31, 2004, however, the credit facility allows us to pay dividends and engage in stock repurchase programs in any fiscal year in an aggregate amount up to twenty-five percent of our consolidated net income (plus the amount of non-cash charges that reduced such consolidated net income) for the prior fiscal year. The credit facility carries cross-default provisions with all of our other debt instruments exceeding $2.0 million in borrowings.

The credit facility is secured by a pledge of all of the capital stock of our U.S. subsidiaries, 65% of the capital stock of our foreign subsidiaries and substantially all of our assets. Borrowings under the credit facility are to be used for working capital, capital expenditures and for other general corporate purposes. Our U.S. subsidiaries guarantee the repayment of all amounts due under the credit facility. Our obligations under the credit facility constitute designated senior indebtedness under our 4.0% and 4.5% convertible subordinated notes.

4.0% Convertible Subordinated Notes

As of September 30, 2004, we had $172.5 million of 4.0% convertible subordinated notes outstanding. These 4.0% convertible subordinated notes 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. These 4.0% convertible subordinated notes require semi-annual interest payments on July 1 and December 31 until the notes mature on July 1, 2007. We have the option to redeem some or all of the 4.0% convertible subordinated notes beginning July 3, 2003 at specified redemption prices, together with accrued and unpaid interest; however, redemption is prohibited by our credit facility. If certain fundamental changes occur, as described in the indenture under which we issued the 4.0% convertible subordinated notes, holders of the 4.0% 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.

4.5% Convertible Subordinated Notes

As of September 30, 2004, we had $270.0 million of 4.5% convertible subordinated notes outstanding. These 4.5% convertible subordinated notes are convertible into shares of our common stock at a price of $11.14 per share, subject to adjustment as a result of certain events. The 4.5% convertible subordinated notes require semi-annual interest payments on April 1 and October 1, until the notes mature on October 1, 2023.

The 4.5% convertible subordinated notes are convertible by the holder if (i) during any fiscal quarter commencing after December 31, 2003 the last reported sale price of our common stock is greater than or equal to 120% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the first trading day of such fiscal quarter, (ii) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of that period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate, (iii) upon us calling the notes for redemption or (iv) upon the occurrence of specified corporate transactions. If the notes become convertible under one of these circumstances, we have the option to deliver cash, shares of our common stock or a combination thereof, with a value equal to the par value of the notes divided by the conversion price multiplied by the average trading price of our common stock. The maximum number of shares of common stock that could be issued under these circumstances is equal to the par value of the notes divided by the conversion price. During the nine months ended September 30, 2004, none of the circumstances permitting conversion had occurred.

Beginning October 8, 2008, we can redeem for cash some or all of the 4.5% convertible subordinated notes at par value plus accrued and unpaid interest. The holders of the 4.5% convertible subordinated notes may require us to repurchase all or some of the notes at par value plus accrued and unpaid interest on October 1, 2008, 2013 or 2018, or upon the occurrence of a fundamental change, as defined by the indenture under which we issued the notes. We must pay any required repurchase on October 1, 2008 in cash. For all other required repurchases, we have the option to deliver cash, shares of our common stock or a combination thereof to satisfy our repurchase obligation. We presently do not anticipate using stock to satisfy any future obligations. If we were to satisfy the obligation with shares of our common stock, we will deliver a number of shares equal to the par value of the notes divided by 98.5% of the average trading price of our common stock, as defined by the indenture. The number of shares of common stock issuable by us under this circumstance is not limited. Our right to satisfy a required repurchase obligation with shares of common stock can be surrendered by us. The 4.5% convertible subordinated notes carry cross-default provisions with our credit facility and any other debt instrument that exceeds $10.0 million in borrowings.

Off-Balance Sheet Transactions

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

Leases

We enter into non-cancelable operating leases for many of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for use of facilities, vehicles and equipment rather than purchasing them. We may decide to cancel or terminate a lease before the end of its term, in which case we are typically liable to the lessor for the remaining lease payments under the term of the lease.

We have guaranteed the residual value of the underlying assets under certain of our equipment operating leases at the date of termination of such leases. We have agreed to pay any difference between this residual value and the fair market value of each underlying asset as of the lease termination date. As of September 30, 2004, the maximum guaranteed residual value would have been approximately $103.3 million. We believe that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future significant payments will not be required.

Letters of Credit

Certain of our vendors require letters of credit to ensure reimbursement for amounts they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance programs. In addition, from time to time some customers require us to post letters of credit to ensure payment to our subcontractors and vendors under those contracts and to guarantee performance under our contracts. Such letters of credit are generally issued by a bank or similar financial institution. 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. We do not believe that it is likely that any claims will be made under a letter of credit in the foreseeable future.

As of September 30, 2004, we had $123.0 million in letters of credit outstanding under our credit facility primarily to secure obligations under our casualty insurance program. These are irrevocable stand-by letters of credit with maturities expiring at various times throughout 2004 and 2005. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods. As of September 30, 2004, we have agreed to issue up to $26.4 million in additional letters of credit during 2004 and 2005 relating to our casualty insurance programs.

Performance Bonds

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. We have posted letters of credit in favor of the surety and are currently negotiating additional forms of collateralization pursuant to which we may be required to post additional letters of credit and grant security interests in certain of our assets to fully collateralize our obligations to the surety. Our grant of security interests in certain of our assets will require the consent of the lenders under our credit facility. Posting letters of credit in favor of the surety will also reduce the availability under our credit facility. To date, we have not had any significant reimbursements to our surety for bond-related costs. We currently believe that we will not have to fund any claims under our surety arrangements in the foreseeable future. As of September 30, 2004, the total amount of outstanding performance bonds was approximately $454.3 million.

Contractual Obligations

As of September 30, 2004, our future contractual obligations, including interest under capital leases, are as follows (in thousands):

	Total	2004	2005	2006	2007	2008	Thereafter
Long-term debt — principal	$473,414	$ 2,955	$ 1,007	$ 360	$172,592	$296,500	$ —
Long-term debt — interest	67,576	4,763	19,050	19,050	15,600	9,113	—
Capital lease obligations	1,013	78	319	616	—	—	—
Operating lease obligations	59,966	5,220	16,605	10,450	7,021	6,113	14,557
Total	$601,969	$13,016	$36,981	$30,476	$195,213	$311,726	$14,557

Excluded from the above table is interest associated with borrowings under the credit facility because both the amount borrowed and applicable interest rate are variable. The principal amount borrowed under the credit facility included in the above table is $26.5 million due in 2008, which bears interest at a rate of 4.89% as of September 30, 2004. In addition, our multi-employer pension plan contributions are determined annually based on our union employee payrolls, which cannot be determined for future periods in advance.

Concentration of Credit Risk

We grant credit under normal payment terms, 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 have certain lien rights with respect to 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 and utility industries have experienced significant financial difficulties. These economic conditions expose us to increased risk related to collectibility of receivables for services we have performed.

We are involved in a dispute with one of our customers and are uncertain whether the balance will be collected within one year; therefore as of September 30, 2004, we have included the balance in non-current assets and included it in Accounts and Notes Receivable. Also included in Accounts and Notes Receivable are amounts due from a customer relating to the construction of independent power plants. We have agreed to long-term payment terms for this customer. The notes receivable from this customer are partially secured. We have 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 September 30, 2004, the total balance due from these two customers was $54.8 million, net of an allowance for doubtful accounts of $42.8 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 that 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

We have entered into employment agreements with certain employees that become effective upon a change of control of Quanta (as defined in the employment agreements). The employment agreements provide that, following a change of control, if we terminate the employee without cause (as defined in the employment agreements), the employee terminates employment for good reason (as defined in the 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 for 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 nine months after the change of control.

Related Party Transactions

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

Early in the fourth quarter of 2004, First Reserve Fund IX,. L.P., a private investment fund managed by First Reserve Corporation, completed the sale of a total of 20,125,000 shares of our common stock to the public. We did not receive any of the proceeds of the offering, but incurred approximately $0.5 million in expenses during the third quarter of 2004 as a result of the offering. As a result, First Reserve owns approximately 16.3% of our common stock.

New Pronouncements

In September 2004, the Emerging Issues Task Force (EITF) discussed EITF Issue 04-08, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share." The EITF reached a consensus that would require all issued securities with contingent conversion features containing market price contingencies based on a company's stock price to be accounted for using the "if converted" method in calculating earnings per share. This EITF would require that earnings per share be retroactively restated for the effect of conversion of any contingently convertible debt instruments starting with the issuance date of the contingently convertible debt instrument. Our 4.5% convertible subordinated notes contain contingent conversion features; however the adoption of EITF 04-08 would not require the restatement of our earnings per share as the effect of assuming conversion of the 4.5% convertible subordinated notes would be antidilutive for all periods since the date of issuance.

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 Non-Current 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. Certain of our customers, several of them large public telecommunications carriers and utility customers, have been experiencing financial difficulties. Should any major customers file for bankruptcy or continue to 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. In addition, material changes in our customers' revenues or cash flows could affect our ability to collect amounts due from them.

Valuation of Long-Lived Assets. 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 unamortized 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. Estimating future cash flows requires significant judgment and our projections may vary from cash flows eventually realized.

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. Estimating future cash flows requires significant judgment and our projections may vary from cash flows eventually realized. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value. In addition, we estimate the useful lives of our long-lived assets and other intangibles. We periodically review factors to determine whether these lives are appropriate. Net gains or losses from the sale of property and equipment are reflected in Selling, General and Administrative Expenses.

Revenue Recognition. 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. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

Self-Insurance. We are insured for employer's liability and general liability claims, subject to a deductible of $1,000,000 per occurrence, and for auto liability and workers' compensation subject to a deductible of $2,000,000 per occurrence. We also have a 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 undiscounted liability for claims incurred, an estimate of claims incurred but not reported and for future expected legal costs associated with the claims. 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.

Our casualty insurance carrier for the policy periods from August 1, 2000 to February 28, 2003 is experiencing financial distress but is currently paying valid claims. In the event that this insurer's financial situation further deteriorates, we may be required to pay certain obligations that otherwise would have been paid by this insurer. We estimate that the total future claim amounts that this insurer is currently obligated to pay on our behalf for the above-mentioned policy periods is between $2.0 million and $8.0 million. The actual amounts ultimately paid by us related to these claims, if any, may vary materially from the above range and could be impacted by further claims development and the extent to which the insurer could not honor its obligations. In any event, we do not expect any failure by this insurer to honor its obligations to us to have a material adverse impact on our financial condition; however, the impact could be material to our results of operations or cash flow in a given period. We continue to monitor the financial situation of this insurer and analyze any alternative actions that could be pursued.

Stock Based Compensation. We account for our stock option awards 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 costs 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, a majority of our stock options were exchanged for restricted shares of our common stock. The remaining eligible options that were not exchanged are required to be accounted for under variable plan accounting rules of APB opinion No. 25. See Note 7 to the Notes to Condensed Consolidated Financial Statements for additional discussion of the restricted stock issued under our 2001 Stock Incentive Plan and the effects thereof.

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 electric power, gas, telecommunications and cable television industries, we have faced a number of challenges. The telecommunications and utility markets experienced substantial change during 2002 and 2003 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 of projects and reduction of capital spending that have impacted our operations and ability to grow at historical levels during 2003 and 2004.

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.

In 2005, we expect increasing demand for our services from our electric power, gas and telecommunications customers, continued decline in demand for our services from our cable customers and relatively level demand for our services from our ancillary services customers. 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. In addition, our utility customers have an increasing awareness of transmission and distribution network upgrade needs. 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 2005 are expected to be approximately $40.0 million to $50.0 million. A majority of the expenditures will be for operating equipment. We expect expenditures for 2005 to be funded substantially through internal cash flows and, to the extent necessary, from cash on hand.

Sarbanes-Oxley Act and New SEC Rules

Several regulatory and legislative initiatives were introduced in 2002 and 2003 in response to developments during 2001 and 2002 regarding accounting issues at large public companies, resulting disruptions in the capital markets and ensuing calls for action to prevent repetition of those events. We support the actions called for under these initiatives and believe these steps will ultimately be successful in accomplishing the stated objectives. However, implementation of reforms in connection with these initiatives have added and will add to the costs of doing business for all publicly-traded entities, including Quanta. These costs will have an adverse impact on future income and cash flows, especially in the near term as legal, accounting and consulting costs are incurred to analyze the new requirements, formalize current practices and implement required changes to ensure that we maintain compliance with these new rules. There is little in the way of historical guidance to accurately predict these costs and we are not able to estimate the magnitude of increase in our costs that will result from such reforms.

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 in the industries we serve; 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:

• Quarterly variations in our operating results due to seasonality and adverse weather conditions;

• Our dependence on fixed price contracts;

• The inability of our customers to pay for services following a bankruptcy or other financial difficulty;

• Material adverse changes in economic conditions in the markets served by us or by our customers;

• Rapid technological and structural changes that could reduce the demand for the services we provide;

• Our ability to effectively compete for market share;

• Cancellation provisions within our contracts and the risk that contracts expire and are not renewed;

• Liabilities for claims that are not self-insured or for claims that our insurance carrier fails to pay;

- Potential liabilities relating to occupational health and safety matters;
- Retention of key personnel and qualified employees;
- The impact of our unionized workforce on our operations and acquisition strategy;
- Our growth outpacing our infrastructure;
- Our ability to obtain performance bonds;
- Potential exposure to environmental liabilities;
- The cost of borrowing, availability of credit, debt covenant compliance and other factors affecting our financing activities;
- Our ability to generate internal growth;
- The adverse impact of goodwill impairments;
- Replacement of our contracts as they are completed or expire;
- Our ability to effectively integrate the operations of our companies;
- Beliefs and assumptions about the collectibility of receivables; 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***

Our management evaluated, with the participation of our Chairman and Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of September 30, 2004. Based on their evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2004.

Management does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Quanta have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some person or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or because the degree of compliance with the polices or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, management has concluded, based on their evaluation as of the end of the period, that our disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system are met.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2004, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 that 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. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

On August 28, 2004, 9,392 shares of restricted stock that had been issued pursuant to our 2001 Stock Incentive Plan vested. Pursuant to the 2001 Stock Incentive Plan, employees may elect to satisfy their tax withholding obligations upon vesting by having us make such tax payments and withhold a number of vested shares having a value on the date of vesting equal to their tax withholding obligation. As a result of such employee elections, we withheld shares as follows and accounted for such shares as Treasury Stock:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May yet Be Purchased Under the Plans or Programs
August 1, 2004 — August 31, 2004	2,313(i)	$ 6.34	None	None

(i) These shares were not purchased through a publicly announced plan or program.

Item 6. ***Exhibits.***

Exhibit Number	Description	
3.1	—	Restated Certificate of Incorporation (previously filed as Exhibit 3.3 to the Company’s Form 10-Q (No. 001-13831) filed August 14, 2003 and incorporated herein by reference)
3.2	—	Amended and Restated Bylaws (previously filed as Exhibit 3.2 to the Company’s 2000 Form 10-K (No. 001-13831) filed April 2, 2001 and incorporated herein by reference)
10.1*	—	Employment Agreement, dated as of March 13, 2002, by and between Quanta Services, Inc. and Kenneth W. Trawick (filed herewith)
10.2	—	Underwriting Agreement dated September 30, 2004 among Quanta Services, Inc., J.P. Morgan Securities Inc., Credit Suisse First Boston LLC, Banc of America Securities LLC, First Albany Capital Inc., and First Reserve Fund IX, L.P. (previously filed as Exhibit 1.1 to the Company’s Form 8-K (No. 001-13831) filed October 1, 2004 and incorporated herein by reference)
31.1	—	Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	—	Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	—	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

(*) Management contracts or compensatory plans or arrangements.

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: November 9, 2004

EXHIBIT INDEX

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Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement (the “Agreement”), by and between Quanta Services, Inc., a Delaware corporation, and its affiliates (collectively, “Employer”), and Kenneth W. Trawick (“Employee”), is hereby entered into as of the 13th day of March 2002 (“Execution Date”).

R E C I T A L S

A. As of the Execution Date, Employer is engaged primarily in the business of specialized construction contracting and/or maintenance services to: electric utilities; telecommunication, cable television and natural gas operators; governmental entities; the transportation industry; and commercial and industrial customers.

B. Employee is employed hereunder by Employer in a position that is critical to the Employer’s continued operation.

C. The Employer’s Board of Directors (the “Board”), has determined that it is in the best interests of the Employer and its stockholders to assure that the Employer will have the continued dedication of the Employee, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Employer. The Board believes it is imperative to diminish the inevitable distraction of the Employee by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Employee’s full attention and dedication to the Employer currently and in the event of any threatened or pending Change of Control, and to provide the Employee with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Employee will be satisfied and that are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Employer to enter into this Agreement.

A G R E E M E N T S

In consideration of the mutual promises, terms, covenants and conditions set forth herein and the performance of each, the parties hereto hereby agree as follows:

1. Certain Definitions.

(a) The “Effective Date” shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control (as defined in Section 2) occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Employee’s employment with the Employer is terminated prior to the date on which the Change of Control occurs, and if the Employee reasonably demonstrates that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the “Effective Date” shall mean the date immediately prior to the date of such termination of employment.

(b) The “Change of Control Period” shall mean the period commencing on the Execution Date hereof and ending on the third anniversary of the Execution Date; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the “Renewal Date”), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Employer shall give notice to the Employee that the Change of Control Period shall not be so extended.

(c) The “Code” shall mean the Internal Revenue Code of 1986, as amended.

(d) The “Earlier Employment Agreement” shall mean any employment, severance or change in control agreement between the Employer and the Employee that existed and was effective as of the Execution Date. The Employee may elect in writing, on or before the Employee’s Date of Termination, to have any term, provision and/or definition under the Employees’ Earlier Employment Agreement apply in lieu of any similar term, provision and/or definition of this Agreement, except to the extent that such application would produce duplicate payments or benefits under this Agreement and such Earlier Employment Agreement.

2. Change of Control. For the purpose of this Agreement, a “Change of Control” shall mean:

(a) Any person or entity, other than the Employer or an employee benefit plan of the Employer, acquires directly or indirectly the Beneficial Ownership (as defined in Section 13(d) of the Exchange Act) of any voting security of the Employer and immediately after such acquisition such person or entity is, directly or indirectly, the Beneficial Owner of voting securities representing 50% or more of the total voting power of all of the then-outstanding voting securities of the Employer; or

(b) Individuals who, as of the date hereof, constitute the Board, and any new director whose election by the Board or nomination for election by the Employer’s stockholders was approved by a vote of a majority of the directors then still in office who were directors as of the date hereof or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board; or

(c) The stockholders of the Employer shall approve a merger, consolidation, recapitalization or reorganization of the Employer, a reverse stock split of outstanding voting securities, or consummation of any such transaction if stockholder approval is not obtained, other than any such transaction that would result in at least 50% of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being Beneficially Owned by at least 50% of the holders of outstanding voting securities of the Employer immediately prior to the transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction; or

(d) The stockholders of the Employer shall approve a plan of complete liquidation of the Employer or an agreement for the sale or disposition by the Employer of all or a substantial portion of the Employer's assets (*i.e.*, 50% or more of the total assets of the Employer).

3. Employment Period. The Employer hereby agrees to continue the Employee in its employ, and the Employee hereby agrees to remain in the employ of the Employer subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of such date (the "Employment Period").

4. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Employee's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Employee's services shall be performed at the location where the Employee was employed immediately preceding the Effective Date or any office or location less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Employee is entitled, the Employee agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Employer and, to the extent necessary to discharge the responsibilities assigned to the Employee hereunder, to use the Employee's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Employee to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Employee's responsibilities as an employee of the Employer in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Employee prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Employee's responsibilities to the Employer.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Employee shall receive an annual base salary ("Annual Base Salary"), which shall be paid at a monthly rate, at least equal to 12 times the highest monthly base salary paid or payable, including any base salary that has been earned but deferred, to the

Employee by the Employer and its affiliated companies in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Employee prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Employee under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Employer.

(ii) Annual Bonus. In addition to Annual Base Salary, the Employee shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the Employee's highest bonus under the Employer's Management Incentive Bonus Plan, or any comparable bonus under any predecessor or successor plan, for the last three full fiscal years prior to the Effective Date (annualized in the event that the Employee was not employed by the Employer for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Employee shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Employee shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Employer and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Employee with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Employer and its affiliated companies for the Employee under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or if more favorable to the Employee, those provided generally at any time after the Effective Date to other peer executives of the Employer and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the Employee and/or the Employee's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Employer and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Employer and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Employee with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Employee at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee, those provided generally at any time after the Effective Date to other peer executives of the Employer and its affiliated companies.

(v) Expenses. During the Employment Period, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in accordance with the most favorable policies, practices and procedures of the Employer and its affiliated companies in effect for the Employee at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee, as in effect generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

(vi) Fringe Benefits. During the Employment Period, the Employee shall be entitled to fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of an automobile and payment of related expenses, in accordance with the most favorable plans, practices, programs and policies of the Employer and its affiliated companies in effect for the Employee at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee, as in effect generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

(vii) Office and Support Staff. During the Employment Period, the Employee shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Employee by the Employer and its affiliated companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee, as provided generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

(viii) Vacation. During the Employment Period, the Employee shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Employer and its affiliated companies as in effect for the Employee at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee, as in effect generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

5. Termination of Employment.

(a) Death or Disability. The Employee's employment shall terminate automatically upon the Employee's death during the Employment Period. If the

Employer determines in good faith that the Disability of the Employee has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Employee written notice in accordance with Section 14 of this Agreement of its intention to terminate the Employee's employment. In such event, the Employee's employment with the Employer shall terminate effective on the 30th day after receipt of such notice by the Employee (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Employee shall not have returned to full-time performance of the Employee's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Employee from the Employee's duties with the Employer on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Employer or its insurers and acceptable to the Employee or the Employee's legal representative.

(b) Cause. The Employer may terminate the Employee's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Employee to perform substantially the Employee's duties with the Employer or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Employee by the Board or the Chief Executive Officer of the Employer that specifically identifies the manner in which the Board or the Chief Executive Officer believes that the Employee has not substantially performed the Employee's duties, or

(ii) the willful engaging by the Employee in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Employer.

For purposes of this provision, no act or failure to act, on the part of the Employee, shall be considered "willful" unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee's action or omission was in the best interests of the Employer. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Employer or based upon the advice of counsel for the Employer shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Employer. The cessation of employment of the Employee shall not be deemed to be for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Employee and the Employee is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Employee is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason. The Employee's employment may be terminated by the Employee for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Employee of any duties inconsistent in any respect with the Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Employer that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Employer promptly after receipt of notice thereof given by the Employee;

(ii) any failure by the Employer to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Employer promptly after receipt of notice thereof given by the Employee;

(iii) the Employer's requiring the Employee to be based at any office or location other than as provided in Section 4(a)(i)(B) hereof or the Employer's requiring the Employee to travel on Employer business to a substantially greater extent than required immediately prior to the Effective Date;

(iv) any purported termination by the Employer of the Employee's employment otherwise than as expressly permitted by this Agreement;

(v) any failure by the Employer to continue in effect any cash or stock-based incentive or bonus plan, retirement plan, welfare benefit plan or other compensation, retirement or benefit plan, practice, policy, and program, unless the aggregate value (as computed by an independent employee benefits consultant selected by the Employer and acceptable to the Employee or the Employee's legal representative) of all such compensation, retirement or benefit plans, practices, policies and programs provided to the Employee is not materially less than their aggregate value as in effect at any time during the 120-day period immediately preceding the Effective Date or if more favorable to the Employee, those provided generally at any time after the Effective Date to other peer executives of the Employer and its affiliated companies ; or

(vi) any failure by the Employer to comply with and satisfy Section 13(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Employee shall be conclusive.

(d) Notice of Termination. Any termination by the Employer for Cause, or by the Employee for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 14 of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Employee or the Employer to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Employee or the Employer, respectively, hereunder or preclude the Employee or the Employer, respectively, from asserting such fact or circumstance in enforcing the Employee's or the Employer's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Employee's employment is terminated by the Employer for Cause, or by the Employee for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Employee's employment is terminated by the Employer other than for Cause or Disability, the Date of Termination shall be the date on which the Employer notifies the Employee of such termination and (iii) if the Employee's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Employee or the Disability Effective Date, as the case may be.

6. Obligations of the Employer upon Termination.

(a) Good Reason; Death; Disability; and Other Than for Cause. If, during the Employment Period, the Employer shall terminate the Employee's employment other than for Cause, the Employee shall terminate employment for Good Reason, or the Employee's employment shall terminate due to death or Disability:

(i) the Employer shall pay to the Employee in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Employee's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Employee was employed for less than 12 full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Employee (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

(B) the amount equal to the product of (1) two and (2) the sum of (x) the Employee's Annual Base Salary and (y) the Highest Annual Bonus;

(ii) all stock options, restricted stock or other awards made or granted under the Quanta Services, Inc. 1997 Stock Option Plan, the Quanta Services, Inc. 2001 Stock Incentive Plan and/or any similar or successor stock plan or program, will become fully vested immediately on or prior to the Employee's Date of Termination. The Employer agrees that for purposes of determining the continued exercisability of Employee's stock options outstanding on the Date of Termination, Employee shall be considered to have remained employed by the Employer until the second anniversary of the Date of Termination. Nothing in this subparagraph (ii) shall be deemed to extend the expiration date of any stock option granted under the applicable stock plan(s) or program(s) past the original expiration date of such stock option as determined at the time of grant;

(iii) for two years after the Employee's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Employer shall continue benefits to the Employee and/or the Employee's family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Employee's employment had not been terminated or, if more favorable to the Employee, as in effect generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies and their families, provided, however, that if the Employee becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Employee for retiree benefits pursuant to such plans, practices, programs and policies, the Employee shall be considered to have remained employed until the second anniversary of the Date of Termination and to have retired on the last day of such period;

(iv) the Employer shall, at its sole expense as incurred, provide the Employee with outplacement services the scope and provider of which shall be selected by the Employee in his sole discretion; and

(v) to the extent not theretofore paid or provided, the Employer shall timely pay or provide to the Employee any other amounts or benefits required to be paid or provided or which the Employee is eligible to receive under any plan, program, policy or practice or contract or agreement of the Employer and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the “Other Benefits”).

(b) Death. If the Employee’s employment is terminated by reason of the Employee’s death during the Employment Period, the Employer shall pay the amounts and provide the benefits described in Section 6(a), pay the Accrued Obligations to the Employee’s estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination, and timely pay or provide the Other Benefits. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(b) shall include, without limitation, and the Employee’s estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Employer and affiliated companies to the estates and beneficiaries of peer executives of the Employer and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee’s estate and/or the Employee’s beneficiaries, as in effect on the date of the Employee’s death with respect to other peer executives of the Employer and its affiliated companies and their beneficiaries.

(c) Disability. If the Employee’s employment is terminated by reason of the Employee’s Disability during the Employment Period, the Employer shall pay the amounts and provide the benefits described in Section 6(a), pay the Accrued Obligations to the Employee’s estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination, and timely pay or provide the Other Benefits. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(c) shall include, and the Employee shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Employer and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Employee and/or the Employee’s family, as in effect at any time thereafter generally with respect to other peer executives of the Employer and its affiliated companies and their families.

(d) Cause; Other than for Good Reason. If the Employee’s employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Employee other than the obligation to pay to the Employee (x) his Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Employee, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Employee voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Employee, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Employee in a lump sum in cash within 30 days of the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Employee's continuing or future participation in any plan, program, policy or practice provided by the Employer or any of its affiliated companies and for which the Employee may qualify, nor, subject to Section 12, shall anything herein limit or otherwise affect such rights as the Employee may have under any contract or agreement with the Employer or any of its affiliated companies. Amounts that are vested benefits or that the Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Employer or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. Full Settlement. The Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Employer may have against the Employee or others. In no event shall the Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Employee obtains other employment. The Employer agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses that the Employee may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Employer, the Employee or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Employee about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Code Section 7872(f)(2)(A).

9. Certain Additional Payments by the Employer.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Employer or its affiliates to or for the benefit of the Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Code Section 4999 or any interest or penalties are incurred by the Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen or such other certified public accounting firm as may be designated by the Employee (the "Accounting Firm") which shall provide detailed supporting calculations both to the Employer and the Employee within 15 business days of the receipt of notice from the Employee that there has been a Payment, or such earlier time as is requested by the Employer. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Employee shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Employer. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Employer to the Employee within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Employer and the Employee. As a result of the uncertainty in the application of Code Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Employer should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Employer exhausts its remedies pursuant to Section 9(c) and the Employee thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Employer to or for the benefit of the Employee.

(c) The Employee shall notify the Employer in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Employer of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Employee is informed in writing of such claim and shall apprise the Employer of the nature of such claim and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Employer (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Employer notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(i) give the Employer any information reasonably requested by the Employer relating to such claim,

(ii) take such action in connection with contesting such claim as the Employer shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Employer,

(iii) cooperate with the Employer in good faith in order effectively to contest such claim, and

(iv) permit the Employer to participate in any proceedings relating to such claim;

provided, however, that the Employer shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Employer shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Employer shall determine; provided, however, that if the Employer directs the Employee to pay such claim and sue for a refund, the Employer shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Employer's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Employee of an amount advanced by the Employer pursuant to Section 9(c), the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Employer's complying with the requirements of Section 9(c)) promptly pay to the Employer the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Employee of an amount advanced by the Employer pursuant to Section 9(c), a determination is made that the Employee shall not be entitled to any refund with respect to such claim and the Employer does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. Confidential Information. The Employee shall hold in a fiduciary capacity for the benefit of the Employer all secret or confidential information, knowledge or data relating to the Employer or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Employee during the Employee's employment by the Employer or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Employee or representatives of the Employee in violation of this Agreement). After termination of the Employee's employment with the Employer, the Employee shall not, without the prior written consent of the Employer or as may otherwise be required by law or legal

process, communicate or divulge any such information, knowledge or data to anyone other than the Employer and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Employee under this Agreement.

11. Insurance and Indemnification. For the period from the Effective Date through at least the tenth anniversary of the Employee's termination of employment from the Employer, the Employer shall maintain the Employee as an insured party on all directors' and officers' insurance maintained by the Employer for the benefit of its directors and officers on at least the same basis as all other covered individuals and provide the Employee with at least the same corporate indemnification as it provides to the peer executives of the Employer.

12. Earlier Employment Agreement. Except as provided in the following sentence, from and after the Effective Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof. The Employee may elect in writing to have any term, provision and/or definition under the Employees' Earlier Employment Agreement apply in lieu of any similar term, provision and/or definition of this Agreement, except to the extent that such application would produce duplicate payments or benefits under this Agreement and such Earlier Employment Agreement. All determinations required to be made under this Section, including whether and when a term, provision and/or definition under the Employees' Earlier Employment Agreement would produce duplicate payments or benefits under this Agreement and such Earlier Employment Agreement and the assumptions to be utilized in arriving at such determination, shall be made by the Accounting Firm or such other nationally recognized compensation and benefits consulting firm as the Employee may designate, which shall provide detailed supporting calculations both to the Employer and the Employee within 15 business days of the receipt of written notice from the Employee, or such earlier time as is requested by the Employer. All fees and expenses of the Accounting Firm (or such other firm designated) shall be borne solely by the Employer.

13. Successors.

(a) This Agreement is personal to the Employee and without the prior written consent of the Employer shall not be assignable by the Employee otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Employee's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Employer and its successors and assigns.

(c) The Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Employer to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform it if no such succession had taken place. As used in this Agreement, "Employer" shall mean the Employer as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

14. Notice. Any notice required pursuant to this Agreement will be in writing and will be deemed given upon the earlier of (i) delivery thereof, if by hand, (ii) three business days after mailing if sent by mail (registered or certified mail, postage prepaid, return receipt requested), (iii) the next business day after deposit if sent by a recognized overnight delivery service, or (iv) upon transmission if sent by facsimile transmission or by electronic mail, with return notification (provided that any notice sent by facsimile or electronic mail shall also promptly be sent by one of the means described in clauses (i) through (iii) of this Section. Any notice or document required to be given or filed with the Employer is properly given or filed if delivered to the Employer at 1360 Post Oak Boulevard, Suite 2100, Houston, Texas 77056, Attention: General Counsel. Any notice or document required to be given or filed with a Employee is properly given or filed if delivered to the Employee at the most recent address shown on the Employer's records. A party may change its address for notice by the giving of notice thereof in the manner hereinabove provided.

15. Severability, Headings. If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement. shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The section headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Agreement or of any part hereof.

16. Arbitration. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Houston, Texas, in accordance with the rules of the American Arbitration Association for the Resolution of Employment Disputes in effect on the date of the event giving rise to the claim or the controversy; provided, however, that the evidentiary standards set forth in this Agreement shall apply. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding any provision of this Agreement to the contrary, the Employee shall be entitled to seek specific performance of the Employee's right to be paid until the Employee's Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement. A decision by a majority of the arbitration panel shall be final and binding. The direct expense of any arbitration proceeding shall be borne by Employer.

17. Governing Law. This Agreement shall in all respects be construed according to the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

18. Withholding. The Employer may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

19. No Waiver. The Employee's or the Employer's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Employee or the Employer may have hereunder, including, without limitation, the right of the Employee to

terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

20. Claims. All claims by the Employee for payments or benefits under this Agreement shall be directed to and determined by the Employer's Board of Directors (or such committee to which the Board delegates authority under this Section) and shall be in writing. Any denial by the Board (or such committee) of a claim for benefits under this Agreement shall be delivered to the Employee in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board (or committee) shall afford the Employee a reasonable opportunity for a review of the decision denying a claim and shall further allow the Employee to appeal the decision within 60 days after the Board (or committee) gives notice that it has denied Employee's claim.

21. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

In Witness Whereof, the Employee has hereunto set the Employee's hand and, pursuant to the authorization from its Board of Directors, the Employer has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

Quanta Services, Inc.

/s/ Kenneth W. Trawick
Kenneth W. Trawick

By: /s/ John R. Colson
John R. Colson, Chief Executive Officer

Exhibit 31.1

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 8, 2004

By: /s/ JOHN R. COLSON
John R. Colson,
Chairman and Chief Executive Officer

Exhibit 31.2

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

By: /s/ JAMES H. HADDOX
James H. Haddox,
Chief Financial Officer

Exhibit 32.1

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

Each of the undersigned officers of Quanta Services, Inc. (the "Company") certify, pursuant to 18 U.S.C. § 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, to such officer's knowledge that:

(1) the accompanying Form 10-Q report for the period ending September 30, 2004 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: November 8, 2004	/s/ JOHN R. COLSON John R. Colson, Chief Executive Officer
Dated: November 8, 2004	/s/ JAMES H. HADDOX James H. Haddox, Chief Financial Officer