QUANTA SERVICES INC
Form 424B3
September 21, 2004

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A final prospectus supplement and prospectus will be delivered to purchasers of these securities. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(3)
Registration Nos. 333-114938
333-119134

SUBJECT TO COMPLETION, DATED SEPTEMBER 20, 2004

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JUNE 30, 2004

20,000,000 Shares

Common Stock

The selling stockholder is offering 20,000,000 shares of our common stock by this prospectus supplement and the accompanying prospectus. We will not receive any of the proceeds from the sale of the shares by the selling stockholder.

Our common stock is traded on the New York Stock Exchange under the symbol PWR. The last reported sale price of our common stock on September 17, 2004 was $7.19 per share.

	Price to Public	Underwriting Discounts and Commissions	Net Proceeds to Selling Stockholder
Per Share	$	$	$
Total	$	$	$

The selling stockholder has granted the underwriters an option for a period of 30 days to purchase up to 3,000,000 additional shares of our common stock solely to cover over-allotments, if any.

Investing in our common stock involves a high degree of risk. See Risks of Investing in Our Shares beginning on page S-9 of this prospectus supplement and page 3 of the accompanying prospectus.

The underwriters expect to deliver the shares of common stock on or about September , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

JPMorgan **Credit Suisse First Boston** **Banc of America Securities LLC**

First Albany Capital

September , 2004

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering.

If the description of the offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information in the prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We and the selling stockholder are offering to sell the shares, and seeking offers to buy the shares, only in jurisdictions where offers and sales are permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or the accompanying prospectus or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this prospectus supplement, unless the context indicates otherwise, references to Quanta, we, our or us refer to Quanta Services, Inc. and its consolidated subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- projected operating or financial results;
- expectations regarding capital expenditures;
- the effects of competition in our markets;
- the duration and extent of the current economic downturn in the industries we serve; and
- our ability to achieve cost savings.

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

- quarterly variations in our operating results due to seasonality and adverse weather conditions;
- our dependence on fixed price contracts;
- the inability of our customers to pay for services following a bankruptcy or other financial difficulty;
- materially adverse changes in economic conditions in the markets served by us or by our customers;
- rapid technological and structural changes that could reduce the demand for the services we provide;
- our ability to effectively compete for market share;

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

liabilities for claims that are self-insured or for claims that our insurance carrier fails to pay;

- potential liabilities relating to occupational health and safety matters;
- retention of key personnel and qualified employees;
- the impact of our unionized workforce on our operations and our ability to complete future acquisitions;
- our growth outpacing our infrastructure;
- our ability to obtain performance bonds;
- potential exposure to environmental liabilities;
- the cost of borrowing, availability of credit, debt covenant compliance and other factors affecting our financing activities;
- our ability to generate internal growth;
- the adverse impact of goodwill impairments;
- replacement of our contracts as they are completed or expire;
- our ability to effectively integrate the operations of our companies;
- beliefs and assumptions about the collectibility of receivables;
- beliefs or assumptions about the outlook for markets we serve; and
- the other risks and uncertainties as are described under Risks of Investing In Our Shares in this prospectus supplement and the accompanying prospectus and as may be detailed from time to time in our public filings with the Securities and Exchange Commission (SEC).

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

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

PROSPECTUS SUPPLEMENT SUMMARY

The following summary does not contain all of the information that you should consider before investing in our common stock. This summary is qualified in its entirety by the more detailed information, including our consolidated financial statements and related notes thereto, incorporated by reference in this prospectus supplement and the accompanying prospectus. You should carefully consider this entire prospectus supplement and the accompanying prospectus, including the Risks of Investing In Our Shares sections, before making an investment decision.

Quanta Services

We are a leading national provider of specialty contracting solutions to the electric power, gas, telecommunications, cable television and specialty services industries. We believe that we are the largest contractor serving the transmission and distribution sector of the North American electric utility industry. Through our nationwide network, we provide design, installation, repair, maintenance and emergency response services that enable our customers to reduce costs, increase operating efficiencies and improve network performance.

We have established a nationwide presence with a workforce of over 10,000 employees, which enables us to quickly and reliably serve our diversified customer base. Our customers include many of the leading companies in the industries we serve. For the six months ended June 30, 2004, our single largest customer accounted for approximately 7% of our revenues, and our ten largest customers, listed below, accounted for approximately 30% of our revenues.

Puget Sound Energy

Southern California Edison

CenterPoint Energy

San Diego Gas & Electric

Ericsson

Pacific Gas & Electric

Intermountain Rural Electric

Adelphia Communications

Alabama Power

Alltel

Our revenues for the twelve months ended June 30, 2004 were $1,611.6 million. For the six months ended June 30, 2004, approximately 35% of our revenues were derived from multi-year strategic alliances, and we generated additional recurring revenue through numerous long-term contracts. We believe that our strategic relationships provide us with opportunities for additional business with these customers.

As of June 30, 2004, our backlog was approximately $1,042.0 million, representing a 6.9% increase over the same period in 2003. Our backlog represents the amount of our revenues that we expect to realize from work to be performed over the next twelve months on uncompleted contracts, including new contractual agreements on which work has not yet begun. In many instances, our customers are not contractually committed to specific volumes of services under our long-term maintenance contracts and many of our contracts may be terminated with notice. There can be no assurance as to our customers requirements or that our estimates are accurate.

Industry overview

We estimate that the total amount of annual outsourced infrastructure spending in the four primary industries we serve is in excess of $30 billion. We believe that we are the largest specialty contractor providing services for the installation and maintenance of network infrastructure and that we and the other five largest specialty contractors providing these services account for less than 15% of this market. Smaller, typically private companies provide the balance of these services.

We believe the following industry trends impact demand for our services:

Increasing need to upgrade electric power transmission and distribution networks. The nation s electrical power grid is aging and requires significant maintenance and expansion to handle the country s current and growing power needs. According to Cambridge Energy Research Associates, power-generating capacity has increased nearly eight fold over the past ten years. During this same period, according to the Energy Information Administration, demand for electricity has grown over 20%. Transmission capacity, however, has decreased over the last ten years. The awareness of the need to upgrade the grid was heightened by the largest blackout in North America s history on August 14, 2003.

In spite of the increase in demand for electricity and generating capacity, a study by Edison Electric Institute and R.J. Rudden & Associates, Inc. estimates that from 2001 to 2003 transmission and distribution capital spending averaged $9 billion per year, a decrease of approximately 25% from the average of the previous 10 years spending. We believe the current spending level is insufficient to adequately address infrastructure maintenance requirements, and we expect spending levels to stabilize toward historical levels.

Increased outsourcing of network infrastructure installation and maintenance. Financial and economic pressures on electric power, gas, telecommunications and cable television providers have caused an increased focus by providers on core competencies and, accordingly, an increase in the outsourcing of network services. According to a research report by Edison Electric Institute, total employment in the electric utility industry declined by approximately 39% between 1990 and 2000, reflecting, in part, the outsourcing trend by utilities. We believe that by outsourcing network services to third-party service providers, our customers can reduce costs, provide flexibility in budgets and improve service and performance. As a specialty contractor with nationwide scope, we are able to leverage our existing labor force and equipment infrastructure across multiple customers and projects, resulting in better utilization of labor and assets.

Increased opportunities in Fiber-to-the-Premises, or FTTP. We believe that several of the large telecommunications companies are increasing their FTTP initiatives. This last-mile fiber build-out is exemplified by SBC s announcement in June 2004 that, subject to clarity on applicable regulatory requirements and successful completion of trials, it could commit from $4 billion to $6 billion over the next five years to deploy its Fiber-to-the-Node network. This follows Verizon s earlier commitment to access one million homes with its FTTP initiative in 2004. While not all of this spending will be for services that we provide, we believe that we are well positioned to furnish infrastructure solutions on a rapid basis for these initiatives.

Increased demand for comprehensive end-to-end solutions. We believe that electric power, gas, telecommunications and cable television companies will continue to seek service providers who can design, install and maintain their networks on a quick and reliable, yet cost-efficient basis. Accordingly, they are partnering with proven full-service network providers, like us, with broad geographic reach, financial capability and technical expertise.

Increased capital expenditures resulting from improved customer balance sheets. During the last three years, the industries we serve suffered a severe downturn that resulted in a number of companies, including several of our customers, filing for bankruptcy protection or experiencing financial difficulties. We believe that as our customers continue to improve their balance sheets, both capital spending and maintenance budgets will stabilize and move toward historical levels.

In the electric power and gas industries, our customers continue to be restrained by limited capital spending, uncertain regulatory progress and competition. While the blackout in the Northeast brought the state of the U.S. transmission grid to the forefront, there has been little regulatory progress or other efforts to identify and develop methods to pay for the upgrades, determine accountability or provide incentives to utilities for infrastructure enhancements to address the bottlenecks and aging systems.

Our strengths

Geographic reach and significant size and scale. As a result of our nationwide operations and significant scale, we are able to deploy services to customers across the United States. This capability is particularly important to our customers who operate networks that span multiple states or regions. The scale of our operations also allows us to mobilize significant numbers of employees on short notice for emergency service restoration. For example, after the recent damage from Hurricane Frances in August 2004, we quickly deployed approximately 1,300 workers to Florida to restore affected power lines.

Strong financial profile. Our strong liquidity position provides us with the flexibility to capitalize on new business and growth opportunities. As of June 30, 2004, we had $197.3 million in cash and cash equivalents on our balance sheet and no significant debt obligations maturing before 2007.

Strong and diverse customer relationships. We have established a solid base of long-standing customer relationships by providing high quality service in a cost-efficient and timely manner. We enjoy multi-year relationships with many of our customers. In some cases, these relationships are decades old. We derive a significant portion of our revenues from strategic alliances or long-term maintenance agreements with our customers, which we believe offer opportunities for future growth. For example, certain of our strategic alliances contain an exclusivity clause or a right of first refusal for a certain type of work or in a certain geographic region.

Proprietary technology. Our electric power customers benefit from our ability to perform services without interrupting power service to their customers, which we refer to as Energized Services. Our proprietary Linemaster® robotic arm technology enhances our ability to deliver these Energized Services to our customers. We believe that delivery of these services is a significant factor in differentiating us from our competition and winning new business. Our Energized Services workforce is specially trained to deliver these services and operate the Linemaster® robotic arm.

Delivery of comprehensive end-to-end solutions. We are one of the few network service providers capable of regularly delivering end-to-end solutions on a nationwide basis. As companies in the electric power, gas, telecommunications and cable television industries continue to search for service providers who can effectively design, install and maintain their networks, we believe that our service, industry and geographical breadth place us in a strong position to meet these needs.

Experienced management team. Our senior management team has an average of 28 years of experience within the contracting industry, and our operating unit executives average over 25 years of experience in their respective industries.

Strategy

The key elements of our business strategy are:

Focus on expanding operating efficiencies. We intend to continue to:

focus on growth in our more profitable services and on projects that have higher margins;

adjust our costs to match the level of demand for our services;

combine overlapping operations of certain operating units;

share pricing, bidding, technology, equipment and best practices among our operating units; and

develop and expand the use of management information systems.

Focus on organic growth and leveraging existing customer relationships. We believe we can improve our rate of organic growth by expanding the breadth of products and solutions for our existing and potential customer base. We believe the combination of promoting best practices and cross-selling products to our customers positions us well for an improving end-market environment.

Expand portfolio of services to meet customers evolving needs. We continue to offer an expanding portfolio of services that allows us to develop, build and maintain networks on both a regional and national scale and adapt to our customers changing needs. We intend to further expand our geographic and technological capabilities through both internal development and innovation and through selective acquisitions.

Pursue new business opportunities. We continuously evaluate and pursue new business opportunities. For example, we recently established a new subsidiary, Quanta Government Solutions (QGS), that will leverage our core expertise to pursue additional opportunities in the government arena. QGS was formed to respond, as prime contractor, to requests for proposals from the U.S. government for power and communications infrastructure projects in the United States and overseas.

Recent developments

On August 6, 2004, we reported financial results for the three months and six months ended June 30, 2004. Revenues for the three months ended June 30, 2004 were $389.2 million, compared to revenues of $408.3 million in the second quarter of 2003. Net loss attributable to common stock for the three months ended June 30, 2004 was $3.5 million, or a loss per diluted share of $0.03, compared to a net loss of $9.8 million, or a loss per diluted share of $0.08, in the second quarter of 2003.

For the six months ended June 30, 2004, our revenues were $744.2 million compared to revenues of $775.4 million for the first six months of 2003. Net loss attributable to common stock for the six months ended June 30, 2004 was $15.2 million, or a loss per diluted share of $0.13, compared to a net loss of $12.6 million, or a loss per diluted share of $0.11, for the first six months of 2003. For more information regarding our financial position and results of operations as of and for the period ended June 30, 2004, please see Summary Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations included herein.

We have a $185.0 million credit facility with various lenders. The credit facility consists of a $150.0 million letter of credit facility maturing on June 19, 2008, which also provides for term loans, and a $35.0 million revolving credit facility maturing on December 19, 2007, which provides for revolving loans and letters of credit. Effective as of June 30, 2004, we amended our credit facility to ease the maximum funded debt to EBITDA ratio and the minimum interest coverage ratio covenants. The amendment also increased the maximum fee for outstanding letters of credit and the maximum interest rate payable for term loans under the letter of credit portion of the credit facility.

In June 2002 one of our customers, Adelphia Communications Corporation, filed for bankruptcy. On September 17, 2004, we sold our prepetition receivable due from Adelphia to a third party for approximately $29.5 million in cash, subject to $6.0 million being held by the buyer pending the resolution of certain preferential payment claims. The sale of this receivable is not expected to have a material effect on our financial results. In addition, on September 15, 2004, we received a federal tax refund of approximately $30.2 million. During the third quarter of 2004, we also repaid approximately $18.8 million in indebtedness under the term loan portion of our letter of credit facility and increased the letters of credit outstanding under the letter of credit facility by the same amount.

THE OFFERING

Common stock offered by the selling stockholder	20,000,000 shares
Underwriter s over-allotment option	3,000,000 shares
Common stock outstanding on September 15, 2004	116,198,894 shares
Use of proceeds	We will not receive any of the proceeds from the sale of shares by the selling stockholder. The selling stockholder will receive all net proceeds from the sale of shares of our common stock offered in this prospectus supplement.
New York Stock Exchange symbol	PWR

Our common stock outstanding on September 15, 2004 excludes:

1,154,394 shares of common stock issuable upon exercise of stock options outstanding as of September 15, 2004 at a weighted average exercise price of $11.62 per share; and

The shares of common stock issuable upon conversion of our 4.0% convertible subordinated notes due 2007 and our 4.5% convertible subordinated notes due 2023.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods and as of the dates indicated, our summary consolidated financial data. The summary consolidated financial data as of and for each of the years ended December 31, 2001, 2002 and 2003 were derived from our audited consolidated financial statements. The summary consolidated financial data for the six months ended June 30, 2003 and 2004 were derived from our unaudited consolidated financial statements. These unaudited consolidated financial statements include all adjustments necessary (consisting of normal recurring accruals) for a fair presentation of the financial position and the results of operations for these periods. You should read the summary consolidated financial data set forth below in conjunction with the information in Management s Discussion and Analysis of Financial Condition and Results of Operations herein and our consolidated financial statements and the notes thereto, which are incorporated by reference herein and have been filed with the SEC. The tables below present amounts in thousands, except per share data.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
				(unaudited)	
Consolidated statements of operations data:					
Revenues	$2,014,877	$1,750,713	$1,642,853	$775,431	$744,191
Cost of services (including depreciation)	1,601,039	1,513,940	1,442,958	684,156	671,126
Gross profit	413,838	236,773	199,895	91,275	73,065
Selling, general and administrative expenses(a)	194,575	225,725	176,872	97,771	84,131
Goodwill impairment		166,580(b)	6,452		
Goodwill amortization	25,998				
Income (loss) from operations	193,265	(155,532)	16,571	(6,496)	(11,066)
Interest expense	(36,072)	(35,866)	(31,822)	(16,102)	(12,594)
Loss on early extinguishment of debt			(35,055)(e)		
Other income (expense), net	(227)	(2,446)	(2,763)	584	722
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	156,966	(193,844)	(53,069)	(22,014)	(22,938)
Provision (benefit) for income taxes	71,200	(19,710)	(18,080)	(7,336)	(7,752)
Income (loss) before cumulative effect of change in accounting principle	85,766	(174,134)	(34,989)	(14,678)	(15,186)
Cumulative effect of change in accounting principle, net of tax		445,422(c)			
Net income (loss)	85,766	(619,556)	(34,989)	(14,678)	(15,186)
Dividends on preferred stock, net of forfeitures	930	(11)	(2,109)	(2,109)	
Non-cash beneficial conversion charge		8,508(d)			
Net income (loss) attributable to common stock	$ 84,836	$ (628,053)	$ (32,880)	$ (12,569)	$ (15,186)
Basic earnings (loss) per share	$ 1.11	$ (9.98)	$ (0.30)	$ (0.11)	$ (0.13)
Diluted earnings (loss) per share	$ 1.10	$ (9.98)	$ (0.30)	$ (0.11)	$ (0.13)
Other financial data:					
Net cash provided by (used in):					
Operating activities	$ 210,026	$ 121,522	$ 117,183	$ 73,162	$ 39,632
Investing activities	(221,821)	(70,147)	(42,068)	(18,773)	(10,195)

Financing activities	776	(29,761)	76,610	3,825	(11,746)
Depreciation and amortization	79,374	60,576	60,105	30,208	29,767
Additions of property and equipment	84,982	49,454	35,943	12,477	19,492

	As of December 31,			As of June 30,
	2001	2002	2003	2004
				(unaudited)
Balance sheet data:				
Cash and cash equivalents	$ 6,287	$ 27,901	$ 179,626	$ 197,317
Working capital	335,590	317,356	476,703	456,229
Total assets	2,042,901	1,364,812	1,466,435	1,444,674
Total debt	508,337	392,319	505,585	492,072
Stockholders equity	1,206,751	611,671	663,132	652,104

(a) Selling, general and administrative expenses include bad debt expense of $20.3 million in 2001, $35.7 million in 2002, $19.9 million in 2003, $19.3 million for the six months ended June 30, 2003 and $0.2 million for the six months ended June 30, 2004. Selling, general and administrative expenses also include (1) $1.1 million in proxy defense costs in 2001, and (2) $10.5 million in proxy defense costs and $4.5 million in expensed loan and equity costs associated with amendments of our then existing debt agreements and issuances of stock in 2002.

(b) We recognized an interim SFAS No. 142 non-cash goodwill impairment charge of $166.6 million during the year ended December 31, 2002. Impairment adjustments recognized after the adoption of SFAS No. 142 are required to be recognized as operating expenses.

(c) Based on our transitional impairment test performed upon adoption of SFAS No. 142, we recognized a $488.5 million non-cash charge ($445.4 million, net of tax) to reduce the carrying value of goodwill to the implied fair value of our reporting units during the year ended December 31, 2002. Basic and diluted earnings per share before cumulative effect of change in accounting principle were a loss of $2.90 per share.

(d) The original as-converted share price negotiated with First Reserve Fund IX, L.P. for the Series E Preferred Stock on October 15, 2002 was $3.00 per share, which was an above market price. On December 20, 2002, the date First Reserve purchased the Series E Preferred Stock, our stock closed at $3.35 per share. Accordingly, we recorded a non-cash beneficial conversion charge of $8.5 million based on the $0.35 per share differential. The non-cash beneficial conversion charge is recognized as a deemed dividend to the Series E Preferred Stockholder and is recorded as a decrease to net income attributable to common stock and an increase in additional paid-in capital. The non-cash beneficial conversion charge had no effect on our operating income, cash flows or stockholders equity at December 31, 2002.

(e) In the fourth quarter of 2003, we recorded a $35.1 million loss on early extinguishment of debt comprised of make-whole prepayment premiums, the write-off of unamortized debt issuance costs and other related costs due to the retirement of our senior secured notes and termination of our previous credit facility.

RISKS OF INVESTING IN OUR SHARES

You should consider the following risk factors, the discussion of risks commencing on page 3 of the accompanying prospectus and the discussion of risks in our other current filings with the SEC under the Exchange Act, which are incorporated herein by reference, in addition to the other information in this prospectus supplement and the accompanying prospectus, in evaluating us, our business and an investment in our common stock. The following risks, as well as other risks and uncertainties, could seriously harm our business and financial results and cause the value of our common stock to decline, which in turn could cause you to lose all or part of your investment.

Risks related to our business

We extend credit to customers for purchases of our services, and in the past we have had, and in the future we may have, difficulty collecting receivables from major customers that have filed bankruptcy or are otherwise experiencing financial difficulties.

We grant credit, generally without collateral, to our customers, which include electric power and gas companies, telecommunications and cable television system operators, governmental entities, general contractors, and builders, owners and managers of commercial and industrial properties located primarily in the United States. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States. Our customers in the telecommunications business have experienced significant financial difficulties and in several instances have filed for bankruptcy. A number of our utility customers are also experiencing business challenges in the current business climate. If additional major customers file for bankruptcy or continue to experience financial difficulties, or if anticipated recoveries relating to receivables in existing bankruptcies or other workout situations fail to materialize, we could experience reduced cash flows and losses in excess of current allowances provided. In addition, material changes in any of our customer s revenues or cash flows could affect our ability to collect amounts due from them. As of June 30, 2004, total current and non-current accounts and notes receivable were $363.9 million, net of allowances for doubtful accounts of $60.5 million.

Our casualty insurance carrier for prior periods is experiencing financial distress, which may cause us to be responsible for losses that would otherwise be insured.

Our casualty insurance carrier for the policy periods from August 1, 2000 to February 28, 2003 is experiencing financial distress, but is currently paying valid claims. In the event that this insurer s financial situation deteriorates, we may be required to pay certain obligations that otherwise would have been paid by this insurer. At this time, we cannot estimate the likelihood that this insurer will fail to honor its obligations or the amount that we might be required to pay if this insurer should fail to honor its obligations to us. Although we do not expect any failure by this insurer to honor its obligations to us to have a material adverse impact on our financial condition, the impact could be material to our results of operations or cash flow in a given period.

Risks related to our common stock

Our stock price may fluctuate substantially.

Our common stock is traded on the New York Stock Exchange under the symbol PWR. The market price of our stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including our operating results, availability of capital, our ability to comply with reporting requirements under the Sarbanes-Oxley Act of 2002, changes in general conditions in the economy, the financial markets, economic conditions in the markets served by our customers or other developments affecting us, our customers or our competitors, some of which may be unrelated to our performance. Those fluctuations and demand for our services may adversely affect the price of our stock. In addition, if our results of operations fail to meet the expectations of investors, our stock price could decline.

Furthermore, the stock market in general has experienced volatility that has often been unrelated to the operating performance of companies in our industry. These fluctuations and general economic, political and market conditions may adversely affect the market price of our common stock, regardless of our operating results. Among other things, volatility in our stock price could mean that investors will not be able to sell their shares at or above the prices that they pay in this offering. The volatility also could impair our ability in the future to offer common stock as a source of additional capital or as consideration in the acquisition of other businesses.

A number of shares of our common stock are or will be eligible for future sale, which may cause our stock price to decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the public market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Shares of common stock issued upon the conversion, redemption or repurchase of our $270.0 million issuance of 4.5% convertible subordinated notes could cause substantial dilution to existing stockholders, which could cause the market price of our common stock to decline.

As of September 15, 2004, we had approximately 116.2 million shares of common stock outstanding. Of those shares, approximately 90.4 million shares will be freely tradeable upon completion of this offering, assuming the over-allotment option is not exercised. Of the remaining shares, approximately 23.3 million may be sold subject to the volume, manner of sale and other conditions of Rule 144. First Reserve Fund IX, L.P., which will, assuming the over-allotment option is not exercised, own approximately 19.0 million shares after the sale of all shares of common stock in this offering, has the ability to cause us to register the resale of their shares under their investor s rights agreement.

In addition, approximately 1.2 million shares of common stock are issuable upon the exercise of outstanding stock options issued under our 2001 Stock Incentive Plan. Approximately 2.5 million shares of restricted stock issued to our employees under our 2001 Stock Incentive Plan are outstanding, but have not yet vested. Restricted stock grants under the 2001 Stock Incentive Plan generally vest ratably over three years. All of the shares issued and issuable under our 2001 Stock Incentive Plan have been registered and will be freely tradable upon exercise or vesting.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder. The selling stockholder will receive all net proceeds from the sale of shares offered in this prospectus supplement.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2004. You should read this information in conjunction with our consolidated financial statements and the notes thereto, which are incorporated by reference herein and have been filed with the SEC.

	As of June 30, 2004
	(in thousands) (unaudited)
Cash and cash equivalents	$ 197,317
Long-term debt (including current maturities):	
Credit facility(1)	$ 45,300
4.5% convertible subordinated notes due 2023	270,000
4.0% convertible subordinated notes due 2007	172,500
Other debt	4,272
Total long-term debt (including current maturities)	492,072
Stockholders equity:	
Common Stock, $.00001 par value, 300,000,000 shares authorized, 117,263,563 shares issued and 115,999,977 outstanding(2)	
Limited Vote Common Stock, $.00001 par value, 3,345,333 shares authorized, 1,051,067 shares issued and outstanding	
Additional paid-in capital	1,081,404
Deferred compensation	(10,013)
Retained deficit	(404,671)
Treasury stock, 1,263,586 shares, at cost	(14,616)
Total stockholders equity	652,104
Total capitalization	$ 1,144,176

(1) As of June 30, 2004, we had $107.4 million of letters of credit outstanding under our credit facility.

(2) The number of shares issued and outstanding does not include (a) shares issuable upon conversion of the convertible notes and (b) approximately 1.2 million shares issuable upon the exercise of outstanding stock options as of June 30, 2004.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol PWR. The following table sets forth, for each of the quarterly periods indicated, the high and low sales prices of our common stock as reported by the NYSE.

	High	Low
Fiscal Year 2002		
1st Quarter	$17.43	$11.53
2nd Quarter	18.90	9.40
3rd Quarter	10.19	1.75
4th Quarter	3.94	1.78
Fiscal Year 2003		
1st Quarter	$ 4.10	$ 2.80
2nd Quarter	8.70	3.18
3rd Quarter	9.87	4.48
4th Quarter	9.10	6.95
Fiscal Year 2004		
1st Quarter	$ 9.52	$ 6.50
2nd Quarter	7.24	4.83
3rd Quarter (through September 17, 2004)	7.45	5.30

On September 17, 2004, the last sale price for our common stock as reported by the NYSE was $7.19 per share. As of September 15, 2004, there were 998 holders of record of our common stock.

DIVIDEND POLICY

We have not paid cash dividends on our common stock since our initial public offering. Further, we currently intend to retain our future earnings, if any, to finance the growth, development and expansion of our business. Accordingly, we do not intend to declare or pay any cash dividends on our common stock in the immediate future. The declaration, payment and amount of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors. These factors include our financial condition, results of operations, cash flows from operations, current and anticipated capital requirements and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the terms of our credit facility include, and any future financing arrangements we enter into may also include, prohibitions on the payment of cash dividends without the consent of the respective lenders.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, for the periods and as of the dates indicated, our selected consolidated financial data. The selected consolidated financial data as of and for each of the years ended December 31, 1999, 2000, 2001, 2002 and 2003 were derived from our audited consolidated financial statements. The selected consolidated financial data for the six months ended June 30, 2003 and 2004 were derived from our unaudited consolidated financial statements. These unaudited consolidated financial statements include all adjustments necessary (consisting of normal recurring accruals) for a fair presentation of the financial position and the results of operations for these periods. You should read the summary consolidated financial data set forth below in conjunction with the information in Management s Discussion and Analysis of Financial Condition and Results of Operations herein and our consolidated financial statements and the notes thereto, which are incorporated by reference herein and have been filed with the SEC. The tables below present amounts in thousands, except per share data.

	Year ended December 31,					Six months ended June 30,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	
Consolidated statements of operations data:							
Revenues	$ 925,654	$1,793,301	$2,014,877	$1,750,713	$1,642,853	$775,431	$744,191
Cost of services (including depreciation)	711,353	1,379,204	1,601,039	1,513,940	1,442,958	684,156	671,126
Gross profit	214,301	414,097	413,838	236,773	199,895	91,275	73,065
Selling, general and administrative expenses(a)	80,132	143,564	194,575	225,725	176,872	97,771	84,131
Merger and special charges	6,574(b)	28,566(b)					
Goodwill impairment				166,580(c)	6,452		
Goodwill amortization	10,902	19,805	25,998				
Income (loss) from operations	116,693	222,162	193,265	(155,532)	16,571	(6,496)	(11,066)
Interest expense	(15,184)	(25,708)	(36,072)	(35,866)	(31,822)	(16,102)	(12,594)
Loss on early extinguishment of debt					(35,055)(f)		
Other income (expense), net	1,429	2,597	(227)	(2,446)	(2,763)	584	722
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	102,938	199,051	156,966	(193,844)	(53,069)	(22,014)	(22,938)
Provision (benefit) for income taxes	48,999	93,328	71,200	(19,710)	(18,080)	(7,336)	(7,752)
Income (loss) before cumulative effect of change in accounting principle	53,939	105,723	85,766	(174,134)	(34,989)	(14,678)	(15,186)
Cumulative effect of change in accounting principle, net of tax				445,422(d)			

Net income (loss)	53,939	105,723	85,766	(619,556)	(34,989)	(14,678)	(15,186)
Dividends on preferred stock, net of forfeitures	260	930	930	(11)	(2,109)	(2,109)	
Non-cash beneficial conversion charge				8,508(e)			
Net income (loss) attributable to common stock	$ 53,679	$ 104,793	$ 84,836	$ (628,053)	$ (32,880)	$ (12,569)	$ (15,186)
Basic earnings (loss) per share	$ 1.08	$ 1.50	$ 1.11	$ (9.98)	$ (0.30)	$ (0.11)	$ (0.13)
Diluted earnings (loss) per share	$ 1.00	$ 1.42	$ 1.10	$ (9.98)	$ (0.30)	$ (0.11)	$ (0.13)
Other financial data:							
Net cash provided by (used in):							
Operating activities	$ 46,326	$ 45,422	$ 210,026	$ 121,522	$ 117,183	$ 73,162	$ 39,632
Investing activities	(368,262)	(361,998)	(221,821)	(70,147)	(42,068)	(18,773)	(10,195)
Financing activities	329,465	323,107	776	(29,761)	76,610	3,825	(11,746)
Depreciation and amortization	35,163	57,294	79,374	60,576	60,105	30,208	29,767
Additions of property and equipment	61,124	89,610	84,982	49,454	35,943	12,477	19,492

	As of December 31,					As of June 30,
	1999	2000	2001	2002	2003	2004
						(unaudited)
Balance sheet data:						
Cash and cash equivalents	$ 10,775	$ 17,306	$ 6,287	$ 27,901	$ 179,626	$ 197,317
Working capital	164,140	353,729	335,590	317,356	476,703	456,229
Total assets	1,159,636	1,871,897	2,042,901	1,364,812	1,466,435	1,444,674
Total debt	206,322	499,874	508,337	392,319	505,585	492,072
Stockholders equity	756,925	1,068,956	1,206,751	611,671	663,132	652,104

(a) Selling, general and administrative expenses include bad debt expense of $1.7 million in 1999, $7.2 million in 2000, $20.3 million in 2001, $35.7 million in 2002, $19.9 million in 2003, $19.3 million for the six months ended June 30, 2003 and $0.2 million for the six months ended June 30, 2004. Selling, general and administrative expenses also include (1) $1.1 million in proxy defense costs in 2001, and (2) $10.5 million in proxy defense costs and $4.5 million in expensed loan and equity costs associated with amendments of our then existing debt agreements and issuances of stock in 2002.

(b) In June 1999, as a result of the termination of an Employee Stock Ownership Plan associated with a company acquired in a pooling transaction, we incurred a non-cash compensation charge of $5.3 million and an excise tax charge of $1.1 million. We also incurred $137,000 in merger charges associated with a pooling transaction in the first quarter of 1999. In December 2000, we agreed to conclude our obligations under our management services agreement with Aquila Inc. in exchange for a one-time payment to Aquila of approximately $28.6 million.

(c) We recognized an interim SFAS No. 142 non-cash goodwill impairment charge of $166.6 million during the year ended December 31, 2002. Impairment adjustments recognized after the adoption of SFAS No. 142 are required to be recognized as operating expenses.

(d) Based on our transitional impairment test performed upon adoption of SFAS No. 142, we recognized a $488.5 million non-cash charge ($445.4 million, net of tax) to reduce the carrying value of goodwill to the implied fair value of our reporting units during the year ended December 31, 2002. Basic and diluted earnings per share before cumulative effect of change in accounting principle were a loss of $2.90 per share.

(e) The original as-converted share price negotiated with First Reserve Fund IX, L.P. for the Series E Preferred Stock on October 15, 2002 was $3.00 per share, which was an above market price. On December 20, 2002, the date First Reserve purchased the Series E Preferred Stock, our stock closed at $3.35 per share. Accordingly, we recorded a non-cash beneficial conversion charge of $8.5 million based on the $0.35 per share differential. The non-cash beneficial conversion charge is recognized as a deemed dividend to the Series E Preferred Stockholder and is recorded as a decrease to net income attributable to common stock and an increase in additional paid-in capital. The non-cash beneficial conversion charge had no effect on our operating income, cash flows or stockholders equity at December 31, 2002.

(f) In the fourth quarter of 2003, we recorded a $35.1 million loss on early extinguishment of debt comprised of make-whole prepayment premiums, the write-off of unamortized debt issuance costs and other related costs due to the retirement of our senior secured notes and termination of our previous credit facility.

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 Selected Consolidated Financial Data and our historical consolidated financial statements and related notes thereto incorporated by reference herein. 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 in the Risks of Investing In Our Shares sections herein.

We derive our revenues from one reportable segment by providing specialized contracting services and offering comprehensive network solutions. Our customers include electric power, gas, telecommunications and cable television companies, as well as commercial, industrial and governmental entities. We had consolidated revenues for the six months ended June 30, 2004 of $744.2 million, of which 62% was attributable to electric power and gas customers, 13% to telecommunications customers, 5% to cable television operators and 20% to ancillary services, such as inside electrical wiring, intelligent traffic networks, cable and control systems for light rail lines, airports and highways, and specialty rock trenching, directional boring and road milling for industrial and commercial customers. We had consolidated revenues for the year ended December 31, 2003 of $1.6 billion, of which 60% was attributable to electric power and gas customers, 15% to telecommunications customers, 7% to cable television operators and 18% to ancillary services.

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

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

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

Seasonality; fluctuations of results

Our results of operations can be subject to seasonal variations. During the winter months, demand for new projects and new maintenance service arrangements may be lower due to reduced construction activity.

However, demand for repair and maintenance services attributable to damage caused by inclement weather during the winter months may partially offset the loss of revenues from lower demand for new projects and new maintenance service arrangements. Additionally, our industry can be highly cyclical. As a result, our volume of business may be adversely affected by declines in new projects in various geographic regions in the United States. Typically, we experience lower gross and operating margins during the winter months due to lower demand for our services and more difficult operating conditions. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular quarter, the timing and magnitude of acquisition assimilation costs, regional economic conditions and timing of acquisitions may also materially affect quarterly results. Accordingly, our operating results in any particular quarter or year may not be indicative of the results that can be expected for any other quarter or for any other year.

Significant balance sheet changes

June 30, 2004 compared to December 31, 2003

Total assets decreased approximately $21.8 million as of June 30, 2004 compared to December 31, 2003. This decrease is primarily due to the following, offset by an increase in cash discussed in Liquidity and Capital Resources:

Accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts decreased $26.3 million primarily due to lower revenues during the second quarter of 2004 as compared to the last quarter of 2003, coupled with collection on accounts that were outstanding at December 31, 2003. In addition, approximately $6.9 million in balances have been reclassified to non-current Accounts and Notes Receivable due to a dispute with one customer. We are uncertain as to whether the receivable will be collected within the next twelve months.

Prepaid expenses and other current assets decreased $10.0 million primarily due to $4.6 million of amortization of prepaid insurance and the use of $5.4 million of restricted cash to pay casualty insurance claims.

Property and equipment, net decreased $11.8 million due to depreciation expense of $29.3 million recorded during the period and the sale of property and equipment, offset by increases as a result of capital expenditures of $19.5 million.

Accounts and Notes Receivable, net increased $7.6 million primarily due to a reclassification of the amount due from one customer from current accounts receivable due to uncertainty related to the collectibility of this receivable within the next twelve months.

As of June 30, 2004, total liabilities decreased approximately $10.7 million and stockholders equity decreased approximately $11.0 million compared to December 31, 2003. These fluctuations were primarily due to the following:

Accounts payable and accrued expenses increased $8.4 million primarily due to an $8.7 million increase in accrued compensation and other related costs related to a full work week of accrued wages at the end of the second quarter 2004 as compared to a reduced work week at the end of 2003 due to the holidays and a $3.9 million increase in accrued interest and fees due to the timing of interest payments, partially offset by a $4.5 million decrease in trade accounts payable.

Deferred income taxes and other non-current liabilities decreased $3.9 million due to the recording of a $13.2 million long-term deferred tax asset resulting from an increase in the net operating loss carryforward relating to the net loss for the period. Long-term deferred tax assets are netted against long-term deferred tax liabilities for financial statement presentation purposes. The decrease was partially offset by an increase of $8.2 million in the long-term portion of our self-insurance reserves.

Stockholders equity decreased $11.0 million as a result of the net loss attributable to common stock of $15.2 million and treasury stock recorded in the amount of $2.9 million for shares withheld from employees restricted stock vesting to satisfy their withholding tax obligations. These decreases were partially offset by an income tax benefit of $2.5 million relating to stock based compensation, the issuance of approximately $1.7 million in shares of common stock pursuant to our Employee Stock Purchase Plan and amortization of the deferred compensation component of stockholders equity in the amount of $2.3 million.

December 31, 2003 compared to December 31, 2002

Total assets increased approximately $101.6 million as of December 31, 2003 compared to December 31, 2002. This increase is primarily due to the following:

Cash increased $151.7 million due to cash flow from operations of $117.2 million and cash flow from financing activities of $76.6 million. Included in cash flow from operations is the receipt of $44.0 million in tax refunds as a result of income tax carryback claims filed during 2003.

Current deferred taxes decreased $23.6 million due to certain items that we deducted for tax purposes in the 2002 tax return, which were originally not expected to be deducted in 2002.

Prepaid expenses and other current assets increased $31.8 million due to an increase in income taxes receivable of $18.2 million associated with the recording of a federal net operating loss in 2003, which we intend to file as a carryback claim with the Internal Revenue Service in 2004. The increase was also due to the net funding of a cash trust account for the current portion of self-insurance claims liability in the amount of $8.7 million and to a net change in prepayments for insurance policy renewals in the amount of $3.6 million, partially offset by monthly amortization of various prepaid balances.

Property and equipment, net decreased $28.0 million due to depreciation expense of $59.5 million recorded during the period and $4.4 million for the sale of equipment that was no longer being used by certain of our subsidiaries, partially offset by increases as a result of capital expenditures of $35.9 million.

Accounts and notes receivable, net decreased $16.6 million primarily due to additional allowances recorded during the period.

Other assets, net increased $6.3 million primarily due to deferred loan costs of approximately $12.1 million associated with the issuance of convertible subordinated notes and a new credit facility partially offset by the write-off of approximately $3.3 million of financing costs associated with the senior secured notes and our previous credit facility. In addition, an investment in a fiber network was disposed of at loss of approximately $2.9 million.

In 2003, total liabilities increased approximately $123.1 million, redeemable common stock decreased $72.9 million and stockholders equity increased approximately $51.5 million compared to 2002. These fluctuations were primarily due to the following:

Long-term debt, including current maturities, decreased $156.7 million primarily due to the repayment of $210.0 million of senior secured notes, partially offset by $56.0 million drawn as a term loan under the new credit facility.

Convertible subordinated notes increased by $270.0 million as the notes were issued during the fourth quarter of 2003.

Deferred income taxes and other non-current liabilities increased $21.0 million as a result of the recording of $14.0 million in additional long-term tax liabilities and an increase of $8.8 million in the long-term portion of our self-insurance reserves.

Redeemable common stock decreased $72.9 million. On December 20, 2002, First Reserve purchased from us approximately 2.4 million shares of newly issued Series E Preferred Stock at $30.00 per share, for an investment of approximately $72.9 million. The shares of Series E Preferred Stock were converted into 24.3 million shares of common stock on December 31, 2002. Through February 20, 2003, First Reserve had the right to require us to repurchase for cash the shares of common stock issued as a result of the conversion of the shares of Series E Preferred Stock if we had a change in control. As such, the investment had been reflected in the consolidated balance sheet as redeemable common stock at December 31, 2002. On February 20, 2003, at the expiration of the right, the redeemable common stock was reclassified to stockholders equity.

Stockholders equity increased $51.5 million primarily due to the reclassification of redeemable common stock of $72.9 million to stockholders equity, the issuance of approximately $3.5 million of common stock pursuant to our Employee Stock Purchase Plan, the issuance of approximately $3.6 million of common stock pursuant to First Reserve s exercise of their preemptive rights and the net effect of amortization, grants and forfeitures of restricted stock in the amount of $2.8 million. These increases were partially offset by a net loss attributable to common stock of $32.9 million.

Results of operations

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

	Year ended December 31,						Six months ended June 30,			
	2001		2002		2003		2003		2004	
			(dollars in thousands)				(unaudited)			
Revenues	$2,014,877	100.0%	$1,750,713	100.0%	$1,642,853	100.0%	$775,431	100.0%	$744,191	100.0%
Cost of services (including depreciation)	1,601,039	79.5	1,513,940	86.5	1,442,958	87.8	684,156	88.2	671,126	90.2
Gross profit	413,838	20.5	236,773	13.5	199,895	12.2	91,275	11.8	73,065	9.8
Selling, general and administrative expenses	194,575	9.6	225,725	12.9	176,872	10.8	97,771	12.6	84,131	11.3
Goodwill impairment			166,580	9.5	6,452	0.4				
Goodwill amortization	25,998	1.3								
Income (loss) from operations	193,265	9.6	(155,532)	(8.9)	16,571	1.0	(6,496)	(0.8)	(11,066)	(1.5)
Interest expense	(36,072)	(1.8)	(35,866)	(2.0)	(31,822)	(1.9)	(16,102)	(2.1)	(12,594)	(1.7)
Loss on early extinguishment of debt					(35,055)	(2.1)				
Other income (expense), net	(227)		(2,446)	(0.1)	(2,763)	(0.2)	584	0.1	722	0.1
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	156,966	7.8	(193,844)	(11.0)	(53,069)	(3.2)	(22,014)	(2.8)	(22,938)	(3.1)
Provision (benefit) for income taxes	71,200	3.5	(19,710)	(1.1)	(18,080)	(1.1)	(7,336)	(0.9)	(7,752)	(1.1)
Income (loss) before cumulative effect of change in accounting principle	85,766	4.3	(174,134)	(9.9)	(34,989)	(2.1)	(14,678)	(1.9)	(15,186)	(2.0)
Cumulative effect of change in accounting			445,422	25.4						

principle, net of tax										
Net income (loss)	85,766	4.3	(619,556)	(35.3)	(34,989)	(2.1)	(14,678)	(1.9)	(15,186)	(2.0)
Dividends on preferred stock, net of forfeitures	930	0.1	(11)		(2,109)	(0.1)	(2,109)	(0.3)		
Non-cash beneficial conversion charge			8,508	0.5						
Net income (loss) attributable to common stock	$ 84,836	4.2%	$ (628,053)	(35.8)%	$ (32,880)	(2.0)%	$ (12,569)	(1.6)%	$ (15,186)	(2.0)%

Six months ended June 30, 2004 compared to the six months ended June 30, 2003

Revenues. Revenues decreased $31.2 million or 4.0%, to $744.2 million for the six months ended June 30, 2004, with revenues derived from the electric power and gas network service industry decreasing by $15.6 million, revenues from the telecommunications network services industry decreasing by approximately $15.6 million and revenues from the cable television network services industry decreasing by approximately $13.3 million. These decreases were partially offset by increases in revenues from ancillary services in the amount of $13.3 million. The overall decrease in revenues was due to the continued decline in capital spending by our customers as many of them continue to face significant financial pressures, which have negatively impacted the award of work to specialty contractors. We have also become more selective in the jobs we pursue. Pricing pressures have also contributed to lower revenues as the competitive bid environment has tightened.

Gross profit. Gross profit decreased $18.2 million, or 20.0%, to $73.1 million for the six months ended June 30, 2004. As a percentage of revenue, gross margin decreased from 11.8% for the six months ended June 30, 2003 to 9.8% for the six months ended June 30, 2004. This decrease in gross margin resulted primarily from pricing pressures on work performed for utility and cable customers, and increased fuel, safety and insurance costs, partially offset by higher margins on work performed for telecommunications customers. In addition, we also experienced cost overruns and weather delays on certain projects during the first quarter of 2004.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased $13.6 million, or 14.0%, to $84.1 million for the six months ended June 30, 2004. During the six months ended June 30, 2003, we recorded $19.3 million in bad debt expense compared to only $0.2 million during the six months ended June 30, 2004. Excluding bad debt expense, selling, general and administrative expenses for the six months ended June 30, 2004 increased $5.5 million primarily due to $3.4 million in increased professional fees primarily due to costs associated with meeting the requirements of the Sarbanes-Oxley Act of 2002 and the implementation of new safety initiatives, $1.5 million in costs associated with the start up of our government solutions subsidiary, an increase of $1.2 million due to higher non-cash compensation expense associated with the issuance of restricted stock, and an increase of $1.0 million in salaries and benefits primarily due to higher insurance and benefits costs and cost of living increases. The increases were partially offset by the recording of $1.3 million in net gains on sale of property and equipment during 2004, as compared to $0.7 million of net losses on sale of property and equipment during 2003.

Interest expense. Interest expense decreased $3.5 million, or 21.8%, to $12.6 million for the six months ended June 30, 2004. This decrease was due to our refinancing of the majority of our outstanding debt during the fourth quarter of 2003 at lower interest rates.

Provision (benefit) for income taxes. As of June 30, 2004, estimates of our income before taxes for the year ended December 31, 2004 are at levels such that small fluctuations in estimated income before taxes could produce large changes in the estimated annual effective tax rate. Therefore, for the six months ended June 30, 2004, we have provided for taxes based upon the year-to-date loss without regard to year end estimates. The benefit for income taxes was $7.8 million for the six months ended June 30, 2004, with an effective tax rate of 33.8% compared to a benefit of $7.3 million for the six months ended June 30, 2003, with an effective tax rate of 33.3%. The effective tax rates for both periods are below the statutory rates due to the impact of estimated non-deductible items on taxable income for the periods.

Dividends on preferred stock, net of forfeitures. For the six months ended June 30, 2003, we recorded approximately $2.1 million in forfeitures of dividends on the Series A Convertible Preferred Stock. In the first quarter of 2003, all remaining outstanding shares of Series A Convertible Preferred Stock were converted into shares of common stock. There are currently no outstanding shares of Series A Convertible Preferred Stock and the series was eliminated during the second quarter of 2003. Any dividends that had accrued on the respective shares of Series A Convertible Preferred Stock were reversed on the date of conversion.

Year ended December 31, 2003 compared to the year ended December 31, 2002

Revenues. Revenues decreased $107.9 million to $1.6 billion, or 6.2%, for the year ended December 31, 2003, with revenues derived from the cable television network services industry decreasing by approximately $81.5 million and revenues from the telecommunications network services industry decreasing by approximately $48.9 million. These decreases were partially offset by increases in revenues derived from the electric power and gas network services industry of approximately $7.5 million and revenues from ancillary services increasing approximately $15.1 million. The overall decrease was due to the continued reduction in capital spending by our customers, which negatively impacted the award of work to specialty contractors. Pricing pressures have also contributed to lower revenues as the competitive bid environment has tightened.

Gross profit. Gross profit decreased $36.9 million, or 15.6%, to $199.9 million for the year ended December 31, 2003. As a percentage of revenue, gross margin decreased from 13.5% for the year ended December 31, 2002 to 12.2% for the year ended December 31, 2003. The decrease in gross margin was attributable to the negative impact of the factors affecting revenue noted above, shutdowns, delays and substantial operating inefficiencies resulting from severe snowfall in the Northeast and Mountain regions of the United States during the first quarter of 2003 and substantially higher than normal rainfall amounts in the South and Southeast during the first and second quarters of 2003, partially offset by increased margins on telecommunications revenues.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased $48.9 million, or 21.6%, to $176.9 million for the year ended December 31, 2003. During the year ended December 31, 2003, we recorded $19.9 million in bad debt expense. During the year ended December 31, 2002, we recorded $35.7 million in bad debt expense, $10.5 million in proxy defense costs and $4.5 million in expensed loan and equity costs associated with amendments of our then existing debt agreements and issuances of stock. Absent these items, selling, general and administrative expenses for the year ended December 31, 2003 decreased approximately $18.1 million primarily due to reductions in salary and benefit costs, facility related costs and travel and entertainment costs as a result of reductions in personnel and the closure of certain offices.

Goodwill impairment. During the year ended December 31, 2003, as a result of our annual impairment test, we recognized a non-cash SFAS No. 142 goodwill impairment charge of $6.5 million. During the year ended December 31, 2002, we recognized an interim non-cash SFAS No. 142 goodwill impairment charge of $166.6 million.

Interest expense. Interest expense decreased $4.0 million, or 11.3%, to $31.8 million for the year ended December 31, 2003. This decrease was due to lower average levels of debt in 2003 and an expense of approximately $1.0 million for unamortized debt issuance costs relating to amendments of the credit facility charged to interest expense during the year ended December 31, 2002. These decreases were partially offset by increased interest rates.

Loss on early extinguishment of debt. During the year ended December 31, 2003, we recognized $35.1 million of loss on early extinguishment of debt comprised of make-whole prepayment premiums in the amount of $31.3 million, the write-off of unamortized debt issuance costs of $3.3 million associated with the retirement of our senior secured notes and the termination of our previous credit facility together with other related costs of $0.5 million.

Provision (benefit) for income taxes. The benefit for income taxes was $18.1 million for the year ended December 31, 2003, with an effective tax rate of 34.1%, compared to a benefit of $19.7 million for the year ended December 31, 2002, with an effective tax rate of 10.2%. The 2002 annual effective tax rate reflects a benefit for income taxes at a rate that is lower than the 2003 annual effective tax rate primarily due to the significant 2002 interim goodwill impairment charge, the majority of which was not deductible for tax purposes, thereby reducing the amount of tax benefit recorded for the year ended December 31, 2002.

Dividends on preferred stock, net of forfeitures. For the year ended December 31, 2003, we recorded approximately $2.1 million in forfeitures of dividends on the Series A Convertible Preferred Stock. During the first quarter of 2003, all outstanding shares of Series A Convertible Preferred Stock were converted into shares of common stock and the series was eliminated during the second quarter of 2003. Any dividends that had accrued on the respective shares of Series A Convertible Preferred Stock were forfeited and reversed on the date of conversion.

Year ended December 31, 2002 compared to the year ended December 31, 2001

Revenues. Revenues decreased $264.2 million, or 13.1%, to $1.75 billion for the year ended December 31, 2002, with revenues derived from the telecommunications network services industry decreasing by approximately $313.3 million and revenues from the cable television network services industry decreasing by approximately $81.0 million. These decreases were partially offset by increases in revenues from the electric power and gas network services industry of approximately $121.4 million and revenues from ancillary services increasing approximately $8.8 million. Also offsetting the decrease is a full year of contributed revenues for those companies acquired during 2001. The overall decrease was due to the continued reduction in capital spending by our customers, the inability of certain of these customers to raise new capital, bankruptcies of certain customers and the overall downturn in the national economy, which had negatively impacted the award of work to specialty contractors. Pricing pressures also contributed to lower revenues as the competitive bid environment tightened.

Gross profit. Gross profit decreased $177.1 million to $236.8 million for the year ended December 31, 2002. Gross margin decreased from 20.5% for the year ended December 31, 2001 to 13.5% for the year ended December 31, 2002. The decrease in gross margin resulted primarily from declining volumes due to economic factors noted above, significantly lower margins on work performed due to increased pricing pressures and lower asset utilization. The decrease also resulted from higher than normal transition costs during the first six months of 2002 on one telecommunications outsourcing contract.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $31.2 million, or 16.0%, to $225.7 million for the year ended December 31, 2002. During the year ended December 31, 2002, we recorded $35.7 million in bad debt expense, $10.5 million in proxy costs and $4.5 million in expensed loan and equity transaction costs associated with amendments of our existing debt agreements and issuances of stock. During the year ended December 31, 2001, we recorded $20.3 million in bad debt expense and $1.1 million in proxy costs. Excluding the impact of these items, selling, general and administrative expenses for the year ended December 31, 2002 increased approximately $1.8 million, primarily due to the inclusion of a full year of costs associated with companies acquired during 2001 and higher professional fees due to increased collection efforts on troubled accounts, partially offset by reductions in personnel and bonuses. As a percentage of revenues, selling, general and administrative expenses increased due to the items noted above, as well as the impact of lower revenues.

Goodwill impairment. During the year ended December 31, 2002, we recognized an interim non-cash SFAS No. 142 goodwill impairment charge of $166.6 million. Any interim impairment adjustments recognized after adoption are required to be recognized as operating expenses. The primary factor contributing to the interim impairment charge was the overall deterioration of the business climate during 2002 in the markets we serve.

Interest expense. Interest expense decreased $0.2 million, or 0.6%, to $35.9 million for the year ended December 31, 2002, due to lower average levels of debt outstanding during 2002, partially offset by higher weighted average interest rates in 2002 and expensed loan costs associated with debt amendments in 2002.

Provision (benefit) for income taxes. The benefit for income taxes was $19.7 million for the year ended December 31, 2002, with an effective tax rate of 10.2%, compared to a provision of $71.2 million for the year ended December 31, 2001 and an effective tax rate of 45.4%. The lower tax rate in 2002 results primarily from the interim goodwill impairment charge, the majority of which is not deductible for tax purposes, thereby reducing the amount of tax benefit recorded.

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

Net income (loss). Net income decreased $705.3 million to a net loss of $619.6 million for the year ended December 31, 2002, compared to net income of $85.8 million for the year ended December 31, 2001, primarily due to impairments of goodwill recorded pursuant to SFAS No. 142 and decreased gross profit as described above.

Dividends on preferred stock, net of forfeitures. For the year ended December 31, 2002, we recorded approximately $11,000 in negative dividends on preferred stock. In connection with their investment in us, on October 15, 2002, First Reserve acquired approximately 0.9 million shares of our Series A Convertible Preferred Stock. On October 15, 2002, First Reserve forgave approximately $780,000 in dividends that had accrued on those shares. On December 2, 2002, and December 23, 2002, 238,000 shares and 7,000 shares of Series A Convertible Preferred Stock, respectively, were converted into shares of common stock. Any dividends that had accrued on the respective shares of Series A Convertible Preferred Stock were forfeited and reversed on the date of conversion.

Non-cash beneficial conversion charge. The original as-converted share price negotiated with First Reserve for the Series E Preferred Stock on October 15, 2002 was $3.00 per share, which was an above market price. On December 20, 2002, the date First Reserve purchased the Series E Preferred Stock, our stock closed at $3.35 per share. Accordingly, we recorded a non-cash beneficial conversion charge of $8.5 million based on the $0.35 per share differential. The non-cash beneficial conversion charge is recognized as a deemed dividend to the Series E Preferred Stockholder and is recorded as a decrease to net income attributable to common stock and an increase in additional paid-in capital. The non-cash beneficial conversion charge had no effect on our operating income, cash flows or stockholders equity at December 31, 2002.

Liquidity and capital resources

Cash requirements

We anticipate that our cash on hand, which totaled $197.3 million as of June 30, 2004, our credit facility and our future cash flow from operations will provide sufficient cash to enable us to meet our future operating needs, debt service requirements and planned capital expenditures and to ensure our future ability to grow. Expansion into government contracts, momentum in deployment of fiber to the home or initiatives to rebuild the United States electric power grid might require a significant amount of additional working capital. However, we feel that we have adequate cash and availability under our credit facility to meet such needs.

Sources and uses of cash

As of June 30, 2004, we had cash and cash equivalents of $197.3 million, working capital of $456.2 million and long-term debt of $489.1 million, net of current maturities. Our long-term debt balance at that date included borrowings of $442.5 million of convertible subordinated notes and $46.6 million of other debt. We also had $107.4 million of letters of credit outstanding under our credit facility.

During the six months ended June 30, 2004, operating activities provided net cash flow of $39.6 million resulting primarily from a reduction in working capital requirements due to lower revenues in the second quarter of 2004 as compared to the last quarter of 2003. We used net cash in investing activities of $10.2 million, including $19.5 million used for capital expenditures, partially offset by a $6.0 million reduction in restricted cash required by our casualty insurance program coupled with $3.3 million of proceeds from the sale of equipment. We used net cash in financing activities of $11.7 million, resulting primarily from a $10.7 million repayment under the term loan portion of the credit facility in order to be able to issue additional letters of credit and maintain our total borrowing requirement of $150.0 million discussed below.

During the year ended December 31, 2003, operating activities provided net cash to us of $117.2 million. Operating cash flow before changes in working capital and other operating accounts totaled $131.1 million. Net changes in working capital and other operating accounts used $13.9 million of cash flow from operations, in 2003. Cash flow from operations is primarily influenced by demand for our services, operating margins and the type of services we provide. We used net cash in investing activities of $42.1 million, including $35.9 million used for capital expenditures and $9.3 million used to fund our casualty self-insurance obligation, partially offset by proceeds from the sale of equipment. Cash flow from financing activities was $76.6 million resulting from the proceeds of $270.0 million convertible subordinated notes offering, $56.0 million drawn down on the term loan portion of the credit facility discussed below, $7.1 million from issuances of common stock and $4.9 million of proceeds from other debt offset by the $210.0 million in retirement of senior secured notes, $31.7 million in make-whole prepayment premiums and other related costs associated with the retirement of the senior secured notes, $7.6 million in payments of other long-term debt obligations and $12.1 million in costs relating to the new financings.

Debt instruments

Credit facility

We have a $185.0 million credit facility with various lenders. The credit facility consists of a $150.0 million letter of credit facility maturing on June 19, 2008, which also provides for term loans, and a $35.0 million revolving credit facility maturing on December 19, 2007, which provides for revolving loans and letters of credit. We amended the credit facility effective as of June 30, 2004 to ease the maximum funded debt to EBITDA ratio and the minimum interest coverage ratio covenants. The amendment also increased the maximum fee for outstanding letters of credit and the maximum interest rate payable for term loans under the letter of credit facility.

The letter of credit facility is linked to a $150.0 million deposit made by the lenders, which is held in an account with Bank of America, N.A. This deposit may be used either to support letters of credit or, to the extent that amounts available under the facility are not used to support letters of credit, for term loans. We are currently required to maintain total borrowings outstanding under the letter of credit facility equal to the $150.0 million available through a combination of letters of credit or term loans. As of June 30, 2004, we had approximately $104.7 million of letters of credit issued under the letter of credit facility, and the remaining $45.3 million of the letter of credit facility was outstanding as a term loan with an interest rate of 4.54%. In the event that we desire to issue additional letters of credit under the letter of credit facility, we are required to make cash repayments of debt outstanding under the term loan portion of the letter of credit facility in an amount that approximates the additional letters of credit.

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

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

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

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

4.0% Convertible Subordinated Notes

As of June 30, 2004, we had $172.5 million of 4.0% convertible subordinated notes outstanding. These 4.0% convertible subordinated notes are convertible into shares of our common stock at a price of $54.53 per share, subject to adjustment as a result of certain events. These 4.0% convertible subordinated notes require semi-annual interest payments until the notes mature on July 1, 2007. We have the option to redeem some or all of the 4.0% convertible subordinated notes beginning July 3, 2003 at specified redemption prices, together with accrued and unpaid interest; however, redemption is prohibited by our credit facility. If certain fundamental changes occur, as described in the indenture under which we issued the 4.0% convertible subordinated notes, holders of the 4.0% convertible subordinated notes may require us to purchase all or part of their notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

4.5% Convertible Subordinated Notes

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

The 4.5% convertible subordinated notes are convertible by the holder if (i) during any fiscal quarter commencing after December 31, 2003 the last reported sale price of our common stock is greater than or equal to 120% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the first trading day of such fiscal quarter, (ii) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of that period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate, (iii) upon us calling the notes for redemption or (iv) upon the occurrence of specified corporate transactions. If the notes become convertible under one of these circumstances, we have the option to deliver cash, shares of our common stock or a combination thereof, with a value equal to the par value of the notes divided by the conversion price multiplied by the average trading price of our common stock. The maximum number of shares of common stock that could be issued under these circumstances is equal to the par value of the notes divided by the conversion price.

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

Off-balance sheet transactions

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

Leases

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

We have guaranteed the residual value on certain of our equipment operating leases. We guarantee the difference between this residual value and the fair market value of the underlying asset at the date of termination of the leases. At June 30, 2004, the maximum guaranteed residual value would have been approximately $107.1 million. We believe that no significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future significant payments will not be required.

Letters of credit

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

As of June 30, 2004, we had $107.4 million in letters of credit outstanding under our credit facility primarily to secure obligations under our casualty insurance program. These are irrevocable stand-by letters of credit with maturities expiring at various times throughout 2004 and 2005. Upon maturity, it is expected that the majority of these letters of credit will be renewed for subsequent one-year periods. As of July 30, 2004, we have agreed to issue up to $45.0 million in additional letters of credit during 2004 and 2005 relating to our casualty insurance and bonding programs.

Performance bonds

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a financial institution known as a surety. These bonds provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs and may, in the future, be required to post letters of credit as collateral for such bonds. To date, we have not had any significant reimbursements to our surety for bond-related costs. We believe that it is unlikely that we will have to fund claims under our surety arrangements in the foreseeable future. As of June 30, 2004, the total amount of outstanding performance bonds was approximately $489.1 million.

Contractual obligations

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

	Total	2004	2005	2006	2007	2008	Thereafter
Long-term debt obligations	$490,986	$ 2,024	$ 896	$ 249	$172,517	$315,300	$
Capital lease obligations	1,127	207	320	600			
Operating lease obligations	51,568	9,669	14,357	8,552	5,146	4,236	9,608
Total	$543,681	$11,900	$15,573	$9,401	$177,663	$319,536	$9,608

Concentration of credit risk

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

In June 2002, one of our customers, Adelphia Communications Corporation (Adelphia), filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code, as amended. We have filed liens on various properties to secure substantially all of our pre-petition receivables. Our carrying value is based upon our understanding of the current status of the Adelphia bankruptcy proceeding and a number of assumptions, including assumptions about the validity, priority and enforceability of our security interests. On September 17, 2004, we sold our claim to a third party for approximately $29.5 million, subject to $6.0 million being held by the buyer pending the resolution of certain preferential payment claims. The sale of this receivable is not expected to have a material effect on our financial results. In addition, we are involved in a dispute with one of our customers with a receivable balance of $6.9 million and are also uncertain whether the balance will be collected within one year; therefore as of June 30, 2004, we have reclassified the balance in non-current assets and included it in Accounts and Notes Receivable. Also included in Accounts and Notes Receivable are amounts due from a customer relating to the construction of independent power plants. We have agreed to long-term payment terms for this customer. The notes receivable from this customer are partially secured. We have provided allowances for a significant portion of these notes receivable due to a change in the economic viability of the plants securing them. The collectibility of these notes may ultimately depend on the value of the collateral securing these notes. As of June 30, 2004, the total balance due from all of these customers was $87.2 million, net of an allowance for doubtful accounts of $46.3 million.

Litigation

We are from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we accrue reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe that any of these proceedings, separately or in the aggregate would be expected to have a material adverse effect on our results of operations or financial position.

Change of control

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

Related party transactions

In the normal course of business, we enter into transactions from time to time with related parties. These transactions typically take the form of facility leases with prior owners. In addition, we perform network service work for Aquila, which had an investment in us until 2003. Aquila sold all investments in us during 2003.

New pronouncements

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

Critical accounting policies

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

Current and non-current accounts and notes receivable and provision for doubtful accounts. We provide an allowance for doubtful accounts when collection of an account or note receivable is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, our customer s access to capital, our customer s willingness or ability to pay, general economic conditions and the ongoing relationship with the customer. Certain of our customers, several of them large public telecommunications carriers and utility customers, have been experiencing financial difficulties. Should any major customers file for bankruptcy or continue to experience difficulties, or should anticipated recoveries relating to the receivables in existing bankruptcies and other workout situations fail to materialize, we could experience reduced cash flows and losses in excess of current reserves. In addition, material changes in our customers revenues or cash flows could affect our ability to collect amounts due from them.

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

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

Revenue recognition. We generally recognize revenue when services are performed except when work is being performed under fixed price contracts. We typically record revenues from fixed price contracts on a percentage-of-completion basis, using the cost-to-cost method based on the percentage of total costs incurred to date in proportion to total estimated costs to complete the contract. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

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

Our casualty insurance carrier for the policy periods from August 1, 2000 to February 28, 2003 is experiencing financial distress but is currently paying valid claims. In the event that this insurer s financial situation worsens, we may be required to pay certain obligations that otherwise would have been paid by this insurer. At this time, we cannot estimate the likelihood that this insurer will fail to honor its obligations or the amount that might be paid if this insurer should fail to honor its obligations to us. In any event, we do not expect any failure by this insurer to honor its obligations to us to have a material adverse impact on our financial condition; however, the impact could be material to our results of operations or cash flow in a given period. We continue to monitor the financial situation of this insurer and analyze any alternative actions that could be taken.

Stock based compensation. We account for our stock option awards under Accounting Principles Board Opinion No. 25 (APB Opinion No. 25), Accounting for Stock Issued to Employees. Under this accounting method, no compensation expense is recognized in the consolidated statements of operations if no intrinsic value of the option exists at the date of grant. In October 1995, the FASB issued SFAS No. 123, Accounting for Stock Based Compensation. SFAS No. 123 encourages companies to account for stock-based compensation awards based on the fair value of the awards at the date they are granted. The resulting compensation costs would be shown as an expense in the consolidated statements of operations. Companies can choose not to apply the new accounting method and continue to apply current accounting requirements; however, disclosure is required as to what net income and earnings per share would have been had the new accounting method been followed. As a result of our stock option exchange offer during the first quarter of 2003, a majority of our stock options were exchanged for restricted shares of our common stock. The remaining eligible options that were not exchanged are required to be accounted for under variable plan accounting rules of APB opinion No. 25. See the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2003 and our Quarterly Report on Form 10-Q for the six months ended June 30, 2004 incorporated by reference herein for additional discussion of the restricted stock issued under our 2001 Stock Incentive Plan and the effects thereof.

Outlook

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

Like many companies that provide installation and maintenance services to the electric power, gas, telecommunications and cable television industries, we are facing a number of challenges. The telecommunications and utility markets experienced substantial change during 2002 and 2003 as evidenced by an increased number of bankruptcies in the telecommunications market, continued devaluation of many of our customers debt and equity securities and pricing pressures resulting from challenges faced by major industry participants. These factors have contributed to the delay and cancellation of projects and reduction of capital spending that have impacted our operations and ability to grow at historical levels during 2003 and 2004.

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

We expect consistent demand for our services from our telecommunications customers throughout 2004, stabilization in the demand for our services from our electric power and gas customers, continued decline in demand for our services from our cable customers and relatively level demand for our services from our ancillary services customers. Financial and economic pressures have led our customers to return to their core competencies and focus on cost reductions, resulting in an increased focus on outsourcing services. In addition, our utility customers have an increasing awareness of transmission and distribution network upgrade needs. We believe that we are adequately positioned to provide these services because of our proven full-service operating units with broad