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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2014

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

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**Quanta Services, Inc.**

(Exact name of registrant as specified in its charter)

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

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

**2800 Post Oak Boulevard, Suite 2600**  
**Houston, Texas 77056**  
(Address of principal executive offices, including zip code)

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

As of April 30, 2014, the number of outstanding shares of Common Stock of the Registrant was 213,460,471. As of the same date, 3,500,000 exchangeable shares associated with one share of Series F Preferred Stock were outstanding, and 899,858 exchangeable shares associated with one share of Series G Preferred Stock were outstanding.

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QUANTA SERVICES, INC. AND SUBSIDIARIES

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**QUANTA SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share information)  
(Unaudited)

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 273,340	\$ 488,777
Accounts receivable, net of allowances of \$5,186 and \$5,215	1,501,857	1,439,115
Costs and estimated earnings in excess of billings on uncompleted contracts	274,966	213,478
Inventories	35,604	31,877
Prepaid expenses and other current assets	128,690	140,071
Total current assets	2,214,457	2,313,318
Property and equipment, net of accumulated depreciation of \$657,326 and \$631,939	1,269,656	1,205,608
Other assets, net	290,887	285,725
Other intangible assets, net of accumulated amortization of \$230,712 and \$223,355	219,573	207,877
Goodwill	1,832,047	1,780,717
Total assets	<u>\$ 5,826,620</u>	<u>\$ 5,793,245</u>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and notes payable	\$ 1,650	\$ 1,181
Accounts payable and accrued expenses	772,185	802,180
Billings in excess of costs and estimated earnings on uncompleted contracts	208,640	239,106
Total current liabilities	982,475	1,042,467
Long-term debt and notes payable, net of current maturities	4,556	1,053
Deferred income taxes	249,717	244,256
Insurance and other non-current liabilities	273,196	264,150
Total liabilities	<u>1,509,944</u>	<u>1,551,926</u>
Commitments and Contingencies		
Equity:		
Common stock, \$.00001 par value, 600,000,000 shares authorized, 225,801,098 and 224,968,797 shares issued, and 213,450,109 and 212,942,767 shares outstanding	2	2
Exchangeable Shares, no par value, 4,399,858 and 3,500,000 shares issued and outstanding	—	—
Series F Preferred Stock, \$.00001 par value, 1 share authorized, issued and outstanding	—	—
Series G Preferred Stock, \$.00001 par value, 1 share and 0 shares authorized, issued and outstanding	—	—
Additional paid-in capital	3,463,181	3,416,585
Retained earnings	1,124,485	1,070,077
Accumulated other comprehensive income (loss)	(55,219)	(37,236)
Treasury stock, 12,350,989 and 12,026,030 common shares, at cost	(226,644)	(215,240)
Total stockholders' equity	4,305,805	4,234,188
Noncontrolling interests	10,871	7,131
Total equity	<u>4,316,676</u>	<u>4,241,319</u>
Total liabilities and equity	<u>\$ 5,826,620</u>	<u>\$ 5,793,245</u>

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

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands, except per share information)**  
**(Unaudited)**

	Three Months Ended	
	March 31,	
	2014	2013
Revenues	\$ 1,762,574	\$ 1,585,710
Cost of services (including depreciation)	1,490,503	1,347,437
Gross profit	272,071	238,273
Selling, general and administrative expenses	173,331	113,681
Amortization of intangible assets	8,245	5,301
Operating income	90,495	119,291
Interest expense	(982)	(502)
Interest income	1,545	522
Other income (expense), net	643	(513)
Income before income taxes	91,701	118,798
Provision for income taxes	33,053	41,941
Net income	58,648	76,857
Less: Net income attributable to noncontrolling interests	4,240	4,776
Net income attributable to common stock	\$ 54,408	\$ 72,081
Earnings per share attributable to common stock - basic and diluted	\$ 0.25	\$ 0.34
Shares used in computing earnings per share:		
Weighted average basic shares outstanding	219,033	213,453
Weighted average diluted shares outstanding	219,075	213,512

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

**QUANTA SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In thousands)**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 58,648	\$ 76,857
Other comprehensive income (loss), net of tax provision:		
Foreign currency translation adjustment, net of tax of \$0 and \$0	(17,965)	(13,743)
Other, net of tax of \$6 and \$0	(18)	—
Other comprehensive income (loss)	(17,983)	(13,743)
Comprehensive income	40,665	63,114
Less: Comprehensive income attributable to noncontrolling interests	4,240	4,776
Total comprehensive income attributable to Quanta stockholders	<u>\$ 36,425</u>	<u>\$ 58,338</u>

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

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**QUANTA SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 58,648	\$ 76,857
Adjustments to reconcile net income to net cash provided by (used in) operating activities —		
Depreciation	36,865	31,880
Amortization of intangible assets	8,245	5,301
Amortization of debt issuance costs	275	218
Amortization of deferred revenues	(2,746)	(2,505)
Gain on sale of property and equipment	(305)	(282)
Foreign currency (gain) loss	(266)	502
Provision for doubtful accounts	48	1,508
Non-cash portion of arbitration expense	10,518	—
Deferred income tax provision (benefit)	8,086	(1,122)
Non-cash stock-based compensation	10,298	8,036
Tax impact of stock-based equity awards	(123)	—
Changes in operating assets and liabilities, net of non-cash transactions —		
(Increase) decrease in —		
Accounts and notes receivable	(61,480)	30,843
Costs and estimated earnings in excess of billings on uncompleted contracts	(46,946)	(65,030)
Inventories	(1,923)	497
Prepaid expenses and other current assets	(368)	13,548
Increase (decrease) in —		
Accounts payable and accrued expenses and other non-current liabilities	(50,999)	(47,634)
Billings in excess of costs and estimated earnings on uncompleted contracts	(31,632)	(10,504)
Other, net	3,272	2,019
Net cash provided by (used in) operating activities	<u>(60,533)</u>	<u>44,132</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of property and equipment	2,493	1,544
Additions of property and equipment	(71,418)	(57,637)
Cash paid for acquisitions, net of cash acquired	(76,368)	(977)
Investments in and return on equity from unconsolidated affiliates	—	(8,545)
Cash received from (paid for) other investments	259	—
Net cash used in investing activities	<u>(145,034)</u>	<u>(65,615)</u>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under credit facility	2,370	—
Payments under credit facility	(2,370)	—
Payments on other long-term debt	(10,293)	—
Distributions to noncontrolling interests	(500)	(5,454)
Tax impact of stock-based equity awards	123	—
Exercise of stock options	424	497
Net cash used in financing activities	<u>(10,246)</u>	<u>(4,957)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	376	(1,642)
Net decrease in cash and cash equivalents	(215,437)	(28,082)
Cash and cash equivalents, beginning of period	488,777	394,701
Cash and cash equivalents, end of period	<u>\$ 273,340</u>	<u>\$366,619</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash (paid) received during the period for —		
Interest paid	\$ (1,268)	\$ (462)
Income taxes paid	\$ (87,712)	\$ (91,581)
Income tax refunds	\$ 238	\$ 6

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

*Electric Power Infrastructure Services Segment*

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

*Oil and Gas Infrastructure Services Segment*

The Oil and Gas Infrastructure Services segment provides comprehensive network solutions to customers involved in the development and transportation of natural gas, oil and other pipeline products. Services performed by the Oil and Gas Infrastructure Services segment generally include the design, installation, repair and maintenance of pipeline transmission and distribution systems, gathering systems, production systems and compressor and pump stations, as well as related trenching, directional boring and automatic welding services. In addition, this segment's services include pipeline protection, integrity testing, rehabilitation and replacement, fabrication of pipeline support systems and related structures and facilities. Quanta also serves the offshore and inland water energy markets, primarily providing services to oil and gas exploration platforms, including mechanical installation (or "hook-ups"), electrical and instrumentation, pre-commissioning and commissioning, coatings, fabrication, pipeline construction, integrity services and marine asset repair. To a lesser extent, this segment designs, installs and maintains airport fueling systems as well as water and sewer infrastructure.

*Fiber Optic Licensing and Other Segment*

The Fiber Optic Licensing and Other segment designs, procures, constructs, maintains and owns fiber optic telecommunications infrastructure in select markets and licenses the right to use these point-to-point fiber optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under these agreements, customers are provided the right to use a portion of the capacity of a fiber optic network, with the network owned and maintained by Quanta. Additionally, the Fiber Optic Licensing and Other segment provides lit services, with Quanta providing network management services to customers as well as owning the electronic equipment necessary to make the fiber optic network operational. This segment serves customers in multiple institutional sectors, including communications carriers as well as education, financial services, healthcare and other business enterprises with high bandwidth

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

telecommunication needs. The telecommunication services provided through this segment are subject to regulation by the Federal Communications Commission and certain state public utility commissions. The Fiber Optic Licensing and Other segment also provides various telecommunication infrastructure services on a limited and ancillary basis, primarily to Quanta's customers in the electric power industry.

*Acquisitions*

During the first quarter of 2014, Quanta completed five acquisitions. Four of these five companies are electric power infrastructure services companies located in Canada. The fifth company is a general engineering and construction company, based in California, specializing in hydrant fueling, waterfront and utility construction for U.S. Department of Defense military bases, and is generally included in Quanta's Oil and Gas Infrastructure Services segment. During 2013, Quanta acquired six businesses, which included electric power infrastructure services companies and oil and gas infrastructure services companies based in the U.S., Canada and Australia.

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

*Principles of Consolidation*

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

*Interim Condensed Consolidated Financial Information*

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

Quanta recommends that these unaudited condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto of Quanta and its subsidiaries included in Quanta's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on March 3, 2014.

*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

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

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

***Reclassifications***

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

***Cash and Cash Equivalents***

Quanta had cash and cash equivalents of \$273.3 million and \$488.8 million as of March 31, 2014 and December 31, 2013. Cash consisting of interest-bearing demand deposits is carried at cost, which approximates fair value. Quanta considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are carried at fair value. At March 31, 2014 and December 31, 2013, cash equivalents were \$66.5 million and \$247.8 million, which consisted primarily of money market mutual funds and are discussed further in "Fair Value Measurements" below. As of March 31, 2014 and December 31, 2013, cash and cash equivalents held in domestic bank accounts were approximately \$134.1 million and \$236.7 million, and cash and cash equivalents held in foreign bank accounts were approximately \$139.2 million and \$252.1 million.

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

Quanta provides an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful, and receivables are written off against the allowance when deemed uncollectible. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the customer's access to capital, the customer's willingness or ability to pay, general economic and market conditions and the ongoing relationship with the customer. Quanta considers accounts receivable delinquent after 30 days but does not generally include delinquent accounts in its analysis of the allowance for doubtful accounts unless the accounts receivable have been outstanding for at least 90 days. In addition to balances that have been outstanding for 90 days or more, Quanta also includes accounts receivable balances that relate to customers in bankruptcy or with other known difficulties in its analysis of the allowance for doubtful accounts. Material changes in Quanta's customers' business or cash flows, which may be impacted by negative economic and market conditions, could affect Quanta's ability to collect amounts due from them. As of March 31, 2014 and December 31, 2013, Quanta had total allowances for doubtful accounts of approximately \$5.2 million, all of which were included as a reduction of net current accounts receivable. Should customers experience financial difficulties or file for bankruptcy, or should anticipated recoveries relating to receivables in existing bankruptcies or other workout situations fail to materialize, Quanta could experience reduced cash flows and losses in excess of current allowances provided.

The balances billed but not paid by customers pursuant to retainage provisions in certain contracts are generally due upon completion of the contracts and acceptance by the customer. Based on Quanta's experience

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

with similar contracts in recent years, the majority of the retainage balances at each balance sheet date are expected to be collected within the next twelve months. Current retainage balances as of March 31, 2014 and December 31, 2013 were approximately \$194.6 million and \$194.5 million and were included in accounts receivable. Retainage balances with settlement dates beyond the next twelve months were included in other assets, net, and as of March 31, 2014 and December 31, 2013 were \$55.6 million and \$50.8 million.

Within accounts receivable, Quanta recognizes unbilled receivables in circumstances such as when revenues have been earned and recorded but the amount cannot be billed under the terms of the contract until a later date; costs have been incurred but are yet to be billed under cost-reimbursement type contracts; or amounts arise from routine lags in billing (for example, work completed one month but not billed until the next month). These balances do not include revenues accrued for work performed under fixed-price contracts as these amounts are recorded as costs and estimated earnings in excess of billings on uncompleted contracts. At March 31, 2014 and December 31, 2013, the balances of unbilled receivables included in accounts receivable were approximately \$211.9 million and \$179.2 million.

*Goodwill and Other Intangibles*

Quanta has recorded goodwill in connection with its historical acquisitions of companies. Upon acquisition, these companies have been either combined into one of Quanta's existing operating units or managed on a stand-alone basis as an individual operating unit. Goodwill recorded in connection with these acquisitions is subject to an annual assessment for impairment, which Quanta performs at the operating unit level for each operating unit that carries a balance of goodwill. Each of Quanta's operating units is organized into one of three internal divisions: the Electric Power Division, the Oil and Gas Infrastructure Division or the Fiber Optic Licensing Division. As most of the companies acquired by Quanta provide multiple types of services for multiple types of customers, these divisional designations are based on the predominant type of work performed by each operating unit at the point in time the divisional designation is made. Goodwill is required to be measured for impairment at the operating segment level or one level below the operating segment level for which discrete financial information is available, and Quanta has determined that its individual operating units represent its reporting units for the purpose of assessing goodwill impairments.

Quanta has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step fair value-based impairment test described below. If Quanta believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. Quanta can choose to perform the qualitative assessment on none, some or all of its reporting units. Quanta can also bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. Qualitative indicators including deterioration in macroeconomic conditions, declining financial performance, or a sustained decrease in share price, among other things, may trigger the need for annual or interim impairment testing of goodwill associated with one or all of the reporting units.

Quanta's goodwill impairment assessment is performed at year-end, or more frequently if events or circumstances arise which indicate that goodwill may be impaired. For instance, a decrease in Quanta's market capitalization below book value, a significant change in business climate or loss of a significant customer, as well as the qualitative indicators referenced above, may trigger the need for interim impairment testing of goodwill for one or all of its reporting units. The first step of the two-step fair value-based test involves comparing the fair value of each of Quanta's reporting units with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the reporting unit's goodwill to the implied fair value of its goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss would be recorded as a reduction to goodwill with a corresponding charge to operating expense.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

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

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

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

For recently acquired reporting units, a step one impairment test may indicate an implied fair value that is substantially similar to the reporting unit's carrying value. Such similarities in value are generally an indication that management's estimates of future cash flows associated with the recently acquired reporting unit remain relatively consistent with the assumptions that were used to derive its initial fair value.

During the fourth quarter of 2013, a two-step fair-value based goodwill impairment analysis was performed for each of Quanta's reporting units, and no reporting units were evaluated solely on a qualitative basis. The analysis indicated that the implied fair value of each of Quanta's reporting units, other than recently acquired reporting units, was substantially in excess of its carrying value. Following the analysis, management concluded that no impairment was indicated at any reporting unit. As discussed generally above, when evaluating the 2013 step one impairment test results, management considered many factors in determining whether or not an impairment of goodwill for any reporting unit was reasonably likely to occur in future periods, including future market conditions and the economic environment in which Quanta's reporting units were operating. Additionally, management considered the sensitivity of its fair value estimates to changes in certain valuation assumptions and, after giving consideration to at least a 10% decrease in the fair value of each of Quanta's reporting units, the results of the assessment at December 31, 2013 did not change. However, circumstances such as market declines, unfavorable economic conditions, the loss of a major customer or other factors could impact the valuation of goodwill in future periods.

Quanta's intangible assets include customer relationships, backlog, trade names, non-compete agreements, patented rights and developed technology, all subject to amortization, along with other intangible assets not

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

subject to amortization. The value of customer relationships is estimated as of the date a business is acquired based on the value-in-use concept utilizing the income approach, specifically the excess earnings method. The excess earnings analysis consists of discounting to present value the projected cash flows attributable to the customer relationships, with consideration given to customer contract renewals, the importance or lack thereof of existing customer relationships to Quanta's business plan, income taxes and required rates of return. Quanta values backlog for acquired businesses as of the acquisition date based upon the contractual nature of the backlog within each service line, using the income approach to discount back to present value the cash flows attributable to the backlog. The value of trade names is estimated using the relief-from-royalty method of the income approach. This approach is based on the assumption that in lieu of ownership, a company would be willing to pay a royalty in order to exploit the related benefits of this intangible asset.

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

*Investments in Affiliates and Other Entities*

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

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

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**Revenue Recognition**

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

Revenues from fixed price contracts are recognized using the percentage-of-completion method, measured by the percentage of costs incurred to date to total estimated costs for each contract. These contracts provide for a fixed amount of revenues for the entire project. Such contracts provide that the customer accept completion of progress to date and compensate Quanta for services rendered, which may be measured in terms of units installed, hours expended or some other measure of progress. Contract costs include all direct materials, labor and subcontract costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Much of the material associated with Quanta's work is owner-furnished and is therefore not included in contract revenues and costs. The cost estimation process is based on professional knowledge and experience of Quanta's engineers, project managers and financial professionals. Changes in job performance, job conditions and final contract settlements are factors that influence management's assessment of total contract value and the total estimated costs to complete those contracts and therefore Quanta's profit recognition. Changes in these factors may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. These factors are routinely evaluated on a project by project basis throughout the project term, and the impact of corresponding revisions in management's estimates of contract value, contract cost and contract profit are recorded as necessary in the period in which the revisions are determined. Provisions for losses on uncompleted contracts are made in the period in which such losses are determined to be probable and the amount can be reasonably estimated. Quanta's operating results for the three months ended March 31, 2014 were impacted by less than 5% as a result of changes in contract estimates related to projects that were in progress at December 31, 2013.

The current asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed for fixed price contracts. The current liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized for fixed price contracts.

Quanta may incur costs subject to change orders, whether approved or unapproved by the customer, and/or claims related to certain contracts. Quanta determines the probability that such costs will be recovered based upon evidence such as past practices with the customer, specific discussions or preliminary negotiations with the customer or verbal approvals. Quanta treats items as a cost of contract performance in the period incurred if it is not probable that the costs will be recovered or will recognize revenue if it is probable that the contract price will be adjusted and can be reliably estimated. As of March 31, 2014 and December 31, 2013, Quanta had approximately \$247.2 million and \$241.8 million of change orders and/or claims that had been included as contract price adjustments on certain contracts which were in the process of being negotiated in the normal course of business. The March 31, 2014 and December 31, 2013 balances of recognized change orders and

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claims included a change order from the Sunrise Powerlink project, an electric power infrastructure services project, primarily as a result of multiple customer-directed changes to the construction schedule which required PAR Electrical Contractors, Inc. (PAR), a wholly-owned subsidiary of Quanta, to significantly increase its resources to the project in order to meet the customer required completion date. Revenues of approximately \$165 million associated with this change order were accrued and recognized as a component of costs and estimated earnings in excess of billings on uncompleted contracts in prior years. Following completion of the project, PAR and its customer, San Diego Gas & Electric Company (SDG&E), had ongoing meetings to review project scope, costs and performance criteria in order to reach resolution on the additional work performed and pricing of the change order under the contract, which resulted in PAR and SDG&E being in agreement as to PAR's direct costs incurred in completing the project. Although the parties agreed upon PAR's direct costs, the parties have been unsuccessful in agreeing on the final amount owed to PAR. As a result, PAR initiated arbitration proceedings in the fourth quarter of 2013 pursuant to a contractually agreed upon dispute resolution process. See *Legal Proceedings - Sunrise Powerlink Arbitration* in Note 10 for additional information. Quanta reclassified the recognized balance related to this contract from costs and estimated earnings in excess of billings on uncompleted contracts into other assets, net as this process is not expected to conclude within the next twelve months. As of March 31, 2014, no interest has been accrued related to this long-term receivable since the arbitration process is still ongoing. The aggregate contract price adjustments discussed above represent management's best estimate of additional contract revenues which have been earned and which management believes are probable of collection. The amounts ultimately realized by Quanta upon final acceptance by its customers could be higher or lower than such estimated amounts. Although Quanta believes that it is entitled to the amount PAR is seeking in the matter related to the Sunrise Powerlink project, due to the nature of those proceedings, an adverse result in that matter could have a material adverse effect on Quanta's consolidated financial condition, results of operations and cash flows.

*Fiber Optic Licensing* — The fiber optic licensing business constructs and licenses the right to use fiber optic telecommunications facilities to its customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber optic facility, with the facility owned and maintained by Quanta. Revenues, including any initial fees or advance billings, are recognized ratably over the expected length of the agreements, including probable renewal periods. As of March 31, 2014 and December 31, 2013, initial fees and advance billings on these licensing agreements not yet recorded in revenue were \$49.7 million and \$48.8 million and are recognized as deferred revenue, with \$41.6 million and \$40.2 million considered to be long-term and included in other non-current liabilities. Minimum future licensing revenues expected to be recognized by Quanta pursuant to these agreements at March 31, 2014 were as follows (in thousands):

	<b>Minimum Future Licensing Revenues</b>
Year Ending December 31 —	
Remainder of 2014	\$ 61,418
2015	57,394
2016	47,581
2017	38,096
2018	28,080
Thereafter	133,227
Fixed non-cancelable minimum licensing revenues	<u>\$ 365,796</u>

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*Income Taxes*

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

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

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

As of March 31, 2014, the total amount of unrecognized tax benefits relating to uncertain tax positions was \$51.2 million, an increase from December 31, 2013 of \$2.4 million. This increase in unrecognized tax benefits is primarily due to tax positions expected to be taken for 2014. Certain subsidiaries are under examination by various U.S. state and Canadian federal tax authorities for multiple periods. Quanta believes that it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease up to \$11.0 million as a result of settlement of these audits or as a result of the expiration of certain statute of limitations periods.

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

*Earnings Per Share*

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

*Collective Bargaining Agreements*

Some of Quanta's operating units are parties to various collective bargaining agreements with unions that represent certain of their employees. The collective bargaining agreements expire at various times and have typically been renegotiated and renewed on terms similar to those in the expiring agreements. The agreements

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require the operating units to pay specified wages, provide certain benefits to their union employees and contribute certain amounts to multi-employer pension plans and employee benefit trusts. Quanta's multi-employer pension plan contribution rates generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans on a "pay-as-you-go" basis based on its union employee payrolls. The location and number of union employees that Quanta employs at any given time and the plans in which they may participate vary depending on the projects Quanta has ongoing at any time and the need for union resources in connection with those projects. Therefore, Quanta is unable to accurately predict the union employee payroll and the amount of the resulting multi-employer pension plan contribution obligation for future periods.

*Stock-Based Compensation*

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

Compensation expense associated with liability based awards, such as RSUs that are expected to be settled in cash, is recognized based on a remeasurement of the fair value of the award at the end of each reporting period. RSUs to be settled in cash are intended to provide the holders with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta. RSUs to be settled in cash typically vest in equal installments over a two-year or three-year period following the date of grant, and are subject to forfeiture under certain conditions, primarily termination of service. Upon vesting of RSUs to be settled in cash, the holders receive for each vested RSU an amount in cash equal to the fair market value on the vesting date of one share of Quanta common stock, as specified in the applicable award agreement.

*Functional Currency and Translation of Financial Statements*

The U.S. dollar is the functional currency for the majority of Quanta's operations, which are primarily located within the United States. The functional currency for Quanta's foreign operations, which are primarily located in Canada and Australia, is typically the currency of the country in which the foreign operating unit is located. Generally, the currency in which the operating unit transacts the majority of its activities, including billings, financing, payroll and other expenditures, would be considered the functional currency. Under the relevant accounting guidance, the treatment of foreign currency translation gains or losses is dependent upon management's determination of the functional currency of each operating unit, which involves consideration of all relevant economic facts and circumstances affecting the operating unit. In preparing the consolidated financial statements, Quanta translates the financial statements of its foreign operating units from their functional currency into U.S. dollars. Statements of operations, comprehensive income (loss) and cash flows are translated at average monthly rates, while balance sheets are translated at the month-end exchange rates. The translation of the balance sheets at the month-end exchange rates

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results in translation gains or losses. If transactions are denominated in the operating units' functional currency, the translation gains and losses are included as a separate component of equity under the caption "Accumulated other comprehensive income (loss)." If transactions are not denominated in the operating units' functional currency, the translation gains and losses are included within the statement of operations.

***Comprehensive Income***

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

***Litigation Costs and Reserves***

Quanta records reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Costs incurred for litigation are expensed as incurred. Further details are presented in Note 10.

***Fair Value Measurements***

The carrying values of cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. For disclosure purposes, qualifying assets and liabilities are categorized into three broad levels based on the priority of the inputs used to determine their fair values. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). All of Quanta's cash equivalents were categorized as Level 1 assets at March 31, 2014 and December 31, 2013, as all values were based on unadjusted quoted prices for identical assets in an active market that Quanta has the ability to access.

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

Quanta uses fair value measurements on a routine basis in its assessment of assets classified as goodwill, other intangible assets and long-lived assets held and used. In accordance with its annual impairment test during the quarter ended December 31, 2013, the carrying amounts of such assets, including goodwill, were compared to their fair values. The inputs used for fair value measurements for goodwill, other intangible assets and long-lived assets held and used are the lowest level (Level 3) inputs, and Quanta uses the assistance of third party specialists to develop valuation assumptions.

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

**3. NEW ACCOUNTING PRONOUNCEMENTS:**

*Adoption of New Accounting Pronouncements*

On January 1, 2014, Quanta adopted an update that provides guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. The update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The impact of the adoption of this standard did not have a material effect on Quanta's consolidated financial statements.

*Accounting Standards Not Yet Adopted*

In April of 2014, the FASB issued an update that changes the requirement for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity will be required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the entity or group of components of an entity meets the criteria to be classified as held for sale or when it is disposed of by sale or other than by sale. The update also requires additional disclosures about discontinued operations, a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, and an entity's significant continuing involvement with a discontinued operation. The update is effective prospectively for fiscal years beginning on or after December 15, 2014 and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously issued financial statements. Quanta is currently evaluating the potential impact of this authoritative guidance on its consolidated financial statements and is planning to adopt this guidance effective January 1, 2015.

**4. ACQUISITIONS:**

*2014 Acquisitions*

During the first quarter of 2014, Quanta completed five acquisitions. Four of these five companies are electric power infrastructure services companies located in Canada. The fifth company is a general engineering

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and construction company, based in California, specializing in hydrant fueling, waterfront and utility construction for the U.S. Department of Defense and is generally included in Quanta's Oil and Gas Infrastructure Services segment. The aggregate consideration paid for these acquisitions consisted of approximately \$79.9 million in cash, 393,052 shares of Quanta common stock and 899,858 exchangeable shares of a Canadian subsidiary of Quanta that are substantially equivalent to, and exchangeable on a one-for-one basis for, Quanta common stock. In addition, Quanta issued one share of Series G preferred stock with voting rights equivalent to Quanta common stock equal to the number of exchangeable shares outstanding at any time. The aggregate value of the above issued securities on the respective closing dates of the acquisitions totaled approximately \$36.6 million. As these transactions were effective during the first quarter of 2014, the results are included in Quanta's consolidated financial statements beginning on the respective dates of acquisition. These acquisitions should enable Quanta to further enhance its electric power infrastructure service offerings in Canada and its oil and gas infrastructure service offerings in the U.S.

**2013 Acquisitions**

During 2013, Quanta acquired six businesses, which included electric power infrastructure services companies and oil and gas infrastructure services companies based in the U.S., Canada and Australia. The aggregate consideration paid for these acquisitions consisted of approximately \$341.1 million in cash and 3,547,482 shares of Quanta common stock valued, as of the respective dates of issuance, at approximately \$88.9 million. The results for each company have been included in Quanta's consolidated financial statements beginning on the respective dates of acquisition. These acquisitions have enabled Quanta to further enhance its electric power infrastructure service and oil and gas infrastructure service offerings in the United States and select international markets.

The following table summarizes the aggregate consideration paid through March 31, 2014 for the 2014 and 2013 acquisitions and presents the allocation of these amounts to the net tangible and identifiable intangible assets based on their estimated fair values as of the respective acquisition dates. This allocation requires a significant use of estimates and is based on information that was available to management at the time these consolidated financial statements were prepared (in thousands).

	<u>2014</u>	<u>2013</u>
Consideration:		
Value of Quanta common stock and exchangeable shares issued	\$ 36,604	\$ 88,895
Cash paid	79,927	341,064
Fair value of total consideration transferred	<u>\$116,531</u>	<u>\$ 429,959</u>
Current assets	\$ 52,986	\$ 193,895
Property and equipment	33,387	60,988
Other assets	3,373	1,009
Identifiable intangible assets	21,048	55,124
Current liabilities	(41,281)	(127,430)
Deferred tax liabilities, net	(3,692)	(4,083)
Other long-term liabilities	<u>(3,935)</u>	<u>(5,350)</u>
Total identifiable net assets	61,886	174,153
Goodwill	54,645	255,806
	<u>\$116,531</u>	<u>\$ 429,959</u>

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The fair value of current assets acquired in 2014 included accounts receivable with a fair value of \$31.1 million. The fair value of current assets acquired in 2013 included accounts receivable with a fair value of \$83.9 million.

Goodwill represents the excess of the purchase price over the net amount of the fair values assigned to assets acquired and liabilities assumed. The 2014 and 2013 acquisitions strategically expanded Quanta's Canadian and Australian service offerings and enhanced its domestic electric power and oil and gas service offerings, which Quanta believes contributes to the recognition of the goodwill. In connection with the 2014 acquisitions, goodwill of \$47.0 million was recorded for reporting units included within Quanta's electric power division and \$7.6 million was recorded for reporting units included within Quanta's oil and gas infrastructure division at March 31, 2014. In connection with the 2013 acquisitions, goodwill of \$112.5 million was recorded for reporting units included within Quanta's electric power division and \$143.3 million was recorded for reporting units included within Quanta's oil and gas infrastructure division at December 31, 2013. Goodwill of approximately \$7.6 million and \$213.6 million is expected to be deductible for income tax purposes related to the businesses acquired in 2014 and 2013.

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

	Three Months Ended	
	March 31,	
	2014	2013
Revenues	\$ 1,766,756	\$ 1,785,809
Gross profit	\$ 271,736	\$ 277,641
Selling, general and administrative expenses	\$ 174,359	\$ 128,020
Amortization of intangible assets	\$ 8,326	\$ 9,236
Net income	\$ 57,675	\$ 89,915
Net income attributable to common stock	\$ 53,435	\$ 85,139
Earnings per share attributable to common stock - basic and diluted	\$ 0.24	\$ 0.39

The pro forma combined results of operations for the three months ended March 31, 2014 and 2013 have been prepared by adjusting the historical results of Quanta to include the historical results of the 2014 acquisitions as if they occurred January 1, 2013. The pro forma combined results of operations for the three months ended March 31, 2013 have also been prepared by adjusting the historical results of Quanta to include the historical results of the 2013 acquisitions as if they occurred January 1, 2012. These pro forma combined historical results were then adjusted for the following: a reduction of interest expense and interest income as a result of the repayment of outstanding indebtedness, a reduction of interest income as a result of the cash consideration paid net of cash received, an increase in amortization expense due to the incremental intangible assets recorded related to the 2014 and 2013 acquisitions, an increase or decrease in depreciation expense within cost of services related to the net impact of adjusting acquired property and equipment to the acquisition date fair value and conforming depreciable lives with Quanta's accounting policies, an increase in the number of outstanding shares of Quanta common stock and certain reclassifications to conform the acquired companies' presentation to Quanta's accounting policies. The pro forma results of operations do not include any adjustments to eliminate the impact of acquisition related costs or any cost savings or other synergies that may result from the 2014 and 2013 acquisitions. As noted above, the pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future.

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Revenues of approximately \$37.0 million and income (loss) before income taxes of approximately \$(0.1) million, which includes \$4.2 million of acquisition costs, were included in Quanta's consolidated results of operations for the three months ended March 31, 2014 related to the 2014 acquisitions following their respective dates of acquisition.

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

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

	Electric Power Division	Oil and Gas Infrastructure Division	Fiber Optic Licensing Division	Total
Goodwill balance at December 31, 2013	\$ 1,168,084	\$ 277,843	\$ 334,790	\$1,780,717
Goodwill acquired during 2014	47,089	7,556	—	54,645
Foreign currency translation related to goodwill	(5,261)	1,946	—	(3,315)
Goodwill balance at March 31, 2014	<u>\$ 1,209,912</u>	<u>\$ 287,345</u>	<u>\$ 334,790</u>	<u>\$1,832,047</u>

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

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

	As of December 31, 2013		Three Months Ended March 31, 2014			As of March 31, 2014	
	Intangible Assets	Accumulated Amortization	Amortization Expense	Additions	Foreign Currency Adjustments	Intangible Assets, Net	Remaining Weighted Average Amortization Period in Years
Customer relationships	\$199,224	\$ (59,417)	\$ (3,650)	\$ 11,131	\$ 195	\$147,483	10.6
Backlog	136,831	(127,233)	(2,957)	4,908	730	12,279	0.9
Trade names	40,342	(4,228)	(466)	3,917	(1,954)	37,611	22.7
Non-compete agreements	28,895	(22,861)	(652)	688	(71)	5,999	3.3
Patented rights and developed technology	21,440	(9,616)	(520)	404	(7)	11,701	5.1
Total intangible assets subject to amortization	426,732	(223,355)	(8,245)	21,048	(1,107)	215,073	11.6
Other intangible assets not subject to amortization	4,500	—	—	—	—	4,500	N/A
Total intangible assets	<u>\$431,232</u>	<u>\$ (223,355)</u>	<u>\$ (8,245)</u>	<u>\$ 21,048</u>	<u>\$ (1,107)</u>	<u>\$219,573</u>	N/A

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Amortization expense for intangible assets was \$8.2 million and \$5.3 million for the three months ended March 31, 2014 and 2013. The estimated future aggregate amortization expense of intangible assets as of March 31, 2014 is set forth below (in thousands):

<b>For the Fiscal Year Ending December 31,</b>	
Remainder of 2014	\$ 25,088
2015	21,875
2016	20,503
2017	19,043
2018	18,776
Thereafter	<u>109,788</u>
Total	<u>\$ 215,073</u>

**6. PER SHARE INFORMATION:**

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period, and diluted earnings per share is computed using the weighted average number of common shares outstanding during the period adjusted for all potentially dilutive common stock equivalents, except in cases where the effect of the common stock equivalent would be antidilutive. The amounts used to compute the basic and diluted earnings per share for the three months ended March 31, 2014 and 2013 are illustrated below (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>AMOUNTS ATTRIBUTABLE TO COMMON STOCK:</b>		
Net income attributable to common stock	<u>\$ 54,408</u>	<u>\$ 72,081</u>
<b>WEIGHTED AVERAGE SHARES:</b>		
Weighted average shares outstanding for basic earnings per share	219,033	213,453
Effect of dilutive stock options	42	59
Weighted average shares outstanding for diluted earnings per share	<u>219,075</u>	<u>213,512</u>

For purposes of calculating diluted earnings per share, there were no adjustments required to derive Quanta's net income attributable to common stock. The outstanding exchangeable shares of a Canadian subsidiary of Quanta that were issued pursuant to the acquisition of Valard Construction LP and certain of its affiliated entities (Valard) on October 25, 2010, which are exchangeable on a one-for-one basis with shares of Quanta common stock, have been included in weighted average shares outstanding for basic and diluted earnings per share for the three months ended March 31, 2014 and 2013. Additionally, the outstanding exchangeable shares of a Canadian subsidiary of Quanta that were issued pursuant to the acquisition of Northstar Energy Services Inc. and Northstar Transport Services Inc. (Northstar) on January 14, 2014, which are also exchangeable on a one-for-one basis with shares of Quanta common stock, have been included in weighted average shares outstanding for basic and diluted earnings per share for the three months ended March 31, 2014, weighted for the portion of the period they were outstanding.

**7. DEBT OBLIGATIONS:**

*Credit Facility*

On October 30, 2013, Quanta entered into a credit agreement which amended and restated its prior facility with various lenders. The credit agreement provides for a \$1.325 billion senior secured revolving credit facility maturing October 30, 2018. Up to \$400.0 million of the facility is available for revolving loans and letters of

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

As of March 31, 2014, Quanta had approximately \$213.5 million of letters of credit issued, \$186.7 million of which was denominated in U.S. dollars and \$26.8 million of which was denominated in Australian or Canadian dollars, and no outstanding borrowings under the credit facility. The remaining \$1.11 billion was available for borrowings or issuing new letters of credit.

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

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

The Consolidated Leverage Ratio is the ratio of Quanta's Consolidated Funded Indebtedness to Consolidated EBITDA (as defined in the credit agreement). For purposes of calculating the Consolidated Leverage Ratio, Consolidated Funded Indebtedness is reduced by available cash and Cash Equivalents (as defined in the credit agreement) in excess of \$25.0 million. The Base Rate equals the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 1/2 of 1%, (ii) Bank of America's prime rate and (iii) the Eurocurrency Rate plus 1.00%.

Subject to certain exceptions, the credit agreement is secured by substantially all of the assets of Quanta and its wholly owned U.S. subsidiaries and by a pledge of all of the capital stock of Quanta's wholly owned U.S. subsidiaries and 65% of the capital stock of Quanta's direct foreign subsidiaries of Quanta's wholly-owned U.S. subsidiaries. Quanta's wholly owned U.S. subsidiaries also guarantee the repayment of all amounts due under the credit agreement. Subject to certain conditions, at any time Quanta maintains an Investment Grade Rating

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(defined in the credit agreement as two of the following three conditions being met: (i) a corporate credit rating that is BBB- or higher by Standard & Poor's Rating Services, (ii) a corporate family rating that is Baa3 or higher by Moody's Investors Services, Inc. or (iii) a corporate credit rating that is BBB- or higher by Fitch Ratings, Inc.), all collateral will automatically be released from these liens.

The credit agreement contains certain covenants, including a maximum Consolidated Leverage Ratio and a Consolidated Interest Coverage Ratio, in each case as specified in the credit agreement. The credit agreement limits certain acquisitions, mergers and consolidations, indebtedness, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on assets. The credit agreement also allows for cash payments for dividends and stock repurchases subject to compliance with the following requirements on a post-incurrence basis: (i) no default or event of default under the credit agreement; (ii) continued compliance with the financial covenants described above; and (iii) at least \$100 million of availability under the credit agreement and/or cash and cash equivalents on hand. As of March 31, 2014, Quanta was in compliance with all of the covenants in the credit agreement.

The credit agreement provides for customary events of default and carries cross-default provisions with Quanta's underwriting, continuing indemnity and security agreement with its sureties and all of its other debt instruments exceeding \$75.0 million in borrowings or availability. If an Event of Default (as defined in the credit agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the credit agreement, amounts outstanding under the credit agreement may be accelerated and may become or be declared immediately due and payable.

Between April 2, 2011 and October 30, 2013, Quanta had a credit agreement that provided for a \$700.0 million senior secured revolving credit facility with a maturity date of August 2, 2016. Borrowings under the credit agreement were to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes. Quanta entered into the credit agreement on August 2, 2011, which amended and restated its prior credit agreement.

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

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8. EQUITY:

*Exchangeable Shares and Series F and Series G Preferred Stock*

In connection with the acquisition of Valard on October 25, 2010, certain former owners of Valard received exchangeable shares of a Canadian subsidiary of Quanta which may be exchanged at the option of the holder for Quanta common stock on a one-for-one basis. The holders of exchangeable shares can make an exchange only once in any calendar quarter and must exchange a minimum of either 50,000 shares or, if less, the total number of remaining exchangeable shares registered in the name of the holder making the request. Quanta also issued one share of Quanta Series F preferred stock to a voting trust on behalf of the holders of the exchangeable shares. The Quanta Series F preferred stock provides the holders of the exchangeable shares voting rights in Quanta common stock equivalent to the number of exchangeable shares outstanding at any time. The combination of the exchangeable shares and the share of Quanta Series F preferred stock gives the holders of the exchangeable shares rights equivalent to Quanta common stockholders with respect to dividends, voting and other economic rights. On March 26, 2013, 409,110 exchangeable shares were exchanged for Quanta common stock.

In connection with the acquisition of Northstar on January 14, 2014, the former owner of Northstar received exchangeable shares of a Canadian subsidiary of Quanta which may be exchanged at the option of the holder for Quanta common stock on a one-for-one basis. The holder of the exchangeable shares can make an exchange only once in any calendar quarter and must exchange a minimum of either 50,000 shares or, if less, the total number of remaining exchangeable shares. Quanta also issued one share of Quanta Series G preferred stock to the holder of the exchangeable shares. The Quanta Series G preferred stock provides the holder of the exchangeable shares voting rights in Quanta common stock equivalent to the number of exchangeable shares outstanding at any time. The combination of the exchangeable shares and the share of Quanta Series G preferred stock gives the holder of the exchangeable shares rights equivalent to Quanta common stockholders with respect to dividends, voting and other economic rights.

*Treasury Stock*

Under the stock incentive plans described in Note 9, the tax withholding obligations of employees upon vesting of restricted stock awards and RSUs settled in common stock are typically satisfied by Quanta making such tax payments and withholding a number of vested shares having a value on the date of vesting equal to the tax withholding obligation. As a result, Quanta withheld 324,959 and 296,874 shares of Quanta common stock during the three months ended March 31, 2014 and 2013, with a total market value of \$11.4 million and \$9.7 million, in each case for settlement of employee tax liabilities. These shares and the related cost to acquire them were accounted for as an adjustment to the balance of treasury stock. Under Delaware corporate law, treasury stock is not counted for quorum purposes or entitled to vote.

During the fourth quarter of 2013, Quanta's board of directors approved a stock repurchase program authorizing Quanta to purchase, from time to time, up to \$500.0 million of its outstanding common stock through December 31, 2016. As of March 31, 2014, there had been no repurchases under this plan. The shares and the related cost to acquire them will be accounted for as an adjustment to the balance of treasury stock.

*Noncontrolling Interests*

Quanta holds investments in several joint ventures that provide infrastructure services under specific customer contracts. Typically, each joint venture is owned equally by its members. Quanta has determined that certain of these joint ventures are variable interest entities, with Quanta providing the majority of the infrastructure services to the joint venture, which management believes most significantly influences the economic performance of the joint venture. Management has concluded that Quanta is the primary beneficiary of

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each of these joint ventures and has accounted for each on a consolidated basis. The other parties' equity interests in these joint ventures have been accounted for as noncontrolling interests in the condensed consolidated financial statements. Income attributable to the other joint venture members has been accounted for as a reduction to net income in order to obtain net income attributable to common stock in the amount of \$4.2 million and \$4.8 million for the three months ended March 31, 2014 and 2013. Equity in the consolidated assets and liabilities of these joint ventures that is attributable to the other joint venture members has been accounted for as noncontrolling interests within total equity in the accompanying balance sheets.

The carrying value of the investments held by Quanta in all of its variable interest entities was approximately \$10.9 million and \$7.1 million at March 31, 2014 and December 31, 2013. The carrying value of investments held by the noncontrolling interests in these variable interest entities at March 31, 2014 and December 31, 2013 was \$10.9 million and \$7.1 million. During the three months ended March 31, 2014 and 2013, distributions to noncontrolling interests were \$0.5 million and \$5.5 million. There were no other changes in equity as a result of transfers to/from the noncontrolling interests during the three months ended March 31, 2014 or 2013. See Note 10 for further disclosures related to Quanta's joint venture arrangements.

**9. EQUITY-BASED COMPENSATION:**

*Stock Incentive Plans*

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

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

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

*Restricted Stock and RSUs To Be Settled in Common Stock*

During each of the three months ended March 31, 2014 and 2013, Quanta granted 1.3 million shares of restricted stock and RSUs to be settled in common stock under the Plans. The grant date fair value for awards of restricted stock and RSUs to be settled in common stock is based on the market value of Quanta common stock on the date of grant. Restricted stock and RSU awards to be settled in common stock are subject to forfeiture, restrictions on transfer and certain other conditions until vesting, which generally occurs in equal installments over a two-year or three-year period following the date of grant. During the restriction period, holders of restricted stock are entitled to vote and receive dividends on such shares.

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During the three months ended March 31, 2014 and 2013, vesting activity consisted of 1.0 million and 0.9 million shares of restricted stock and RSUs settled in common stock with an approximate fair value at the time of vesting of \$33.5 million and \$24.3 million.

As of March 31, 2014, there was approximately \$54.5 million of total unrecognized compensation cost related to unvested restricted stock and RSUs to be settled in common stock granted to both employees and non-employees. This cost is expected to be recognized over a weighted average period of 2.26 years.

***RSUs To Be Settled in Cash***

Certain RSUs granted by Quanta under the Plans are intended to provide plan participants with cash performance incentives that are substantially equivalent to the risks and rewards of equity ownership in Quanta. These RSUs to be settled in cash typically vest in equal installments over a two-year or three-year period following the date of grant and are subject to forfeiture under certain conditions, primarily termination of service. Upon vesting of these RSUs, the holders receive for each vested RSU an amount in cash equal to the fair market value on the vesting date of one share of Quanta common stock, as specified in the applicable award agreement.

Compensation expense related to RSUs to be settled in cash was \$0.7 million and \$0.6 million for the three months ended March 31, 2014 and 2013. Such expense is recorded in selling, general and administrative expenses. RSUs that may be settled only in cash are not included in the calculation of earnings per share, and the estimated earned value of such RSUs is classified as a liability. Quanta paid \$2.1 million and \$0.5 million to settle liabilities related to cash-settled RSUs in the three months ended March 31, 2014 and 2013. Accrued liabilities for the estimated earned value of outstanding RSUs to be settled in cash were \$0.7 million and \$2.1 million at March 31, 2014 and December 31, 2013.

**10. COMMITMENTS AND CONTINGENCIES:**

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

As described in Note 8, Quanta holds investments in certain joint ventures with third parties for the purpose of providing infrastructure services under certain customer contracts. Losses incurred by these joint ventures are generally shared equally by the joint venture members. However, each member of the joint venture typically is jointly and severally liable for all of the obligations of the joint venture under the contract with the customer and therefore can be liable for full performance of the contract with the customer. In circumstances where Quanta's participation in a joint venture qualifies as a general partnership, the joint venture partners are jointly and severally liable for all of the obligations of the joint venture including obligations owed to the customer or any other person or entity. Quanta is not aware of circumstances that would lead to future claims against it for material amounts in connection with these joint and several liabilities.

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

As of March 31, 2014, Quanta had outstanding capital commitments associated with investments in unconsolidated affiliates related to planned midstream infrastructure projects of approximately \$13.1 million. Except for approximately \$0.5 million that was paid in early April of 2014, Quanta is unable to determine the timing of these capital commitments, but anticipates them to be paid before the end of 2015.

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(Unaudited)*Leases*

Quanta leases certain land, buildings and equipment under non-cancelable lease agreements, including related party leases. The terms of these agreements vary from lease to lease, including some with renewal options and escalation clauses. The following schedule shows the future minimum lease payments under these leases as of March 31, 2014 (in thousands):

	<u>Operating Leases</u>
Year Ending December 31 —	
Remainder of 2014	\$ 47,014
2015	37,193
2016	29,349
2017	21,822
2018	15,250
Thereafter	<u>25,652</u>
Total minimum lease payments	<u>\$ 176,280</u>

Rent expense related to operating leases was approximately \$34.8 million and \$24.3 million for the three months ended March 31, 2014 and 2013.

Quanta has guaranteed the residual value on certain of its equipment operating leases. Quanta has agreed to pay any difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At March 31, 2014, the maximum guaranteed residual value was approximately \$329.5 million. Quanta believes that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that significant payments will not be required in the future.

*Committed Capital Expenditures*

Quanta has committed capital for the expansion of its fiber optic network, although Quanta typically does not commit capital to new network expansions until it has a committed licensing arrangement in place with at least one customer. The amounts of committed capital expenditures are estimates of costs required to build the networks under contract. The actual capital expenditures related to building the networks could vary materially from these estimates. As of March 31, 2014, Quanta estimates these committed capital expenditures to be approximately \$29.9 million for the period April 1, through December 31, 2014 and \$0.4 million for 2015. Quanta also committed capital for the expansion of its vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of March 31, 2014, production orders for approximately \$18.1 million had been issued with delivery dates expected to occur throughout 2014. Although Quanta has committed to purchase these vehicles at the time of their delivery, Quanta intends that these orders will be assigned to third party leasing companies and made available to Quanta under certain of its master equipment lease agreements, thereby releasing Quanta from its capital commitment.

*Legal Proceedings*

Quanta is from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, employment-related damages, punitive damages, civil penalties

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or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, Quanta records a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, Quanta discloses matters for which management believes a material loss is at least reasonably possible. Except as otherwise stated below, none of these proceedings, separately or in the aggregate, are expected to have a material adverse effect on Quanta's consolidated financial position, results of operations or cash flows. In all instances, management has assessed the matter based on current information and made a judgment concerning its potential outcome, giving due consideration to the nature of the claim, the amount and nature of damages sought and the probability of success. Management's judgment may prove materially inaccurate, and such judgment is made subject to the known uncertainties of litigation.

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

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

NGC counterclaimed in the arbitration, asserting that Mears breached the contract and performed negligently by failing to provide a drilling component capable of withstanding loads during pullback and providing a hole of insufficient cleanliness such that debris and other materials contributed to excess forces experienced during Mears' pullback of the pipeline. NGC sought recovery for the costs of the salvage operations, the cost of the reworks, as well as other costs, totaling approximately \$79.5 million, and additionally sought recovery of pre-judgment interest and attorneys' fees and expenses.

The arbitration hearings were completed during the third quarter of 2012. On March 20, 2014, the arbitration panel issued a decision in favor of NGC, which awarded \$17.3 million in damages plus NGC attorneys' fees and interest of approximately \$11.0 million. As a result, Mears was unsuccessful in recovering any amounts sought in its claim against NGC and has written off approximately \$10.5 million of accounts receivable associated with the NGC contract, resulting in an aggregate \$38.8 million charge to selling, general and administrative expenses in the three months ended March 31, 2014.

*Sunrise Powerlink Arbitration.* On April 21, 2010, PAR, a wholly-owned subsidiary of Quanta, entered into a contract with SDG&E to construct a 117-mile electrical transmission line in Imperial and San Diego Counties, California, known as the Sunrise Powerlink project. Construction commenced on November 17, 2010, with commercial operations beginning on June 17, 2012, according to SDG&E. During the construction phase,

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SDG&E directed multiple changes to the construction schedule that required PAR to significantly increase its resources to the project in order to meet the customer required completion date. The project also experienced numerous impacts beyond PAR's control such as access delays and restrictions, as well as problems with customer supplied materials to the project. Following completion of the project, PAR and SDG&E had ongoing meetings to review project scope, costs and performance criteria in order to reach resolution on the additional work performed and pricing of the change order under the contract, which resulted in PAR and SDG&E being in agreement as to PAR's direct costs incurred in completing the project. Although the parties agreed upon PAR's direct costs, the parties have been unsuccessful in agreeing on the final amount owed to PAR.

As a result, PAR initiated arbitration proceedings in the fourth quarter of 2013 pursuant to a contractually agreed upon dispute resolution process. PAR contends that SDG&E breached its obligations under the contract and that, as a result, PAR is entitled to compensation in excess of \$165 million plus interest and other relief that PAR may be entitled to under the contract and applicable law. In response, SDG&E disputed that PAR is entitled to the payment of any such additional amounts. On November 18, 2013, SDG&E set forth a counterclaim, which was clarified on January 24, 2014 to seek damages from PAR of approximately \$32 million, for PAR's alleged untimely performance and breach of the contract. Quanta believes that SDG&E's assertions are without merit and that PAR is entitled to the amount sought in the arbitration process. The parties have initiated discovery and the matter is set for hearing before the arbitration panel in March 2015. Although Quanta believes it is entitled to the amount PAR is seeking, due to the nature of these proceedings, an adverse result in this matter could have a material adverse effect on Quanta's consolidated financial condition, results of operations and cash flows.

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

***Concentrations of Credit Risk***

Quanta is subject to concentrations of credit risk related primarily to its cash and cash equivalents and accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of Quanta's cash investments are managed by what it believes to be high credit quality financial institutions. In accordance with Quanta's investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what Quanta believes to be high quality investments, which consist primarily of interest-bearing demand deposits, money market mutual funds and investment grade commercial paper with original maturities of three months or less. Although Quanta does not currently believe the principal amount of these investments is subject to any material risk of loss, changes in economic conditions could impact the interest income Quanta receives from these investments. In addition, Quanta grants credit under normal payment terms, generally without collateral, to its customers, which include electric power, oil and gas companies, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States and Canada. Consequently, Quanta is subject to potential credit risk related to changes in business and economic factors throughout the United States and Canada, which may be heightened as a result of uncertain economic and financial market conditions that have existed in recent years. However, Quanta generally has certain statutory lien rights with respect to services provided. Historically, some of Quanta's customers have experienced significant financial difficulties, and others may experience financial difficulties in the future. These difficulties expose Quanta to increased risk related to collectability of billed and unbilled receivables and costs and estimated earnings in excess of billings on uncompleted contracts for services Quanta has performed.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

As of March 31, 2014, two customers accounted for approximately 13% and 10% of Quanta's consolidated net position, which includes accounts receivable including long-term balances and costs and estimated earnings in excess of billings on uncompleted contracts less billings in excess of costs and unearned revenue. As of December 31, 2013, the same two customers accounted for approximately 15% and 11% of Quanta's consolidated net position. The services provided to these customers relate primarily to Quanta's Electric Power Infrastructure Services segment. Substantially all of the balance for the customer with 10% of consolidated net position as of March 31, 2014 and 11% at December 31, 2013 relates to the Sunrise Powerlink project with a long-term receivable balance related to a significant change order that is subject to a contractually agreed upon arbitration process. For additional information, see *Legal Proceedings - Sunrise Powerlink Arbitration* within this Note 10. Additionally, the customer with the 13% and 15% of consolidated net position at March 31, 2014 and December 31, 2013 also accounted for 14% of consolidated revenues for the three months ended March 31, 2013. No other customers represented 10% or more of revenues for the three months ended March 31, 2014 and 2013, and no other customers represented 10% or more of consolidated net position as of March 31, 2014 and December 31, 2013.

*Self-Insurance*

Quanta is insured for employer's liability, general liability, auto liability and workers' compensation claims. On August 1, 2013, Quanta renewed its employer's liability, general liability, auto liability and workers' compensation policies for the 2013 — 2014 policy year. As a result of the renewal, the deductibles for general liability and auto liability increased from \$5.0 million to \$10.0 million per occurrence, while the deductible for workers' compensation remained at \$5.0 million per occurrence and the deductible for employer's liability remained at \$1.0 million per occurrence. Additionally, in connection with this renewal, the amount of letters of credit required by Quanta to secure its obligations under its casualty insurance programs, which is discussed further below, has increased. Quanta also has employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$375,000 per claimant per year.

Losses under all of these insurance programs are accrued based upon Quanta's estimate of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries. These insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the extent of damage, the determination of Quanta's liability in proportion to other parties and the number of incidents not reported. The accruals are based upon known facts and historical trends, and management believes such accruals are adequate. As of March 31, 2014 and December 31, 2013, the gross amount accrued for insurance claims totaled \$163.1 million and \$161.8 million, with \$122.0 million and \$122.6 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of March 31, 2014 and December 31, 2013 were \$9.3 million and \$9.1 million, of which \$0.7 million and \$0.7 million were included in prepaid expenses and other current assets and \$8.6 million and \$8.4 million were included in other assets, net.

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

*Letters of Credit*

Certain of Quanta's vendors require letters of credit to ensure reimbursement for amounts they are disbursing on its behalf, such as to beneficiaries under its self-funded insurance programs. In addition, from time

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

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

As of March 31, 2014, Quanta had \$213.5 million in letters of credit outstanding under its credit facility primarily to secure obligations under its casualty insurance program. These are irrevocable stand-by letters of credit with maturities generally expiring at various times throughout 2014 and 2015. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods.

***Performance Bonds and Parent Guarantees***

In certain circumstances, Quanta is required to provide performance bonds in connection with its contractual commitments. Quanta has indemnified its sureties for any expenses paid out under these performance bonds. As of March 31, 2014, the total amount of outstanding performance bonds was approximately \$2.50 billion, and the estimated cost to complete these bonded projects was approximately \$717.2 million.

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

***Employment Agreements***

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

***Collective Bargaining Agreements***

Some of Quanta's operating units are parties to various collective bargaining agreements with unions that represent certain of their employees. The collective bargaining agreements expire at various times and have typically been renegotiated and renewed on terms similar to those in the expiring agreements. From time to time, Quanta is a party to grievance actions based on claims arising out of the collective bargaining agreements. The agreements require the operating units to pay specified wages, provide certain benefits to their union employees and contribute certain amounts to multi-employer pension plans and employee benefit trusts. Quanta's multi-employer pension plan contribution rates generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans on a "pay-as-you-go" basis based on its union employee payrolls. The location and number of union employees that Quanta employs at any given time and the plans in which they may participate vary depending on the projects Quanta has ongoing at any time and the need for union resources in connection with those projects. Therefore, Quanta is unable to accurately predict its union employee payroll and the amount of the resulting multi-employer pension plan contribution obligation for future periods.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

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

Quanta may be subject to additional liabilities imposed by law as a result of its participation in multi-employer defined benefit pension plans. For example, the Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon an employer who is a contributor to a multi-employer pension plan if the employer withdraws from the plan or the plan is terminated or experiences a mass withdrawal. These liabilities include an allocable share of the unfunded vested benefits in the plan for all plan participants, not merely the benefits payable to a contributing employer’s own retirees. As a result, participating employers may bear a higher proportion of liability for unfunded vested benefits if other participating employers cease to contribute or withdraw, with the reallocation of liability being more acute in cases when a withdrawn employer is insolvent or otherwise fails to pay its withdrawal liability. Other than as described below, Quanta is not aware of any material amounts of withdrawal liability that have been incurred as a result of a withdrawal by any of Quanta’s operating units from any multi-employer defined benefit pension plans.

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

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

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

In December 2013, the Central States Plan filed a lawsuit against certain of Quanta's subsidiaries alleging that contributions made to a new industry fund created after Quanta withdrew from the Central States Plan should have been made to the Central States Plan, which arguably would extend the date of withdrawal for those subsidiaries to 2014. Quanta has disputed these allegations on the basis that it has properly paid contributions to the new industry fund based on the terms of the collective bargaining agreements under which its subsidiaries participate.

On March 26, 2014, a Quanta subsidiary was notified of a Joint Committee decision relating to a grievance matter concluding that the Quanta subsidiary should have hired Teamsters under a specific collective bargaining agreement to perform certain jobs. Quanta disputes this decision and is weighing its appeal options. However, if the decision stands, there is an argument that the Quanta subsidiary owes back wages and benefits, including pension contributions, to two Teamsters employees as set forth in that collective bargaining agreement for work performed in 2013. The Central States Plan may argue that such pension contributions would be due to them from the Quanta subsidiary, which arguably would extend the date on which Quanta effected complete withdrawal from the Central States Plan to 2013. In addition, in March 2014, the Central States Plan provided revised estimates indicating that the withdrawal liability based on certain withdrawal scenarios from 2011 through 2014 could range between \$40.1 million and \$55.4 million.

The ultimate liability associated with the complete withdrawal of Quanta's subsidiaries from the Central States Plan will depend on various factors, including interpretations of the terms of the collective bargaining agreements under which the subsidiaries participated and whether exemptions from withdrawal liability applicable to construction industry employers will be available. Based on the previous estimates of liability associated with a complete withdrawal from the Central States Plan, and allowing for the exclusion of amounts believed by management to have been improperly included in such estimate, Quanta will seek to challenge and further negotiate the amount owed in connection with this matter. However, Quanta has recorded an adjustment to cost of services during the three months ended March 31, 2014 to increase the recognized withdrawal liability to an amount within a revised range of estimated probable liability associated with the Central States Plan. Given the unknown nature of some of these factors, the final withdrawal liability cannot yet be determined with certainty; therefore the amount ultimately owed upon final settlement of these matters could be materially higher than the liability Quanta has recognized through March 31, 2014.

On October 9, 2013, Quanta acquired a company that experienced a complete withdrawal from the Central States Plan prior to the date of acquisition. The Central States Plan issued a notice and demand, dated March 13, 2013, to the acquired company for a withdrawal liability in the total amount of \$6.9 million payable in installments. Based on legal arguments, the acquired company took the position that the amount of withdrawal liability payable to the Central States Plan as a result of its complete withdrawal was \$4.8 million, of which approximately \$4.1 million was outstanding as of March 31, 2014. The acquired company and Quanta have taken steps to challenge the amount of the assessment by the Central States Plan; however, payments in accordance with the terms of the Central States Plan's demand letter are required to be made while the dispute is ongoing. Approximately \$2.1 million of the purchase price was deposited into an escrow account on October 9, 2013 to fund any withdrawal obligation in excess of the \$4.8 million initially demanded. Accordingly, the acquired company's withdrawal from the Central States Plan is not expected to have a material impact on Quanta's results of operations, financial condition or cash flows.

*Indemnities*

Quanta generally indemnifies its customers for the services it provides under its contracts, as well as other specified liabilities, which may subject Quanta to indemnity claims and liabilities and related litigation. Quanta has also indemnified various parties against specified liabilities that those parties might incur in the future in connection

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

with Quanta's previous acquisition or disposition of certain companies. The indemnities under acquisition or disposition agreements are usually contingent upon the other party incurring liabilities that reach specified thresholds. As of March 31, 2014, except as otherwise set forth above in *Legal Proceedings*, Quanta does not believe any material liabilities for asserted claims exist against it in connection with any of these indemnity obligations.

**11. SEGMENT INFORMATION:**

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

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

Reportable segment information, including revenues and operating income by type of work, is gathered from each operating unit for the purpose of evaluating segment performance in support of Quanta's market strategies. These classifications of Quanta's operating unit revenues by type of work for segment reporting purposes can at times require judgment on the part of management. Quanta's operating units may perform joint infrastructure service projects for customers in multiple industries, deliver multiple types of network services under a single customer contract or provide service across industries, for example, joint trenching projects to install distribution lines for electric power and natural gas customers. In addition, Quanta's integrated operations and common administrative support at each of its operating units require that certain allocations, including allocations of shared and indirect costs, such as facility costs, indirect operating expenses, including depreciation, and general and administrative costs, be made to determine operating segment profitability. Corporate costs, such as payroll and benefits, employee travel expenses, facility costs, professional fees, acquisition costs and amortization related to certain intangible assets are not allocated.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

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

	Three Months Ended	
	March 31,	
	2014	2013
<b>Revenues:</b>		
Electric Power	\$ 1,278,168	\$ 1,180,983
Oil and Gas Infrastructure	445,857	358,932
Fiber Optic Licensing and Other	38,549	45,795
Consolidated	<u>\$ 1,762,574</u>	<u>\$ 1,585,710</u>
<b>Operating income (loss):</b>		
Electric Power	\$ 144,412	\$ 132,550
Oil and Gas Infrastructure	(21,172)	10,357
Fiber Optic Licensing and Other	12,109	16,883
Corporate and non-allocated costs	(44,854)	(40,499)
Consolidated	<u>\$ 90,495</u>	<u>\$ 119,291</u>
<b>Depreciation:</b>		
Electric Power	\$ 17,564	\$ 14,923
Oil and Gas Infrastructure	13,215	11,265
Fiber Optic Licensing and Other	4,318	4,051
Corporate and non-allocated costs	1,768	1,641
Consolidated	<u>\$ 36,865</u>	<u>\$ 31,880</u>

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

**Foreign Operations**

During the three months ended March 31, 2014 and 2013, Quanta derived \$456.2 million and \$299.2 million of its revenues from foreign operations. Of Quanta’s foreign revenues, approximately 84% and 96% was earned in Canada during the three months ended March 31, 2014 and 2013. In addition, Quanta held property and equipment of \$226.1 million and \$196.8 million in foreign countries, primarily Canada, as of March 31, 2014 and December 31, 2013. The increases in foreign revenues and assets were primarily due to the timing of the non-U.S. acquisitions described in Note 4.

**12. SUBSEQUENT EVENTS:**

**Acquisition**

During the second quarter of 2014, Quanta completed the acquisition of a company that offers geotechnical and geological engineering services for the power transmission, mining, transportation, and water resources sectors in the U.S., Canada and select international markets. The consideration paid for this acquisition consisted of approximately \$3.3 million in cash and will include shares of Quanta common stock valued at approximately \$2.0 million as of the final determination date, which will be at the end of May 2014. As this transaction was

**QUANTA SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
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effective during the second quarter of 2014, the results will be included in Quanta's consolidated financial statements beginning on the date of acquisition. This acquisition should enable Quanta to further enhance its electric power infrastructure service offerings in the U.S., Canada and select international markets.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission (SEC) on March 3, 2014 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on our website, which is [www.quantaservices.com](http://www.quantaservices.com). The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified under the headings "Uncertainty of Forward-Looking Statements and Information" below in this Item 2 and "Risk Factors" in Item 1A of Part II of this Quarterly Report.

#### **Introduction**

We are a leading provider of specialty contracting services, offering infrastructure solutions primarily to the electric power and oil and gas industries in North America and in select international markets. The services we provide include the design, installation, upgrade, repair and maintenance of infrastructure within each of the industries we serve, such as electric power transmission and distribution networks, substation facilities, renewable energy facilities, pipeline transmission and distribution systems and facilities, and infrastructure services for the offshore and inland water energy markets. We also own fiber optic telecommunications infrastructure in select markets and license the right to use these point-to-point fiber optic telecommunications facilities to customers.

We report our results under three reportable segments: (1) Electric Power Infrastructure Services, (2) Oil and Gas Infrastructure Services and (3) Fiber Optic Licensing and Other. This structure is generally focused on broad end-user markets for our services. Our consolidated revenues for the three months ended March 31, 2014 were approximately \$1.76 billion, of which 72.5% was attributable to the Electric Power Infrastructure Services segment, 25.3% to the Oil and Gas Infrastructure Services segment and 2.2% to the Fiber Optic Licensing and Other segment.

Our customers include many of the leading companies in the industries we serve. We have developed strong strategic alliances with numerous customers and strive to develop and maintain our status as a preferred vendor to our customers. We enter into various types of contracts, including competitive unit price, hourly rate, cost-plus (or time and materials basis), and fixed price (or lump sum basis), the final terms and prices of which are frequently negotiated with the customer. Although the terms of our contracts vary considerably, most are made on either a unit price or fixed price basis in which we agree to do the work for a price per unit of work performed (unit price) or for a fixed amount for the entire project (fixed price). We complete a substantial majority of our fixed price projects, other than certain large transmission projects, within one year, while we frequently provide maintenance and repair work under open-ended unit price or cost-plus master service agreements that are renewable periodically.

We recognize revenue on our unit price and cost-plus contracts as units are completed or services are performed. For our fixed price contracts, we record revenues as work on the contract progresses on a percentage-of-completion basis. Under this method, revenue is recognized based on the percentage of total costs incurred to date in proportion to total estimated costs to complete the contract. Fixed price contracts generally include retainage provisions under which a percentage of the contract price is withheld until the project is complete and has been accepted by our customer.

For internal management purposes, we are organized into three internal divisions, namely, the electric power division, the oil and gas infrastructure division and the fiber optic licensing division. These internal divisions are closely aligned with the reportable segments described above based on the predominant type of work provided by the operating units within each division.

Reportable segment information, including revenues and operating income by type of work, is gathered from each operating unit for the purpose of evaluating segment performance in support of our market strategies. These classifications of our operating unit revenues by type of work for segment reporting purposes can at times require

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judgment on the part of management. Our operating units may perform joint infrastructure service projects for customers in multiple industries, deliver multiple types of infrastructure services under a single customer contract or provide services across industries — for example, joint trenching projects to install distribution lines for electric power and natural gas customers. Our integrated operations and common administrative support at each of our operating units requires that certain allocations, including allocations of shared and indirect costs, such as facility costs, indirect operating expenses including depreciation, and general and administrative costs, be made to determine operating segment profitability. Corporate costs, such as payroll and benefits, employee travel expenses, facility costs, professional fees, acquisition costs and amortization related to certain intangible assets are not allocated.

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

The Oil and Gas Infrastructure Services segment provides comprehensive network solutions to customers involved in the development and transportation of natural gas, oil and other pipeline products. Services performed by the Oil and Gas Infrastructure Services segment generally include the design, installation, repair and maintenance of pipeline transmission and distribution systems, gathering systems, production systems and compressor and pump stations, as well as related trenching, directional boring and automatic welding services. In addition, this segment’s services include pipeline protection, integrity testing, rehabilitation and replacement, and fabrication of pipeline support systems and related structures and facilities. We also serve the offshore and inland water energy markets, primarily providing services to oil and gas exploration platforms, including mechanical installation (or “hook-ups”), electrical and instrumentation, pre-commissioning and commissioning, coatings, fabrication, pipeline construction, integrity services and marine asset repair. To a lesser extent, this segment designs, installs and maintains airport fueling systems as well as water and sewer infrastructure.

The Fiber Optic Licensing and Other segment designs, procures, constructs, maintains and owns fiber optic telecommunications infrastructure in select markets and licenses the right to use these point-to-point fiber optic telecommunications facilities to our customers pursuant to licensing agreements, typically with terms from five to twenty-five years, inclusive of certain renewal options. Under those agreements, customers are provided the right to use a portion of the capacity of a fiber optic network, with the network owned and maintained by us. We are also expanding our service offerings to provide lit services, with Quanta providing network management services to customers, as well as owning the electric equipment necessary to make the fiber optic network operational. We believe market opportunities exist for lit services that will enable us to leverage capacities of our dark fiber networks, as well as providing other attractive growth opportunities. The Fiber Optic Licensing and Other segment provides services to communication carriers as well as education, financial services, healthcare and other business enterprises with high bandwidth telecommunication needs. The telecommunication services provided through this segment are subject to regulation by the Federal Communications Commission and certain state public utility commissions. The Fiber Optic Licensing and Other segment also provides various telecommunication infrastructure services on a limited and ancillary basis, primarily to our customers in the electric power industry.

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

During the first quarter of 2014, we completed five acquisitions. Four of these five companies are electric power infrastructure services companies located in Canada. The fifth company is a general engineering and

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construction company, based in California, specializing in hydrant fueling, waterfront and utility construction for U.S. Department of Defense military bases, and is generally included in our Oil and Gas Infrastructure Services segment. The aggregate consideration paid for these acquisitions consisted of approximately \$79.9 million in cash, 393,052 shares of Quanta common stock and 899,858 exchangeable shares of a Canadian subsidiary of Quanta that are substantially equivalent to, and exchangeable on a one-for-one basis for, our common stock. In addition, we issued one share of Series G preferred stock with voting rights equivalent to our common stock equal to the number of exchangeable shares outstanding at any time. The aggregate value of the above issued securities on the respective closing dates of the acquisitions totaled approximately \$36.6 million. As these transactions were effective during the first quarter of 2014, the results are included in our consolidated financial statements beginning on the respective dates of acquisition. These acquisitions should enable us to further enhance our electric power infrastructure service offerings in Canada and our oil and gas infrastructure service offerings in the U.S.

During 2013, we acquired six businesses, which included electric power and oil and gas infrastructure services companies. The electric power acquisitions expanded our geographic presence primarily in the Northeastern, Midwestern and Western regions of the United States and in the Central region of Canada, while the oil and gas infrastructure services companies increased our capacity to provide mechanical installations for the offshore oil and gas industry and pipeline logistics services throughout the United States and expanded our geographic presence to include pipeline construction services in Australia. The aggregate consideration paid for these acquisitions consisted of approximately \$341.1 million in cash and 3,547,482 shares of our common stock valued, as of the respective dates of issuance, at approximately \$88.9 million. The results for each company have been included in our consolidated financial statements beginning on the respective dates of acquisition. These acquisitions have enabled us to further enhance our electric power infrastructure service and oil and gas infrastructure service offerings in the United States and select international markets.

## Backlog

Backlog is not a term recognized under United States generally accepted accounting principles; however, it is a common measurement used in our industry. Our methodology for determining backlog may not be comparable to the methodologies used by other companies.

Our backlog represents the amount of consolidated revenue that we expect to realize from future work under construction contracts, long-term maintenance contracts, master service agreements (MSAs) and licensing agreements. These estimates include revenues from the remaining portion of firm orders not yet completed and on which work has not yet begun, as well as revenues from change orders, renewal options, and funded and unfunded portions of government contracts to the extent that they are reasonably expected to occur. For purposes of calculating backlog, we include 100% of estimated revenues attributable to consolidated joint ventures and variable interest entities (VIEs). The following table presents our total backlog by reportable segment as of March 31, 2014 and December 31, 2013, along with an estimate of the backlog amounts expected to be realized within 12 months of each balance sheet date (in thousands):

	Backlog as of March 31, 2014		Backlog as of December 31, 2013	
	12 Month	Total	12 Month	Total
Electric Power	\$ 3,363,513	\$ 6,187,118	\$ 3,346,721	\$ 5,964,061
Oil and Gas Infrastructure	1,509,267	2,281,719	1,515,612	2,218,503
Fiber Optic Licensing and Other	130,117	586,037	137,883	545,503
Total	<u>\$ 5,002,897</u>	<u>\$ 9,054,874</u>	<u>\$ 5,000,216</u>	<u>\$ 8,728,067</u>

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Revenue estimates included in our backlog can be subject to change as a result of project accelerations, cancellations or delays due to various factors, including but not limited to commercial issues, regulatory requirements and adverse weather. These factors can also cause revenue amounts to be realized in periods and at levels different than originally projected. Generally, our customers are not contractually committed to specific volumes of services under our MSAs, and while we did not experience any material cancellations during the current periods, most of our contracts may be terminated, typically upon 30 to 90 days notice, even if we are not in default under the contract. We determine the estimated amount of backlog for work under MSAs by using recurring historical trends inherent in current MSAs, factoring in seasonal demand and projected customer needs based upon ongoing communications with the customer. In addition, many of our MSAs, as well as contracts for fiber optic licensing, are subject to renewal options. As of March 31, 2014 and December 31, 2013, MSAs accounted for approximately 35% and 31% of our estimated 12 month backlog and approximately 49% and 44% of total backlog. There can be no assurance as to our customers' actual requirements or that our estimates are accurate.

### **Seasonality; Fluctuations of Results; Economic Conditions**

Our revenues and results of operations can be subject to seasonal and other variations. These variations are influenced by weather, customer spending patterns, bidding seasons, project timing and schedules, and holidays. Typically, our revenues are lowest in the first quarter of the year because cold, snowy or wet conditions can cause delays on projects. In addition, many of our customers develop their capital budgets for the coming year during the first quarter and do not begin infrastructure projects in a meaningful way until their capital budgets are finalized. Second quarter revenues are typically higher than those in the first quarter, as some projects begin, but continued cold and wet weather can often impact second quarter productivity. Third quarter revenues are typically the highest of the year, as a greater number of projects are underway, and weather is more accommodating. Generally, revenues during the fourth quarter of the year are lower than the third quarter but higher than the second quarter. Many projects are completed in the fourth quarter, and revenues are often impacted positively by customers seeking to spend their capital budgets before the end of the year; however, the holiday season and inclement weather can sometimes cause delays, reducing revenues and increasing costs. Any quarter may be positively or negatively affected by atypical weather patterns in a given part of the country, such as severe weather, excessive rainfall or warmer winter weather, making it difficult to predict these variations and their effect on particular projects quarter to quarter. The timing of project awards and unanticipated changes in project schedules as a result of delays or accelerations can also create variations in the level of operating activity from quarter to quarter.

These seasonal impacts are typical for our U.S. operations, but as our foreign operations continue to grow, we may see a lessening of this pattern impacting our quarterly revenues. For example, revenues in Canada are often higher in the first quarter as projects are accelerated so that work can be completed prior to the "break up", as productivity is adversely affected by wet ground conditions during the warmer spring and summer months. Also, although revenues from Australia and other international operations have not been significant relative to our overall revenues to date, their seasonal patterns may differ from those in North America and may impact our seasonality more in the future.

Additionally, our industry can be highly cyclical. As a result, our volume of business may be adversely affected by declines or delays in new projects in various geographic regions, including the United States, Canada and Australia. Project schedules, particularly in connection with larger, longer-term projects, can also create fluctuations in the services provided, which may adversely affect us in a given period. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular period, regional, national and global economic and market conditions, timing of acquisitions, the timing and magnitude of acquisition and integration costs associated with acquisitions, dispositions, fluctuations in our equity in earnings of unconsolidated affiliates, impairments of goodwill, intangible assets, long-lived assets or investments and interest rate fluctuations are examples of items that may also materially affect quarterly results. Accordingly, our operating results in any particular period may not be indicative of the results that can be expected for any other period.

We and our customers continue to operate in an uncertain business environment, with heightened regulatory and environmental requirements, stringent permitting processes and only gradual recovery in the economy from recessionary levels. We are closely monitoring our customers and the effect that changes in economic and market

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conditions have had or may have on them. Certain of our customers have reduced or delayed spending in recent years, which we attribute primarily to regulatory and permitting hurdles and negative economic and market conditions, and we anticipate that these issues may continue to affect demand for some of our services in the near-term. However, we believe that most of our customers, many of whom are regulated utilities, remain financially stable in general and will be able to continue with their business plans in the long-term. You should read “Outlook” and “Understanding Margins” for additional discussion of trends and challenges that may affect our financial condition, results of operations and cash flows.

### **Understanding Margins**

Our gross margin is gross profit expressed as a percentage of revenues, and our operating margin is operating income expressed as a percentage of revenues. Cost of services, which is subtracted from revenues to obtain gross profit, consists primarily of salaries, wages and benefits to employees, depreciation, fuel and other equipment expenses, equipment rentals, subcontracted services, insurance, facilities expenses, materials and parts and supplies. Selling, general and administrative expenses and amortization of intangible assets are then subtracted from gross profit to obtain operating income. Various factors — some controllable, some not — can impact our margins on a quarterly or annual basis.

*Seasonal and geographical.* As discussed previously, seasonal patterns can have a significant impact on margins. Generally, business is slower in the winter months versus the warmer months of the year, resulting in lower productivity and consequently reducing our ability to cover fixed costs. This can be offset somewhat by increased demand for electrical service and repair work resulting from severe weather. Additionally, project schedules, including when projects begin and when they are completed, may impact margins. The mix of business conducted in different parts of the country will also affect margins, as some parts of the country offer the opportunity for higher margins than others due to the geographic characteristics associated with the physical location where the work is being performed. Such characteristics include whether the project is performed in an urban versus a rural setting or in a mountainous area or in open terrain. Site conditions, including unforeseen underground conditions, can also impact margins.

*Weather.* Adverse or favorable weather conditions can impact gross margins in a given period. For example, snow or rainfall in the areas in which we operate may negatively impact our revenues and margins due to reduced productivity, as projects may be delayed or temporarily placed on hold until weather conditions improve. Conversely, in periods when weather remains dry and temperatures are accommodating, more work can be done, sometimes with less cost, which would have a favorable impact on margins. In some cases, severe weather, such as hurricanes and ice storms, can provide us with higher margin emergency restoration service work, which generally has a positive impact on margins.

*Revenue mix.* The mix of revenues derived from the industries we serve will impact margins, as certain industries provide higher margin opportunities. Additionally, changes in our customers’ spending patterns in each of the industries we serve can cause an imbalance in supply and demand and, therefore, affect margins and mix of revenues by industry served.

*Service and maintenance versus installation.* Installation work is often performed on a fixed price basis, while maintenance work is often performed under pre-established or negotiated prices or cost-plus pricing arrangements. Margins for installation work may vary from project to project, and may be higher than maintenance work, as work obtained on a fixed price basis has higher risk than other types of pricing arrangements. We typically derive approximately 30% of our annual revenues from maintenance work, but a higher portion of installation work in any given period may affect our gross margins for that period.

*Subcontract work.* Work that is subcontracted to other service providers generally yields lower margins. An increase in subcontract work in a given period may contribute to a decrease in margins. We typically subcontract approximately 20% to 25% of our work to other service providers.

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*Materials versus labor.* Typically, our customers are responsible for supplying their own materials on projects; however, for some of our contracts, we may agree to procure all or part of the required materials. Margins may be lower on projects where we furnish a significant amount of materials, as our mark-up on materials is generally lower than on our labor costs. In a given period, an increase in the percentage of work with higher materials procurement requirements may decrease our overall margins.

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

*Insurance.* Margins could be impacted by fluctuations in insurance accruals as additional claims arise and as circumstances and conditions of existing claims change. We are insured for employer's liability, general liability, auto liability and workers' compensation claims. On August 1, 2013, we renewed our employer's liability, general liability, auto liability and workers' compensation policies for the 2013 — 2014 policy year. As a result of the renewal, the deductibles for general liability and auto liability increased from \$5.0 million to \$10.0 million per occurrence, while the deductible for workers' compensation remained at \$5.0 million per occurrence and the deductible for employer's liability remained at \$1.0 million per occurrence. We also have employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$375,000 per claimant per year.

*Performance risk.* Margins may fluctuate because of the volume of work and the impacts of pricing and job productivity, which can be affected both favorably and negatively by weather, geography, customer decisions and crew productivity. For example, when comparing a service contract between a current quarter and the comparable prior year's quarter, factors affecting the gross margins associated with the revenues generated by the contract may include pricing under the contract, the volume of work performed under the contract, the mix of the type of work specifically being performed and the productivity of the crews performing the work. Productivity can be influenced by many factors, including where the work is performed (*e.g.*, rural versus urban area or mountainous or rocky area versus open terrain), whether the work is on an open or encumbered right of way, the impacts of inclement weather or the effects of environmental restrictions or regulatory delays. These types of factors are not practicable to quantify through accounting data, but each of these items may individually or in the aggregate have a direct impact on the gross margin of a specific project.

*Foreign currency risk.* Our financial performance on a U.S. dollar denominated basis is subject to fluctuation in currency exchange rates. Fluctuations in exchange rates from our operations units with functional currencies other than the U.S. dollar, primarily our operating units with Canadian and Australian dollar functional currencies that translate their results into U.S. dollars for reporting purposes, could cause material fluctuations in quarter-to-quarter comparisons of our results of operations.

### **Selling, General and Administrative Expenses**

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

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### Results of Operations

As previously discussed, we have acquired certain businesses, the results of which have been included in the following results of operations beginning on their respective acquisition dates. The following table sets forth selected statements of operations data and such data as a percentage of revenues for the three month periods indicated (dollars in thousands):

### Consolidated Results

	Three Months Ended March 31,			
	2014		2013	
Revenues	\$1,762,574	100.0%	\$1,585,710	100.0%
Cost of services (including depreciation)	1,490,503	84.6	1,347,437	85.0
Gross profit	272,071	15.4	238,273	15.0
Selling, general and administrative expenses	173,331	9.8	113,681	7.2
Amortization of intangible assets	8,245	0.5	5,301	0.3
Operating income	90,495	5.1	119,291	7.5
Interest expense	(982)	(0.1)	(502)	—
Interest income	1,545	0.1	522	—
Other income (expense), net	643	0.1	(513)	—
Income before income taxes	91,701	5.2	118,798	7.5
Provision for income taxes	33,053	1.9	41,941	2.7
Net income	58,648	3.3	76,857	4.8
Less: Net income attributable to noncontrolling interests	4,240	0.2	4,776	0.3
Net income attributable to common stock	<u>\$ 54,408</u>	<u>3.1%</u>	<u>\$ 72,081</u>	<u>4.5%</u>

#### Three months ended March 31, 2014 compared to the three months ended March 31, 2013

**Revenues.** Revenues increased \$176.9 million, or 11.2%, to \$1.76 billion for the three months ended March 31, 2014. This increase was primarily due to higher electric power infrastructure services revenues, which increased \$97.2 million, or 8.2%, to \$1.28 billion, primarily as a result of \$69.0 million in revenues generated from acquired companies. Also contributing to the increase was higher revenues from oil and gas infrastructure services, which increased \$86.9 million, or 24.2%, to \$445.9 million, primarily due to \$118.9 million in revenues generated from acquired companies. These increases were partially offset by a decrease in revenues from fiber optic licensing and other, which decreased \$7.2 million, or 15.8%, to \$38.5 million, primarily due to lower levels of ancillary telecommunication revenues, as certain larger projects completed in the first quarter of 2013 did not recur to the same extent in the first quarter of 2014.

**Gross profit.** Gross profit increased \$33.8 million, or 14.2%, to \$272.1 million for the three months ended March 31, 2014. This increase was primarily due to the impact of higher overall revenues earned from the Electric Power and Oil and Gas Infrastructure Services segments during the current period. Gross profit as a percentage of revenues increased to 15.4% for the three months ended March 31, 2014 from 15.0% for the three months ended March 31, 2013. This increase in gross margin was primarily attributable to improved performance in the Oil and Gas Infrastructure Services segment as well as higher revenues earned from both the Electric Power and Oil and Gas Infrastructure Services segments during the current period, which improved these segments' ability to cover fixed operating costs.

**Selling, general and administrative expenses.** Selling, general and administrative expenses increased \$59.7 million, or 52.5%, to \$173.3 million for the three months ended March 31, 2014. The increase was primarily attributable to an aggregate \$38.8 million expense associated with an adverse arbitration decision regarding a contract dispute with the National Gas Company of Trinidad and Tobago (NGC) on a 2010 directional drilling

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project, as well as \$13.6 million in incremental general and administrative costs associated with companies acquired since the first quarter of 2013 and \$3.9 million in higher acquisition and integration costs. Selling, general and administrative expenses as a percentage of revenues increased from 7.2% for the three months ended March 31, 2013 to 9.8% for the three months ended March 31, 2014, due primarily to the impact of the adverse arbitration decision in favor of NGC and the higher acquisition and integration costs described above.

*Amortization of intangible assets.* Amortization of intangible assets increased \$2.9 million to \$8.2 million for the three months ended March 31, 2014. This increase was primarily due to increased amortization of intangibles associated with companies acquired since the first quarter of 2013, partially offset by reduced amortization expense from previously acquired intangible assets as certain of these assets became fully amortized.

*Interest expense.* Interest expense increased \$0.5 million to \$1.0 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 due to the increase in unused capacity on our expanded credit facility and higher amortization of deferred financing costs following the amendment and restatement of our credit facility on October 30, 2013.

*Interest income.* Interest income was \$1.5 million and \$0.5 million for the three month periods ended March 31, 2014 and March 31, 2013. This increase was due to higher average interest rates during the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013.

*Provision for income taxes.* The provision for income taxes was \$33.1 million for the three months ended March 31, 2014, with an effective tax rate of 36.0%. The provision for income taxes was \$41.9 million for the three months ended March 31, 2013, with an effective tax rate of 35.3%. The higher effective rate for the three months ended March 31, 2014 was primarily due to differences in the geographical location of earnings compared to the three months ended March 31, 2013.

## Segment Results

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

	Three Months Ended March 31,			
	2014		2013	
<b>Revenues:</b>				
Electric Power	\$1,278,168	72.5%	\$1,180,983	74.5%
Oil and Gas Infrastructure	445,857	25.3	358,932	22.6
Fiber Optic Licensing and Other	38,549	2.2	45,795	2.9
Consolidated revenues from external customers	<u>\$1,762,574</u>	<u>100.0%</u>	<u>\$1,585,710</u>	<u>100.0%</u>
<b>Operating income (loss):</b>				
Electric Power	\$ 144,412	11.3%	\$ 132,550	11.2%
Oil and Gas Infrastructure	(21,172)	(4.7)	10,357	2.9
Fiber Optic Licensing and Other	12,109	31.4	16,883	36.9
Corporate and non-allocated costs	(44,854)	N/A	(40,499)	N/A
Consolidated operating income	<u>\$ 90,495</u>	<u>5.1%</u>	<u>\$ 119,291</u>	<u>7.5%</u>

### Three months ended March 31, 2014 compared to the three months ended March 31, 2013

#### Electric Power Infrastructure Services Segment Results

Revenues for this segment increased \$97.2 million, or 8.2%, to \$1.28 billion for the three months ended March 31, 2014. Revenues were positively impacted by approximately \$69.0 million in revenues generated by

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acquired companies and from increased capital spending by our customers. Partially offsetting this increase were the impact on production of frigid weather conditions throughout much of North America and the quarter-over-quarter impact of less favorable Canadian dollar to U.S. dollar exchange rates. This compares to the three months ended March 31, 2013, which had mild weather and favorable working conditions that better accommodated production and allowed for certain work scheduled for the second quarter of 2013 to be accelerated into the first quarter of 2013.

Operating income increased \$11.9 million, or 8.9%, to \$144.4 million for the three months ended March 31, 2014. The increase in operating income was primarily due to the increase in segment revenues described above. Operating income as a percentage of segment revenues increased slightly to 11.3% for the quarter ended March 31, 2014 from 11.2% for the quarter ended March 31, 2013.

### *Oil and Gas Infrastructure Services Segment Results*

Revenues for this segment increased \$86.9 million, or 24.2%, to \$445.9 million for the three months ended March 31, 2014. Revenues in the first quarter of 2014 were favorably impacted by approximately \$118.9 million in revenues generated by acquired companies. Partially offsetting this increase was a decrease in revenues related to midstream projects during the first quarter of 2014 as compared to the first quarter of 2013 due to project timing as well as the impact on production of frigid weather conditions throughout much of North America in the first quarter of 2014 compared to mild winter conditions in the first quarter of 2013, which better accommodated production in the prior period.

Operating income decreased \$31.5 million to a loss of \$21.2 million for the quarter ended March 31, 2014 from \$10.4 million for the quarter ended March 31, 2013. Operating income (loss) as a percentage of segment revenues decreased to negative 4.7% for the quarter ended March 31, 2014 from 2.9% for the quarter ended March 31, 2013. These decreases were primarily due to an aggregate \$38.8 million expense associated with an adverse arbitration decision regarding a contract dispute with NGC on a 2010 directional drilling project, as well as the impact of an increase in the estimated withdrawal liability associated with the Central States, Southeast and Southwest Areas Pension Plan (the Central States Plan) based on certain withdrawal scenarios that increased our estimated range of probable liability. These decreases were partially offset by the contribution of higher mainline pipe revenues, which typically offer higher margin opportunities, and the favorable settlement of certain contract change orders during the current period.

### *Fiber Optic Licensing and Other Segment Results*

Revenues for this segment decreased \$7.2 million, or 15.8%, to \$38.5 million for the three months ended March 31, 2014. This decrease in revenues was primarily due to lower levels of ancillary telecommunication service revenues during the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 as certain larger projects completed in the prior year did not recur to the same extent as in 2013.

Operating income decreased \$4.8 million, or 28.3%, to \$12.1 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. The decrease in operating income was primarily due to the decrease in segment revenues described above. Operating income as a percentage of segment revenues for the quarter ended March 31, 2014 decreased to 31.4% as compared to 36.9% for the quarter ended March 31, 2013, primarily due to higher network maintenance costs and startup costs associated with our new lit service offerings.

### *Corporate and Non-allocated Costs*

Certain selling, general and administrative expenses and amortization of intangible assets are not allocated to segments. Corporate and non-allocated costs for the quarter ended March 31, 2014 increased \$4.4 million to \$44.9 million as compared to the quarter ended March 31, 2013. This increase was primarily the result of \$3.9 million in higher acquisition and integration costs, \$2.7 million in higher consulting and other business development fees and a \$2.9 million increase in amortization expense primarily due to the amortization of newly acquired intangible assets from 2014 and 2013 acquisitions. These increases were partially offset by lower incentive compensation costs quarter-over-quarter associated with current levels of operating activity and profitability.

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### **Liquidity and Capital Resources**

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

Our cash and cash equivalents totaled \$273.3 million as of March 31, 2014. As of March 31, 2014 and December 31, 2013, cash and cash equivalents in domestic bank accounts were approximately \$134.2 million and \$236.7 million, and cash and cash equivalents held in foreign bank accounts were approximately \$139.2 million and \$252.1 million, primarily in Canada and Australia.

We were in compliance with the covenants under our credit facility at March 31, 2014. We anticipate that our cash and cash equivalents on hand, existing borrowing capacity under our credit facility, and our future cash flows from operations will provide sufficient funds to enable us to meet our future operating needs and our planned capital expenditures, as well as facilitate our ability to grow in the foreseeable future.

Our industry is capital intensive, and we expect the need for substantial capital expenditures to continue into the foreseeable future to meet the anticipated demand for our services. Capital expenditures are expected to total \$300 million to \$325 million for 2014, of which we have spent approximately \$71.4 million through March 31, 2014. Approximately \$50 million to \$60 million of the expected 2014 capital expenditures are targeted for the expansion of our fiber optic networks.

We also evaluate opportunities for strategic acquisitions from time to time that may require cash, as well as opportunities to make investments in customer-sponsored projects where we anticipate performing services such as project management, engineering, procurement or construction services. These investment opportunities exist in the markets and industries we serve and may require the use of cash in the form of debt or equity investments.

Management continues to monitor the financial markets and general national and global economic conditions. We consider our cash investment policies to be conservative in that we maintain a diverse portfolio of what we believe to be high-quality cash investments with short-term maturities. Accordingly, we do not anticipate that any weakness in the capital markets will have a material impact on the principal amounts of our cash investments or our ability to rely upon our credit facility for funds. To date, we have experienced no loss of or lack of access to our cash or cash equivalents or funds under our credit facility; however, we can provide no assurances that access to our invested cash and cash equivalents or availability under our credit facility will not be impacted in the future by adverse conditions in the financial markets.

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

#### ***Sources and Uses of Cash***

As of March 31, 2014, we had cash and cash equivalents of \$273.3 million and working capital of \$1.23 billion. We also had \$213.5 million of letters of credit outstanding and no revolving loans outstanding under our credit facility, with \$1.11 billion available for borrowing or issuing new letters of credit under our credit facility.

#### ***Operating Activities***

Cash flow from operations is primarily influenced by demand for our services and operating margins but can also be influenced by working capital needs associated with the various types of services that we provide. In particular,

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working capital needs may increase when we commence large volumes of work under circumstances where project costs, primarily associated with labor, equipment and subcontractors, are required to be paid before the receivables resulting from the work performed are billed and collected. Working capital needs are generally higher during the summer and fall months due to increased demand for our services when favorable weather conditions exist in many of the regions in which we operate. Conversely, working capital assets are typically converted to cash during the winter months. These seasonal trends can be offset by changes in the timing of major projects which can be impacted by project delays or accelerations and other economic factors that may affect customer spending.

Operating activities used net cash of \$60.5 million during the three months ended March 31, 2014 as compared to providing \$44.1 million during the three months ended March 31, 2013. The decrease in cash flows for operating activities was primarily a result of increased working capital requirements during the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 associated with the ramp up on certain electric power transmission projects, as well as weather related delays in part of North America and the timing of project close-outs that affected the achievement of certain billing milestones.

### *Investing Activities*

During the three months ended March 31, 2014, we used net cash in investing activities of \$145.0 million as compared to \$65.6 million in the three months ended March 31, 2013. Investing activities in the first quarter of 2014 included \$71.4 million used for capital expenditures and \$76.4 million used in connection with business acquisitions, partially offset by \$2.5 million of proceeds from the sale of equipment. Investing activities in the first quarter of 2013 included \$57.6 million used for capital expenditures, \$8.5 million used for additional investments in unconsolidated affiliates and \$1.0 million used for acquisitions, partially offset by \$1.5 million of proceeds from the sale of equipment.

Our industry is capital intensive, and we expect the need for substantial capital expenditures to continue into the foreseeable future to meet the anticipated demand for our services. In addition, we expect to continue to pursue strategic acquisitions and investments, although we cannot predict the timing or magnitude of the potential cash outlays for these initiatives.

### *Financing Activities*

During the three months ended March 31, 2014, net cash used in financing activities was \$10.3 million as compared to \$5.0 million used in financing activities in the three months ended March 31, 2013. Financing activities in the first quarter of 2014 included \$10.3 million of debt repayments, primarily related to debt from acquired companies that was repaid shortly after the respective acquisition dates, and \$0.5 million of cash payments to noncontrolling interests as distributions of joint venture profits. Financing activities in the first quarter of 2013 included \$5.5 million of cash payments to noncontrolling interests as distributions of joint venture profits.

### *Debt Instruments*

#### *Credit Facility*

On October 30, 2013, we entered into a credit agreement which amended and restated our prior credit agreement with various lenders. The credit agreement provides for a \$1.325 billion senior secured revolving credit facility maturing on October 30, 2018. Up to \$400.0 million of the facility is available for revolving loans and letters of credit in certain alternative currencies in addition to the U.S. dollar. The entire amount of the facility is available for the issuance of letters of credit. Up to \$50.0 million of the facility is available for swing line loans in U.S. dollars, up to \$30.0 million of the facility is available for swing line loans in Canadian dollars and up to \$20.0 million of the facility is available for swing line loans in Australian dollars. In addition, subject to the conditions specified in the credit agreement, we have the option to increase the revolving commitments under the credit agreement by up to an additional \$300.0 million from time to time upon receipt of additional commitments from new or existing lenders. Borrowings under the credit agreement are to be used to refinance existing indebtedness and for working capital, capital expenditures and other general corporate purposes.

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As of March 31, 2014, we had approximately \$213.5 million of letters of credit issued, \$186.7 million of which was denominated in U.S. dollars and \$26.8 million of which was denominated in Australian or Canadian dollars, and no outstanding borrowings under the credit facility. The remaining \$1.11 billion was available for borrowings or issuing new letters of credit.

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

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

The Consolidated Leverage Ratio is the ratio of our Consolidated Funded Indebtedness to Consolidated EBITDA (as defined in the credit agreement). For purposes of calculating the Consolidated Leverage Ratio, Consolidated Funded Indebtedness is reduced by available cash and Cash Equivalents (as defined in the credit agreement) in excess of \$25.0 million. The Base Rate equals the highest of (i) the Federal Funds Rate (as defined in the credit agreement) plus 1/2 of 1%, (ii) Bank of America's prime rate and (iii) the Eurocurrency Rate plus 1.00%.

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

The credit agreement contains certain covenants, including a maximum Consolidated Leverage Ratio and a Consolidated Interest Coverage Ratio, in each case as specified in the credit agreement. The credit agreement limits certain acquisitions, mergers and consolidations, indebtedness, asset sales and prepayments of indebtedness and, subject to certain exceptions, prohibits liens on assets. The credit agreement also allows for cash payments for dividends and stock repurchases subject to compliance with the following requirements on a post-incurrence basis: (i) no default or event of default under the credit agreement; (ii) continued compliance with the financial covenants described above; and (iii) at least \$100 million of availability under the credit agreement and/or cash and cash equivalents on hand. As of March 31, 2014, we were in compliance with all of the covenants in the credit agreement.

The credit agreement provides for customary events of default and carries cross-default provisions with our underwriting, continuing indemnity and security agreement with its sureties and all of our other debt instruments

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exceeding \$75.0 million in borrowings or availability. If an Event of Default (as defined in the credit agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the credit agreement, amounts outstanding under the credit agreement may be accelerated and may become or be declared immediately due and payable.

### **Off-Balance Sheet Transactions**

As is common in our industry, we have entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. Our significant off-balance sheet transactions include liabilities associated with non-cancelable operating leases, letter of credit obligations, commitments to expand our fiber optic networks, commitments to purchase equipment, surety guarantees, certain multi-employer pension plan liabilities and obligations relating to our joint venture arrangements. Certain joint venture structures involve risks not directly reflected in our balance sheets. For certain joint ventures, we have guaranteed all of the obligations of the joint venture under a contract with the customer. Additionally, other joint venture arrangements qualify as a general partnership, for which we are jointly and severally liable for all of the obligations of the joint venture. In our joint venture arrangements, typically each joint venturer indemnifies the other party for any liabilities incurred in excess of the liabilities such other party is obligated to bear under the respective joint venture agreement. Other than as previously discussed, we have not engaged in any material off-balance sheet financing arrangements through special purpose entities, and we have no material guarantees of the work or obligations of third parties.

#### ***Leases***

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

We have guaranteed the residual value of the underlying assets under certain of our equipment operating leases at the date of termination of such leases. We have agreed to pay any difference between this residual value and the fair market value of each underlying asset as of the lease termination date. As of March 31, 2014, the maximum guaranteed residual value was approximately \$329.5 million. We believe that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future significant payments will not be required.

#### ***Letters of Credit***

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

As of March 31, 2014, we had \$213.5 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 generally expiring at various times throughout 2014 and 2015. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods.

#### ***Performance Bonds and Parent Guarantees***

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

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customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. Under our underwriting, continuing indemnity and security agreement with our sureties and with the consent of our lenders under our credit facility, we have granted security interests in certain of our assets to collateralize our obligations to the sureties. Subject to certain conditions and consistent with terms of our credit facility, these security interests will be automatically released if we maintain a corporate credit rating that is BBB- (stable) or higher by Standard & Poor's Rating Services and a corporate family rating that is Baa3 (stable) or higher by Moody's Investors Services. We may be required to post letters of credit or other collateral in favor of the sureties or our customers in the future. Posting letters of credit in favor of the sureties or our customers would reduce the borrowing availability under our credit facility. To date, we have not been required to make any reimbursements to our sureties for bond-related costs. We believe that it is unlikely that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of March 31, 2014, the total amount of outstanding performance bonds was approximately \$2.50 billion, and the estimated cost to complete these bonded projects was approximately \$717.2 million.

From time to time, we guarantee the obligations of our wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease obligations, certain joint venture arrangements and, in some states, obligations in connection with obtaining contractors' licenses. We are not aware of any material obligations for performance or payment asserted against us under any of these guarantees.

### Contractual Obligations

As of March 31, 2014, our future contractual obligations were as follows (in thousands):

	<u>Total</u>	<u>Remainder of 2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>
Operating lease obligations	\$ 176,280	\$ 47,014	\$ 37,193	\$ 29,349	\$ 21,822	\$ 15,250	\$ 25,652
Capital lease obligations (1)	1,917	984	933	—	—	—	—
Pension plan withdrawal liability associated with demand letter(1)	4,136	510	721	770	823	879	433
Other long-term debt (1)	4,289	354	472	472	2,991	—	—
Equipment purchase commitments	18,073	18,073	—	—	—	—	—
Capital commitments related to investments in unconsolidated affiliates	460	460	—	—	—	—	—
Committed capital expenditures for fiber optic networks under contracts with customers	30,282	29,868	414	—	—	—	—
Total	<u>\$ 235,437</u>	<u>\$ 97,263</u>	<u>\$ 39,733</u>	<u>\$ 30,591</u>	<u>\$ 25,636</u>	<u>\$ 16,129</u>	<u>\$ 26,085</u>

(1) Amounts are recorded in our March 31, 2014 condensed consolidated balance sheet.

The committed capital expenditures for fiber optic networks represent commitments related to signed contracts with customers. The amounts are estimates of costs required to build the networks under contract. The actual capital expenditures related to building the networks could vary materially from these estimates. We have also committed capital for the expansion of our vehicle fleet in order to accommodate manufacturer lead times on certain types of vehicles. As of March 31, 2014, production orders for approximately \$18.1 million had been issued with delivery dates occurring throughout 2014. Although we have committed to the purchase of these vehicles at the time of their delivery, we intend that these orders will be assigned to third party leasing companies and made available to us under certain of our master equipment lease agreements, which will release us from our capital commitment.

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As of March 31, 2014, the total unrecognized tax benefits related to uncertain tax positions was \$51.2 million. Certain of our subsidiaries remain under examination by various U.S. state and Canadian federal tax authorities for multiple periods, and the amount of unrecognized tax benefits could therefore increase or decrease as a result of the expiration of certain statute of limitations periods or settlements of these audits. We believe it is reasonably possible that within the next 12 months unrecognized tax benefits may decrease up to \$11.0 million due to the expiration of certain statute of limitations periods or settlements of the audits.

The previously presented table of estimated contractual obligations does not reflect the majority of the obligations under the multi-employer pension plans in which our union employees participate. Some of our operating units are parties to various collective bargaining agreements that require us to provide to the employees subject to these agreements specified wages and benefits, as well as to make contributions to multi-employer pension plans. Our multi-employer pension plan contribution rates generally are specified in the collective bargaining agreements (usually on an annual basis), and contributions are made to the plans on a “pay-as-you-go” basis based on our union employee payrolls. The location and number of union employees that we employ at any given time and the plans in which they may participate vary depending on the projects we have ongoing at any time and the need for union resources in connection with those projects. Therefore, we are unable to accurately predict our union employee payroll and the amount of the resulting multi-employer pension plan contribution obligation for future periods.

We may also have additional liabilities imposed by law as a result of our participation in multi-employer defined benefit pension plans. The Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multi-employer plan if the employer withdraws from the plan or the plan is terminated or experiences a mass withdrawal. These liabilities include an allocable share of the unfunded vested benefits in the plan for all plan participants, not merely the benefits payable to a contributing employer’s own retirees. Other than as noted below, we are not aware of any material amounts of withdrawal liability that have been or are expected to be incurred as a result of a withdrawal by any of our operating units from any multi-employer defined benefit pension plans.

We may also be required to make additional contributions to our multi-employer pension plans if they become underfunded, and these additional contributions will be determined based on our union employee payrolls. The Pension Protection Act of 2006 added special funding and operational rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as “endangered,” “seriously endangered” or “critical” status. Plans in these classifications must adopt measures to improve their funded status through a funding improvement or rehabilitation plan, as applicable, which may require additional contributions from employers (which may take the form of a surcharge on benefit contributions) and/or modifications to retiree benefits. A number of multi-employer plans to which our operating units contribute or may contribute in the future are in “endangered,” “seriously endangered” or “critical” status. The amount of additional funds, if any, that we may be obligated to contribute to these plans in the future cannot be reasonably estimated and is not included in the above table due to uncertainty of the future levels of work that require the specific use of the union employees covered by these plans, as well as the future contribution levels and possible surcharges on contributions applicable to these plans.

We recorded a partial withdrawal liability of approximately \$32.6 million in the fourth quarter of 2011 related to the withdrawal by certain of our subsidiaries from the Central States Plan. The partial withdrawal liability we recognized was based on estimates received from the Central States Plan during 2011 for a complete withdrawal by all of our subsidiaries participating in the Central States Plan. The Central States Plan asserted that the withdrawal of the PLCA members was not effective in 2011, although Quanta believed at that time that a legally effective withdrawal had occurred during the fourth quarter of 2011. Certain of our subsidiaries continued participation in the Central States Plan, and we believe we subsequently effected a complete withdrawal as of December 30, 2012. Although the federal district court of Northern Illinois, Eastern Division, ruled that the withdrawal of the PLCA members was not effective in 2011, the PLCA appealed the decision, and the outcome of that appeal remains uncertain.

In December 2013, the Central States Plan filed a lawsuit against certain of our subsidiaries alleging that contributions made to a new industry fund created after we withdrew from the Central States Plan should have been

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made to the Central States Plan, which arguably would extend the date of withdrawal for those subsidiaries to 2014. We have disputed these allegations on the basis that we have properly paid contributions to the new industry fund based on the terms of the collective bargaining agreements under which our subsidiaries participate.

On March 26, 2014, one of our subsidiaries was notified of a Joint Committee decision relating to a grievance matter concluding that our subsidiary should have hired Teamsters under a specific collective bargaining agreement to perform certain jobs. We dispute this decision and are weighing our appeal options. However, if the decision stands, there is an argument that our subsidiary owes back wages and benefits, including pension contributions, to two Teamsters employees as set forth in that collective bargaining agreement for work performed in 2013. The Central States Plan may argue that such pension contributions would be due to them from our subsidiary, which arguably would extend the date on which we effected complete withdrawal from the Central States Plan to 2013. In addition, in March 2014, the Central States Plan provided revised estimates indicating that the withdrawal liability based on certain withdrawal scenarios from 2011 through 2014 could range between \$40.1 million and \$55.4 million.

The ultimate liability associated with the complete withdrawal of our subsidiaries from the Central States Plan will depend on various factors, including interpretations of the terms of the collective bargaining agreements under which the subsidiaries participated and whether exemptions from withdrawal liability applicable to construction industry employers will be available. Based on the previous estimates of liability associated with a complete withdrawal from the Central States Plan, and allowing for the exclusion of amounts we believe have been improperly included in such estimate, we will seek to challenge and further negotiate the amount owed in connection with this matter. However, we recorded an adjustment to cost of services during the three months ended March 31, 2014 to increase the recognized withdrawal liability to an amount within a revised range of estimated probable liability associated with the Central States Plan. Given the unknown nature of some of these factors, the final withdrawal liability cannot yet be determined with certainty; therefore the amount ultimately owed upon final settlement of these matters could be materially higher than the liability we have recognized through March 31, 2014. As a result of these various factors and the fact that there is not yet a timetable to settle the liability, the estimated withdrawal liability has not been included in the Contractual Obligations table.

On October 9, 2013, we acquired a company that experienced a complete withdrawal from the Central States Plan prior to the date of our acquisition. The Central States Plan issued a notice and demand, dated March 13, 2013, to the acquired company for a withdrawal liability in the total amount of \$6.9 million payable in installments. Based on legal arguments, the acquired company took the position that the amount of withdrawal liability payable to the Central States Plan as a result of its complete withdrawal was \$4.8 million, of which approximately \$4.1 million remained outstanding as of March 31, 2014. The acquired company and Quanta have taken steps to challenge the amount of the assessment by the Central States Plan; however, payments in accordance with the terms of the Central States Plan's demand letter are required to be made while the dispute process is ongoing. Accordingly, the \$4.1 million is included in the previously presented table of contractual obligations. Approximately \$2.1 million of the purchase price was deposited into an escrow account on October 9, 2013 to fund any withdrawal obligation in excess of the \$4.8 million initially demanded. Accordingly, the acquired company's withdrawal from the Central States Plan is not expected to have a material impact on our results of operations, financial condition or cash flows.

Also excluded from the Contractual Obligations table is interest associated with letters of credit fees and commitment fees under our credit facility because the outstanding letters of credit, availability and applicable interest rates and fees are variable. For additional information regarding the interest rates under our credit facility, see Note 7 of the Notes to Condensed Consolidated Financial Statements in Item 1. "Financial Statements." We have also excluded from the Contractual Obligations table additional capital commitments associated with investments in unconsolidated affiliates related to planned midstream infrastructure projects of approximately \$13.1 million because, except for approximately \$0.5 million paid in April 2014 that is included in the Contractual Obligations table, we are unable to determine the timing of these capital commitments but anticipate them to be paid

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before the end of 2015. As specific amounts of capital commitments and their timing are determined, we will reflect such amounts in the Contractual Obligations table.

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

We are insured for employer's liability, general liability, auto liability and workers' compensation claims. On August 1, 2013, we renewed our employer's liability, general liability, auto liability and workers' compensation policies for the 2013 — 2014 policy year. As a result of the renewal, the deductibles for general liability and auto liability increased from \$5.0 million to \$10.0 million per occurrence, while the deductible for workers' compensation remained at \$5.0 million per occurrence and the deductible for employer's liability remained at \$1.0 million per occurrence. Additionally, in connection with this renewal, the amount of letters of credit required by us to secure our obligations under our casualty insurance programs has increased. We also have employee health care benefit plans for most employees not subject to collective bargaining agreements, of which the primary plan is subject to a deductible of \$375,000 per claimant per year.

Losses under all of these insurance programs are accrued based upon our estimate of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries. These insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the extent of damage, the determination of our liability in proportion to other parties and the number of incidents not reported. The accruals are based upon known facts and historical trends, and management believes such accruals are adequate. As of March 31, 2014 and December 31, 2013, the gross amount accrued for insurance claims totaled \$163.1 million and \$161.8 million, with \$122.0 million and \$122.6 million considered to be long-term and included in other non-current liabilities. Related insurance recoveries/receivables as of March 31, 2014 and December 31, 2013 were \$9.3 million and \$9.1 million, of which \$0.7 million and \$0.7 million were included in prepaid expenses and other current assets and \$8.6 million and \$8.4 million were included in other assets, net.

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

### **Concentration of Credit Risk**

We are subject to concentrations of credit risk related primarily to our cash and cash equivalents and our accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of our cash investments are managed by what we believe to be high credit quality financial institutions. In accordance with our investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what we believe to be high quality investments, which primarily include interest-bearing demand deposits, money market mutual funds and investment grade commercial paper with original maturities of three months or less. Although we do not currently believe the principal amount of these investments is subject to any material risk of loss, changes in economic conditions could impact the interest income we receive from these investments. In addition, we grant credit under normal payment terms, generally without collateral, to our customers, which include electric power, oil and gas companies, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States and Canada. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States and Canada, which may be heightened as a result of uncertain economic and financial market conditions that have existed in recent years. However, we generally have certain statutory lien rights with respect to services provided. Historically, some of our customers have experienced significant financial difficulties, and others may experience financial difficulties in the future. These difficulties expose us to increased risk related to collectability of billed and unbilled receivables and costs and estimated earnings in excess of billings on uncompleted contracts for services we have performed.

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As of March 31, 2014, two customers accounted for approximately 13% and 10% of consolidated net position, which includes accounts receivable (including long-term balances and costs and estimated earnings in excess of billings on uncompleted contracts) less billings in excess of costs and unearned revenue. As of December 31, 2013, the same two customers accounted for approximately 15% and 11% of consolidated net position. The services provided to these customers relate primarily to our Electric Power Infrastructure Services segment. Substantially all of the balance for the customer with 10% of consolidated net position as of March 31, 2014 and 11% at December 31, 2013 relates to the Sunrise Powerlink project with a long-term receivable balance related to a significant change order that is subject to a contractually agreed upon arbitration process. During the third quarter of 2013, we reclassified the receivable related to this matter from costs in excess of billings on uncompleted contracts to other assets, net due to the expected timetable for resolution of the matter. For additional information, see *Legal Proceedings - Sunrise Powerlink Arbitration* in Note 10 of the Notes to Condensed Consolidated Financial Statements. Additionally, the customer with the 13% and 15% of consolidated net position at March 31, 2014 and December 31, 2013 also accounted for 14% of consolidated revenues for the three months ended March 31, 2013. No other customers represented 10% or more of revenues for the three months ended March 31, 2014 and 2013, and no other customers represented 10% or more of consolidated net position as of March 31, 2014 and December 31, 2013.

### **Legal Proceedings**

We are from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, employment-related damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we record a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, we disclose matters for which management believes a material loss is at least reasonably possible. See Note 10 of the Notes to Condensed Consolidated Financial Statements in Item 1, "Financial Statements" for additional information regarding litigation, claims and other legal proceedings.

### **Related Party Transactions**

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

### **New Accounting Pronouncements**

#### *Adoption of New Accounting Pronouncements.*

On January 1, 2014, we adopted an update that provides guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. The update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a material effect on our consolidated financial statements.

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

In April of 2014, the FASB issued an update that changes the requirement for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity will be required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the entity or group of components of an entity meets the criteria to be classified as held for sale or when it is disposed of by sale or other than by sale. The update also requires additional disclosures about discontinued operations, a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, and an entity's significant continuing involvement with a discontinued operation. The update is effective prospectively for fiscal years beginning on or after December 15, 2014 and interim periods within those years. Early adoption

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is permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously issued financial statements. We are currently evaluating the potential impact of this authoritative guidance on our consolidated financial statements and are planning to adopt this guidance effective January 1, 2015.

### **Outlook**

We currently see growth opportunities across all the industries we serve. However, we and our customers continue to operate in a somewhat uncertain business environment, with gradual improvement in the economy yet continuing uncertainty in the marketplace. Our customers are also facing stringent regulatory and environmental requirements as they implement projects to enhance and expand their infrastructure. These economic and regulatory factors have negatively affected our results in the past and may continue to create some uncertainty as to the timing of anticipated customer spending. Additionally, we anticipate that our operations and financial results will be impacted by adverse weather in the second quarter of 2014. Extremely cold temperatures in Canada and the northern U.S. during the first quarter of 2014 could result in a late breakup, or seasonal thaw, in these areas, which could negatively affect our electric power and oil and gas infrastructure projects. We believe that our financial and operational strengths will enable us to manage these challenges and uncertainties, and we remain optimistic about our near-term and long-term opportunities.

#### *Electric Power Infrastructure Services Segment*

The North American electric grid is aging and requires significant upgrades and maintenance to meet current and future demands for power. Over the past several years, many utilities across North America have begun to implement plans to improve their transmission systems in order to improve reliability and reduce congestion. Among other things, these activities include new construction, structure change-outs, line upgrades and maintenance projects on many transmission systems. In addition, state renewable portfolio standards, which set required or voluntary standards for how much power is to be generated from renewable energy sources, can result in the need for additional transmission lines and substations to transport the power from these facilities, which are often in remote locations, to demand centers. Other factors, such as the reliability standards issued by the North American Electric Reliability Corporation (NERC) and other regulatory actions, are also driving transmission system upgrades and expansions. We believe these factors create significant opportunities for our transmission infrastructure services.

We believe that utilities remain committed to the expansion and strengthening of their transmission infrastructure with planning, engineering and funding for many of their projects in place. The regulatory and environmental permitting processes remain a hurdle for some proposed transmission and renewable energy projects, and these factors continue to create uncertainty as to timing of this spending. The timing and scope of projects can also be affected by other factors such as siting, right-of-way and unfavorable economic and market conditions. We anticipate many of these issues to be overcome and spending on transmission projects to be active over the next few years. We currently have a number of these projects underway, and we expect this segment's backlog to remain strong throughout 2014.

Several existing, pending or proposed legislative or regulatory actions may also positively affect demand for the services provided by this segment in the long term, particularly in connection with electric power infrastructure and renewable energy spending. For example, legislative or regulatory action that alleviates some of the siting and right-of-way challenges that impact transmission projects would potentially accelerate future transmission line construction. We also anticipate increased infrastructure spending by our customers as a result of legislation requiring the power industry to meet federal reliability standards for its transmission and distribution systems and providing incentives to the industry to invest in and improve maintenance on its systems. Developments in environmental regulations concerning fossil fuel power generation plants are expected to result in the need to retire or upgrade older coal-fired generation facilities to comply with new environmental and emission rules. Much of the electricity previously generated from retired coal-fired generation facilities is expected to be replaced over the coming years by newly developed natural gas-fired generation facilities. We believe this "coal to gas" dynamic will require old transmission lines to be updated, rebuilt or replaced with

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higher voltage transmission infrastructure as well as the construction of new transmission infrastructure to connect new natural gas-fired generation facilities to the grid. In addition, as coal-fired generation facilities are retired, renewable generation is also expected to be developed to replace coal-fired generation.

The Federal Energy Regulatory Commission (FERC) issued FERC Order No. 1000 to promote more efficient and cost-effective development of new transmission facilities. The order establishes transmission planning and cost allocation requirements intended to facilitate multi-state electric transmission lines and to encourage competition by removing, under certain conditions, federal rights of first refusal from FERC-approved tariffs and agreements. We believe FERC Order No. 1000, which was affirmed by FERC in May 2012 with the issuance of FERC Order No. 1000-A, will have a favorable impact on electric transmission line development, although the impact of its implementation is not expected to occur for several years.

We benefited from increases in distribution spending throughout 2011, 2012 and 2013, despite continued economic and political uncertainties. However, as a result of reduced spending by utilities on their distribution systems during 2009 and 2010, combined with the need to meet reliability requirements, we believe there is an ongoing need for utilities to resume sustained investment in their distribution systems in order to properly maintain their systems. In addition, a number of utilities are implementing system upgrades or “hardening” programs in response to severe weather events that have occurred over the past few years, which is also increasing distribution investment in some regions of the United States. We also anticipate that utilities will continue to integrate “smart grid” technologies into their transmission and distribution systems over time to improve grid management and create efficiencies. Development and installation of smart grid technologies and other energy efficiency initiatives have benefited from stimulus funding under the American Recovery and Reinvestment Act of 2009, as well as the implementation of grid management initiatives by utilities and the desire by consumers for more efficient energy use.

The economic feasibility of renewable energy projects, and therefore, the attractiveness of investment in the projects, may depend on the availability of tax incentive programs or the ability of the project developer to take advantage of such incentives, and there is no assurance that the government will extend existing tax incentives or create new incentive or funding programs in the future. Although we see additional developments of renewable energy projects, primarily utility-scale solar facilities which could create increased demand for our engineering, procurement and construction services, we believe there is some uncertainty with these projects advancing towards award and construction.

Several industry dynamics and market trends are prompting customers in the electric power industry to seek strategic relationships with service providers. These trends include an aging customer workforce, increasing pressure to reduce cost and improve reliability, and increasing duration and complexity of customer capital programs. As a result, we believe the number of opportunities for strategic partnerships is growing.

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

We see growth opportunities in our oil and gas infrastructure operations, primarily in the installation and maintenance of mainline pipe, gathering systems, production systems and related facilities, as well as pipeline integrity and specialty services such as horizontal directional drilling. We believe opportunities for this segment exist as a result of the increase in the ongoing development of unconventional shale formations in North America that produce natural gas, natural gas liquids and/or crude oil, as well as the development of Canadian oil sands and the development of coal seam gas and unconventional shale formations in Australia, which will require the construction of mainline pipe infrastructure to connect production with demand centers and the development of midstream gathering infrastructure within areas of production. We also believe the goals of clean energy and energy independence for North America, as well as more stringent environmental regulations, will make abundant, low-cost natural gas the fuel of choice versus coal for power generation over time, creating the need for continued investment in natural gas infrastructure. We believe our position as a leading provider of mainline

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pipe and gathering system infrastructure services in North America and Australia will allow us to capitalize on these opportunities.

The oil and gas industry is cyclical and subject to volatility as a result of fluctuations in natural gas, natural gas liquids and oil prices. In the past, sustained periods of low prices for these products negatively impacted the development of these natural resources and related infrastructure. In addition, environmental scrutiny, stringent regulatory requirements and cumbersome permitting processes caused delays in some mainline pipe projects during the past several years. These dynamics resulted in below average mainline pipe construction opportunities for us and the industry in 2011 and 2012.

The lack of mainline pipe opportunities in 2011 and 2012 negatively impacted our Oil and Gas Infrastructure Services segment margins, in part as a result of our inability to adequately cover certain fixed costs. Margins for mainline pipe projects are also subject to significant performance risk, which can arise from adverse weather conditions, challenging geography, customer decisions and crew productivity. Our specific opportunities in the mainline pipe business are sometimes difficult to predict because of the seasonality of the bidding and construction cycles within the industry.

A number of large mainline pipe projects are proposed from the Canadian oil sands and U.S. shale developments to refineries and other demand centers. Many of these projects are still developing, though several mainline projects have been awarded to us and various pipeline construction contractors. While there is risk that some of these projects will not occur or could be delayed, we are encouraged by these proposed mainline pipe development plans and the progression of some mainline projects being awarded to contractors, which could create an improved and favorable mainline pipe market in 2014 for us and the industry in North America. We also believe there are significant mainline pipe opportunities in Australia driven by the production of coal seam gas for LNG export. A number of LNG export facilities are under construction and proposed for development, and pipelines and related infrastructure will be required to serve these facilities.

Our customers continue to invest in infrastructure needed to support the development of unconventional shales, particularly liquid rich formations. We continue to increase our presence in areas where unconventional shale formations are located, to continue to position us to successfully pursue projects associated with midstream gathering infrastructure development. Demand for pipeline services to support shale gathering infrastructure continues to be active, and we believe it will remain so into the foreseeable future. We have also expanded our service offerings in this segment through several recent acquisitions, including an acquisition in Australia, which has different market drivers and seasonality as compared to North America. In addition, recent acquisitions of companies that provide pipeline logistics services to the natural gas and oil industry in the United States and specialty services to the offshore oil and gas industry further enhance the segment's service offerings, customer base and end markets.

We also see growth potential in some of our other pipeline services. The U.S. Department of Transportation has implemented significant regulatory legislation through the Pipeline and Hazardous Materials Safety Administration relating to pipeline integrity requirements that we expect will increase the demand for our pipeline integrity, rehabilitation and replacement services over the long-term. As pipeline integrity testing requirements increase in stringency and frequency, we believe more information will be gathered about the condition of the nation's pipeline infrastructure and will result in an increase in spending by our customers on pipeline integrity initiatives. We also operate an engineering, research and development business that develops and owns pipeline inspection tools, enhancing our pipeline integrity offerings. We believe that our ability to offer a complete pipeline integrity turnkey solution to pipeline companies and gas utilities provides us an advantageous position in providing these services to our customers. We are also experiencing an increase in demand for our natural gas distribution services as a result of continuing improvement in economic conditions and lower natural gas prices.

We believe there are meaningful opportunities for us to penetrate the offshore and inland water energy markets in providing various infrastructure design, installation and maintenance services primarily to the Gulf of

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Mexico region but also in select international markets. The offshore service opportunities we see are very similar to what we perform onshore in this segment, and several of our existing onshore customers who also have offshore assets have expressed interest in our ability to provide offshore services. Demand for offshore energy infrastructure services is similar to that on land, including the need for engineering, construction and maintenance services for new and existing offshore exploration and production platforms. In addition, the majority of the thousands of miles of marine based pipelines and related production facilities are approaching or are beyond the end of their useful lives. We see this as an opportunity to leverage our onshore pipeline integrity services and technology to the offshore market's aging infrastructure. Further, new regulations and the more stringent enforcement of existing regulations administered by the Bureau of Safety and Environmental Enforcement should create opportunities for offshore energy infrastructure construction, repair and replacement services.

Overall, we are optimistic about this segment's operations going forward. We continue to believe that mainline pipe opportunities can provide strong profitability, although these projects and the profits they generate are often subject to more cyclicality and execution risk than our other service offerings. We have also taken steps to diversify our operations in this segment through other services, such as pipeline integrity, pipeline logistics, and offshore specialty services. We believe these measures, together with the potential for mainline pipe opportunities, will position us for profitable growth in this segment over the long-term.

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

Our Fiber Optic Licensing and Other segment is experiencing growth primarily through geographic expansion, with a focus on markets where secure high-speed networks are important, such as markets where enterprises, communications carriers, educational, financial services and healthcare institutions are prevalent. We continue to see opportunities for growth both in the markets we currently serve and new markets. The education market, which comprises a significant portion of this segment's revenue, had been negatively impacted by challenging economic conditions and budgetary constraints. These constraints eased through the end of 2012, and we currently see spending patterns providing renewed opportunities for growth. However, expanding the markets we serve continues to create competitive pressure which may impact this segment's prospects for future growth.

We are also expanding our service offerings to provide lit services. For lit services, we procure and own the electronic equipment necessary to make the fiber optic network operational, and we provide network management services to customers. The addressable market opportunity for lit services is larger than the dark fiber services market, and we believe providing lit services should enable us to leverage the fiber optic network capacity in our existing and future fiber networks. We have been investing in the necessary people and equipment needed to expand and grow our lit services and although 2014 is a transition year as we deploy our lit services offering, we believe lit services will provide attractive growth opportunities.

Our Fiber Optic Licensing and Other segment typically generates higher margins than our other operations, but we can give no assurance that the Fiber Optic Licensing and Other segment margins will continue at historical levels. Additionally, we anticipate the need for continued capital expenditures to support the build-out of our networks and growth of this business. The Fiber Optic Licensing and Other segment also provides various telecommunications infrastructure services on a limited and ancillary basis, primarily to our customers in the electric power industry. Due to the disposition of our telecommunications subsidiaries, telecommunications services are no longer a strategic priority for us. We will continue to provide these services to utility customers on an as needed basis. However, we believe that expected increases in this segment's revenues associated with fiber optic licensing services could be offset by decreases in other telecommunications infrastructure service revenues.

### ***Conclusion***

We continue to see growth opportunities in all of the industry segments we serve, despite continuing challenges from restrictive regulatory requirements and uncertain economic conditions. We are benefiting from

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utilities' increased spending on projects to upgrade and expand their electric power transmission infrastructure to improve system reliability and to deliver renewable electricity from new generation sources to demand centers. Favorable industry legislation is also creating incentives and a positive environment for utilities to invest in their electrical infrastructure, in particular for transmission infrastructure. Additional environmental regulations concerning fossil fuel power generation emissions create opportunities for transmission lines to be updated, rebuilt or replaced due to "coal to gas" facility replacements. We also expect utilities to outsource more of their work to companies like us, due in part to their aging workforce issues. We believe that we remain the partner of choice for many utilities in need of broad infrastructure expertise, specialty equipment and workforce resources.

We believe that our overall size and breadth of service offerings provide competitive advantages that allow us to leverage opportunities driven by the development and production of resources from North American unconventional shale developments, the Canadian oil sands and coal seam gas and unconventional shale formations in Australia. Development activity in liquid-rich shale areas in North America is strong, increasing the need for gathering system infrastructure, and we are seeing encouraging indications that the increases in mainline pipe project activity in 2013 could continue in 2014. We also believe that our strategy to pursue midstream gathering system opportunities in liquid-rich unconventional shales in the U.S., as well as the anticipated increase in demand for our pipeline integrity, rehabilitation and replacement services from pipeline integrity initiatives, and other services in adjacent markets that we have gained through recent acquisitions, will create attractive growth potential for us and also further diversify the services provided by our Oil and Gas Infrastructure Services segment.

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

Competitive pricing environments, project delays and effects from restrictive regulatory requirements have negatively impacted our margins in the past and could affect our margins in the future. Additionally, margins may be negatively impacted on a quarterly basis due to adverse weather conditions, as we anticipate may be the case in the second quarter of 2014, as well as timing of project starts or completions and other factors as described in "Understanding Margins" above. We continue to focus on the elements of the business we can control, including costs, the margins we accept on projects, collecting receivables, ensuring quality service, rightsizing initiatives as needed to match the markets we serve, and safely executing on the projects we are awarded.

Capital expenditures for 2014 are expected to be between \$300 million to \$325 million, of which approximately \$50 million to \$60 million of these expenditures are targeted for fiber optic network expansion, with the majority of the remaining expenditures for operating equipment. We expect 2014 capital expenditures to be funded substantially through internal cash flows, cash on hand and borrowings under our credit facility.

We continue to evaluate potential strategic acquisitions and similar investments to broaden our customer base, expand our geographic area of operation, grow our portfolio of services and increase opportunities across our operations. We believe that additional attractive acquisition candidates exist primarily as a result of the highly fragmented nature of the industry, the inability of many companies to expand and modernize due to capital constraints, and the desire of owners for liquidity. We also believe that our financial strength and experienced management team are attractive to acquisition candidates.

Certain international regions present significant opportunities for growth over time across many of our operations. We are evaluating ways in which we can strategically apply our expertise to strengthen infrastructure in various foreign countries where infrastructure enhancements are increasingly important. For example, we are

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actively pursuing opportunities in growth markets where we can leverage our technology or proprietary work methods, such as our energized services, to establish a presence in these markets.

We believe that we are well-positioned to capitalize upon opportunities and trends in the industries we serve because of our full-service operations with broad geographic reach, our financial strength and our technical expertise. Additionally, we believe that these industry opportunities and trends will increase the demand for our services over the long-term, although the actual timing, magnitude and impact of these opportunities and trends on our operating results and financial position is difficult to predict.

### **Uncertainty of Forward-Looking Statements and Information**

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

- Projected revenues, earnings per share, margins, capital expenditures, and other projections of operating or financial results;
- Expectations regarding our business outlook, growth or opportunities in particular markets;
- The expected value of contracts or intended contracts with customers;
- The scope, services, term and results of any projects awarded or expected to be awarded for services to be provided by us;
- The impact of renewable energy initiatives, including mandated state renewable portfolio standards, the economic stimulus package and other existing or potential energy legislation;
- Potential opportunities that may be indicated by bidding activity or similar discussions with customers;
- The potential benefits from acquisitions;
- The outcome of pending or threatened litigation;
- The business plans or financial condition of our customers;
- Our plans and strategies; and
- The current economic and regulatory conditions and trends in the industries we serve.

These forward-looking statements are not guarantees of future performance and involve or rely on a number of risks, uncertainties, and assumptions that are difficult to predict or beyond our control. These forward-looking statements reflect our beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that actual outcomes and results may differ materially from what is expressed, implied or forecasted by our forward-looking statements and that any or all of our forward-looking statements may turn out to be wrong. Those statements can be affected by inaccurate assumptions and by known or unknown risks and uncertainties, including the following:

- The effects of industry, economic or political conditions outside our control;
- Quarterly variations in our operating results;
- Adverse economic and financial conditions, including weakness in the capital markets;
- Trends and growth opportunities in relevant markets;

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- Delays, reductions in scope or cancellations of anticipated, pending or existing projects, including as a result of weather, regulatory or environmental processes, project performance issues, or our customers' capital constraints;
- The successful negotiation, execution, performance and completion of anticipated, pending and existing contracts, including the ability to obtain awards of projects on which we bid or are otherwise discussing with customers;
- Our ability to attract skilled labor and retain key personnel and qualified employees;
- The potential shortage of skilled employees;
- Our dependence on fixed price contracts and the potential to incur losses with respect to these contracts;
- Estimates relating to our use of percentage-of-completion accounting;
- Adverse impacts from weather;
- Our ability to generate internal growth;
- Competition in our business, including our ability to effectively compete for new projects and market share;
- Potential failure of renewable energy initiatives, the economic stimulus package or other existing or potential legislative actions to result in increased demand for our services;
- Liabilities associated with multi-employer pension plans, including underfunding of liabilities and termination or withdrawal liabilities;
- The possibility of further increases in the liability associated with our withdrawal from a multi-employer pension plan;
- Liabilities for claims that are self-insured or not insured;
- Unexpected costs or liabilities that may arise from lawsuits or indemnity claims asserted against us;
- Risks relating to the potential unavailability or cancellation of third party insurance, the exclusion of coverage for certain losses, and potential increases in premiums for coverage deemed beneficial to us;
- Cancellation provisions within our contracts and the risk that contracts expire and are not renewed or are replaced on less favorable terms;
- Loss of customers with whom we have long-standing or significant relationships;
- The potential that participation in joint ventures exposes us to liability and/or harm to our reputation for acts or omissions by our partners;
- Our inability or failure to comply with the terms of our contracts, which may result in unexcused delays, warranty claims, failure to meet performance guarantees, damages or contract terminations;
- The effect of natural gas, natural gas liquids and oil prices on our operations and growth opportunities;
- The future development of natural resources in shale areas;
- The inability of our customers to pay for services;
- The failure to recover on payment claims against project owners or to obtain adequate compensation for customer-requested change orders;
- The failure of our customers to comply with regulatory requirements applicable to their projects, including those related to awards of stimulus funds, which may result in project delays and cancellations;
- Budgetary or other constraints that may reduce or eliminate tax incentives for or government funding of projects, including stimulus projects, which may result in project delays or cancellations;
- Estimates and assumptions in determining our financial results and backlog;
- Our ability to realize our backlog;

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- Risks associated with operating in international markets, including instability of foreign governments, currency fluctuations, tax and investment strategies and compliance with the laws of foreign jurisdictions, as well as the U.S. Foreign Corrupt Practices Act and other applicable anti-bribery and anti-corruption laws;
- Our ability to successfully identify, complete, integrate and realize synergies from acquisitions;
- The potential adverse impact resulting from uncertainty surrounding acquisitions, including the ability to retain key personnel from the acquired businesses and the potential increase in risks already existing in our operations;
- The adverse impact of impairments of goodwill and other intangible assets or investments;
- Our growth outpacing our decentralized management and infrastructure;
- Requirements relating to governmental regulation and changes thereto;
- Inability to enforce our intellectual property rights or the obsolescence of such rights;
- Risks related to the implementation of an information technology solution;
- The impact of our unionized workforce on our operations, including labor stoppages or interruptions due to strikes or lockouts;
- Potential liabilities relating to occupational health and safety matters;
- Our dependence on suppliers, subcontractors and equipment manufacturers;
- Risks associated with our fiber optic licensing business, including regulatory and tax changes and the potential inability to realize a return on our capital investments;
- Beliefs and assumptions about the collectability of receivables;
- The cost of borrowing, availability of credit, fluctuations in the price and volume of our common stock, debt covenant compliance, interest rate fluctuations and other factors affecting our financing and investing activities;
- The ability to access sufficient funding to finance desired growth and operations;
- Our ability to obtain performance bonds;
- Potential exposure to environmental liabilities;
- Our ability to continue to meet the requirements of the Sarbanes-Oxley Act of 2002;
- Rapid technological and structural changes that could reduce the demand for our services;
- The impact of increased healthcare costs arising from healthcare reform legislation; and
- The other risks and uncertainties as are described elsewhere herein and under Item 1A. “*Risk Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2013 and as may be detailed from time to time in our other public filings with the SEC.

All of our forward-looking statements, whether written or oral, are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements or that are otherwise included in this report. In addition, we do not undertake and expressly disclaim any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this report or otherwise.

### **Item 3. *Quantitative and Qualitative Disclosures about Market Risk.***

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and currency exchange rates in Part II, Item 7A. “*Quantitative and Qualitative Disclosures About Market Risk*,” in our Annual Report on Form 10-K for the year ended December 31, 2013. Our primary exposure to market risk relates to unfavorable changes in concentration of credit risk, interest rates and currency exchange rates.

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*Credit Risk.* We are subject to concentrations of credit risk related to our cash and cash equivalents and our accounts receivable, including amounts related to unbilled accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Substantially all of our cash investments are managed by what we believe to be high credit quality financial institutions. In accordance with our investment policies, these institutions are authorized to invest this cash in a diversified portfolio of what we believe to be high-quality investments, which primarily include interest-bearing demand deposits and money market mutual funds with original maturities of three months or less. Although we do not currently believe the principal amounts of these investments are subject to any material risk of loss, changes in economic conditions could impact the interest income we receive from these investments. In addition, as we grant credit under normal payment terms, generally without collateral, we are subject to potential credit risk related to our customers' ability to pay for services provided. This risk may be heightened as a result of the depressed economic and financial market conditions that have existed in recent years. However, we believe the concentration of credit risk related to trade accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts is limited because of the diversity of our customers. We perform ongoing credit risk assessments of our customers and financial institutions, and in some cases, we obtain collateral or other security from our customers.

*Interest Rate and Market Risk.* Currently, we do not have any significant assets or obligations with exposure to significant interest rate and market risk. Although we had credit facility borrowings outstanding for a brief time in 2014 which exposed us to interest rate risk, there were no credit facility borrowings outstanding at March 31, 2014.

*Currency Risk.* We conduct operations primarily in the U.S., Canada and Australia. Future earnings are subject to change due to fluctuations in foreign currency exchange rates when transactions are denominated in currencies other than our functional currencies. To minimize the need for foreign currency forward contracts to hedge this exposure, our objective is to manage foreign currency exposure by maintaining a minimal consolidated net asset or net liability position in a currency other than the functional currency.

We may enter into foreign currency derivative contracts to manage some of our foreign currency exposures. These exposures may include revenues generated in foreign jurisdictions and anticipated purchase transactions, including foreign currency capital expenditures and lease commitments. There were no open foreign currency derivative contracts at March 31, 2014.

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

Attached as exhibits to this quarterly report on Form 10-Q are certifications of Quanta's Chief Executive Officer and Chief Financial Officer that are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This "*Controls and Procedures*" section includes information concerning the controls and controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

### **Evaluation of Disclosure Controls and Procedures**

Our management has established and maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. The disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this quarterly report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, these officers have concluded that, as of March 31, 2014, our disclosure controls and procedures were effective to provide reasonable assurance of achieving their objectives.

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**Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Design and Operation of Control Systems**

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

**PART II — OTHER INFORMATION**

**Item 1.        *Legal Proceedings.***

We are from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, employment-related damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we record a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, we disclose matters for which management believes a material loss is at least reasonably possible. See *Legal Proceedings* in Note 10 of the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report, which is incorporated by reference in this Item 1 of Part II, for additional information regarding legal proceedings.

**Item 1A.      *Risk Factors.***

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report). An investment in our common stock or other equity securities involves various risks. When considering an investment in our company, you should carefully consider all of the risk factors described herein and in our 2013 Annual Report. The matters specifically identified are not the only risks and uncertainties we face, and there may be additional matters that are not known to us or that we currently consider immaterial. All of these risks and uncertainties could adversely affect our business, financial condition or future results and, thus, the value of an investment in our company.

**Item 2.        *Unregistered Sales of Equity Securities and Use of Proceeds.***

**Unregistered Sales of Equity Securities**

During the first quarter of 2014, we completed four acquisitions in which a portion of the consideration consisted of the issuance of unregistered issuance of shares of our common stock or unregistered shares of a Canadian subsidiary of Quanta. See *Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Investments, Acquisitions and Divestitures* for additional information about the businesses acquired. The aggregate consideration paid for these acquisitions consisted of approximately \$74.2 million in cash, 393,052 shares of our common stock and 899,858 exchangeable shares of a Canadian subsidiary of Quanta that are substantially equivalent to and exchangeable on a one-for-one basis for, Quanta common stock. The holders of exchangeable shares can make an exchange only once in any calendar quarter and must exchange a minimum of either 50,000 shares or, if less, the total number of remaining exchangeable shares registered in the name of the holder making the request. In addition, one share of Quanta Series G preferred stock with voting rights equivalent to Quanta's common stock equal to the number of exchangeable shares outstanding at any time was issued to the former shareholder of one of the acquired companies.

Such shares of common stock were issued in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, as the shares were issued to the owners of the business acquired in a privately negotiated transaction not involving any public offering or solicitation.

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**Issuer Purchases of Equity Securities**

The following table contains information about our purchases of equity securities during the three months ended March 31, 2014.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (1)</b>
January 1-31, 2014	—	\$ —	—	—
February 1-28, 2014	307,068 <sup>(2)</sup>	\$ 35.01	—	—
March 1-31, 2014	17,891 <sup>(2)</sup>	\$ 36.56	—	—
Total	<u>324,959<sup>(2)</sup></u>		<u>—</u>	<u>\$ 500,000,000</u>

- (1) On December 6, 2013, we issued a press release announcing that our board of directors approved a stock repurchase program authorizing us to purchase, from time to time, up to \$500.0 million of our outstanding common stock through December 31, 2016. These repurchases can be made in open market transactions, in privately negotiated transactions, including block purchases or otherwise, at management's discretion based on market and business conditions, applicable legal requirements and other factors. This program, which became effective December 6, 2013, does not obligate us to acquire any specific amount of common stock and will continue until completed or otherwise modified or terminated by our board of directors at any time at its sole discretion and without notice. As of March 31, 2014, there had been no repurchases under this plan.
- (2) Represents shares purchased from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock and RSU awards.

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

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

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### **Item 6. Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation of Quanta Services, Inc. (previously filed as Exhibit 3.3 to the Company's Form 8-K (No. 001-13831) filed May 25, 2011 and incorporated herein by reference)
3.2	Bylaws of Quanta Services, Inc., as amended and restated March 27, 2014 (previously filed as Exhibit 3.1 to the Company's Form 8-K (No. 001-13831) filed March 31, 2014 and incorporated herein by reference)
10.1*	Employment Agreement dated March 4, 2014, effective as of January 6, 2014, by and between Quanta Services, Inc. and Jesse E. Morris
10.2*	Employment Agreement dated March 4, 2014, effective as of February 20, 2014, by and between Quanta Services, Inc. and Eric B. Brown
10.3*	Employment Agreement dated March 8, 2000, by and between Quanta Services, Inc. and Nicholas M. Grindstaff, as amended by Amendment No. 1 to Employment Agreement dated November 6, 2008
10.4*	Amendment No. 1 to the Quanta Services, Inc. Non-Employee Director Deferred Compensation Plan dated December 20, 2013, effective as of April 30, 2013
31.1*	Certification by Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2*	Certification by Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1*	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101 INS*	XBRL Instance Document
101 SCH*	XBRL Taxonomy Extension Schema Document
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 LAB*	XBRL Taxonomy Extension Label Linkbase Document
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101 DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith



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\* Filed or furnished herewith

**EMPLOYMENT AGREEMENT**

This Employment Agreement (the "Agreement") is entered into between Quanta Services, Inc. ("Quanta") and Jesse E. Morris ("Employee") on the 4<sup>th</sup> day of March, 2014, but effective as of the 6<sup>th</sup> day of January, 2014 (the "Effective Date").

**I. RECITALS**

As of the date of this Agreement, the Employer Group (as defined below) is engaged primarily in the business of specialty contracting for customers in the electric power, natural gas, oil, pipeline and renewable energies industries, as well as for transportation, commercial and industrial customers. As such, the Employer Group has developed and continues to develop and use certain trade secrets and other Proprietary and Confidential Information, as hereinafter defined. The Employer Group has spent a substantial amount of time, effort and money, and will continue to do so in the future, to develop or acquire such Proprietary and Confidential Information and promote and increase its good will. Employer (as defined below) and Employee acknowledge and agree that Proprietary and Confidential Information is an asset of particular and immeasurable value to the Employer Group.

Pursuant to this Agreement, Employee shall be employed by Employer in a confidential and fiduciary relationship and such Proprietary and Confidential Information will necessarily be provided to, communicated to, or acquired by Employee by virtue of his employment with Employer.

Based upon the above, Employer desires to retain the services of Employee on its own behalf, as well as on the behalf of its subsidiaries and affiliated companies and, in so doing, protect its Proprietary and Confidential Information subject to the terms and conditions set forth herein.

**II. DEFINITIONS**

A. For purposes of this Agreement, "Employer" shall mean Quanta or any other affiliated entity that is deemed to be the employer of Employee, and "Employer Group" shall mean Quanta and its predecessors, designees, successors, and past, present and future operating companies, divisions, subsidiaries and/or affiliates.

B. As used in this Agreement, "Proprietary and Confidential Information" means any and all non-public information or data in any form or medium, tangible or intangible, which has commercial value and which the Employer Group possesses or to which the Employer Group has rights. Proprietary and Confidential Information includes, by way of example and without limitation, information concerning the Employer Group's specific manner of doing business, including, but not limited to, the processes, methods or techniques utilized by the Employer Group, the Employer Group's customers, marketing strategies and plans, pricing information, sources of supply and material specifications, the Employer Group's computer programs, system documentation, special hardware, related software development, and the Employer Group's business models, manuals, formulations, equipment, compositions, configurations, know-how, ideas, improvements and inventions.

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Proprietary and Confidential Information also includes information developed by Employee during his course of employment with Employer or otherwise relating to Company-Related Inventions and Developments, as hereinafter defined, as well as other information to which he may be given access to in connection with his employment.

C. As used in this Agreement, "Inventions and Developments" means any and all inventions, developments, creative works and useful ideas of any description whatsoever, whether or not patentable. Inventions and Developments include, by way of example and without limitation, discoveries and improvements that consist of or relate to any form of Proprietary and Confidential Information.

D. As used in this Agreement, "Company-Related Inventions and Developments" means all Inventions and Developments that: (a) relate at the time of conception or development to the actual business of the Employer Group or to its actual research and development or to business or research and development that is the subject of active planning at the time; (b) result from or relate to any work performed for Employer, whether or not during normal business hours; (c) are developed on Employer's time; or (d) are developed through the use of the Employer Group's Proprietary and Confidential Information, equipment, software, or other facilities and resources.

E. For purposes of this Agreement, "make" or "made," when used in relation to Inventions and Developments, includes any one or any combination of: (a) conception; (b) reduction to practice; or (c) development; and is without regard to whether Employee is a sole or joint inventor.

F. For purposes of this Agreement, "Change in Control" shall mean:

1. Any person or entity, or more than one person or entity acting as a group, other than a member of the Employer Group or an employee benefit plan of the Employer Group, acquires directly or indirectly Beneficial Ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any Voting Security of Quanta and immediately after such acquisition such person, entity or group is, directly or indirectly, the Beneficial Owner of Voting Securities representing fifty percent (50%) or more of the total fair market value or total voting power of all of the then-outstanding Voting Securities of Quanta; or

2. Any person or entity, or more than one person or entity acting as a group, other than a member of the Employer Group or an employee benefit plan of the Employer Group, acquires directly or indirectly, or has acquired during the preceding twelve (12) months, Beneficial Ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any Voting Security of Quanta and immediately after such acquisition such person, entity or group is, directly or indirectly, the Beneficial Owner of Voting Securities representing thirty percent (30%) or more of the total voting power of all of the then-outstanding Voting Securities of Quanta; or

3. Individuals who, as of the date hereof, constitute the Board of Directors of Quanta (the "Board"), and any new director whose election by the Board or nomination for election by Quanta'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 within a 12-month period; or

4. Any person or entity, or more than one person or entity acting as a group, other than a member of the Employer Group or an employee benefit plan of the Employer Group, acquires directly or indirectly, or has acquired during the preceding 12-months, forty percent (40%) or more of the total gross fair market value of assets of the Employer Group.

G. For purposes of this Agreement, "Voting Security" means common stock or other capital stock, including preferred stock, of the applicable entity entitled generally to vote in the election of directors and preferred stock and other equity securities (not including options, warrants or similar rights) convertible into securities entitled generally to vote in the election of directors (whether or not then convertible).

### **III. TERMS OF EMPLOYMENT**

A. Position and Duties. Employee is hereby employed by Employer as Executive Vice President. Employee shall have the primary responsibilities, duties and authority commensurate with Employee's position and as prescribed from time to time by the Board or Quanta's Chief Executive Officer, in their discretion, in a manner consistent with Employee's position. Employee shall devote his full business time, attention and effort to the performance of this Agreement and to his duties as described herein.

1. Employee shall faithfully adhere to, execute and fulfill the duties and responsibilities of Employee's position and as prescribed from time to time by the Board or Quanta's Chief Executive Officer.

2. Employee agrees to devote reasonable attention and time to the business and affairs of Employer and, to the extent necessary, to discharge the responsibilities assigned to Employee hereunder, to use Employee's reasonable best efforts to perform faithfully and efficiently such responsibilities.

3. Employee shall not, during the term of his employment, be engaged in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes with Employee's duties and responsibilities to Employer. The foregoing limitations shall not be construed as prohibiting Employee from serving on corporate, civic or charitable boards or committees, delivering lectures or fulfilling speaking engagements, teaching at educational institutions, or making personal investments, so long as such activities do not significantly interfere with the performance of Employee's responsibilities to Employer as set forth in this Agreement.

4. In the performance of his duties, Employee shall use his best efforts to adhere to the legal requirements codified in statutes, ordinances and governmental regulations applicable to Employer.

B. Term. The initial term of this Agreement shall begin on the Effective Date and shall continue for two (2) years, unless terminated sooner pursuant to the provisions of this Agreement (the "Initial Term"). At the expiration of the Initial Term, unless terminated sooner pursuant to the provisions of this Agreement, and each annual anniversary thereafter, this Agreement will renew automatically for an additional one (1) year period (the "Renewal Term") unless either party notifies the other party in writing of its or his intention not to renew this Agreement (the "Renewal Termination Notice") not less than six (6) months prior to the expiration of the Initial Term or of any Renewal Term (the Initial Term and any Renewal Term are referred to collectively as the "Term").

1. Termination upon Death. This Agreement (and all of Employee's rights and Employer's obligations hereunder) shall terminate as of the date of Employee's death.

2. Termination upon Disability. If Employee becomes Disabled as defined herein, Employer may, by written notice to Employee, terminate this Agreement and Employee's employment hereunder. For purposes of this Agreement, "Disabled" or "Disability" means, as determined by the Compensation Committee of the Board (the "Committee"), that (i) Employee is unable to engage in any substantial gainful activity by reason of a physical or mental impairment that is expected to result in death or last twelve (12) months or more, or Employee receives replacement income for three (3) months or more due to such physical or mental impairment or (ii) such other definition that complies with the definition of disability under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder.

3. Termination for Cause. Employer may terminate this Agreement and Employee's employment hereunder for Cause by providing written notice to Employee of its intention to do so. For purposes of this Agreement, "Cause" shall mean:

- a. Employee's gross negligence in the performance of, intentional nonperformance of, or inattention to his material duties and responsibilities hereunder, any of which continue for five (5) business days after receipt of written notice of need to cure the same;
- b. Employee's willful dishonesty, fraud or material misconduct with respect to the business or affairs of Employer;
- c. the violation by Employee of any of Employer's policies or procedures, which violation is not cured by Employee within five (5) business days after Employee has been given written notice thereof;
- d. a conviction of, a plea of nolo contendere, a guilty plea, or confession by Employee to, an act of fraud, misappropriation or embezzlement or any crime punishable as a felony or any other crime that involves moral turpitude;
- e. Employee's use of illegal substances or habitual drunkenness; or
- f. the breach by Employee of this Agreement if Employee does not cure such breach within five (5) business days after Employee has been given written notice thereof.

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4. Termination for Good Reason. Employee may terminate this Agreement and his employment hereunder for Good Reason in the twelve (12) months following a Change in Control by providing written notice to Employer of his intention to do so. For purposes of this Agreement, “Good Reason” shall mean:

- a. the assignment to Employee of any duties inconsistent with Employee’s position (including offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section III.A of this Agreement and as in effect immediately prior to the Change in Control, or any other action by 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);
- b. any material breach of this Agreement by Employer, including any requirement that Employee be based at any office or location that results in a violation of Section III.E of this Agreement;
- c. any failure by Employer to comply with any of the provisions of Section IV of this Agreement (excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith);
- d. any failure by 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 and policy, unless the aggregate value (as computed by an independent employee benefits consultant selected by Employer and reasonably acceptable to Employee or Employee’s legal representative) of all such compensation, retirement or benefit plans and policies provided to Employee is not materially less than their aggregate value as in effect at any time during the one hundred twenty (120) day period immediately preceding a Change in Control or, if more favorable to Employee, those provided generally at any time after the Change in Control to other peer employees of Employer and its affiliated companies;
- e. Employee’s receipt from Employer of a Renewal Termination Notice as provided in Section III.B; and
- f. in the event of a pending Change in Control, Employer and Employee have not received written notice at least five (5) business days prior to the anticipated closing date of the transaction giving rise to the Change in Control from the successor to all or a substantial portion of the Employer Group’s business and/or assets that such successor is willing as of the closing to assume and agree to perform Employer’s obligations under this Agreement in the same manner and to the same extent that Employer is hereby required to perform.

Employee must provide written notice to Employer of the existence of the condition(s) described in Section III.B.4.a through Section III.B.4.d above within 90 days of the initial existence of the condition(s). Employer shall have 30 days after such notice is given during which to remedy the condition(s), and such occurrence shall not be deemed to constitute Good Reason if such event or circumstance has been fully corrected by Employer within the 30 day cure period and Employee has been reasonably compensated for monetary losses or damages resulting therefrom.

C. Notice of Termination. Any termination by Employer for Cause or Disability or by Employee for Good Reason shall be communicated by a Notice of Termination provided to the other party pursuant to the provisions of Section IX.C of this Agreement. For purposes of this Agreement, "Notice of Termination" means a written notice that: (1) indicates the specific termination provision or provisions as set forth in this Agreement relied upon by either Employer or Employee; (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide the basis for termination under the provision or provisions of this Agreement relied upon by either Employer or Employee; and (3) if the Date of Termination (as defined below) is other than the date of receipt of such Notice of Termination, specifies the termination date. The failure by either Employer or Employee to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Cause or Good Reason shall not waive any right of Employer or Employee or preclude Employer or Employee from asserting such fact or circumstance in enforcing Employer's or Employee's rights or obligations under this Agreement.

D. Date of Termination. According to this Agreement, "Date of Termination" shall mean: (1) if Employee's employment is terminated for Cause or Disability, or by Employer for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein or as required under this Agreement; (2) if Employee's employment is terminated by Employer other than for Cause or Disability, the Date of Termination shall be the date on which Employer notifies Employee of such termination; (3) if Employee's employment is terminated by reason of death, the Date of Termination shall be the date of the death of Employee; or (4) if Employee voluntarily terminates his employment, the Date of Termination shall be the date on which Employee and Employer shall agree to be the Date of Termination.

E. Place of Performance. Nothing contained in this Agreement shall be deemed to require Employee to relocate from Employee's present residence to another geographic location in order to carry out Employee's duties and responsibilities under this Agreement, other than normal business travel consistent with Employee's duties, responsibilities and position.

#### **IV. COMPENSATION**

A. Annual Base Salary. Employer agrees to compensate and pay Employee, or to cause Employee to be compensated and paid, an annual base salary of \$425,000, payable on a regular basis in accordance with Employer's standard payroll procedures but not less frequently than monthly.

On at least an annual basis, the Board or a duly constituted committee thereof will review Employee's performance and may make increases to Employee's annual base salary if, in its sole discretion, any such increase is warranted.

B. Bonus. Employee shall participate in Employer's annual and long-term incentive bonus plans at a level commensurate with Employee's position. Employee may participate in other current and future incentive bonus plans as determined by the Board or a duly constituted committee thereof.

C. Incentive, Savings and Retirement Plans. Employee shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs generally applicable to other peer employees of Employer.

D. Welfare Benefit Plans. Employee and Employee's dependents shall receive coverage under the welfare benefit plans, practices, policies and programs provided by Employer including, but not limited to, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs, generally applicable to other peer employees of Employer, the terms and conditions of which shall be no less favorable than those available to other similarly situated officers of Employer.

E. Reimbursement of Expenses. Employer shall reimburse Employee or cause Employee to be promptly reimbursed for all reasonable and necessary expenses incurred by Employee in furtherance of the business and affairs of the Employer Group including, but not limited to, all travel expenses and living expenses while away from home on business or at the request of Employer or the Board. Such reimbursement shall be effected as soon as reasonably practicable after such expenditures are made, against presentation of signed, itemized expense reports in accordance with the travel and business expense reimbursement policies of Employer.

F. Severance Benefits upon Termination. As set forth below, the following obligations are imposed upon Employer upon termination of this Agreement; provided, however, that to be entitled to such severance benefits, Employee will be required to execute, and not revoke, a Confidential Severance Agreement and Release provided by Employer as more fully described in Section IV.I below.

1. Death. If Employee's employment is terminated due to his death, Employee shall not be entitled to any severance benefits under the terms of this Agreement.

2. Disability. If Employee's employment is terminated due to his Disability, Employee shall be entitled to severance benefits equal to one (1) year of Employee's annual base salary. Subject to Employee's compliance with the requirements of Section IV.I below, such severance benefits shall be paid to Employee in a lump-sum payment within sixty (60) days of the Date of Termination.

3. Cause. If Employee's employment is terminated for Cause as defined under this Agreement, Employee shall not be entitled to any severance benefits under the terms of this Agreement.

4. Without Cause. If Employee's employment is terminated by Employer without Cause (other than within the twelve (12) months following a Change in Control), Employee shall be entitled to severance benefits equal to two (2) years of Employee's annual base salary. Subject to Employee's compliance with the requirements of Section IV.I below, such severance benefits shall be paid to Employee in a lump-sum payment within sixty (60) days of the Date of Termination. In the event that Employee is entitled to receive severance benefits under Section IV.G.1, Employee will not be entitled to receive severance benefits under this Section.

5. Resignation by Employee. If Employee resigns his employment, Employee shall not be entitled to any severance benefits under the terms of this Agreement unless Employee resigns his employment for Good Reason within the twelve (12) months following a Change in Control as described in Section IV.G.2 below.

G. Severance Benefits upon Change in Control.

1. Termination without Cause. In the event Employee is terminated without Cause by Employer within twelve (12) months following a Change in Control, Employee shall be entitled to the following:

a. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times Employee's base salary at the rate then in effect; and

b. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times the higher of (i) the highest annual cash bonus paid (or earned if not yet paid) to Employee for the three (3) fiscal years preceding Employee's termination under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof or (ii) Employee's target annual cash bonus payable, including any bonus or portion thereof which has been earned but deferred, under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof for the current fiscal year or, if such target bonus has not yet been determined, for the most recently completed fiscal year; and

c. for a period of three (3) years following Employee's termination continuation of medical, dental and vision benefit coverage for Employee and Employee's dependents at least equal to those that would have been provided to the same in accordance with the plans, programs, practices and policies described in Section IV.D of this Agreement if Employee's employment had not been terminated or, if more favorable to Employee, as in effect generally at any time thereafter with respect to other peers of Employee; provided, however, that if Employee becomes reemployed with another employer and is eligible to receive medical, dental or vision benefits under another employer provided plan, the medical, dental and vision benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility.

In the event that Employee is entitled to receive severance benefits under this Section V.G.1, Employee will not be entitled to receive severance benefits under Section IV.F.4.

2. Termination by Employee with Good Reason. In the event Employee terminates his employment for Good Reason within twelve (12) months following a Change in Control, Employee shall be entitled to:

a. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times Employee's base salary at the rate then in effect;

b. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times the higher of (i) the highest annual cash bonus paid (or earned if not yet paid) to Employee for the three (3) fiscal years preceding Employee's termination under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof or

(ii) Employee's target annual cash bonus payable, including any bonus or portion thereof which has been earned but deferred, under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof for the current fiscal year or, if such target bonus has not yet been determined, for the most recently completed fiscal year; and

c. for a period of three (3) years following Employee's termination continuation of medical, dental and vision benefit coverage for Employee and Employee's dependents at least equal to those that would have been provided to the same in accordance with the plans, programs, practices and policies described in Section IV.D of this Agreement if Employee's employment had not been terminated or, if more favorable to Employee, as in effect generally at any time thereafter with respect to other peers of Employee; provided, however, that if Employee becomes reemployed with another employer and is eligible to receive medical, dental or vision benefits under another employer provided plan, the medical, dental and vision benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility.

3. Limitation on Severance Benefits. Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined (as herein after provided) that any payment or distribution by Employer or any of its affiliates to or for the benefit of Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program, or arrangement including, without limitation, any stock option, restricted stock, stock appreciation right or similar right, or the lapse or termination of any restriction on, or the vesting or exercisability of, any of the foregoing (individually and collectively, a "Payment"), would be subject, but for the application of this Section IV.G.3 to the excise tax imposed by Section 4999 of the Code, or any successor provision thereto (hereinafter the "Excise Tax"), by reason of being considered "contingent on a change in ownership or control" of Employer, within the meaning of Section 280G(b)(2) of the Code, or any successor provision thereto, then:

a. if the After-Tax Payment Amount would be greater by reducing the amount of the Payment otherwise payable to Employee to the minimum extent necessary (but in no event less than zero) so that, after such reduction, no portion of the Payment would be subject to the Excise Tax, then the Payment shall be so reduced; and

b. if the After-Tax Payment Amount would be greater without the reduction then there shall be no reduction in the Payment.

As used in this Section IV.G.3, "After-Tax Payment Amount" means (i) the amount of the Payment, less (ii) the amount of federal income taxes payable with respect to the Payment calculated at the maximum marginal income tax rate for each year in which the Payment shall be paid to Employee (based upon the rate in effect for such year as set forth in the Code at the time of the Payment), less (iii) the amount of the Excise Tax, if any, imposed upon the Payment. For purposes of any reduction made under Section IV.G.3.a, the Payments that shall be reduced shall be those that provide Employee the best economic benefit, and to the extent any Payments are economically equivalent, each shall be reduced pro rata.

H. Compliance with Section 409A of the Code. The payments to be made under this Agreement are intended to be exempt from or compliant with Section 409A of the Code. Specifically, the severance payments and benefits under Section IV.F and Section IV.G hereof are intended to be exempt from Section 409A of the Code by compliance with the short-term deferral exemption as specified in 26 C.F.R. Section 1.409A-1(b)(4) and/or the separation pay exemption as specified in 26 C.F.R. Section 1.409A-1(b)(9) or are intended to comply with Section 409A of the Code including, but not limited to, being paid upon disability pursuant to 26 C.F.R. Section 1.409-3(i)(4), pursuant to change in control event pursuant to 26 C.F.R. Section 1.409A-3(i)(5) or pursuant to a fixed schedule or specified date pursuant to 26 C.F.R. Section 1.409A-3(a), and the provisions of this Agreement will be administered, interpreted and construed accordingly. Notwithstanding the foregoing, Employer makes no representation or warranty and shall have no liability to Employee or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code and do not satisfy an exemption from, or the conditions of, Section 409A of the Code.

For all purposes of this Agreement, Employee shall be considered to have terminated employment with Employer when Employee incurs a “separation from service” with the Employer Group within the meaning of Section 409A(a)(2)(A)(i) of the Code.

If the Committee determines that severance payments due under this Agreement on account of termination of Employee’s employment constitute “deferred compensation” subject to Section 409A of the Code, and that Employee is a “specified employee” as defined in Section 409A(a)(2)(B)(i) of the Code and 26 C.F.R. Section 1.409A-1(i), then such severance payments shall commence on the first payroll date of the seventh month following the month in which Employee’s termination occurs (with the first such payment being a lump sum equal to the aggregate severance payments Employee would have received during the prior six-month period if no such delay had been imposed). For purposes of this Agreement, whether Employee is a “specified employee” will be determined in accordance with the written procedures adopted by the Committee which are incorporated by reference herein.

All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code and the regulations to the extent that such reimbursements or in-kind benefits are not excepted from Section 409A of the Code, including where applicable, the requirement that (i) any reimbursement is for expenses incurred during Employee’s lifetime (or during a shorter period of time specified in the Agreement); (ii) the amount of expenses eligible for reimbursement during the calendar year may not affect the expenses eligible for reimbursement in any other calendar year; (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred; and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

I. Confidential Severance Agreement and Release. Notwithstanding any provision herein to the contrary, if Employee has not delivered to Employer an executed Confidential Severance Agreement and Release (the “Release”) on or before the fiftieth (50th) day after the Date of Termination, or if Employee revokes such executed Release prior to the sixtieth (60th) day after the Date of Termination, Employee shall forfeit all of the payments and benefits described in Section IV.F.2 or Section IV.F.4, as applicable; provided, however, that Employee

shall not forfeit such amounts if Employer has not delivered to Employee the required form of Release on or before the 25th day following the Date of Termination. A form of Release is attached as Exhibit A hereto. Employee acknowledges that Employer retains the right to modify the required form of the Release as Employer deems necessary in order to effectuate a full and complete release of claims against the Employer Group and its affiliates, officers and directors.

#### **V. COMPANY-RELATED INVENTIONS AND DEVELOPMENTS**

A. Records of Inventions. Employee shall keep complete and current written records of Inventions and Developments made during the course of his employment with Employer and promptly disclose all such Inventions and Developments in writing to Employer so that it may adequately determine its rights in such Inventions and Developments. Employee shall supplement any such disclosure to the extent Employer may request. If Employee has any doubt as to whether or not to disclose any Inventions and Developments, Employee shall disclose the same to Employer.

B. Ownership of Inventions. All Company-Related Inventions and Developments made by Employee during the term of his employment with Employer shall be the sole and exclusive property of the applicable member(s) of the Employer Group. Employee shall assign, and does hereby assign, his entire right, title and interest in such Company-Related Inventions and Developments to the applicable member(s) of the Employer Group. Employer's ownership and the foregoing assignment shall apply, without limitation, to all rights under the patent, copyright, and trade secret laws of any jurisdiction relating to Company-Related Inventions and Developments. If Employee asserts any property right in any Inventions and Developments made by Employee during the term of his employment with Employer, Employee shall promptly notify Employer of the same in writing.

C. Cooperation with Employer. Employee shall assist and fully cooperate with Employer in obtaining and maintaining the fullest measure of legal protection which the Employer Group elects to obtain and maintain for Inventions and Developments in which the Employer Group has a property right. Employee shall execute any lawful document requested by Employer relating to obtaining and maintaining legal protection for any said Inventions and Developments including, but not limited to, executing applications, assignments, oaths, declarations and affidavits. Employee shall make himself available for interviews, depositions and testimony relating to any said Inventions and Developments. These obligations shall survive the termination of Employee's employment with Employer, provided that Employer shall compensate Employee at a reasonable rate after such termination for time actually spent by Employee at Employer's requests on such assistance. In the event Employer is unable for any reason whatsoever to secure Employee's signature to any document reasonably necessary or appropriate for any of the foregoing purposes including, but not limited to, renewals, extensions, continuations, divisions or continuations in part, in a timely manner, Employee irrevocably designates and appoints Employer and its duly authorized officers and agents as his agents and attorneys-in-fact to act for Employee and on his behalf, but only for purposes of executing and filing any such document and doing all other lawfully permitted acts to accomplish the foregoing purposes with the same legal force and effect as if executed by Employee.

D. Pre-employment Inventions. Employee shall completely identify on Exhibit B attached hereto, without disclosing any trade secret or other proprietary and confidential information, all Inventions and Developments made by Employee prior to his employment with Employer or prior to execution of this Agreement in which Employee has an ownership interest and which is not the subject matter of an issued patent or a printed publication at the time Employee executes this Agreement.

E. Disclosure of Inventions after Termination. Employee shall promptly and completely disclose in writing to Employer's law department all Company-Related Inventions and Developments made by Employee during the one (1) year immediately following Employee's termination of employment, whether voluntarily or involuntarily, for the purposes of determining Employer's rights in each such invention. It will be presumed that Company-Related Inventions and Developments conceived by Employee which are reduced to practice within one (1) year after termination of Employee's employment, whether voluntary or involuntary, were conceived during the term of Employee's employment with Employer unless Employee is able to establish a later conception date by clear and convincing evidence.

## **VI. OBLIGATIONS RELATING TO PROPRIETARY AND CONFIDENTIAL INFORMATION**

### **A. Obligations of Employer**

1. Proprietary and Confidential Information. Employer shall provide Employee, during his employment, with valuable Proprietary and Confidential Information for the purpose of assisting Employee in the performance of his job requirements and responsibilities with Employer. In addition, Employer shall provide to Employee, during his employment, with the equipment, materials and facilities necessary to assist Employee in the performance of his job requirements and responsibilities with Employer.

2. Training. Employer shall provide Employee with any and all specialized training necessary to assist Employee in the performance of his job requirements and responsibilities with Employer including, but not limited to, training relating to the Employer Group's cost structures, methods of operation, the Employer Group's products and marketing techniques, the Employer Group's business strategies, plans and models.

### **B. Obligations of Employee**

1. Nondisclosure of Proprietary and Confidential Information. Both during and after the termination of employment, whether such termination is voluntary or involuntary, Employee shall keep in confidence and trust all Proprietary and Confidential Information. Both during and after the termination of employment, whether such termination is voluntary or involuntary, Employee shall not use or disclose Proprietary or Confidential Information without the written consent of Employer, except as may be necessary in the ordinary course of performing his duties to Employer.

2. Return of Proprietary and Confidential Information. All documents and tangible things (whether written or electronic) embodying or containing Proprietary and Confidential Information are the Employer Group's exclusive property. Employee shall be

provided with or given access to such Proprietary and Confidential Information solely for performing his duties of employment with Employer. Employee shall protect the confidentiality of their content and shall return all such Proprietary and Confidential Information, including all copies, facsimiles and specimens of them in any tangible or electronic forms in Employee's possession, custody or control to Employer before leaving the employment of Employer for any reason, whether voluntary or involuntary.

3. Confidential Information from Previous Employment Employee shall not disclose or use during his employment with Employer any proprietary and confidential information which Employee has acquired as a result of any previous employment or under a contractual obligation of confidentiality before his employment with Employer and, furthermore, Employee shall not bring to the premises of Employer any copies or other tangible embodiments of any such proprietary and confidential information.

4. Conflict of Interest. Employee shall not engage in outside employment or other activities in the course of which Employee would use or might be tempted or induced to use Proprietary and Confidential Information in other than the Employer Group's own interest.

5. Agreement Not to Compete/Solicit

a. Non-Compete. Employee agrees that during the Covenant Period (as defined below), he shall not, without Employer's written consent, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business venture of any nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer or in a managerial capacity, whether as an employee, independent contractor, consultant, advisor or sales representative, in any business or industry in which the Employer Group is engaged, within the United States, Canada or any other country in which the Employer Group conducts business, including any territory serviced by the Employer Group, or in which the Employer Group is actively pursuing business opportunities (the "Territory");

(ii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Employer Group, or a prospective customer that has been actively solicited by the Employer Group, within the Territory for the purpose of soliciting or selling products or services in competition with the Employer Group; or

(iii) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was, to Employee's actual knowledge after due inquiry, either called upon by the Employer Group or for which the Employer Group made an acquisition analysis for the purpose of acquiring such entity.

b. Non-Solicitation. Employee agrees that during the Covenant Period, he shall not, without Employer's written consent, employ, hire, solicit, induce or identify for employment or attempt to employ, hire, solicit, induce or identify for employment, directly or indirectly, any employee(s) of the Employer Group to leave his or her employment and become an employee, consultant or representative of any other entity including, but not limited to, Employee's new employer, if any.

c. Publicly Traded Securities. The provisions of Section VI.B.5 of this Agreement shall not prevent Employee from acquiring or holding publicly traded stock or other public securities of a competing company, so long as Employee's ownership does not exceed two percent (2%) of the outstanding securities of such company.

d. Agreement to Inform Subsequent Employers. For a period of two (2) years after the termination of Employee's employment with Employer, whether voluntary or involuntary, Employee agrees to inform each new employer, prior to accepting employment, of the existence of this Agreement and provide that employer with a copy of this Agreement.

e. Reasonableness of Restrictions. Employee acknowledges that the restrictions set forth in Section VI.B.5 of this Agreement are intended to protect the Employer Group's legitimate business interests and its Proprietary and Confidential Information and established relationships and good will. Employee acknowledges that the time, geographic and scope of activity limitations set forth herein are reasonable and necessary to protect the Employer Group's legitimate business interests. However, if in any judicial proceeding, a court shall refuse to enforce this Agreement as written, whether because the time limitation is too long or because the restrictions contained herein are more extensive (whether as to geographic area, scope of activity or otherwise) than is necessary to protect the legitimate business interests of the Employer Group, it is expressly understood and agreed between the parties hereto that this Agreement is deemed modified to the extent necessary to permit this Agreement to be enforced in any such proceedings.

f. Ability to Obtain Other Employment. Employee acknowledges that (1) in the event of the termination of his employment with Employer (whether voluntary or involuntary), Employee's knowledge, experience and capabilities are such that Employee can obtain employment in business activities which are of a different and non-competing nature than those performed in the course of his employment with Employer or in the geographic areas outside of the Territory and (2) the enforcement of a remedy hereunder including, but not limited to, injunctive relief, will not prevent Employee from earning a reasonable livelihood.

g. Injunctive Relief. Employee acknowledges that compliance with Section VI.B of this Agreement is necessary to protect the good will and other legitimate business interests of the Employer Group and that a breach of any or all of these provisions will give rise to irreparable and continuing injury to the Employer Group that is not adequately compensable in monetary damages or at law. Accordingly, Employee agrees that Employer, its successors and assigns, may obtain injunctive relief against the breach or threatened breach of any or all of these provisions, in addition to any other legal or equitable remedies which may be available to the Employer Group at law or in equity or under this Agreement. Because Employee further acknowledges that it would be difficult to measure any damages caused to the Employer Group that might result from any breach by Employee of any promises set forth in this Agreement, Employee agrees that Employer shall be entitled to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Employer Group, as well as to be relieved of any obligation to provide further payment or benefits to Employee or Employee's dependents.

h. Other Remedies. If Employee violates and/or breaches this Agreement, Employer shall be entitled to an accounting and repayment of all lost profits, compensation, commissions, remuneration or benefits that Employee directly or indirectly has realized or may realize as a result of any such violation or breach. Employer shall also be entitled to recover for all lost sales, profits, commissions, good will and customers caused by Employee's improper acts, in addition to and not in limitation of any injunctive relief or other rights or remedies that Employer is or may be entitled to at law or in equity or under this Agreement.

i. Costs. Employee acknowledges that should it become necessary for Employer to file suit to enforce the provisions contained herein, and any court of competent jurisdiction awards the Employer Group any damages and/or an injunction due to the acts of Employee, then Employer shall be entitled to recover its reasonable costs incurred in conducting the suit including, but not limited to, reasonable attorneys' fees and expenses.

j. Covenant Period. For purposes of this Section VI.B.5, the Covenant Period shall mean the period from and during the Term of this Agreement and ending on the date that is two (2) years after Employee's employment with Employer terminates, whether voluntary or involuntary; provided, however, that if Employer delivers to Employee a Renewal Termination Notice, as provided in Section III.B, and Employee remains employed with Employer through the expiration of the Term (and this Agreement), then the Covenant Period shall end on the date that is one (1) year after the date of such Renewal Termination Notice. For purposes of clarity, in the event that Employee's employment with Employer terminates for any reason, whether voluntary or involuntary, after Employee receives a Renewal Termination Notice and before the end of the Term, the Covenant Period shall end on the date that is two (2) years after the termination of Employee's employment.

6. Nondisparagement. Employee acknowledges and agrees that both during and after his employment with Employer, whether such termination is voluntary or involuntary, Employee shall not disparage, denigrate or comment negatively upon, either orally or in writing, the Employer Group or any of their respective officers, directors, employees or representatives, to or in the presence of any person or entity unless compelled to act by a valid subpoena or other legal mandate; provided, however, if Employee receives such a valid subpoena or legal mandate, he shall provide Employer with written notice of the same at least five (5) business days prior to the date on which Employee is required to make the disclosure.

## **VII. WAIVER OF RIGHT TO JURY TRIAL**

EMPLOYER AND EMPLOYEE HEREBY VOLUNTARILY, KNOWINGLY AND INTENTIONALLY WAIVE ANY AND ALL RIGHTS TO TRIAL BY JURY TO ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT, AS WELL AS TO ALL CLAIMS ARISING OUT OF EMPLOYEE'S EMPLOYMENT WITH EMPLOYER OR TERMINATION THEREFROM INCLUDING, BUT NOT LIMITED TO:

A. Any and all claims and causes of action arising under contract, tort or other common law including, without limitation, breach of contract, fraud, estoppel, misrepresentation, express or implied duties of good faith and fair dealing, wrongful discharge, discrimination, retaliation, harassment, negligence, gross negligence, false imprisonment, assault and battery, conspiracy, intentional or negligent infliction of emotional distress, slander, libel, defamation and invasion of privacy;

B. Any and all claims and causes of action arising under any federal, state or local law, regulation or ordinance, including, without limitation, claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the Fair Labor Standards Act and all corresponding state laws; and

C. Any and all claims and causes of action for wages, employee benefits, vacation pay, severance pay, pension or profit sharing benefits, health or welfare benefits, bonus compensation, commissions, deferred compensation or other remuneration, employment benefits or compensation, past or future loss of pay or benefits or expenses.

#### **VIII. CLAIMS**

Employer and Employee acknowledge and agree that this Agreement shall be interpreted, governed by and construed in accordance with the laws of the State of Texas, without regard to the conflict of laws principles or rules thereof.

Employer and Employee irrevocably and unconditionally agree that any legal suit, action or proceeding arising out of or relating to this Agreement, as well as to all claims arising out of Employee's employment with Employer or termination therefrom, shall be brought in either the Federal District Court for the Southern District of Texas—Houston Division or in a judicial district court of Harris County, Texas (hereinafter referred to as the "Texas Courts"). In that regard, Employer and Employee waive, to the fullest extent allowed, any objection that Employer or Employee may have to the venue of any such proceeding being brought in the Texas Courts, and any claim that any such action or proceeding brought in the Texas Courts has been brought in an inconvenient forum. In addition, Employer and Employee irrevocably and unconditionally submit to the exclusive jurisdiction of the Texas Courts in any such suit, action or proceeding. Employer and Employee acknowledge and agree that a judgment in any suit, action or proceeding brought in the Texas Courts shall be conclusive and binding on each and may be enforced in any other courts to whose jurisdiction Employer or Employee is or may be subject to, by suit upon such judgment.

In the event Employee obtains a final judgment in his favor by a court of competent jurisdiction with respect to any dispute regarding Employer's failure to pay Employee on a timely basis the amounts to which he is entitled under this Agreement or as a result of any other breach of this Agreement by Employer, Employer shall pay all amounts and damages to which Employee may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expense and other costs incurred by Employee to enforce Employee's rights hereunder.



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E. Survival of Certain Obligations. The obligations of the parties set forth in this Agreement that by their terms extend beyond or survive the termination of this Agreement, whether voluntarily or involuntarily, will not be affected or diminished in any way by the termination of this Agreement.

F. Headings. The headings contained in this Agreement are for purposes of reference and convenience only and are not intended in any way to describe, interpret, define or limit the extent or intent of this Agreement.

G. Entire Agreement. This Agreement supersedes any other agreements, written or oral, between the Employer Group and Employee and Employee has no oral representations, understandings or agreements with the Employer Group or any of their respective officers, directors or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete and exclusive statement and expression of the agreement between Employer and Employee and of all the terms of this Agreement. This Agreement cannot be modified, varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements.

H. Amendment/Waiver. Neither this Agreement nor any term hereof may be modified or amended except by written instrument signed by a duly authorized officer of Employer and by Employee. No term of this Agreement may be waived other than by written instrument signed by the party waiving the benefit of such term. Any such waiver shall constitute a waiver only with respect to the specific matter described in such written instrument and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by Employer or Employee of a breach of or a default under any of the provisions of this Agreement, nor the failure by either Employer or Employee, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

I. Assignment. This Agreement is personal to the parties and neither party may assign any rights or obligations under the same without the prior written consent of the other; provided, however, that in the event of a sale of the Employer Group's business to a third party (whether by sale of all or a majority of the Employer Group's issued and outstanding equity securities, by a merger or reorganization, or by a sale of all or substantially of the Employer Group's assets), then this Agreement may be assigned by Employer to such third party purchaser without the prior written consent of Employee, provided that such third party purchaser agrees to assume and abide by all of Employer's obligations set forth in this Agreement and provides written notice thereof to Employee. In the event of any such assignment, all references to "Quanta" hereunder shall mean the assignee, and to the extent any entity becomes the successor to Quanta, all obligations hereunder shall be the obligations of the successor and "Quanta" mean the successor entity.

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J. Counterparts. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above, but to be effective as of the Effective Date.

QUANTA SERVICES, INC.:

By: /s/ James F. O'Neil III  
JAMES F. O'NEIL III  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

EMPLOYEE:

/s/ Jesse E. Morris  
JESSE E. MORRIS

EXHIBIT A

SEVERANCE AGREEMENT  
AND RELEASE OF ALL CLAIMS

This Severance Agreement and Release of All Claims (the "Agreement") is made and entered into by and between Jesse E. Morris (hereinafter referred to as the "Employee") and Quanta Services, Inc., a Delaware corporation, (hereinafter collectively referred to as the "Company").

The purpose of this Agreement is to arrange a settlement of the Employee's employment with the Company that is satisfactory both to the Company and to the Employee. By signing this Agreement, the Company and the Employee agree as follows:

1. **Termination of Employment.** The Employee and the Company are entering into this Agreement as a way of amicably concluding the employment relationship between them on [Date] and of resolving voluntarily any dispute or potential dispute or claim that the Employee has or might have with the Company, whether known or unknown by the Employee at this time. This Agreement is not and should not be construed as an allegation by Employee, or as an admission on the part of the Company, that the Company has acted unlawfully or violated any state or federal law or regulation. The Company, including its parent companies, affiliates, associated companies, and subsidiaries, specifically disclaim any liability to the Employee or any other person for any alleged violation of rights or for any alleged violation of any order, law, statute, duty, policy or contract.
2. **Severance Benefits.** As consideration for the Employee agreeing to release the Company from all claims that are described in Paragraph 6 herein and subject to the provisions of Paragraph 10 herein, the Company will pay the Employee \$[Severance Amount] (            Dollars and            Cents), less applicable taxes as severance benefits (the "**Severance Benefits**").
3. **Tax Consequences.** The Employee acknowledges and agrees that the Company has made no representations to him regarding the tax consequences of any Severance Benefits received by him pursuant to this Agreement.
4. **Entire Consideration.** The Employee agrees that the Severance Benefits set forth in Paragraph 2, herein, constitute the entire amount of consideration provided to him under this Agreement. The Employee further agrees that he will make no claim for any additional or other severance benefits or payments and that he will not seek any further compensation for any other claimed damage, costs, severance, income or attorneys' fees.

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5. **Non-Disclosure Agreement.** Without the express written agreement of the Company's [Highest Officer] or unless required to do so by law, the Employee agrees never to disclose the existence, facts, terms, or amount of this Agreement, nor the substance of the negotiations leading to this Agreement, to any person or entity, other than to his personal counsel or attorney, personal accountants, or personal tax preparer, any such disclosure to such persons to be made only if the relevant person must have such information for the performance of his or her responsibilities. To the extent required by law or applicable regulation, Employee may also disclose the provisions of this Agreement to the appropriate taxing authorities.
6. **The Employee's Release Of All Claims Including Age Discrimination In Employment Act Claims.** In consideration of the Severance Benefits, the Employee, for himself, his heirs, executors, administrators, successors and assigns, does fully and forever release and discharge the Company, its parent companies, affiliates, associated companies, and subsidiaries, their respective associated companies and subsidiaries, all of their respective present and former officers, directors, supervisors, managers, employees, stockholders, agents, attorneys and representatives, and the successors and assigns of such persons and entities (collectively, the "Released Parties"), from all actions, lawsuits, grievances, complaints, liens, demands, obligations, damages, liabilities and claims of any nature whatsoever, known or unknown, that the Employee had, now has, or may hereafter claim to have against the Released Parties from the beginning of time through the date the Employee executes this Agreement. The release provided herein specifically includes, but is not limited to, all claims arising under any federal, state or local fair employment practice laws, and any other employee relations statute, executive order, law and ordinance, including, but not limited to, Title VII of the Civil Rights Acts of 1964, as amended; the Civil Rights Acts of 1866, 1870, and 1871, as amended; the Civil Rights Act of 1991, as amended; the Age Discrimination in Employment Act of 1967, as amended; the Older Workers Benefit Protection Act, as amended; the Americans With Disabilities Act of 1990, as amended; the Family and Medical Leave Act, as amended; the Equal Pay Act, as amended; the Fair Labor Standards Act, as amended; the Worker Adjustment and Retraining Notification Act of 1988, as amended; the Employee Retirement Income Security Act of 1974, as amended; Section 806 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1514A, *et seq.*); the Rehabilitation Act of 1973 (29 U.S.C. Section 791 *et seq.*); the Occupational Safety and Health Act (29 U.S.C. § 651, *et seq.*); the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA); the National Labor Relations Act, as amended; the [Applicable State Laws], as amended; any local human rights law; and any tort or contract cause of action or theory.

The Employee expressly represents and agrees that he has been advised that, by entering into this Agreement, he is waiving all claims that he may have against the Company arising under the Age Discrimination in Employment Act of 1967, as amended, which have arisen on or before the date of execution of this Agreement.

7. **Covenants Concerning Claims.** The Employee agrees that he will not file any complaints, claims or actions against the Released Parties with any court regarding any matters or claims that arose prior to the Employee's execution of this Agreement. If any court assumes jurisdiction on behalf of the Employee of any complaint, claim or action against the Company, he will direct that court to withdraw from or dismiss with prejudice the matter.

Notwithstanding the preceding provision or any other provision of the Agreement, Employee's agreement to the provisions under Section 6, or the paragraph immediately above this paragraph, is not intended to prohibit Employee from bringing an action to challenge the validity of the release of claims under the Age Discrimination in Employment Act, as amended, or the Older Worker's Benefit Protection Act, as amended. The Employee further understands and agrees that if he or someone acting on his behalf files, or causes to be filed, any such claim, charge, complaint, or action against the Released Parties, he expressly waives any right to recover any damages or other relief, whatsoever, from the Released Parties including costs and attorneys' fees.

This Agreement is not intended to interfere with Employee's right to file a charge with an administrative agency in connection with any claim Employee believes he may have against any of the Released Parties. However, by executing this Agreement, Employee hereby waives the right to recover, and agrees not to seek any damages, remedies or other relief for himself personally in any proceeding he may bring before such agency or in any proceeding brought by such agency, or any other person, on his behalf. This Agreement is also not intended to apply to claims for accrued benefits (other than severance-type benefits) under any benefit plan of the Released Parties pursuant to the terms of any such plan.

Employee understands that he is not releasing rights under this Agreement, that any claims that cannot be lawfully waived are excluded from this Agreement and that by executing this Agreement he is not waiving any such claims. Likewise, Employee is not releasing any rights or claims that may arise after the date on which he signs this Agreement. In addition, while this Agreement requires Employee to waive any and all claims against the Released Parties arising under workers' compensation laws (e.g., claims of retaliation for filing a workers' compensation claim), it is not intended to prohibit Employee from filing in good faith for and from receiving any workers' compensation benefits from Released Parties' workers' compensation carrier for compensable injuries incurred during his employment. Accordingly, pursuit of any such workers' compensation benefits with Released Parties' workers' compensation carrier or third-party administrator will not be considered a violation of this Agreement.

8. **Employee Acknowledgments.** Employee acknowledges and agrees that:

- a. In return for and in consideration of his execution, delivery and performance of this Agreement, the Company is providing to the Employee the Severance Benefits.
- b. The Employee is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement.

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- c. The Employee does not waive rights or claims that may arise after the date this Agreement is signed.
  - d. In return for signing this Agreement, the Employee will receive payment of consideration beyond that which he was entitled to receive before entering into this Agreement.
9. **Twenty-One (21) Day Review Period.** The Employee acknowledges that he was provided this Agreement more than 21 days before the date when he was required to make an election concerning the Severance Benefits. If the Employee signs this Agreement prior to the end of the 21-day period, he certifies and agrees that the decision to accept such shortening of time is knowing and voluntary and is not induced by the Company through: (i) fraud, misrepresentation, or a threat to withdraw or alter the offer prior to the end of the 21-day period; or (ii) an offer to provide different terms in exchange for signing the Release prior to the expiration of the 21-day period. Should the Employee sign this Agreement before the expiration of the 21-day period, the Company may at its option and discretion expedite the processing of some or all of the Severance Benefits, subject to the revocation period set forth in Paragraph 10.
10. **Seven (7) Day Revocation Period.** The Employee understands that he may revoke this Agreement at any time within seven (7) days after he executes it. To revoke the Agreement, the Employee must deliver written notification of such revocation to \_\_\_\_\_, or in \_\_\_\_\_'s absence to \_\_\_\_\_'s office, within seven (7) days after the date of the Employee's execution of this Agreement. The Employee further understands that if he does not revoke the Agreement within seven (7) days following its execution (excluding the date of execution), it will become effective, binding, and enforceable. The Employee understands that he will not receive the Severance Benefits until this Agreement becomes effective, binding, and enforceable, which shall not occur prior to the eighth day following the Employee's execution of this Agreement.
11. **Employee Representations.** The Employee represents that:
- a. he has reviewed all aspects of this Agreement;
  - b. he has carefully read and fully understands all of the provisions and effects of this Agreement;
  - c. he has had the opportunity to consult with an attorney before signing this Agreement.
  - d. he understands that in agreeing to the terms of this Agreement he is releasing the Released Parties from any and all claims he may have against the Company, and all persons acting by, through, under or in concert with the Company, including claims under the federal Age Discrimination in Employment Act of 1967, as amended, as well as any claims for age discrimination that may exist under Texas law or any other applicable law, as more particularly described in Paragraph 7 herein;

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- e. he voluntarily agrees to all the terms set forth in this Agreement;
  - f. he has not filed, caused to be filed, and presently is not a party to any claim, complaint, or action against the Released Parties in any forum or form, whether administrative or otherwise; and
  - g. as of the time of execution of this Agreement by Employee, Employee is unaware of any facts or conduct that would give rise to a claim against the Released Parties of any type or sort, including those types of claims or other violations set forth generally and specifically above, including but not limited to, any claims under the Family Medical Leave Act of 1993 or the Fair Labor Standards Act.
12. **Return of Company Property and Confidentiality Obligations.** The Employee agrees that on or before [Date], the Employee shall return or shall have returned all Company Property and Confidential Information (as defined below). "Company Property" means all property of the Company, including, but not limited to, Company issued/owned computers, laptops, peripheral electronic equipment (e.g., printers, cameras, projectors, computer docking stations, etc.), Blackberry or other personal digital assistants (PDAs), cellular telephones, credit cards, keys, door cards, tools, equipment on loan, and any other Company books, manuals, and journals. "Confidential Information" means all confidential, sensitive or proprietary information belonging to the Company, including, but not be limited to, all business records, manuals, memoranda, computer records, electronic files, lists and other property delivered to or compiled by the Employee by or on behalf of Company, or its representatives, vendors or customers that pertain to the business of Company, as well as all correspondence, reports, records, charts, and other similar data pertaining to the business, activities or future plans of Company that was collected by the Employee during his employment with the Company. For purposes of this Paragraph 12 and Paragraph 13, "Company" shall include all parent companies, affiliates, associated companies, and subsidiaries.
- The Employee further acknowledges and agrees that the Employee is obligated to not, at any time, disclose or otherwise make available to any person, company or other party Confidential Information or trade secrets of the Company, its parent, associated companies, affiliates, and subsidiaries This Agreement shall not limit any obligations the Employee has under any applicable federal or state law.
13. **Non-disparagement.** The Employee agrees not to make any disparaging or negative statements about the Company, its services or its current or former directors, officers, supervisors, managers, or employees. Statements made in the course of any litigation or legal proceeding, whether disparaging or negative, are excluded from coverage of this Paragraph.

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14. **Voluntary Action.** The Employee represents and agrees that he is knowingly and voluntarily entering into this Agreement, and that he has relied solely and completely upon his own judgment or the advice of his attorney in entering into this Agreement.
  15. **Entire Agreement.** This Agreement sets forth the entire agreement between the Employee and the Company and fully supersedes and replaces any and all prior agreements or understandings, written or oral, between the Company and the Employee pertaining to the subject matter of this Agreement. The Employee and the Company represent and acknowledge that in executing this Agreement they do not rely upon and have not relied upon any representation or statement made by any of the parties or by any of the parties' agents, attorneys, employees, or representatives with regard to the subject matter, basis, or effect of this Agreement or otherwise, other than those specifically stated in this written Agreement.
  16. **Partial Invalidity.** Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, all remaining provisions of this Agreement shall otherwise remain in full force and effect and be construed as if such illegal, invalid or unenforceable provision had not been included herein.

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**EXHIBIT B**

PRE-EMPLOYMENT INVENTIONS

None

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**EMPLOYMENT AGREEMENT**

This Employment Agreement (the "Agreement") is entered into between Quanta Services, Inc. ("Quanta") and Eric Brown ("Employee") on the 4<sup>th</sup> day of March, 2014, but effective as of the 20<sup>th</sup> day of February, 2014 (the "Effective Date").

**I. RECITALS**

As of the date of this Agreement, the Employer Group (as defined below) is engaged primarily in the business of specialty contracting for customers in the electric power, natural gas, oil, pipeline and renewable energies industries, as well as for transportation, commercial and industrial customers. As such, the Employer Group has developed and continues to develop and use certain trade secrets and other Proprietary and Confidential Information, as hereinafter defined. The Employer Group has spent a substantial amount of time, effort and money, and will continue to do so in the future, to develop or acquire such Proprietary and Confidential Information and promote and increase its good will. Employer (as defined below) and Employee acknowledge and agree that Proprietary and Confidential Information is an asset of particular and immeasurable value to the Employer Group.

Pursuant to this Agreement, Employee shall be employed by Employer in a confidential and fiduciary relationship and such Proprietary and Confidential Information will necessarily be provided to, communicated to, or acquired by Employee by virtue of his employment with Employer.

Based upon the above, Employer desires to retain the services of Employee on its own behalf, as well as on the behalf of its subsidiaries and affiliated companies and, in so doing, protect its Proprietary and Confidential Information subject to the terms and conditions set forth herein.

**II. DEFINITIONS**

A. For purposes of this Agreement, "Employer" shall mean Quanta or any other affiliated entity that is deemed to be the employer of Employee, and "Employer Group" shall mean Quanta and its predecessors, designees, successors, and past, present and future operating companies, divisions, subsidiaries and/or affiliates.

B. As used in this Agreement, "Proprietary and Confidential Information" means any and all non-public information or data in any form or medium, tangible or intangible, which has commercial value and which the Employer Group possesses or to which the Employer Group has rights. Proprietary and Confidential Information includes, by way of example and without limitation, information concerning the Employer Group's specific manner of doing business, including, but not limited to, the processes, methods or techniques utilized by the Employer Group, the Employer Group's customers, marketing strategies and plans, pricing information, sources of supply and material specifications, the Employer Group's computer programs, system documentation, special hardware, related software development, and the Employer Group's business models, manuals, formulations, equipment, compositions, configurations, know-how, ideas, improvements and inventions.

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Proprietary and Confidential Information also includes information developed by Employee during his course of employment with Employer or otherwise relating to Company-Related Inventions and Developments, as hereinafter defined, as well as other information to which he may be given access to in connection with his employment.

C. As used in this Agreement, "Inventions and Developments" means any and all inventions, developments, creative works and useful ideas of any description whatsoever, whether or not patentable. Inventions and Developments include, by way of example and without limitation, discoveries and improvements that consist of or relate to any form of Proprietary and Confidential Information.

D. As used in this Agreement, "Company-Related Inventions and Developments" means all Inventions and Developments that: (a) relate at the time of conception or development to the actual business of the Employer Group or to its actual research and development or to business or research and development that is the subject of active planning at the time; (b) result from or relate to any work performed for Employer, whether or not during normal business hours; (c) are developed on Employer's time; or (d) are developed through the use of the Employer Group's Proprietary and Confidential Information, equipment, software, or other facilities and resources.

E. For purposes of this Agreement, "make" or "made," when used in relation to Inventions and Developments, includes any one or any combination of: (a) conception; (b) reduction to practice; or (c) development; and is without regard to whether Employee is a sole or joint inventor.

F. For purposes of this Agreement, "Change in Control" shall mean:

1. Any person or entity, or more than one person or entity acting as a group, other than a member of the Employer Group or an employee benefit plan of the Employer Group, acquires directly or indirectly Beneficial Ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any Voting Security of Quanta and immediately after such acquisition such person, entity or group is, directly or indirectly, the Beneficial Owner of Voting Securities representing fifty percent (50%) or more of the total fair market value or total voting power of all of the then-outstanding Voting Securities of Quanta; or

2. Any person or entity, or more than one person or entity acting as a group, other than a member of the Employer Group or an employee benefit plan of the Employer Group, acquires directly or indirectly, or has acquired during the preceding twelve (12) months, Beneficial Ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any Voting Security of Quanta and immediately after such acquisition such person, entity or group is, directly or indirectly, the Beneficial Owner of Voting Securities representing thirty percent (30%) or more of the total voting power of all of the then-outstanding Voting Securities of Quanta; or

3. Individuals who, as of the date hereof, constitute the Board of Directors of Quanta (the "Board"), and any new director whose election by the Board or nomination for election by Quanta'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 within a 12-month period; or

4. Any person or entity, or more than one person or entity acting as a group, other than a member of the Employer Group or an employee benefit plan of the Employer Group, acquires directly or indirectly, or has acquired during the preceding 12-months, forty percent (40%) or more of the total gross fair market value of assets of the Employer Group.

G. For purposes of this Agreement, "Voting Security" means common stock or other capital stock, including preferred stock, of the applicable entity entitled generally to vote in the election of directors and preferred stock and other equity securities (not including options, warrants or similar rights) convertible into securities entitled generally to vote in the election of directors (whether or not then convertible).

### **III. TERMS OF EMPLOYMENT**

A. Position and Duties. Employee is hereby employed by Employer as Vice President and General Counsel. Employee shall have the primary responsibilities, duties and authority commensurate with Employee's position and as prescribed from time to time by the Board or Quanta's Chief Executive Officer, in their discretion, in a manner consistent with Employee's position. Employee shall devote his full business time, attention and effort to the performance of this Agreement and to his duties as described herein.

1. Employee shall faithfully adhere to, execute and fulfill the duties and responsibilities of Employee's position and as prescribed from time to time by the Board or Quanta's Chief Executive Officer.

2. Employee agrees to devote reasonable attention and time to the business and affairs of Employer and, to the extent necessary, to discharge the responsibilities assigned to Employee hereunder, to use Employee's reasonable best efforts to perform faithfully and efficiently such responsibilities.

3. Employee shall not, during the term of his employment, be engaged in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes with Employee's duties and responsibilities to Employer. The foregoing limitations shall not be construed as prohibiting Employee from serving on corporate, civic or charitable boards or committees, delivering lectures or fulfilling speaking engagements, teaching at educational institutions, or making personal investments, so long as such activities do not significantly interfere with the performance of Employee's responsibilities to Employer as set forth in this Agreement.

4. In the performance of his duties, Employee shall use his best efforts to adhere to the legal requirements codified in statutes, ordinances and governmental regulations applicable to Employer.

B. Term. The initial term of this Agreement shall begin on the Effective Date and shall continue for two (2) years, unless terminated sooner pursuant to the provisions of this Agreement (the "Initial Term"). At the expiration of the Initial Term, unless terminated sooner pursuant to the provisions of this Agreement, and each annual anniversary thereafter, this Agreement will renew automatically for an additional one (1) year period (the "Renewal Term") unless either party notifies the other party in writing of its or his intention not to renew this Agreement (the "Renewal Termination Notice") not less than six (6) months prior to the expiration of the Initial Term or of any Renewal Term (the Initial Term and any Renewal Term are referred to collectively as the "Term").

1. Termination upon Death. This Agreement (and all of Employee's rights and Employer's obligations hereunder) shall terminate as of the date of Employee's death.

2. Termination upon Disability. If Employee becomes Disabled as defined herein, Employer may, by written notice to Employee, terminate this Agreement and Employee's employment hereunder. For purposes of this Agreement, "Disabled" or "Disability" means, as determined by the Compensation Committee of the Board (the "Committee"), that (i) Employee is unable to engage in any substantial gainful activity by reason of a physical or mental impairment that is expected to result in death or last twelve (12) months or more, or Employee receives replacement income for three (3) months or more due to such physical or mental impairment or (ii) such other definition that complies with the definition of disability under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder.

3. Termination for Cause. Employer may terminate this Agreement and Employee's employment hereunder for Cause by providing written notice to Employee of its intention to do so. For purposes of this Agreement, "Cause" shall mean:

- a. Employee's gross negligence in the performance of, intentional nonperformance of, or inattention to his material duties and responsibilities hereunder, any of which continue for five (5) business days after receipt of written notice of need to cure the same;
- b. Employee's willful dishonesty, fraud or material misconduct with respect to the business or affairs of Employer;
- c. the violation by Employee of any of Employer's policies or procedures, which violation is not cured by Employee within five (5) business days after Employee has been given written notice thereof;
- d. a conviction of, a plea of nolo contendere, a guilty plea, or confession by Employee to, an act of fraud, misappropriation or embezzlement or any crime punishable as a felony or any other crime that involves moral turpitude;
- e. Employee's use of illegal substances or habitual drunkenness; or
- f. the breach by Employee of this Agreement if Employee does not cure such breach within five (5) business days after Employee has been given written notice thereof.

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4. Termination for Good Reason. Employee may terminate this Agreement and his employment hereunder for Good Reason in the twelve (12) months following a Change in Control by providing written notice to Employer of his intention to do so. For purposes of this Agreement, “Good Reason” shall mean:

- a. the assignment to Employee of any duties inconsistent with Employee’s position (including offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section III.A of this Agreement and as in effect immediately prior to the Change in Control, or any other action by 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);
- b. any material breach of this Agreement by Employer, including any requirement that Employee be based at any office or location that results in a violation of Section III.E of this Agreement;
- c. any failure by Employer to comply with any of the provisions of Section IV of this Agreement (excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith);
- d. any failure by 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 and policy, unless the aggregate value (as computed by an independent employee benefits consultant selected by Employer and reasonably acceptable to Employee or Employee’s legal representative) of all such compensation, retirement or benefit plans and policies provided to Employee is not materially less than their aggregate value as in effect at any time during the one hundred twenty (120) day period immediately preceding a Change in Control or, if more favorable to Employee, those provided generally at any time after the Change in Control to other peer employees of Employer and its affiliated companies;
- e. Employee’s receipt from Employer of a Renewal Termination Notice as provided in Section III.B; and
- f. in the event of a pending Change in Control, Employer and Employee have not received written notice at least five (5) business days prior to the anticipated closing date of the transaction giving rise to the Change in Control from the successor to all or a substantial portion of the Employer Group’s business and/or assets that such successor is willing as of the closing to assume and agree to perform Employer’s obligations under this Agreement in the same manner and to the same extent that Employer is hereby required to perform.

Employee must provide written notice to Employer of the existence of the condition(s) described in Section III.B.4.a through Section III.B.4.d above within 90 days of the initial existence of the condition(s). Employer shall have 30 days after such notice is given during which to remedy the condition(s), and such occurrence shall not be deemed to constitute Good Reason if such event or circumstance has been fully corrected by Employer within the 30 day cure period and Employee has been reasonably compensated for monetary losses or damages resulting therefrom.

C. Notice of Termination. Any termination by Employer for Cause or Disability or by Employee for Good Reason shall be communicated by a Notice of Termination provided to the other party pursuant to the provisions of Section IX.C of this Agreement. For purposes of this Agreement, "Notice of Termination" means a written notice that: (1) indicates the specific termination provision or provisions as set forth in this Agreement relied upon by either Employer or Employee; (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide the basis for termination under the provision or provisions of this Agreement relied upon by either Employer or Employee; and (3) if the Date of Termination (as defined below) is other than the date of receipt of such Notice of Termination, specifies the termination date. The failure by either Employer or Employee to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Cause or Good Reason shall not waive any right of Employer or Employee or preclude Employer or Employee from asserting such fact or circumstance in enforcing Employer's or Employee's rights or obligations under this Agreement.

D. Date of Termination. According to this Agreement, "Date of Termination" shall mean: (1) if Employee's employment is terminated for Cause or Disability, or by Employer for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein or as required under this Agreement; (2) if Employee's employment is terminated by Employer other than for Cause or Disability, the Date of Termination shall be the date on which Employer notifies Employee of such termination; (3) if Employee's employment is terminated by reason of death, the Date of Termination shall be the date of the death of Employee; or (4) if Employee voluntarily terminates his employment, the Date of Termination shall be the date on which Employee and Employer shall agree to be the Date of Termination.

E. Place of Performance. Nothing contained in this Agreement shall be deemed to require Employee to relocate from Employee's present residence to another geographic location in order to carry out Employee's duties and responsibilities under this Agreement, other than normal business travel consistent with Employee's duties, responsibilities and position.

#### **IV. COMPENSATION**

A. Annual Base Salary. Employer agrees to compensate and pay Employee, or to cause Employee to be compensated and paid, an annual base salary of \$390,000, payable on a regular basis in accordance with Employer's standard payroll procedures but not less frequently than monthly.

On at least an annual basis, the Board or a duly constituted committee thereof will review Employee's performance and may make increases to Employee's annual base salary if, in its sole discretion, any such increase is warranted.

B. Bonus. Employee shall participate in Employer's annual and supplemental incentive bonus plans at a level commensurate with Employee's position. Employee may participate in other current and future incentive bonus plans as determined by the Board or a duly constituted committee thereof.

C. Incentive, Savings and Retirement Plans. Employee shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs generally applicable to other peer employees of Employer.

D. Welfare Benefit Plans. Employee and Employee's dependents shall receive coverage under the welfare benefit plans, practices, policies and programs provided by Employer including, but not limited to, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs, generally applicable to other peer employees of Employer, the terms and conditions of which shall be no less favorable than those available to other similarly situated officers of Employer.

E. Reimbursement of Expenses. Employer shall reimburse Employee or cause Employee to be promptly reimbursed for all reasonable and necessary expenses incurred by Employee in furtherance of the business and affairs of the Employer Group including, but not limited to, all travel expenses and living expenses while away from home on business or at the request of Employer or the Board. Such reimbursement shall be effected as soon as reasonably practicable after such expenditures are made, against presentation of signed, itemized expense reports in accordance with the travel and business expense reimbursement policies of Employer.

F. Severance Benefits upon Termination. As set forth below, the following obligations are imposed upon Employer upon termination of this Agreement; provided, however, that to be entitled to such severance benefits, Employee will be required to execute, and not revoke, a Confidential Severance Agreement and Release provided by Employer as more fully described in Section IV.I below.

1. Death. If Employee's employment is terminated due to his death, Employee shall not be entitled to any severance benefits under the terms of this Agreement.

2. Disability. If Employee's employment is terminated due to his Disability, Employee shall be entitled to severance benefits equal to one (1) year of Employee's annual base salary. Subject to Employee's compliance with the requirements of Section IV.I below, such severance benefits shall be paid to Employee in a lump-sum payment within sixty (60) days of the Date of Termination.

3. Cause. If Employee's employment is terminated for Cause as defined under this Agreement, Employee shall not be entitled to any severance benefits under the terms of this Agreement.

4. Without Cause. If Employee's employment is terminated by Employer without Cause (other than within the twelve (12) months following a Change in Control), Employee shall be entitled to severance benefits equal to two (2) years of Employee's annual base salary. Subject to Employee's compliance with the requirements of Section IV.I below, such severance benefits shall be paid to Employee in a lump-sum payment within sixty (60) days of the Date of Termination. In the event that Employee is entitled to receive severance benefits under Section IV.G.1, Employee will not be entitled to receive severance benefits under this Section.

5. Resignation by Employee. If Employee resigns his employment, Employee shall not be entitled to any severance benefits under the terms of this Agreement unless Employee resigns his employment for Good Reason within the twelve (12) months following a Change in Control as described in Section IV.G.2 below.

G. Severance Benefits upon Change in Control.

1. Termination without Cause. In the event Employee is terminated without Cause by Employer within twelve (12) months following a Change in Control, Employee shall be entitled to the following:

a. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times Employee's base salary at the rate then in effect; and

b. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times the higher of (i) the highest annual cash bonus paid (or earned if not yet paid) to Employee for the three (3) fiscal years preceding Employee's termination under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof or (ii) Employee's target annual cash bonus payable, including any bonus or portion thereof which has been earned but deferred, under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof for the current fiscal year or, if such target bonus has not yet been determined, for the most recently completed fiscal year; and

c. for a period of three (3) years following Employee's termination continuation of medical, dental and vision benefit coverage for Employee and Employee's dependents at least equal to those that would have been provided to the same in accordance with the plans, programs, practices and policies described in Section IV.D of this Agreement if Employee's employment had not been terminated or, if more favorable to Employee, as in effect generally at any time thereafter with respect to other peers of Employee; provided, however, that if Employee becomes reemployed with another employer and is eligible to receive medical, dental or vision benefits under another employer provided plan, the medical, dental and vision benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility.

In the event that Employee is entitled to receive severance benefits under this Section V.G.1, Employee will not be entitled to receive severance benefits under Section IV.F.4.

2. Termination by Employee with Good Reason. In the event Employee terminates his employment for Good Reason within twelve (12) months following a Change in Control, Employee shall be entitled to:

a. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times Employee's base salary at the rate then in effect;

b. a lump-sum payment, due on the Date of Termination, of a sum equal to three (3) times the higher of (i) the highest annual cash bonus paid (or earned if not yet paid) to Employee for the three (3) fiscal years preceding Employee's termination under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof or

(ii) Employee's target annual cash bonus payable, including any bonus or portion thereof which has been earned but deferred, under Employer's annual incentive bonus plan or a direct predecessor thereto or replacement thereof for the current fiscal year or, if such target bonus has not yet been determined, for the most recently completed fiscal year; and

c. for a period of three (3) years following Employee's termination continuation of medical, dental and vision benefit coverage for Employee and Employee's dependents at least equal to those that would have been provided to the same in accordance with the plans, programs, practices and policies described in Section IV.D of this Agreement if Employee's employment had not been terminated or, if more favorable to Employee, as in effect generally at any time thereafter with respect to other peers of Employee; provided, however, that if Employee becomes reemployed with another employer and is eligible to receive medical, dental or vision benefits under another employer provided plan, the medical, dental and vision benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility.

3. Limitation on Severance Benefits. Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined (as herein after provided) that any payment or distribution by Employer or any of its affiliates to or for the benefit of Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program, or arrangement including, without limitation, any stock option, restricted stock, stock appreciation right or similar right, or the lapse or termination of any restriction on, or the vesting or exercisability of, any of the foregoing (individually and collectively, a "Payment"), would be subject, but for the application of this Section IV.G.3 to the excise tax imposed by Section 4999 of the Code, or any successor provision thereto (hereinafter the "Excise Tax"), by reason of being considered "contingent on a change in ownership or control" of Employer, within the meaning of Section 280G(b)(2) of the Code, or any successor provision thereto, then:

a. if the After-Tax Payment Amount would be greater by reducing the amount of the Payment otherwise payable to Employee to the minimum extent necessary (but in no event less than zero) so that, after such reduction, no portion of the Payment would be subject to the Excise Tax, then the Payment shall be so reduced; and

b. if the After-Tax Payment Amount would be greater without the reduction then there shall be no reduction in the Payment.

As used in this Section IV.G.3, "After-Tax Payment Amount" means (i) the amount of the Payment, less (ii) the amount of federal income taxes payable with respect to the Payment calculated at the maximum marginal income tax rate for each year in which the Payment shall be paid to Employee (based upon the rate in effect for such year as set forth in the Code at the time of the Payment), less (iii) the amount of the Excise Tax, if any, imposed upon the Payment. For purposes of any reduction made under Section IV.G.3.a, the Payments that shall be reduced shall be those that provide Employee the best economic benefit, and to the extent any Payments are economically equivalent, each shall be reduced pro rata.

H. Compliance with Section 409A of the Code. The payments to be made under this Agreement are intended to be exempt from or compliant with Section 409A of the Code. Specifically, the severance payments and benefits under Section IV.F and Section IV.G hereof are intended to be exempt from Section 409A of the Code by compliance with the short-term deferral exemption as specified in 26 C.F.R. Section 1.409A-1(b)(4) and/or the separation pay exemption as specified in 26 C.F.R. Section 1.409A-1(b)(9) or are intended to comply with Section 409A of the Code including, but not limited to, being paid upon disability pursuant to 26 C.F.R. Section 1.409-3(i)(4), pursuant to change in control event pursuant to 26 C.F.R. Section 1.409A-3(i)(5) or pursuant to a fixed schedule or specified date pursuant to 26 C.F.R. Section 1.409A-3(a), and the provisions of this Agreement will be administered, interpreted and construed accordingly. Notwithstanding the foregoing, Employer makes no representation or warranty and shall have no liability to Employee or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code and do not satisfy an exemption from, or the conditions of, Section 409A of the Code.

For all purposes of this Agreement, Employee shall be considered to have terminated employment with Employer when Employee incurs a “separation from service” with the Employer Group within the meaning of Section 409A(a)(2)(A)(i) of the Code.

If the Committee determines that severance payments due under this Agreement on account of termination of Employee’s employment constitute “deferred compensation” subject to Section 409A of the Code, and that Employee is a “specified employee” as defined in Section 409A(a)(2)(B)(i) of the Code and 26 C.F.R. Section 1.409A-1(i), then such severance payments shall commence on the first payroll date of the seventh month following the month in which Employee’s termination occurs (with the first such payment being a lump sum equal to the aggregate severance payments Employee would have received during the prior six-month period if no such delay had been imposed). For purposes of this Agreement, whether Employee is a “specified employee” will be determined in accordance with the written procedures adopted by the Committee which are incorporated by reference herein.

All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code and the regulations to the extent that such reimbursements or in-kind benefits are not excepted from Section 409A of the Code, including where applicable, the requirement that (i) any reimbursement is for expenses incurred during Employee’s lifetime (or during a shorter period of time specified in the Agreement); (ii) the amount of expenses eligible for reimbursement during the calendar year may not affect the expenses eligible for reimbursement in any other calendar year; (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred; and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

I. Confidential Severance Agreement and Release. Notwithstanding any provision herein to the contrary, if Employee has not delivered to Employer an executed Confidential Severance Agreement and Release (the “Release”) on or before the fiftieth (50th) day after the Date of Termination, or if Employee revokes such executed Release prior to the sixtieth (60th) day after the Date of Termination, Employee shall forfeit all of the payments and benefits described in Section IV.F.2 or Section IV.F.4, as applicable; provided, however, that Employee

shall not forfeit such amounts if Employer has not delivered to Employee the required form of Release on or before the 25th day following the Date of Termination. A form of Release is attached as Exhibit A hereto. Employee acknowledges that Employer retains the right to modify the required form of the Release as Employer deems necessary in order to effectuate a full and complete release of claims against the Employer Group and its affiliates, officers and directors.

#### **V. COMPANY-RELATED INVENTIONS AND DEVELOPMENTS**

A. Records of Inventions. Employee shall keep complete and current written records of Inventions and Developments made during the course of his employment with Employer and promptly disclose all such Inventions and Developments in writing to Employer so that it may adequately determine its rights in such Inventions and Developments. Employee shall supplement any such disclosure to the extent Employer may request. If Employee has any doubt as to whether or not to disclose any Inventions and Developments, Employee shall disclose the same to Employer.

B. Ownership of Inventions. All Company-Related Inventions and Developments made by Employee during the term of his employment with Employer shall be the sole and exclusive property of the applicable member(s) of the Employer Group. Employee shall assign, and does hereby assign, his entire right, title and interest in such Company-Related Inventions and Developments to the applicable member(s) of the Employer Group. Employer's ownership and the foregoing assignment shall apply, without limitation, to all rights under the patent, copyright, and trade secret laws of any jurisdiction relating to Company-Related Inventions and Developments. If Employee asserts any property right in any Inventions and Developments made by Employee during the term of his employment with Employer, Employee shall promptly notify Employer of the same in writing.

C. Cooperation with Employer. Employee shall assist and fully cooperate with Employer in obtaining and maintaining the fullest measure of legal protection which the Employer Group elects to obtain and maintain for Inventions and Developments in which the Employer Group has a property right. Employee shall execute any lawful document requested by Employer relating to obtaining and maintaining legal protection for any said Inventions and Developments including, but not limited to, executing applications, assignments, oaths, declarations and affidavits. Employee shall make himself available for interviews, depositions and testimony relating to any said Inventions and Developments. These obligations shall survive the termination of Employee's employment with Employer, provided that Employer shall compensate Employee at a reasonable rate after such termination for time actually spent by Employee at Employer's requests on such assistance. In the event Employer is unable for any reason whatsoever to secure Employee's signature to any document reasonably necessary or appropriate for any of the foregoing purposes including, but not limited to, renewals, extensions, continuations, divisions or continuations in part, in a timely manner, Employee irrevocably designates and appoints Employer and its duly authorized officers and agents as his agents and attorneys-in-fact to act for Employee and on his behalf, but only for purposes of executing and filing any such document and doing all other lawfully permitted acts to accomplish the foregoing purposes with the same legal force and effect as if executed by Employee.

D. Pre-employment Inventions. Employee shall completely identify on Exhibit B attached hereto, without disclosing any trade secret or other proprietary and confidential information, all Inventions and Developments made by Employee prior to his employment with Employer or prior to execution of this Agreement in which Employee has an ownership interest and which is not the subject matter of an issued patent or a printed publication at the time Employee executes this Agreement.

E. Disclosure of Inventions after Termination. Employee shall promptly and completely disclose in writing to Employer's law department all Company-Related Inventions and Developments made by Employee during the one (1) year immediately following Employee's termination of employment, whether voluntarily or involuntarily, for the purposes of determining Employer's rights in each such invention. It will be presumed that Company-Related Inventions and Developments conceived by Employee which are reduced to practice within one (1) year after termination of Employee's employment, whether voluntary or involuntary, were conceived during the term of Employee's employment with Employer unless Employee is able to establish a later conception date by clear and convincing evidence.

## **VI. OBLIGATIONS RELATING TO PROPRIETARY AND CONFIDENTIAL INFORMATION**

### **A. Obligations of Employer**

1. Proprietary and Confidential Information. Employer shall provide Employee, during his employment, with valuable Proprietary and Confidential Information for the purpose of assisting Employee in the performance of his job requirements and responsibilities with Employer. In addition, Employer shall provide to Employee, during his employment, with the equipment, materials and facilities necessary to assist Employee in the performance of his job requirements and responsibilities with Employer.

2. Training. Employer shall provide Employee with any and all specialized training necessary to assist Employee in the performance of his job requirements and responsibilities with Employer including, but not limited to, training relating to the Employer Group's cost structures, methods of operation, the Employer Group's products and marketing techniques, the Employer Group's business strategies, plans and models.

### **B. Obligations of Employee**

1. Nondisclosure of Proprietary and Confidential Information. Both during and after the termination of employment, whether such termination is voluntary or involuntary, Employee shall keep in confidence and trust all Proprietary and Confidential Information. Both during and after the termination of employment, whether such termination is voluntary or involuntary, Employee shall not use or disclose Proprietary or Confidential Information without the written consent of Employer, except as may be necessary in the ordinary course of performing his duties to Employer.

2. Return of Proprietary and Confidential Information. All documents and tangible things (whether written or electronic) embodying or containing Proprietary and Confidential Information are the Employer Group's exclusive property. Employee shall be provided with or given access to such Proprietary and Confidential Information solely for performing his duties of employment with Employer. Employee shall protect the confidentiality of their content and shall return all such Proprietary and Confidential Information, including all copies, facsimiles and specimens of them in any tangible or electronic forms in Employee's possession, custody or control to Employer before leaving the employment of Employer for any reason, whether voluntary or involuntary.

3. Confidential Information from Previous Employment. Employee shall not disclose or use during his employment with Employer any proprietary and confidential information which Employee has acquired as a result of any previous employment or under a contractual obligation of confidentiality before his employment with Employer and, furthermore, Employee shall not bring to the premises of Employer any copies or other tangible embodiments of any such proprietary and confidential information.

4. Conflict of Interest. Employee shall not engage in outside employment or other activities in the course of which Employee would use or might be tempted or induced to use Proprietary and Confidential Information in other than the Employer Group's own interest.

5. Agreement Not to Compete/Solicit

a. Non-Compete. Employee agrees that during the Covenant Period (as defined below), he shall not, without Employer's written consent, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business venture of any nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer or in a managerial capacity, whether as an employee, independent contractor, consultant, advisor or sales representative, in any business or industry in which the Employer Group is engaged, within the United States, Canada or any other country in which the Employer Group conducts business, including any territory serviced by the Employer Group, or in which the Employer Group is actively pursuing business opportunities (the "Territory");

(ii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Employer Group, or a prospective customer that has been actively solicited by the Employer Group, within the Territory for the purpose of soliciting or selling products or services in competition with the Employer Group; or

(iii) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was, to Employee's actual knowledge after due inquiry, either called upon by the Employer Group or for which the Employer Group made an acquisition analysis for the purpose of acquiring such entity.

b. Non-Solicitation. Employee agrees that during the Covenant Period, he shall not, without Employer's written consent, employ, hire, solicit, induce or identify for employment or attempt to employ, hire, solicit, induce or identify for employment, directly or indirectly, any employee(s) of the Employer Group to leave his or her employment and become an employee, consultant or representative of any other entity including, but not limited to, Employee's new employer, if any.

c. Publicly Traded Securities. The provisions of Section VI.B.5 of this Agreement shall not prevent Employee from acquiring or holding publicly traded stock or other public securities of a competing company, so long as Employee's ownership does not exceed two percent (2%) of the outstanding securities of such company.

d. Agreement to Inform Subsequent Employers. For a period of two (2) years after the termination of Employee's employment with Employer, whether voluntary or involuntary, Employee agrees to inform each new employer, prior to accepting employment, of the existence of this Agreement and provide that employer with a copy of this Agreement.

e. Reasonableness of Restrictions. Employee acknowledges that the restrictions set forth in Section VI.B.5 of this Agreement are intended to protect the Employer Group's legitimate business interests and its Proprietary and Confidential Information and established relationships and good will. Employee acknowledges that the time, geographic and scope of activity limitations set forth herein are reasonable and necessary to protect the Employer Group's legitimate business interests. However, if in any judicial proceeding, a court shall refuse to enforce this Agreement as written, whether because the time limitation is too long or because the restrictions contained herein are more extensive (whether as to geographic area, scope of activity or otherwise) than is necessary to protect the legitimate business interests of the Employer Group, it is expressly understood and agreed between the parties hereto that this Agreement is deemed modified to the extent necessary to permit this Agreement to be enforced in any such proceedings.

f. Ability to Obtain Other Employment. Employee acknowledges that (1) in the event of the termination of his employment with Employer (whether voluntary or involuntary), Employee's knowledge, experience and capabilities are such that Employee can obtain employment in business activities which are of a different and non-competing nature than those performed in the course of his employment with Employer or in the geographic areas outside of the Territory and (2) the enforcement of a remedy hereunder including, but not limited to, injunctive relief, will not prevent Employee from earning a reasonable livelihood.

g. Injunctive Relief. Employee acknowledges that compliance with Section VI.B of this Agreement is necessary to protect the good will and other legitimate business interests of the Employer Group and that a breach of any or all of these provisions will give rise to irreparable and continuing injury to the Employer Group that is not adequately compensable in monetary damages or at law. Accordingly, Employee agrees that Employer, its successors and assigns, may obtain injunctive relief against the breach or threatened breach of any or all of these provisions, in addition to any other legal or equitable remedies which may be available to the Employer Group at law or in equity or under this Agreement. Because Employee further acknowledges that it would be difficult to measure any damages caused to the Employer Group that might result from any breach by Employee of any promises set forth in this Agreement, Employee agrees that Employer shall be entitled to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Employer Group, as well as to be relieved of any obligation to provide further payment or benefits to Employee or Employee's dependents.

h. Other Remedies. If Employee violates and/or breaches this Agreement, Employer shall be entitled to an accounting and repayment of all lost profits, compensation, commissions, remuneration or benefits that Employee directly or indirectly has realized or may realize as a result of any such violation or breach. Employer shall also be entitled to recover for all lost sales, profits, commissions, good will and customers caused by Employee's improper acts, in addition to and not in limitation of any injunctive relief or other rights or remedies that Employer is or may be entitled to at law or in equity or under this Agreement.

i. Costs. Employee acknowledges that should it become necessary for Employer to file suit to enforce the provisions contained herein, and any court of competent jurisdiction awards the Employer Group any damages and/or an injunction due to the acts of Employee, then Employer shall be entitled to recover its reasonable costs incurred in conducting the suit including, but not limited to, reasonable attorneys' fees and expenses.

j. Covenant Period. For purposes of this Section VI.B.5, the Covenant Period shall mean the period from and during the Term of this Agreement and ending on the date that is two (2) years after Employee's employment with Employer terminates, whether voluntary or involuntary; provided, however, that if Employer delivers to Employee a Renewal Termination Notice, as provided in Section III.B, and Employee remains employed with Employer through the expiration of the Term (and this Agreement), then the Covenant Period shall end on the date that is one (1) year after the date of such Renewal Termination Notice. For purposes of clarity, in the event that Employee's employment with Employer terminates for any reason, whether voluntary or involuntary, after Employee receives a Renewal Termination Notice and before the end of the Term, the Covenant Period shall end on the date that is two (2) years after the termination of Employee's employment.

6. Nondisparagement. Employee acknowledges and agrees that both during and after his employment with Employer, whether such termination is voluntary or involuntary, Employee shall not disparage, denigrate or comment negatively upon, either orally or in writing, the Employer Group or any of their respective officers, directors, employees or representatives, to or in the presence of any person or entity unless compelled to act by a valid subpoena or other legal mandate; provided, however, if Employee receives such a valid subpoena or legal mandate, he shall provide Employer with written notice of the same at least five (5) business days prior to the date on which Employee is required to make the disclosure.

## **VII. WAIVER OF RIGHT TO JURY TRIAL**

EMPLOYER AND EMPLOYEE HEREBY VOLUNTARILY, KNOWINGLY AND INTENTIONALLY WAIVE ANY AND ALL RIGHTS TO TRIAL BY JURY TO ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT, AS WELL AS TO ALL CLAIMS ARISING OUT OF EMPLOYEE'S EMPLOYMENT WITH EMPLOYER OR TERMINATION THEREFROM INCLUDING, BUT NOT LIMITED TO:

A. Any and all claims and causes of action arising under contract, tort or other common law including, without limitation, breach of contract, fraud, estoppel, misrepresentation, express or implied duties of good faith and fair dealing, wrongful discharge, discrimination, retaliation, harassment, negligence, gross negligence, false imprisonment, assault and battery, conspiracy, intentional or negligent infliction of emotional distress, slander, libel, defamation and invasion of privacy;

B. Any and all claims and causes of action arising under any federal, state or local law, regulation or ordinance, including, without limitation, claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the Fair Labor Standards Act and all corresponding state laws; and

C. Any and all claims and causes of action for wages, employee benefits, vacation pay, severance pay, pension or profit sharing benefits, health or welfare benefits, bonus compensation, commissions, deferred compensation or other remuneration, employment benefits or compensation, past or future loss of pay or benefits or expenses.

#### **VIII. CLAIMS**

Employer and Employee acknowledge and agree that this Agreement shall be interpreted, governed by and construed in accordance with the laws of the State of Texas, without regard to the conflict of laws principles or rules thereof.

Employer and Employee irrevocably and unconditionally agree that any legal suit, action or proceeding arising out of or relating to this Agreement, as well as to all claims arising out of Employee's employment with Employer or termination therefrom, shall be brought in either the Federal District Court for the Southern District of Texas—Houston Division or in a judicial district court of Harris County, Texas (hereinafter referred to as the "Texas Courts"). In that regard, Employer and Employee waive, to the fullest extent allowed, any objection that Employer or Employee may have to the venue of any such proceeding being brought in the Texas Courts, and any claim that any such action or proceeding brought in the Texas Courts has been brought in an inconvenient forum. In addition, Employer and Employee irrevocably and unconditionally submit to the exclusive jurisdiction of the Texas Courts in any such suit, action or proceeding. Employer and Employee acknowledge and agree that a judgment in any suit, action or proceeding brought in the Texas Courts shall be conclusive and binding on each and may be enforced in any other courts to whose jurisdiction Employer or Employee is or may be subject to, by suit upon such judgment.

In the event Employee obtains a final judgment in his favor by a court of competent jurisdiction with respect to any dispute regarding Employer's failure to pay Employee on a timely basis the amounts to which he is entitled under this Agreement or as a result of any other breach of this Agreement by Employer, Employer shall pay all amounts and damages to which Employee may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expense and other costs incurred by Employee to enforce Employee's rights hereunder.



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E. Survival of Certain Obligations. The obligations of the parties set forth in this Agreement that by their terms extend beyond or survive the termination of this Agreement, whether voluntarily or involuntarily, will not be affected or diminished in any way by the termination of this Agreement.

F. Headings. The headings contained in this Agreement are for purposes of reference and convenience only and are not intended in any way to describe, interpret, define or limit the extent or intent of this Agreement.

G. Entire Agreement. This Agreement supersedes any other agreements, written or oral, between the Employer Group and Employee and Employee has no oral representations, understandings or agreements with the Employer Group or any of their respective officers, directors or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete and exclusive statement and expression of the agreement between Employer and Employee and of all the terms of this Agreement. This Agreement cannot be modified, varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements.

H. Amendment/Waiver. Neither this Agreement nor any term hereof may be modified or amended except by written instrument signed by a duly authorized officer of Employer and by Employee. No term of this Agreement may be waived other than by written instrument signed by the party waiving the benefit of such term. Any such waiver shall constitute a waiver only with respect to the specific matter described in such written instrument and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by Employer or Employee of a breach of or a default under any of the provisions of this Agreement, nor the failure by either Employer or Employee, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

I. Assignment. This Agreement is personal to the parties and neither party may assign any rights or obligations under the same without the prior written consent of the other; provided, however, that in the event of a sale of the Employer Group's business to a third party (whether by sale of all or a majority of the Employer Group's issued and outstanding equity securities, by a merger or reorganization, or by a sale of all or substantially of the Employer Group's assets), then this Agreement may be assigned by Employer to such third party purchaser without the prior written consent of Employee, provided that such third party purchaser agrees to assume and abide by all of Employer's obligations set forth in this Agreement and provides written notice thereof to Employee. In the event of any such assignment, all references to "Quanta" hereunder shall mean the assignee, and to the extent any entity becomes the successor to Quanta, all obligations hereunder shall be the obligations of the successor and "Quanta" mean the successor entity.

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J. Counterparts. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above, but to be effective as of the Effective Date.

QUANTA SERVICES, INC.:

By: /s/ James F. O'Neil III  
JAMES F. O'NEIL III  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

EMPLOYEE:

/s/ Eric Brown  
ERIC BROWN

EXHIBIT A

SEVERANCE AGREEMENT  
AND RELEASE OF ALL CLAIMS

This Severance Agreement and Release of All Claims (the "Agreement") is made and entered into by and between Eric Brown (hereinafter referred to as the "Employee") and Quanta Services, Inc., a Delaware corporation, (hereinafter collectively referred to as the "Company").

The purpose of this Agreement is to arrange a settlement of the Employee's employment with the Company that is satisfactory both to the Company and to the Employee. By signing this Agreement, the Company and the Employee agree as follows:

1. **Termination of Employment.** The Employee and the Company are entering into this Agreement as a way of amicably concluding the employment relationship between them on [Date] and of resolving voluntarily any dispute or potential dispute or claim that the Employee has or might have with the Company, whether known or unknown by the Employee at this time. This Agreement is not and should not be construed as an allegation by Employee, or as an admission on the part of the Company, that the Company has acted unlawfully or violated any state or federal law or regulation. The Company, including its parent companies, affiliates, associated companies, and subsidiaries, specifically disclaim any liability to the Employee or any other person for any alleged violation of rights or for any alleged violation of any order, law, statute, duty, policy or contract.
2. **Severance Benefits.** As consideration for the Employee agreeing to release the Company from all claims that are described in Paragraph 6 herein and subject to the provisions of Paragraph 10 herein, the Company will pay the Employee \$[Severance Amount] (            Dollars and            Cents), less applicable taxes as severance benefits (the "**Severance Benefits**").
3. **Tax Consequences.** The Employee acknowledges and agrees that the Company has made no representations to him regarding the tax consequences of any Severance Benefits received by him pursuant to this Agreement.
4. **Entire Consideration.** The Employee agrees that the Severance Benefits set forth in Paragraph 2, herein, constitute the entire amount of consideration provided to him under this Agreement. The Employee further agrees that he will make no claim for any additional or other severance benefits or payments and that he will not seek any further compensation for any other claimed damage, costs, severance, income or attorneys' fees.

5. **Non-Disclosure Agreement.** Without the express written agreement of the Company's [Highest Officer] or unless required to do so by law, the Employee agrees never to disclose the existence, facts, terms, or amount of this Agreement, nor the substance of the negotiations leading to this Agreement, to any person or entity, other than to his personal counsel or attorney, personal accountants, or personal tax preparer, any such disclosure to such persons to be made only if the relevant person must have such information for the performance of his or her responsibilities. To the extent required by law or applicable regulation, Employee may also disclose the provisions of this Agreement to the appropriate taxing authorities.
6. **The Employee's Release Of All Claims Including Age Discrimination In Employment Act Claims.** In consideration of the Severance Benefits, the Employee, for himself, his heirs, executors, administrators, successors and assigns, does fully and forever release and discharge the Company, its parent companies, affiliates, associated companies, and subsidiaries, their respective associated companies and subsidiaries, all of their respective present and former officers, directors, supervisors, managers, employees, stockholders, agents, attorneys and representatives, and the successors and assigns of such persons and entities (collectively, the "Released Parties"), from all actions, lawsuits, grievances, complaints, liens, demands, obligations, damages, liabilities and claims of any nature whatsoever, know or unknown, that the Employee had, now has, or may hereafter claim to have against the Released Parties from the beginning of time through the date the Employee executes this Agreement. The release provided herein specifically includes, but is not limited to, all claims arising under any federal, state or local fair employment practice laws, and any other employee relations statute, executive order, law and ordinance, including, but not limited to, Title VII of the Civil Rights Acts of 1964, as amended; the Civil Rights Acts of 1866, 1870, and 1871, as amended; the Civil Rights Act of 1991, as amended; the Age Discrimination in Employment Act of 1967, as amended; the Older Workers Benefit Protection Act, as amended; the Americans With Disabilities Act of 1990, as amended; the Family and Medical Leave Act, as amended; the Equal Pay Act, as amended; the Fair Labor Standards Act, as amended; the Worker Adjustment and Retraining Notification Act of 1988, as amended; the Employee Retirement Income Security Act of 1974, as amended; Section 806 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1514A, *et seq.*); the Rehabilitation Act of 1973 (29 U.S.C. Section 791 *et seq.*); the Occupational Safety and Health Act (29 U.S.C. § 651, *et seq.*); the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA); the National Labor Relations Act, as amended; the [Applicable State Laws], as amended; any local human rights law; and any tort or contract cause of action or theory.  
  
The Employee expressly represents and agrees that he has been advised that, by entering into this Agreement, he is waiving all claims that he may have against the Company arising under the Age Discrimination in Employment Act of 1967, as amended, which have arisen on or before the date of execution of this Agreement.
7. **Covenants Concerning Claims.** The Employee agrees that he will not file any complaints, claims or actions against the Released Parties with any court regarding any matters or claims that arose prior to the Employee's execution of this Agreement. If any court assumes jurisdiction on behalf of the Employee of any complaint, claim or action against the Company, he will direct that court to withdraw from or dismiss with prejudice the matter.

Notwithstanding the preceding provision or any other provision of the Agreement, Employee's agreement to the provisions under Section 6, or the paragraph immediately above this paragraph, is not intended to prohibit Employee from bringing an action to challenge the validity of the release of claims under the Age Discrimination in Employment Act, as amended, or the Older Worker's Benefit Protection Act, as amended. The Employee further understands and agrees that if he or someone acting on his behalf files, or causes to be filed, any such claim, charge, complaint, or action against the Released Parties, he expressly waives any right to recover any damages or other relief, whatsoever, from the Released Parties including costs and attorneys' fees.

This Agreement is not intended to interfere with Employee's right to file a charge with an administrative agency in connection with any claim Employee believes he may have against any of the Released Parties. However, by executing this Agreement, Employee hereby waives the right to recover, and agrees not to seek any damages, remedies or other relief for himself personally in any proceeding he may bring before such agency or in any proceeding brought by such agency, or any other person, on his behalf. This Agreement is also not intended to apply to claims for accrued benefits (other than severance-type benefits) under any benefit plan of the Released Parties pursuant to the terms of any such plan.

Employee understands that he is not releasing rights under this Agreement, that any claims that cannot be lawfully waived are excluded from this Agreement and that by executing this Agreement he is not waiving any such claims. Likewise, Employee is not releasing any rights or claims that may arise after the date on which he signs this Agreement. In addition, while this Agreement requires Employee to waive any and all claims against the Released Parties arising under workers' compensation laws (e.g., claims of retaliation for filing a workers' compensation claim), it is not intended to prohibit Employee from filing in good faith for and from receiving any workers' compensation benefits from Released Parties' workers' compensation carrier for compensable injuries incurred during his employment. Accordingly, pursuit of any such workers' compensation benefits with Released Parties' workers' compensation carrier or third-party administrator will not be considered a violation of this Agreement.

8. **Employee Acknowledgments.** Employee acknowledges and agrees that:

- a. In return for and in consideration of his execution, delivery and performance of this Agreement, the Company is providing to the Employee the Severance Benefits.
- b. The Employee is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement.

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- c. The Employee does not waive rights or claims that may arise after the date this Agreement is signed.
  - d. In return for signing this Agreement, the Employee will receive payment of consideration beyond that which he was entitled to receive before entering into this Agreement.
9. **Twenty-One (21) Day Review Period.** The Employee acknowledges that he was provided this Agreement more than 21 days before the date when he was required to make an election concerning the Severance Benefits. If the Employee signs this Agreement prior to the end of the 21-day period, he certifies and agrees that the decision to accept such shortening of time is knowing and voluntary and is not induced by the Company through: (i) fraud, misrepresentation, or a threat to withdraw or alter the offer prior to the end of the 21-day period; or (ii) an offer to provide different terms in exchange for signing the Release prior to the expiration of the 21-day period. Should the Employee sign this Agreement before the expiration of the 21-day period, the Company may at its option and discretion expedite the processing of some or all of the Severance Benefits, subject to the revocation period set forth in Paragraph 10.
10. **Seven (7) Day Revocation Period.** The Employee understands that he may revoke this Agreement at any time within seven (7) days after he executes it. To revoke the Agreement, the Employee must deliver written notification of such revocation to \_\_\_\_\_, or in \_\_\_\_\_'s absence to \_\_\_\_\_'s office, within seven (7) days after the date of the Employee's execution of this Agreement. The Employee further understands that if he does not revoke the Agreement within seven (7) days following its execution (excluding the date of execution), it will become effective, binding, and enforceable. The Employee understands that he will not receive the Severance Benefits until this Agreement becomes effective, binding, and enforceable, which shall not occur prior to the eighth day following the Employee's execution of this Agreement.
11. **Employee Representations.** The Employee represents that:
- a. he has reviewed all aspects of this Agreement;
  - b. he has carefully read and fully understands all of the provisions and effects of this Agreement;
  - c. he has had the opportunity to consult with an attorney before signing this Agreement.
  - d. he understands that in agreeing to the terms of this Agreement he is releasing the Released Parties from any and all claims he may have against the Company, and all persons acting by, through, under or in concert with the Company, including claims under the federal Age Discrimination in Employment Act of 1967, as amended, as well as any claims for age discrimination that may exist under Texas law or any other applicable law, as more particularly described in Paragraph 7 herein;

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- e. he voluntarily agrees to all the terms set forth in this Agreement;
  - f. he has not filed, caused to be filed, and presently is not a party to any claim, complaint, or action against the Released Parties in any forum or form, whether administrative or otherwise; and
  - g. as of the time of execution of this Agreement by Employee, Employee is unaware of any facts or conduct that would give rise to a claim against the Released Parties of any type or sort, including those types of claims or other violations set forth generally and specifically above, including but not limited to, any claims under the Family Medical Leave Act of 1993 or the Fair Labor Standards Act.
12. **Return of Company Property and Confidentiality Obligations.** The Employee agrees that on or before [Date], the Employee shall return or shall have returned all Company Property and Confidential Information (as defined below). "Company Property" means all property of the Company, including, but not limited to, Company issued/owned computers, laptops, peripheral electronic equipment (e.g., printers, cameras, projectors, computer docking stations, etc.), Blackberry or other personal digital assistants (PDAs), cellular telephones, credit cards, keys, door cards, tools, equipment on loan, and any other Company books, manuals, and journals. "Confidential Information" means all confidential, sensitive or proprietary information belonging to the Company, including, but not be limited to, all business records, manuals, memoranda, computer records, electronic files, lists and other property delivered to or compiled by the Employee by or on behalf of Company, or its representatives, vendors or customers that pertain to the business of Company, as well as all correspondence, reports, records, charts, and other similar data pertaining to the business, activities or future plans of Company that was collected by the Employee during his employment with the Company. For purposes of this Paragraph 12 and Paragraph 13, "Company" shall include all parent companies, affiliates, associated companies, and subsidiaries.
- The Employee further acknowledges and agrees that the Employee is obligated to not, at any time, disclose or otherwise make available to any person, company or other party Confidential Information or trade secrets of the Company, its parent, associated companies, affiliates, and subsidiaries This Agreement shall not limit any obligations the Employee has under any applicable federal or state law.
13. **Non-disparagement.** The Employee agrees not to make any disparaging or negative statements about the Company, its services or its current or former directors, officers, supervisors, managers, or employees. Statements made in the course of any litigation or legal proceeding, whether disparaging or negative, are excluded from coverage of this Paragraph.

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14. **Voluntary Action.** The Employee represents and agrees that he is knowingly and voluntarily entering into this Agreement, and that he has relied solely and completely upon his own judgment or the advice of his attorney in entering into this Agreement.
  15. **Entire Agreement.** This Agreement sets forth the entire agreement between the Employee and the Company and fully supersedes and replaces any and all prior agreements or understandings, written or oral, between the Company and the Employee pertaining to the subject matter of this Agreement. The Employee and the Company represent and acknowledge that in executing this Agreement they do not rely upon and have not relied upon any representation or statement made by any of the parties or by any of the parties' agents, attorneys, employees, or representatives with regard to the subject matter, basis, or effect of this Agreement or otherwise, other than those specifically stated in this written Agreement.
  16. **Partial Invalidity.** Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, all remaining provisions of this Agreement shall otherwise remain in full force and effect and be construed as if such illegal, invalid or unenforceable provision had not been included herein.

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17. **Governing Law.** This Agreement will be governed by, and construed and interpreted in accordance with, the laws of the State of Texas without regard to principles of conflict of laws.

QUANTA SERVICES, INC.:

Dated: \_\_\_\_\_

\_\_\_\_\_

By \_\_\_\_\_

EMPLOYEE:

Dated: \_\_\_\_\_

Eric Brown

THE STATE OF \_\_\_\_\_

§  
§  
§

COUNTY OF \_\_\_\_\_

The foregoing instrument was SWORN TO AND SUBSCRIBED BEFORE ME BY ERIC BROWN AND GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the \_\_\_\_\_ day of \_\_\_\_\_, A.D., 20 \_\_\_\_\_.

\_\_\_\_\_  
Notary Public in and for the State of \_\_\_\_\_

My commission expires: \_\_\_\_\_

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**EXHIBIT B**

PRE-EMPLOYMENT INVENTIONS

None

-28-

**EMPLOYMENT AGREEMENT**

This Employment Agreement (the "Agreement"), by and among Quanta Services, Inc., a Delaware corporation ("Employer"), and Nick Grindstaff ("Employee"), is hereby entered into as of this 8th day of March, 2000.

**RECITALS**

A. As of the date of this Agreement, Employer is engaged primarily in the business of specialty electrical contracting for electric utilities, telecommunications and cable television providers, and transportation, commercial and industrial customers.

B. Employee is employed hereunder by Employer in a confidential relationship wherein Employee, in the course of Employee's employment with Employer, has and will continue to become familiar with and aware of non-public information of Employer, including but not limited to, Employer's customers, specific manner of doing business, including the processes, techniques and trade secrets utilized by Employer, and future plans with respect thereto ("Confidential Information"), all of which has been and will be established and maintained at great expense to Employer; this information is a trade secret and constitutes the valuable goodwill of Employer.

**AGREEMENTS**

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. Employment and Duties.

(a) Employer hereby employs Employee as Treasurer of the Employer. As such, Employee shall have responsibilities, duties and authority reasonably accorded to and expected of a Treasurer of the Employer and will report directly to the Chief Financial Officer of Employer. Employee hereby accepts this employment upon the terms and conditions herein contained and, subject to Paragraph 1(c) hereof, agrees to devote Employee's time, attention and efforts to promote and further the business of Employer.

(b) Employee shall faithfully adhere to, execute and fulfill all policies established by the Board of Directors of Employer (the "Board").

(c) Employee shall not, during the term of his employment hereunder, be engaged in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes with Employee's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Employee from making personal investments in such form or manner as will neither require Employee's services in the operation or affairs of the companies or enterprises in which such investments are made nor violate the terms of paragraph 4 hereof.

## 2. Compensation.

For all services rendered by Employee, Employer shall compensate Employee as follows:

(a) Base Salary. The base salary payable to Employee shall be \$100,000 per year, payable on a regular basis in accordance with Employer's standard payroll procedures but not less than monthly. On at least an annual basis, the Board will review Employee's performance and may make increases to such base salary if, in its discretion, any such increase is warranted. Such recommended increase would, in all likelihood, require approval by the Board or a duly constituted committee thereof.

(b) Incentive Bonus Plan. Employee shall participate in Employer's Management Incentive Bonus Plan for the fiscal year ending December 31, 2000. The maximum bonus for which Employee will be eligible pursuant to such plan will be 100% of Employee's base salary. Employee will participate in future incentive bonus plans as determined by the Board or a duly constituted committee thereof.

(c) Executive Perquisites, Benefits, and Other Compensation. Employee shall be entitled to receive additional benefits and compensation from Employer in such form and to such extent as specified below:

(i) Payment of all premiums for coverage for Employee and Employee's dependent family members under health, hospitalization, disability, dental, life and other insurance plans that Employer may have in effect from time to time.

(ii) Reimbursement for all business travel and other out-of-pocket expenses reasonably incurred by Employee in the performance of Employee's services pursuant to this Agreement. All reimbursable expenses shall be appropriately documented in reasonable detail by Employee upon submission of any request for reimbursement, and in a format and manner consistent with Employer's expense reporting policy.

(iii) Employer shall provide Employee with other executive perquisites as may be available to or deemed appropriate for Employee by the Board and participation in all other Employer-wide employee benefits as available from time to time.

## 3. [Intentionally left blank.]

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4. Non-Competition.

(a) Employee hereby agrees that Employee will not, during the period of Employee's employment with Employer, and for a period of one (1) year following the date Employee ceases to be employed by Employer or any direct or indirect subsidiary of Employer, for any reason whatsoever, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor or as a sales representative, in any specialty electrical contracting business for electric utilities, telecommunications and cable television providers, and transportation, commercial and industrial customers, within the United States or within 100 miles of any other geographic area in which Employer or any of Employer's direct or indirect subsidiaries conducts business, including any territory serviced by Employer or any of its subsidiaries (the "Territory");

(ii) call upon any person who is, at that time, within the Territory, an employee of Employer (including the subsidiaries thereof) for the purpose or with the intent of enticing such employee away from or out of the employ of Employer (including the direct or indirect subsidiaries thereof);

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of Employer (including the direct or indirect subsidiaries thereof) within the Territory for the purpose of soliciting or selling products or services in direct competition with Employer or any subsidiary of Employer within the Territory; or

(iv) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was, to Employee's actual knowledge after due inquiry, either called upon by Employer including the direct or indirect subsidiaries thereof) or for which Employer made an acquisition analysis, for the purpose of acquiring such entity.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Employee from acquiring as an investment not more than two percent (2%) of the capital stock of a competing business, whose stock is traded on a national securities exchange or over-the-counter.

(b) Because of the difficulty of measuring economic losses to Employer as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to Employer for which it would have no other adequate remedy, Employee agrees that the foregoing covenant may be enforced by Employer in the event of breach by him, by injunctions and restraining orders.

(c) It is agreed by the parties that the foregoing covenants in this Paragraph 4 impose a reasonable restraint on Employee in light of the activities and business of Employer (including Employer's direct and indirect subsidiaries) on the date of the execution of this Agreement and the current plans of Employer (including Employer's direct and indirect subsidiaries); but it is also the intent of Employer and Employee that such covenants be construed and enforced in accordance with the changing activities, business and locations of Employer (including Employer's direct and indirect subsidiaries) throughout the term of this Agreement, whether before or after the date of termination of the employment of Employee. For example, if, during the term of this Agreement, Employer (including Employer's direct and indirect subsidiaries) engages in new and different activities, enters a new business or establishes new locations for its current activities or business in addition to or other than the activities or business enumerated under the Recitals above or the locations currently established therefor, then Employee will be precluded from soliciting the customers or employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating location(s) through the term of this Agreement.

It is further agreed by the parties hereto that, in the event that Employee shall cease to be employed hereunder, and shall enter into a business or pursue other activities not in competition with Employer (including Employer's direct and indirect subsidiaries), or similar activities, or business in locations the operation of which, under such circumstances, does not violate clause (i) of this Paragraph 4, and in any event such new business, activities or location are not in violation of this Paragraph 4 or of employee's obligations under this Paragraph 4, if any, Employee shall not be chargeable with a violation of this Paragraph 4 if Employer (including Employer's direct and indirect subsidiaries) shall thereafter enter the same, similar or a competitive (i) business, (ii) course of activities or (iii) location, as applicable.

(d) The covenants in this Paragraph 4 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be forced to the fullest extent which the court deems reasonable, and the Agreement shall be reformed in accordance therewith.

(e) All of the covenants in this Paragraph 4 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Employee against Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Employer of such covenants.

(f) Notwithstanding any other provision of this Agreement, if Employee's employment is terminated by Employer for other than good cause, then no non-competition provision shall be enforceable for any period of time during which or for which the Employee is not receiving or has not received severance compensation.

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5. Place of Performance.

Nothing contained herein shall be deemed to require Employee to relocate from Employee's present residence to another geographic location in order to carry out Employee's duties and responsibilities under this Agreement.

6. Term; Termination; Rights on Termination.

The term of this Agreement shall begin on the date hereof and continue for three (3) years (the "Term"), and, unless terminated sooner as herein provided, shall continue thereafter on a year-to-year basis on the same terms and conditions contained herein in effect as of the time of renewal. This Agreement and Employee's employment may be terminated in any one of the following ways:

(a) Death. The death of Employee shall immediately terminate this Agreement with no severance compensation due to Employee's estate.

(b) Disability. If, as a result of incapacity due to physical or mental illness or injury, Employee shall have been absent from Employee's full-time duties hereunder for four (4) consecutive months, then thirty (30) days after receiving written notice (which notice may occur before or after the end of such four (4) month period, but which shall not be effective earlier than the last day of such four (4) month period), Employer may terminate Employee's employment hereunder provided Employee is unable to resume Employee's full-time duties at the conclusion of such notice period. Also, Employee may terminate Employee's employment hereunder if his or her health should become impaired to an extent that makes the continued performance of Employee's duties hereunder hazardous to Employee's physical or mental health or life, provided that Employee shall have furnished Employer with a written statement from a qualified doctor to such effect and provided, further, that, at Employer's request made within thirty(30) days of the date of such written statement, Employee shall submit to an examination by a doctor selected by Employer who is reasonably acceptable to Employee or Employee's doctor and such doctor shall have concurred in the conclusion of Employee's doctor. In the event this Agreement is terminated as a result of Employee's disability, Employee shall receive from Employer, in a lump-sum payment due within ten (10) days of the effective date of termination, the base salary at the rate then in effect for whatever time period is remaining under the Term of this Agreement or for one (1) year, whichever amount is greater.

(c) Good Cause. Employer may terminate the Agreement ten (10) days after delivery of written notice to Employee for good cause, which shall be: (1) Employee's willful, material and irreparable breach of this Agreement; (2) Employee's gross negligence in the performance or intentional nonperformance or inattention continuing for ten (10) days after receipt of written notice of need to cure of any of Employee's material duties and responsibilities hereunder; (3) Employee's willful dishonesty, fraud or material misconduct with respect to the business or affairs of Employer; (4) Employee's conviction of a felony crime; or (5) chronic alcohol abuse or illegal drug abuse by Employee. In the event of a termination for good cause, as enumerated above, Employee shall have no right to any severance compensation.

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(d) Without Good Cause. At any time after the commencement of employment, either Employee or Employer may, without good cause, terminate this Agreement and Employee's employment, effective thirty (30) days after written notice is provided to the other party. Should Employee be terminated by Employer without good cause during the Term, Employee shall receive from Employer, in a lump-sum payment due on the effective date of termination, the base salary at the rate then in effect for whatever time period is remaining under the Term of this Agreement or for one (1) year, whichever amount is greater. If Employee resigns or otherwise terminates Employee's employment without cause pursuant to this Paragraph 6(d), Employee shall receive no severance compensation.

(e) Change in Control of Employer. In the event of a "Change in Control of Employer" (as defined below) during the Term, refer to Paragraph 13 below.

Upon termination of this Agreement for any reason provided above, Employee shall be entitled to receive all compensation earned and all benefits and reimbursements due through the effective date of termination. Additional compensation subsequent to termination, if any, will be due and payable to Employee only to the extent and in the manner expressly provided above or in Paragraph 13 hereof. All other rights and obligations of Employer and Employee under this Agreement shall cease as of the effective date of termination, except that Employer's obligations under Paragraph 10 hereof and Employee's obligations under Paragraphs 4, 7, 8, 9, 11 and 17 hereof shall survive such termination in accordance with their terms.

If termination of Employee's employment arises out of Employer's failure to pay Employee on a timely basis the amounts to which he is entitled under this Agreement or as a result of any other breach of this Agreement by Employer, as determined by a court of competent jurisdiction or pursuant to the provisions of Paragraph 17 below, Employer shall pay all amounts and damages to which Employee may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expenses and other costs incurred by Employee to enforce Employee's rights hereunder.

7. Return of Company Property.

All records, designs, patents, business plans, financial statements, manuals, memoranda, lists and other property delivered to or compiled by Employee by or on behalf of Employer, or its representatives, vendors or customers which pertain to the business of Employer shall be and remain the property of Employer, and be subject at all times to its discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials, and other similar data pertaining to the business, activities or future plans of Employer which is collected by Employee shall be delivered promptly to Employer without request by it upon termination of Employee's employment.

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8. Inventions.

Employee shall disclose promptly to Employer any and all significant conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by Employee, solely or jointly with another, during the period of employment or within one (1) year hereafter, and which are directly related to the business or activities of Employer and which Employee conceives as a result of Employee's employment by Employer. Employee hereby assigns and agrees to assign all of Employee's interests therein to Employer or its nominee. Whenever requested to do so by Employer, Employee shall execute any and all applications, assignments or other instruments that Employer shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect Employer's interest therein

9. Trade Secrets.

Employee agrees that he will not, during or after the Term of this Agreement with Employer, disclose the specific terms of Employer's or its subsidiaries' relationships or agreements with its significant vendors or customers or any other significant and material trade secret of Employer or its subsidiaries, whether in existence or proposed, to any person, firm, partnership, corporation or business for any reason or purpose whatsoever other than in the course of performing Employee's duties hereunder.

10. Indemnification.

In the event Employee is made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by Employer against Employee), by reason of the fact that Employee is or was performing services under this Agreement, then Employer shall indemnify Employee against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, as actually and reasonably incurred by Employee in connection therewith. In the event that both Employee and Employer are made a party to the same third-party action, complaint, suit or proceeding, Employer agrees to engage competent legal representation, and Employee agrees to use the same representation, provided that if counsel selected by Employer shall have a conflict of interest that prevents such counsel from representing Employee, Employee may engage separate counsel and Employer shall pay all attorneys' fees of such separate counsel. Further, while Employee is expected at all times to use Employee's best efforts to faithfully discharge his duties under this Agreement, Employee cannot be held liable to Employer for errors or omissions made in good faith where Employee has not exhibited gross, willful or wanton negligence or misconduct or performed criminal and fraudulent acts which materially damage the business of Employer.

11. No Prior Agreements.

Employee hereby represents and warrants to Employer that the execution of this Agreement by Employee and his employment by Employer and the performance of Employee's duties hereunder will not violate or be a breach of any agreement with a former employer, client or any other person or entity. Further, Employee agrees to indemnify Employer for any claim, including but not limited to attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against Employer based upon or arising out of any noncompetition agreement, invention or secrecy agreement between Employee and such third party which was in existence as of the date of this Agreement.

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12. Assignment; Binding Effect.

Employee understands that he has been selected for employment by Employer on the basis of Employee's personal qualifications, experience and skills. Employee, therefore, shall not assign all or any portion of Employee's performance under this Agreement. Subject to the preceding two (2) sentences and the express provisions of Paragraph 13 below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and the irrelative heirs, legal representatives, successors and assigns.

13. Change in Control.

(a) Employee understands and acknowledges that Employer may be merged or consolidated with or into another entity and that such entity shall automatically succeed to the rights and obligations of Employer hereunder or that Employer may undergo another type of Change in Control. In the event such a merger or consolidation or other Change in Control is initiated prior to the end of the Term, then the provisions of this Paragraph 13 shall be applicable.

(b) In the event of a pending Change in Control wherein Employer and Employee have not received written notice at least five (5) business days prior to the anticipated closing date of the transaction giving rise to the Change in Control from the successor to all or a substantial portion of Employer's business and/or assets that such successor is willing as of the closing to assume and agree to perform Employer's obligations under this Agreement in the same manner and to the same extent that Employer is hereby required to perform, then such Change in Control shall be deemed to be a termination of this Agreement by Employer without good cause during the Term and the applicable portions of Paragraph 6(d) will apply; however, under such circumstances, the amount of the lump-sum severance payment due to Employee shall be triple the amount calculated under the terms of Paragraph 6(d) and the noncompetition provisions of Paragraph 4 shall not apply.

(c) For purposes of applying Paragraph 6 hereof under the circumstances described in (b) above, the effective date of termination will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements and lump-sum payments due Employee must be paid in full by Employer at or prior to such closing. Further, Employee will be given sufficient time and opportunity to elect whether to exercise all or any of Employee's vested options to purchase Employer Common Stock, including any options with accelerated vesting under the provisions of Employer's 1997 Stock Option Plan, such that Employee may convert the options to shares of Employer Common Stock at or prior to the closing of the transaction giving rise to the Change in Control, if Employee so desires.

(d) In the event that a successor in a pending Change in Control gives notice pursuant to Paragraph 13(b) that it will assume Employer's obligations under this Agreement and at the time of or within twelve (12) months following such Change in Control either (i) Employee is offered a Lesser Position (as hereinafter defined) in replacement of the position held by him immediately prior to the Change in Control or (ii) Employee is terminated other than pursuant to Paragraph 6(c) of this Agreement, then effective as of the date such Lesser Position is offered to Employee or the effective date of such termination, respectively, then such event shall be deemed to be a termination of this Agreement by Employer without good cause during the Term and the applicable portions of Paragraph 6(d) will apply; however, under such circumstances, the amount of the lump-sum severance payment due to the Employee shall be triple the amount calculated under the terms of Paragraph 6(d) and the noncompetition provisions of Paragraph 4 shall not apply.

(e) A "Change in Control" shall be deemed to have occurred if:

(i) any person or entity, other than Employer or an employee benefit plan of Employer, acquires directly or indirectly the Beneficial Ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any voting security of 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 Employer;

(ii) the following individuals no longer constitute a majority of the members of the Board: (A) the individuals who, as of the closing date of Employer's initial public offering, constitute the Board (the "Original Directors"); (B) the individuals who thereafter are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of at least two-thirds (2/3) of the Original Directors then still in office (such directors becoming "Additional Original Directors" immediately following their election); and (C) the individuals who are elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of at least two-thirds (2/3) of the Original Directors and Additional Original Directors then still in office (such directors also becoming "Additional Original Directors" immediately following their election).

(iii) the stockholders of Employer shall approve a merger, consolidation, recapitalization or reorganization of 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 which would result in at least 75% 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 75% of the holders of outstanding voting securities of 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

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

(f) "Lesser Position" shall mean a new position or a change in the Employee's Position, which, compared with Employee's Position with Employer immediately prior to the Change in Control, (i) offers a lower level of compensation (including base salary, fringe benefits and target bonuses under any corporate-performance based bonus or incentive programs), or (ii) materially reduces Employee's duties or level of responsibility, or (iii) requires Employee to relocate his principal residence.

(g) Employee shall be reimbursed by Employer or its successor for all excise taxes that Employee incurs under Section 4999 of the Internal Revenue Code of 1986, as amended, as a result of any Change in Control. In addition, Employee shall be reimbursed by Employer or its successor for all federal, state and local income taxes and additional excise taxes attributable to the payment pursuant to the preceding sentence and the payment pursuant to this sentence. Such amount will be due and payable by Employer or its successor within ten (10) days after Employee delivers a written request for reimbursement accompanied by a copy of Employee's tax return(s) showing the excise tax actually incurred by Employee. Such amount shall not be subject to offset or reduction for any amount owed or claimed to be owed to Employer or its successor by Employee. If not paid within ten (10) days from date of demand, the amount due under this subsection shall bear interest at the maximum non-usurious rate allowed by law from the date of demand to the date of payment.

14. Complete Agreement.

This Agreement supersedes any other agreements or understandings, written or oral, between Employer and Employee, and Employee has no oral representations, understandings or agreements with Employer or any of its officers, directors or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete and exclusive statement and expression of the agreement between Employer and Employee and of all the terms of this Agreement, and it cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified except by a written instrument signed by a duly authorized officer of Employer and Employee, and no term of this Agreement may be waived except by a written instrument signed by the party waiving the benefit of such term

15. Notice.

Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To Employer:       Quanta Services, Inc.  
                          1360 Post Oak Boulevard, Suite 2100  
                          Houston, Texas 77056  
                          Attention: General Counsel

To Employee:       319 El Toro  
                          Webster, Texas 77598

Notice shall be deemed given and effective three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph

16. 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 paragraph 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.

17. Arbitration.

Any unresolved dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three (3) arbitrators in Houston, Texas, in accordance with the National 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. The arbitrators shall not have the authority to add to, detract from or modify any provision hereof nor to award punitive damages to any injured party. The arbitrators shall have the authority to order back-pay, severance compensation, vesting of options (or cash compensation in lieu of vesting of options), reimbursement of costs, including those incurred to enforce this Agreement, and interest thereon in the event the arbitrators determine that Employee was terminated without disability or good cause, as defined in Paragraphs 6(b) and 6(c) hereof, respectively, or that Employer has otherwise materially breached this Agreement. A decision by a majority of the arbitration panel shall be final and binding. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The direct expense of any arbitration proceeding shall be borne by Employer.

18. Governing Law.

This Agreement shall in all respects be construed according to the laws of the State of Texas.

19. Counterparts.

This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

QUANTA SERVICES, INC.

By: /s/ John R. Colson

Name: John R. Colson

Title: Chef Executive Officer

/s/ Nick Grindstaff

Nick Grindstaff

AMENDMENT NO. 1

TO

EMPLOYMENT AGREEMENT

*THIS AMENDMENT NO. 1* to Employment Agreement dated effective March 8, 2000 (the "Agreement"), by and between Quanta Services, Inc., a Delaware corporation ("Employer"), and Nick Grindstaff ("Employee"), is hereby entered into this 6th day of November, 2008.

*WHEREAS*, Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (collectively, "Section 409A") require that payments of nonqualified deferred compensation to "specified employees" be delayed for six months from "separation from service" (as those terms are defined under Section 409A);

*WHEREAS*, Employee is currently identified as a "specified employee" in accordance with Section 409A;

*WHEREAS*, the Agreement provides for the payment of certain severance benefits upon termination of service, which may be considered nonqualified deferred compensation subject to Section 409A; and

*WHEREAS*, Employer and Employee desire to amend the terms of the Agreement to comply with Section 409A.

*NOW, THEREFORE*, Employer and Employee agree as follows:

1. A new paragraph (f) is added to Section 6 of the Agreement to read as follows:

"(f) Compliance with Section 409A of the Code. Notwithstanding any other provision to the contrary, if the Compensation Committee of the Board of Directors of the Employer (the "Committee") determines in its discretion that severance payments due under this Agreement constitute "nonqualified deferred compensation" subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and that the Employee is a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code and the regulations and other guidance issued thereunder, then such severance payments shall commence on the first payroll date of the seventh month following the month in which the Employee's termination occurs (with the first such payment being a lump sum equal to the aggregate severance payments the Employee would have received during the prior six-month period if no such delay had been imposed). For purposes of this Agreement, whether the Employee is a "specified employee" will be determined in accordance with the written procedures adopted by the Committee which are incorporated by reference herein."

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2. Any provisions of the Agreement not specifically amended herein shall remain in full force and effect.

*IN WITNESS WHEREOF*, the parties hereto set their hand the day and year first above written.

**EMPLOYER:**

Quanta Services, Inc.

By: /s/ Darren B. Miller

*Name:* Darren B. Miller

*Title:* VP – IT and Administration

**EMPLOYEE:**

/s/ Nick Grindstaff

Nick Grindstaff

**AMENDMENT NO. 1  
TO THE  
QUANTA SERVICES, INC.  
NON-EMPLOYEE DIRECTOR DEFERRED COMPENSATION PLAN**

THIS AMENDMENT NO. 1 to the Quanta Services, Inc. Non-Employee Director Deferred Compensation Plan (effective as of April 30, 2013) is adopted by Quanta Services, Inc. ("Quanta") as of the 20<sup>th</sup> day of December 2013, effective as set forth herein.

**RECITALS**

WHEREAS, Quanta has adopted and maintains the Plan, which is a non-qualified deferred compensation plan intended to comply with applicable requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), pursuant to which non-employee directors are permitted to defer all or a portion of their eligible director fees under the Plan;

WHEREAS, Quanta desires to amend the Plan to eliminate the requirement that deferred amounts will be paid earlier than the scheduled payment date in the event of a separation from service prior to such scheduled payment date effective with respect to amounts deferred under the Plan by a Participant pursuant to a deferral agreement entered into on or after December 13, 2013; and

WHEREAS, Quanta has reserved the right to amend the Plan pursuant to Article 8 thereof.

NOW, THEREFORE, pursuant to Article 8 of the Plan, Quanta hereby amends the Plan, effective as of the date hereof, in the following respects:

1. Section 6.2(a) of the Plan is hereby amended in its entirety to read as follows:

Effective December 13, 2013, except as otherwise provided in Article 8 hereof, a Participant's Account (other than the Pre-2014 Amount (as defined below)) shall be distributed to the Participant (or, in the case of a Participant's death, his or her Beneficiary) in its entirety no later than sixty (60) days after the earlier to occur of the following: (i) a Change in Control, and (ii) the date designated in a Deferral Agreement, which date shall be 3, 5, 7 or 10 years from the Award Date or, if elected by the Participant in the Deferral Agreement, the earlier of such date and the Participant's Separation from Service, unless a subsequent deferral election is made pursuant to Section 6.2(b). Solely with respect to the Pre-2014 Amount, except as otherwise provided in Article 8 hereof, a Participant's Account shall be distributed to the Participant (or, in the case of a Participant's death, his or her Beneficiary) in its entirety no later than sixty (60) days after the earliest to occur of the following: (i) a Participant's Separation from Service; (ii) a Change in Control; and (iii) the date designated in a Deferral Agreement, which date shall be 3, 5, 7 or 10 years from the Award Date, unless a subsequent deferral election is made pursuant to Section 6.2(b). The "Pre-2014 Amount" means those amounts deferred under the Plan by a Participant pursuant to a Deferral Agreement entered into prior to December 13, 2013 and any earnings thereon.



I, James F. O'Neil III, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 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.

Dated: May 8, 2014

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

I, Derrick A. Jensen, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 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.

Dated: May 8, 2014

By: /s/ DERRICK A. JENSEN

Derrick A. Jensen  
Chief Financial Officer

CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned officers of Quanta Services, Inc. (the "Company") hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to 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 March 31, 2014 as filed with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) 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 as of the dates and for the periods expressed in the Report.

Dated: May 8, 2014

/s/ JAMES F. O'NEIL III

James F. O'Neil III  
President and Chief Executive Officer

Dated: May 8, 2014

/s/ DERRICK A. JENSEN

Derrick A. Jensen  
Chief Financial Officer