QUANTA SERVICES INC
Form 10-Q
May 10, 2010

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2010**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to .**

Commission file no. 001-13831

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

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

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

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

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

Indicate by check mark whether the registrant 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 þ No o

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

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

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

210,490,611 shares of Common Stock were outstanding as of May 3, 2010. As of the same date, 432,485 shares of Limited Vote Common Stock were outstanding.

QUANTA SERVICES, INC. AND SUBSIDIARIES

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QUANTA SERVICES, INC. AND SUBSIDIARIES

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

	March 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 659,824	$ 699,629
Accounts receivable, net of allowances of $8,038 and $8,119	672,586	688,260
Costs and estimated earnings in excess of billings on uncompleted contracts	56,674	61,239
Inventories	33,176	33,451
Prepaid expenses and other current assets	83,224	100,213
Total current assets	1,505,484	1,582,792
Property and equipment, net of accumulated depreciation of $403,465 and $383,714	870,260	854,437
Other assets, net	44,756	45,345
Other intangible assets, net of accumulated amortization of $102,015 and $96,167	178,994	184,822
Goodwill	1,449,658	1,449,558
Total assets	$ 4,049,152	$ 4,116,954
LIABILITIES AND EQUITY		
Current Liabilities:		
Current maturities of long-term debt and notes payable	$ 364	$ 3,426
Accounts payable and accrued expenses	335,725	422,034
Billings in excess of costs and estimated earnings on uncompleted contracts	66,368	70,228
Total current liabilities	402,457	495,688
Convertible subordinated notes, net of discount of $16,005 and $17,142	127,745	126,608
Deferred income taxes	163,172	167,575
Insurance and other non-current liabilities	217,744	216,522
Total liabilities	911,118	1,006,393
Commitments and Contingencies		
Equity:		
Common stock, $.00001 par value, 300,000,000 shares authorized, 213,067,039 and 211,977,811 shares issued and 210,259,275 and 209,378,308 shares outstanding	2	2
Limited Vote Common Stock, $.00001 par value, 3,345,333 shares authorized, 662,293 and 662,293 shares issued and outstanding, respectively	0	0
Additional paid-in capital	3,069,789	3,065,581

Retained earnings	99,580	75,836
Accumulated other comprehensive income (loss)	6,624	3,502
Treasury stock, 2,807,764 and 2,599,503 common shares, at cost	(39,695)	(35,738)
Total stockholders equity	3,136,300	3,109,183
Noncontrolling interest	1,734	1,378
Total equity	3,138,034	3,110,561
Total liabilities and equity	$ 4,049,152	$ 4,116,954

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,	
	2010	**2009**
Revenues	$ 748,283	$ 738,530
Cost of services (including depreciation)	619,141	621,399
Gross profit	129,142	117,131
Selling, general and administrative expenses	81,004	73,603
Amortization of intangible assets	5,848	4,906
Operating income	42,290	38,622
Interest expense	(2,864)	(2,818)
Interest income	369	1,081
Other income (expense), net	371	76
Income before income taxes	40,166	36,961
Provision for income taxes	16,066	15,471
Net income	24,100	21,490
Less: Net income attributable to noncontrolling interest	356	136
Net income attributable to common stock	$ 23,744	$ 21,354
Earnings per share attributable to common stock:		
Basic earnings per share	$ 0.11	$ 0.11
Diluted earnings per share	$ 0.11	$ 0.11
Shares used in computing earnings per share:		
Weighted average basic shares outstanding	208,673	197,704
Weighted average diluted shares outstanding	210,342	197,733

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, 2010	Three Months Ended March 31, 2009
Cash Flows from Operating Activities:		
Net income	$ 24,100	$ 21,490
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	26,584	19,768
Amortization of intangibles	5,848	4,906
Non-cash interest expense	1,137	1,052
Amortization of debt issuance costs	231	230
Amortization of deferred revenues	(1,152)	(2,636)
(Gain) loss on sale of property and equipment	(430)	429
Foreign currency (gain) loss	(285)	0
Provision for doubtful accounts	(48)	455
Deferred income tax provision	11,930	4,758
Non-cash stock-based compensation	6,002	4,702
Tax impact of stock-based equity awards	(1,969)	1,632
Changes in operating assets and liabilities, net of non-cash transactions		
(Increase) decrease in		
Accounts and notes receivable	16,797	108,040
Costs and estimated earnings in excess of billings on uncompleted contracts	4,668	(5,864)
Inventories	348	26
Prepaid expenses and other current assets	7,697	105
Increase (decrease) in		
Accounts payable and accrued expenses and other non-current liabilities	(94,758)	(55,262)
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,867)	9,186
Other, net	793	(1,815)
Net cash provided by operating activities	3,626	111,202
Cash Flows from Investing Activities:		
Proceeds from sale of property and equipment	932	1,826
Additions of property and equipment	(43,799)	(41,265)
Net cash used in investing activities	(42,867)	(39,439)
Cash Flows from Financing Activities:		
Proceeds from other long-term debt	0	1,938
Payments on other long-term debt	(3,294)	(1,137)
Tax impact of stock-based equity awards	1,969	(1,632)
Exercise of stock options	190	119

Net cash used in financing activities	(1,135)	(712)
Effect of foreign exchange rate changes on cash and cash equivalents	571	(143)
Net increase (decrease) in cash and cash equivalents	(39,805)	70,908
Cash and cash equivalents, beginning of period	699,629	437,901
Cash and cash equivalents, end of period	$ 659,824	$ 508,809
Supplemental disclosure of cash flow information:		
Cash (paid) received during the period for		
Interest paid	$ (159)	$ (160)
Income taxes paid	$ (34,403)	$ (7,918)
Income tax refunds	$ 1,722	$ 948

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

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QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BUSINESS AND ORGANIZATION:

Quanta Services, Inc. (Quanta) is a leading national provider of specialized contracting services, offering infrastructure solutions to the electric power, natural gas, oil and telecommunications industries. Quanta reports its results under four reportable segments: (1) Electric Power Infrastructure Services, (2) Natural Gas and Pipeline Infrastructure Services, (3) Telecommunications Infrastructure Services and (4) Fiber Optic Licensing.

Electric Power Infrastructure Services Segment

The Electric Power Infrastructure Services segment provides comprehensive network solutions to customers in the electric power industry. Services performed by the Electric Power Infrastructure Services segment generally include the design, installation, upgrade, repair and maintenance of electric power transmission and distribution networks and substation facilities along with other engineering and technical services. This segment also provides emergency restoration services, including repairing 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 wind turbine facilities and solar arrays and related switchyards and transmission networks for renewable power generation sources. To a lesser extent, this segment provides services such as the design, installation, maintenance and repair of commercial and industrial wiring, installation of traffic networks and the installation of cable and control systems for light rail lines.

Natural Gas and Pipeline Infrastructure Services Segment

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

Telecommunications Infrastructure Services Segment

The Telecommunications Infrastructure Services segment provides comprehensive network solutions to customers in the telecommunications and cable television industries. Services performed by the Telecommunications Infrastructure Services segment generally include the design, installation, repair and maintenance of fiber optic, copper and coaxial cable networks used for video, data and voice transmission, as well as the design and installation of wireless communications towers and switching systems. This segment also provides emergency restoration services, including repairing telecommunications infrastructure damaged by inclement weather. To a lesser extent, services provided under this segment include cable locating, splicing and testing of fiber optic networks and residential installation of fiber optic cabling.

Fiber Optic Licensing Segment

The Fiber Optic Licensing segment designs, procures, constructs and maintains 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 lease 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. The Fiber Optic

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Licensing segment provides services to enterprise, education, carrier, financial services and healthcare customers and other entities with high bandwidth telecommunication needs. The telecommunication services provided through this segment are subject to regulation by the Federal Communications Commission and certain state public utility commissions.

Acquisitions

On October 1, 2009, Quanta acquired Price Gregory Services, Incorporated (Price Gregory). In connection with the acquisition, Quanta issued approximately 10.9 million shares of Quanta common stock valued at approximately $231.8 million and paid approximately $95.8 million in cash to the stockholders of Price Gregory. As the transaction was effective October 1, 2009, the results of Price Gregory have been included in the consolidated financial statements beginning on such date. Price Gregory provides natural gas and oil transmission pipeline infrastructure services in North America, specializing in the construction of large diameter transmission pipelines. Price Gregory s financial results have been and will generally be included in Quanta s Natural Gas and Pipeline Infrastructure Services segment.

At various times during 2009, Quanta acquired three other businesses that predominately provide electric power and telecommunications services, and the results for such businesses are reflected in Quanta s consolidated financial statements as of their respective acquisition dates. These acquisitions allow Quanta to further expand its capabilities and scope of services in various locations around the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements of Quanta include the accounts of Quanta 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 partially consolidated, as discussed in the following summary of significant accounting policies. 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 and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. The results of Quanta have historically been subject to significant seasonal fluctuations.

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, 2009, which was filed with the SEC on March 1, 2010.

QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates and Assumptions

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

Cash and Cash Equivalents

Quanta had cash and cash equivalents of $659.8 million and $699.6 million as of March 31, 2010 and December 31, 2009. 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, 2010 and December 31, 2009, cash equivalents were $501.3 million and $636.8 million, which consisted primarily of money market mutual funds and investment grade commercial paper and are discussed further in Fair Value Measurements below. As of March 31, 2010 and December 31, 2009, cash and cash equivalents held in domestic bank accounts was approximately $632.3 million and $669.8 million and cash and cash equivalents held in foreign bank accounts was approximately $27.5 million and $29.8 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. Under certain circumstances such as foreclosures or negotiated settlements, Quanta may take title to the underlying assets in lieu of cash in settlement of receivables. Material changes in Quanta s customers business or cash flows, which may be further impacted by the continuing economic downturn and volatility of the markets, could affect its ability to collect amounts due from them. As of March 31, 2010 and December 31, 2009, Quanta had total allowances for doubtful accounts of approximately $8.0 million and $8.1 million. Should customers experience financial difficulties or file for bankruptcy, or should anticipated recoveries relating to receivables in existing bankruptcies or other workout situations fail to materialize, Quanta could experience reduced cash flows and losses in excess of current allowances provided.

The balances billed but not paid by customers pursuant to retainage provisions in certain contracts will be due upon completion of the contracts and acceptance by the customer. Based on Quanta s experience with similar contracts in recent years, the majority of the retention balances at each balance sheet date will be collected within the next twelve months. Current retainage balances as of March 31, 2010 and December 31, 2009 were approximately $125.2 million and $152.1 million and are included in accounts receivable. Retainage balances with settlement dates beyond the next twelve months are included in other assets, net, and as of March 31, 2010 and December 31, 2009 were $3.0 million and $2.4 million.

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QUANTA SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2010 and December 31, 2009, the balances of unbilled receivables included in accounts receivable were approximately $119.2 million and $96.9 million.

Goodwill and Other Intangibles

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

Quanta s goodwill impairment assessment is performed annually at year-end, or more frequently if events or circumstances exist 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 a loss of a significant customer, among other things, may trigger the need for interim impairment testing of goodwill associated with one or all of its reporting units. The first step of the two-step fair value-based test involves comparing the fair value of each of Quanta s reporting units with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the reporting unit s goodwill to the implied fair value of its goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss would be recorded as a reduction to goodwill with a corresponding charge to operating expense.

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

Under the discounted cash flow method, Quanta determines fair value based on the estimated future cash flows of each reporting unit, discounted to present value using risk-adjusted industry discount rates, which reflect the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Cash flow projections are derived from budgeted amounts and operating forecasts (ty