Quanta Services (PWR) Earnings Report: Q3 2015 Conference Call Transcript

The following Quanta Services conference call took place on November 5, 2015, 09:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Kip Rupp; Quanta Services, Inc.; IR
- Jim O'Neil; Quanta Services, Inc.; President and CEO
- Derrick Jensen; Quanta Services, Inc.; CFO

Other Participants

- Dan Mannes; Avondale Partners; Analyst
- Andy Wittmann; Robert W. Baird; Analyst
- Tahira Afzal; KeyBanc; Analyst
- Matt Duncan; Stephens; Analyst
- Steven Fisher; UBS; Analyst
- William Bremer; Maxim Group; Analyst
- John Rogers; D.A. Davidson & Co.; Analyst
- Min Cho; FBR Capital Markets; Analyst
- Vishal Shah; Deutsche Bank; Analyst
- Adam Thalhimer; BB&T; Analyst
- Jeff Volshteyn; JPMorgan; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to today's Quanta Services third-quarter earnings conference call.

Today's conference is being recorded.

At this time, it's my pleasure to turn the conference over to your host for today's call, Kip Rupp. Please go ahead.

Kip Rupp (IR):

Great. Thank you. Welcome, everyone, to the Quanta Services conference call to review third-quarter results.

Before I turn the call over to Management, I have the normal housekeeping details to run through.

If you'd like to have Quanta news releases and other information e-mailed to you when they occur, please sign up for e-mail information alerts by going to the Investors and Media section of the Quanta Services website at www.Quantaservices.com. You can also access Quanta's latest earnings release and other investor materials such as press releases, SEC filings, presentations, videos, audio cast conference calls, and stock price information, with the Quanta Services investor relations app, which is available for iPhone, iPad and Android mobile devices for free at Apple's app store and Google Play.

A replay of today's call will be available on Quanta's website at www.Quantaservices.com. In addition, a telephonic reported instant replay will be available for the next seven days, hours a day, that can be accessed as set forth in the press release.

Please remember that information reported on this call speaks only as of today, November , , and therefore you are advised that any time-sensitive information may no longer be accurate as of the time of any replay of this call. This conference call will include forward-looking statements intended to qualify under the Safe Harbor from Liability established by the Private Securities Litigation Reform Act of . These forward-looking statements include all statements reflecting Quanta's expectations, intentions, assumptions or beliefs about future events or performance or that do not solely relate to historical or current facts.

Forward-looking statements involve certain risks, uncertainties and assumptions that are difficult to predict or are beyond Quanta's control, and actual results may differ materially from those expressed or implied in any forward-looking statements. For additional information concerning some of the risks, uncertainties and assumptions that could affect Quanta's forward-looking statements, please refer to the Company's annual report on form -K for the year ended December , and its other documents filed with the Securities and Exchange Commission, which may be obtained on Quanta's website or through the SEC's website at www.SEC.gov.

Management cautions that you should not place undue reliance on Quanta's forward-looking statements, and Quanta does not undertake and disclaims any obligation to update or revise any forward-looking statements based on new information, future events or otherwise and disclaims any written or oral statements made by any third party regarding the subject matter of this call. With that, I'd like to now turn the call over to Mr. Jim O'Neil, Quanta's President and CEO. Jim?

Jim O'Neil (President and CEO):

Thank you, Kip. Good morning, everyone. Welcome to Quanta Services' third-quarter earnings conference call.

I will start the call with an operational overview before turning it over to Derrick Jensen, Quanta's Chief Financial Officer, to provide a detailed review of our third-quarter results. Following Derrick's comments, we will welcome your questions.

The third-quarter results we reported this morning were consistent with the revised and preliminary expectations that were announced on October . While our results for the third quarter and first nine months of this year have been below our expectations, we expect improved financial performance in , largely due to record backlog at the end of the third quarter primarily driven by main line pipe project additions.

Before I provide additional commentary on , I will start with some color about our third-quarter results and fourth-quarter expectations. There were several factors that adversely affected our third-quarter results, the most impactful of which was the margin pressure in the electric power segment.

As we discussed last quarter, large transmission projects in the United States and Canada have experienced significant delays. These delays have lead to increasingly competitive smaller transmission market because of excess transmission construction resources in the industry.

We believe some competitors are more aggressively pursuing work volume to absorb fixed cost. We underestimated the impact of this dynamic on our ability to secure additional work to efficiently transition resources from larger projects to smaller projects. Because much of the smaller transmission work is book and burn and may not hit backlog, this dynamic had a larger impact and is geographically broader than we anticipated.

Additionally, the mix of transmission work has shifted to a greater percentage of smaller projects. Production on smaller projects is less efficient than large projects due to the lack of resource continuity as people and equipment are frequently mobilized from project to project, resulting in margin pressures.

While we believe that these factors will continue into the fourth quarter and likely into some portion of next year, we believe the delay in large transmission projects is temporary, as a number of large projects are awaiting permits and other approvals, including some included in current backlog. Therefore, we have maintained a portion of our large transmission workforce and equipment in an under utilized capacity to ensure that we are strategically positioned to deliver on larger, more complex electric transmission projects when they move forward.

This Management team and our operating unit leadership have a sense of urgency to return the electric power segment to acceptable margin levels. We have a track record going back to , when segment revenues were less than half of current revenues.

Of operating this segment above a % operating margin, and we believe we can return this segment to a % or better operating margin in the future. However, market dynamics are fluid, and we will not be short sighted with our strategic decisions.

In the near term, we are focused on managing our business to the current environment while striking a balance between improving margins and maintaining an appropriate level of resources to respond to opportunities when large transmission programs move to construction in the future. We will not hinder our ability to serve our customers on the larger, more complex projects as Quanta clearly differentiates itself from the competition in this market. We have visibility on several sizeable electric transmission opportunities, are in active discussions with several customers regarding these projects.

Our oil and gas segment revenues came in ahead of our internal projections, but our margins were softer than previously forecasted. This was primarily due to higher than expected cost. We're seeking change orders to offset some of these costs which are not reflected in our results.

Margins were also impacted by revenue mix, with less main line margin contribution primarily due to project start delays. On a positive note, oil and gas segment backlog increased to record levels, growing % over the third quarter of last year and up % sequentially, primarily from main line pipe project additions.

Now I will provide color on our end markets and some preliminary thoughts on . We currently intend to update our expectations and provide additional details regarding our outlook on our fourth-quarter earnings call in February of next year.

While has been a challenging year for our electric power segment, the end market drivers that underpin our positive multi-year outlook remain firmly in place. The North America power grid is aging, and reliability challenges are increasing.

There are regulations in effect that encourage transmission and distribution spending. The North American power generation mix continues to shift away from coal to more natural gas and renewables, and new technologies are being implemented for a more advanced power grid, all of which require grid expansions and enhancements.

In addition, most of our key customers have significant capital deployment programs focused on upgrading and expanding transmission and distribution infrastructure in the coming years. In fact, according to the Edison Electric Institute, by , the US electric utility industry would need to make a total infrastructure investment of as much as $ trillion, illustrating that solving the North America power grid's challenges could take decades.

However, this market is also experiencing headwinds. As discussed previously, regulatory delays are a challenge as projects become larger and more complex with the vast majority of planned projects located in densely populated areas. Also, an unexpected outcome of the implementation of FERC Order is that it is causing many of our customers to shift their strategies in some areas, resulting in project delays as they adapt to this new environment.

We believe this is a short-term dynamic and expect FERC Order to drive significant incremental electric transmission investment in the future as transmission programs are built for improved regional inter connection and to move power between geographically distant markets. As a result, we believe some FERC Order transmission projects could be larger in scope and scale than what the industry has experienced over the past several years. As discussed on prior calls, while these dynamics create near-term timing challenges, we believe Quanta's scope, scale, balance sheet and track record of safely executing large transmission projects positions us well for these significant opportunities as the market adjusts to the current environment.

From a market perspective, we expect continued growth in small and medium transmission and distribution investment in . We believe large transmission project delays are temporary and that the project awards could occur some time in , though timing is uncertain. That said, we have a positive multi-year outlook for the large transmission market based on the projects we are aware of today.

Over the next three years, we are tracking large transmission projects with an estimated aggregate contract value of up to $ billion, which does not include the potential of FERC Order driven projects. Further, recent reports from the Edison Electric Institute and the C Group expect growth in transmission spending for the next couple of years, with transmission spending remaining at historical high levels through . I would note that transmission spending data in these reports have regularly been revised upward in the past.

We have a strong base of large transmission projects and strategic alliances with several customers that have large multi-year electric transmission investment programs. For example, the combined aggregate contract value of the Labrador-Island Link HVdc transmission project and the Fort McMurray West transmission project exceeds $. billion. At quarter end, the Labrador-Island Link HVdc transmission project was approximately % complete, and the Fort McMurray West transmission project isn't expected to start construction until and should finish in .

Our oil and gas segment has been building backlog momentum with sizeable pipeline project awards this year, such as the Maurepas Pipeline Project for SemGroup, Package A of the Norlite Pipeline Project for Enbridge , and the recently announced REX Zone capacity enhancement program for Rockies Express Pipeline. The aggregate contract value of these three projects exceeds $ billion, and we expect the majority of the revenues from these projects to be generated in . As we shift resources to execute on main line pipe projects, we would expect a revenue mix shift to occur while mainline revenues increase and our mid stream gathering revenues soften as we shift certain critical resources to support main line projects.

Also on our second-quarter call in August, I mentioned that we were close to booking approximately $ billion of main line work. Since that call, we have booked nearly $ million of additional main line pipeline projects into third-quarter backlog, most of which is scheduled to move to construction at some point in . In addition, we are bidding or negotiating billions of dollars of additional main line pipe project opportunities and expect sizeable awards in the coming months.

With the regulatory delays we have seen recently with the main line pipe projects, we are hesitant to speak with certainty regarding exactly when these projects will move to construction. However, if the main line projects that are already in backlog plus those that are in final stages of contract negotiations move into construction as planned, we believe we could see significantly increase in our main line revenue contribution to the segment in .

With respect to other key services we provide in our oil and gas infrastructure segment, our natural gas distribution and Integrity work has been growing nicely this year. We believe end market drivers and trends provide us with opportunity to grow this part of our operations next year as well.

We will continue to experience challenges in areas of our business that are impacted by the current low price oil environment, primarily in Australia, the Canadian oil sands and our offshore Gulf of Mexico operation. That said, any incremental softness in these areas should be more than offset by growth in main line revenues next year.

In summary, while we have experienced challenges in , we expect improvement in our financial performance, largely from contributions from main line pipe construction. We do believe the current dynamics impacting the electric power segment are short term as we are working with several customers on future large transmission opportunities.

Further, we have purchased nearly $. billion of stock year to date, which demonstrates our confidence in Quanta's long-term growth prospects. We continue to execute on our strategies that position Quanta for both near- and long-term growth and are confident in our ability to execute and deliver customer-driven solutions that have made us the industry leader that we are today.

With that, I will now turn the call over to Derrick Jensen, our CFO, for his review of our financial results. Derrick?

Derrick Jensen (CFO):

Thanks, Jim, and good morning, everyone. Today we announced revenues of $. billion for the third quarter of compared to $. billion in the prior-year third quarter.

Net income from continuing operations attributable to common stock was $. million or $. per diluted share. These results compared to net income from continuing operations attributable to common stock of $. million or $. per diluted share in the third quarter of . Net income attributable to common stock for the third quarter of was negatively impacted by a $. million net of tax charge or $. to provision for long-term contract receivable associated with change orders on a electric power transmission project that were ultimately settled earlier this year.

Adjusted diluted earnings per share from continuing operations as presented in today's press release was $. for the third quarter of as compared to $. for the third quarter of . Net income attributable to common stock for the quarter was $. million or $. per diluted share. This compares to $. million or $. per diluted share in the third quarter of last year.

Included in net income attributable to common stock and net income from discontinued operations for the third quarter of was an approximate $ million net gain or $. per diluted share associated with the sale of our fiber optic licensing operation, which was completed on August , and resulted in net after-tax proceeds of approximately $ million. The decrease in consolidated revenues in the third quarter of as compared to the same quarter last year is primarily due to a decrease in revenues from our large electric transmission and main line pipe project, which were adversely impacted by reduced customer spending and delays in project timing due to regulatory and permitting issues.

In addition consolidated revenues and earnings were negatively impacted by approximately % when compared to the third quarter of last year when quantifying the estimated impact of changes in foreign exchange rates between the quarters. Partially offsetting these decreases was a favorable impact of approximately $ million in revenues generated by companies acquired since the end of the third quarter of , primarily in our oil and gas infrastructure segment. Our consolidated gross margin was .% in the third quarter of as compared to .% in the third quarter of , primarily as a result of the negative impact of lower revenues from large electric transmission projects and main line transmission revenues, both of which typically carry higher margin.

Selling general and administrative expenses as presented in this quarter's earnings release were $. million in the third quarter of , reflecting an increase of $. million as compared to prior year's third quarter. This increase was primarily due to $. million in incremental G&A costs associated with acquired companies and $. million in higher non-cash stock based compensation associated with acquisitions and Company-wide long-term incentive programs, partially offset by $. million in lower salaries and benefits costs associated with current levels of operation.

Selling, general and administrative expenses as presented in this release as a percentage of revenues were .% in the third quarter of as compared to .% in the third quarter of . This increase was primarily attributable to the decline in revenues and its negative impact on the absorption of consolidated overhead costs.

To further discuss our segment results, electric power revenues were $. billion, reflecting a decrease of $ million quarter over quarter or approximately .%. Lower revenues were a result of reduced customer spending and delays in projects due to regulatory and permitting issues associated with large electric transmission projections and normal fluctuations in project timing as certain larger projects that were ongoing in the three months ended September , were at or near completion in the three months ended September , .

Foreign currency exchange rates also negatively impacted revenues in this segment by approximately $ million, and there was a $. million decrease in emergency restoration services revenues to $. million for the third quarter of . These negative factors were partially offset by the contribution of approximately $ million in revenues from companies acquired since the third quarter of last year as well as increased activity from smaller transmission and distribution projects.

Operating margin in the electric power segment decreased to .% in the third quarter of as compared to .% in last year's third quarter. The decrease in margin was primarily due to lower revenues from higher-margin large electric transmission projects and resulting greater percentage of revenues from small transmission projects, which typically have a lower margin profile.

Partially offsetting the decrease was the impact of lower general and administrative expenses associated with reduced compensation costs during the third quarter of as compared to last year's third quarter. In addition, operating margin in the third quarter of was negatively impacted by the previously mentioned charge to provision for long-term contract receivable.

As of September , , -month backlog for the electric power segment increased by .%, and total backlog remained relatively flat when compared to June , . The increase in -month backlog was largely due to transfers of amounts from beyond to -month backlog. These transfers were largely offset by MSA renewals with multi-year estimates.

As Jim commented, we continue to see the opportunity for additional awards although they may not contribute to sequential backlog growth. Also as compared to June , total electric power backlog has been negatively impacted by approximately $ million due to the negative effects of foreign currency.

Oil and gas segment revenues increased quarter over quarter by $. million or .% to $. million in Q . This increase was the result of revenue contributions of approximately $ million from companies acquired since the end of the third quarter of last year as well as increased revenues from distribution and other services.

Partially offsetting this increase was reduced demand for services due to lower oil prices and their impact on customer spending, normal fluctuations in large project timing as certain projects that were ongoing in Q were at or near completion in Q and regulatory delays related to certain other large main line pipe projects that have shifted work from the second half of into . Also, changes in foreign currency translation rates have reduced revenues contributed by our international operations in this segment by approximately $ million.

Operating income for the oil and gas segment as a percentage of revenues decreased to .% in Q from % in Q . This decrease is primarily due to a decrease in main line pipe revenues which typically yield higher-margin opportunities. Also contributing to the decrease in operating income as a percentage of revenues is lower demand for services associated with certain operations as a result of lower oil prices and permitting delays which negatively impacted this segment's ability to cover fixed costs.

Total backlog for the oil and gas infrastructure services segment currently sits at a record level. -month backlog increased by $ million or .% when compared to June , , and total backlog increased by $ million at September when compared to the second quarter, resulting in an overall .% increase in total backlog for this segment.

Backlog increases are primarily associated with main line pipe awards largely expected to move into construction in . Corporate and unallocated costs increased $ million in the third quarter of as compared to Q , primarily as a result of $. million in higher non-cash stock-based compensation associated with acquisitions and Company-wide long-term incentive programs, $. million in higher acquisition and integration costs, and $. million in higher salaries and benefits due to the increased personnel to support strategic initiatives as well as cost of living increases.

For the third quarter of , operating cash flow from continuing operations provided approximately $ million. Net capital expenditures were approximately $ million, resulting in approximately $ million of free cash flow as compared to negative free cash flow of approximately $ million for the third quarter of . Prior year's free cash flow was negatively impacted by the timing of projects as certain electric power transmission projects were ramping up during the three months ended September , , which resulted in an increase in working capital requirements during the period.

Operating cash flows from continuing operations for the nine months ended September , provided approximately $ million, and net capital expenditures were approximately $ million, resulting in approximately $ million of free cash flow as compared to negative free cash flow of $ million for the nine months ended September , . I will note that overall cash flows for the fourth quarter will be negatively impacted by a payment of approximately $ million associated with taxes payable from the gain on the sale of Sunesys.

DSOs remained fairly constant at days at September , compared with days at December , and days at September , . Investing cash flows of continuing operations during the third quarter of were impacted by aggregate cash consideration paid of approximately $. million net of cash acquired related to the closing of four acquisitions during the quarter.

Financing cash flows of continuing operations during the third quarter of were impacted by the repurchase of shares of our common stock for approximately $. billion. In addition, $ million was paid under the accelerated stock repurchase agreement or ASR which we entered into on August , for the delivery of shares that will ultimately be retired upon final settlement of the ASR. These outflows were partially offset by net borrowings of $. million under our credit facility.

We continue to receive questions on the mechanics around the ASR, so I think it makes sense to provide some additional color given the recent move in our stock price. It is important to note that the timing of delivery and retirement of shares by Quanta under the ASR for GAAP purposes is independent of any activity in the market by JPMorgan . All activity by JPMorgan pursuant to the ASR including timing, volume, and price has no impact on our share count or future cash flows.

The $ million ASR commitment, divide by the average volume weighted average price plus an agreed discount over the full term of the ASR ultimately determines the amount of shares that we will retire. Upon maturity, there will be a settling of the account for the total shares due. For instance, if you assume that our stock price would trade on average at around $., that mark during the life of the ASR, which was the closing price of Quanta stock price the day prior to the execution of the ASR, we would repurchase approximately . million shares.

Upon execution of the ASR, we received an initial delivery of % of this estimate or . million shares. Therefore, upon final settlement, JPMorgan would owe us approximately . million shares. However, as a result of the decline in stock price since the inception of the ASR, it is possible that the average volume weighted average price across the term of the ASR will be lower, therefore causing more shares to be delivered upon final settlement.

The ASR arrangement permitted concurrent share purchases by Quanta subject to declining monthly caps. In order to take advantage of our limited ability to purchase shares in the open market, irrespective of potential unforeseen blackout periods, the Company made the decision to put a b- plan in place a few days after our Q earnings release.

At the point in time this was put into place, we did consider the impact of an increasing or decreasing stock price over the near term. The longer maturity of the ASR provided a cost averaging approach that would extend well into the first quarter of , which in our view at the time was a reasonable approach to our share repurchase strategy in light of our continued favorable multi-year outlook.

To recap our share repurchase activity through the quarter, as previously announced, we acquired approximately . million shares of our common stock in the open market for a total cost of approximately $ million, which completed the $ million stock repurchase program authorized at the end of . Under our previously announced $. billion share repurchase authorization, we took delivery of and retired into treasury stock in accordance with GAAP . million shares with a fair market value of approximately $ million pursuant to the ASR.

We also repurchased . million shares for about $. million in additional open market transactions during the third quarter. These transactions bring the Company's repurchase activity during the nine months ended September , to a total of . million shares for a value of approximately $. billion.

Lastly, subsequent to September , , and through the date of today's release, we have repurchased another . million shares for $. million in additional open market transaction. As a result of the above, our common stock equivalent outstanding at September are approximately . million shares.

Giving effect to shares repurchased subsequent to the third quarter, our weighted average share count for the fourth quarter is expected to be . million shares, and our outstanding shares as of year end are expected to be . million. Our share count in will decrease further by the final shares settlement under the ASR as I described previously.

At September , , we had approximately $. million in cash. At the end of the quarter, we had about $.

million in letters of credit and bank guarantees outstanding to secure our casualty insurance program and other contractual commitments. And we had $. million of borrowings outstanding under our credit facility, leaving us with approximately $. million in total liquidity as of September , .

Concerning our outlook for the remainder of , we expect revenues for the fourth quarter of to range between $. billion and $. billion and diluted earnings per share from continuing operations to be $. to $. on a GAAP basis. These estimates include the benefit of an expected $. million release of income tax contingency reserves as well as share repurchase activities through October .

This guidance compares to revenues of $. billion and GAAP diluted earnings per share from continuing operations of $. in the fourth quarter of . Included within the prior year's fourth quarter is the impact of a $. million net of tax or $. per diluted share charge to provision for long - contract receivables as well as $. million of income or $. per diluted share from the release of income tax contingencies.

Our non-GAAP adjusted diluted earnings per share from continuing operations for the fourth quarter of is expected to be $. to $. and compares to our non-GAAP adjusted diluted earnings per share from continuing operations of $. in the fourth quarter of . On an annual basis, we expect revenues to range between $. billion and $. billion, and we currently anticipate GAAP diluted earnings per share from continuing operations for the year to be between $. to $. and anticipate non-GAAP diluted earnings per share from continuing operations to be between $. to $.. Our forecasted non-GAAP measures are estimated on a basis similar to the calculations of historical adjusted diluted earnings per share from continuing operations presented in our release.

We are currently projecting our GAAP tax rate for the fourth quarter to be between % and .%, which reflects an estimated tax contingency release of approximately $. million. Also, both quarter-to-quarter and annual guidance reflect the current foreign exchange rate environment. Continued movement of foreign exchange rates in the future could make comparison to prior periods difficult and actuals differ from guidance.

CapEx for all of should be approximately $ million to $ million when factoring in to date acquisitions. This compares to CapEx for all of of $. million.

On a final note, throughout , we have evaluated whether providing quarterly guidance is of value given the short-term volatility that can occur as a result of project delays and other factors that impact earnings from period to period. As we look to , we will continue to consider whether quarterly guidance remains appropriate as well as whether other methods would improve communications with investors.

This concludes our formal presentation.

We will now open the line for Q&A. Operator?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

We will take our first question from Dan Mannes with Avondale Partners.

Dan Mannes (Analyst - Avondale Partners):

Good morning everyone.

Jim O'Neil (President and CEO):

Good morning Dan.

Dan Mannes (Analyst - Avondale Partners):

First, thanks for the color on the ASR. I think that clears things up pretty nicely, but I did want to focus on the electric business obviously. You've been in more competitive environments, you've dealt with small project work before and have a lot of experience.

I guess my question is, given the current environment, how much of the recent results relate to maybe the transitory effect of dealing with the transition versus what the correct run rate margins should be if this were the environment you knew you were going to be participating in? So basically can you just help us out with where you could get to -- if the current environment persists, what do you think you could manage margins to relative to the .% you've been putting up recently?

Jim O'Neil (President and CEO):

Well I think, Dan that's a very good question and there's a couple of factors there. One, I want to reiterate that there's no reason why we couldn't operate with the current level of business at a % operating margin, but you bring up a good point.

We've got transition going. One of the major things that's occurring is we had a significant amount of transmission resources in the industry working our large projects. They flooded the market. I think it took everybody in the industry by surprise as the impact that it had on the smaller transmission market.

So right now, we do have an oversupply of labor, the market's become more competitive. We can deal with that. We need to keep a level of main line resources or -- excuse me, large transmission resources to capitalize on projects on the horizon, but if that didn't happen, hypothetically, we could certainly adjust our cost structure to get back into the % range.

So we're in a very fluid market right now, and we're evaluating it almost every day. But I do think that we are at some point of stabilizing the business and now we will just adjust going forward as the market begins to develop especially in the large transmission arena.

Dan Mannes (Analyst - Avondale Partners):

Got it, and then transitioning over to the oil and gas business. Your commentary has been fairly consistent with what we heard in the market, and your peers as it relates to large work coming in. Can you talk to us -- and I know this is a challenging topic -- about the capacity you guys can bring to bear for next year, where you guys are in terms of utilization if booked and expected projects play out, and how much more you could even conceivably do next year on the main line front?

Jim O'Neil (President and CEO):

Well, I think utilization is based on how the projects lay out, right? And we don't have a real clear picture of that right now because it's early. You get a $ million main line project that could last four months versus a $ million electric transmission project which could last a year and a half, so it depends on how the projects lay out.

I will tell you that we believe we've got plenty of utilization to take care of the work that we have in backlog that we plan to go to -- excuse me, plenty of resource capacity to handle the work we have in backlog in and the work that we're continuing to negotiate for . So it's very similar to electric transmission when it ramped up in .

We were on three jobs, and we ended up doing about five times that much in a period of two years. So we will be able to -- we're prepared and ready to take on as much work as we can at our margin profile.

Dan Mannes (Analyst - Avondale Partners):

Sounds good, thank you very much.

Operator:

As a reminder, in the interest of time today, we ask you limit yourself to one question and one follow-up. We will take our next question from Andy Wittmann at Robert W. Baird.

Andy Wittmann (Analyst - Robert W. Baird):

Hi. So I guess in the script, you guys commented that you felt like the pipeline business -- a couple things need to break your way, that it would be up in . I don't know if I caught a similar comment on T&D with some of the puts and takes going on there now. Jim, I guess what's the net outlook as you're heading into on the T&D side?

Jim O'Neil (President and CEO):

Andy, I think that's a good question. I will tell you that right now distribution into the smaller transmission market has a growth feel to it.

There's thousands of projects there in any given quarter, and it's been pretty predictable over the last four years. And I don't expect that dynamic is going to change.

The large transmission market is what obviously is a wild card. We don't have a real good feel as to when those projects will both get through the permitting process and move to construction.

So do we think some projects are going to move into construction in ? We do, but it's hard to pinpoint, so it's hard to tell what the segment's going to do overall.

I do think that both segments as I said in my script have the opportunity for growth next year, and I do think is a transition year for the electric power segment. But I can't really give any color as to big transmission right now.

It's early, and certainly with what's happened over the last several quarters, I'm going to -- times my friend. And I want to wait until February before I provide some real specific color on the large transmission market dynamics.

Andy Wittmann (Analyst - Robert W. Baird):

Appreciate those perspectives. And Derrick, I guess a question a lot of investors are looking at right now is what kinds of things can you do from a process perspective as we look at results coming in during the quarter to avoid some of the surprises that we've seen in the last couple? Are there systems processes, communication, things that need to be happening inside the Company to head off some of the surprises that we've seen in last couple of quarters?

Derrick Jensen (CFO):

Well, I mean when you think about the first half of the year, we will go through and talk about the substantial portion of the first half of the year was a weather dynamic, and we're not necessarily weather forecasters. And those things will -- any major weather event will impact us throughout despite our best efforts to forecast.

In addition, a couple of the things that happened in the first half of the year were very one-off project-specific type items. If you will recall, we talked about the cumulative effect of a couple of the jobs is about $ million. Although very sizeable, it was isolated to the one or two individual jobs rather than being something having to do with the overall forecasting process.

As it relates to the third quarter, we started to see some degree of softness in much of the things that Jim has talked about, but what we -- in our minds we needed to look to see exactly how those things played out and make a determination as to what was there from a standpoint of contingencies on remaining projects and how those would execute through, et cetera, relative to being able to establish what we really felt like was current here in the third quarter. So I don't think -- I think the third quarter is unique versus what the dynamics were in the first and second quarter. But again, to your point, we will always be mindful of what information we gather in here and how we can digest it in a way to insure our forecast in the future continues to better align with our real expectations.

Operator:

We will take our next question from Tahira Afzal at KeyBanc.

Tahira Afzal (Analyst - KeyBanc):

Hi, folks, and Jim, nice to see at least some stability returning.

Jim O'Neil (President and CEO):

Thank you, Tahira.

Tahira Afzal (Analyst - KeyBanc):

So I guess first question is, Andrew asked about the revenues and where those could swing on the electric T&D side. So let me get on the other side and ask would you at least see backlog growth, are you concerned about that for electric T&D in total?

Jim O'Neil (President and CEO):

My views on backlog are unchanged from past years, past quarters and years. I think backlog will continue to be strong.

I'm not going to say we're going to have record levels every quarter that we've seen this quarter, but it's going to be strong. And that's an indication of the multi-year outlook we have in the business.

So look, I'm very confident about . I think is going to be a very good year. was an anomaly. It happened. We aren't happy with it, but we've got really good things going in in both the electric power and on the oil and gas segments.

So I think backlog should be strong going into . I think these big transmission projects will break through and will get back to some level of normalcy in what we've seen over the last few years.

We're just in a pause right now, but I'm very confident about and frankly the next several years, over a multi-year basis. I think we just had an adjustment in the market, and we're ready to move forward again. And is going to be definitely a better year than in my opinion.

Tahira Afzal (Analyst - KeyBanc):

Got it, okay Jim, that's helpful. And second question is more thematic. Over the past several months, we've seen several utilities buying gas distribution companies.

I know you do some Integrity work on the gas side. Could we all focus on your large pipe and gathering shale activity on the pipeline side, but are you watching what's happening in terms of M&A there, and does that present an opportunity for yourselves?

Jim O'Neil (President and CEO):

Well, we've predicted that there was going to be a convergence of both the electric power and natural gas companies. We expected that.

I mean, one of the primary drivers there is the coal to gas switching and the need for significant natural gas infrastructure to feed these power plants, which is one of the big growth drivers on main line pipe. And certainly, it's an opportunity for our customers who have to -- on the electric side who have to ensure a reliable power delivery that those pipeline systems are within their control.

So yes, we're seeing some convergence of those industries in our customer base, and we have been positioning our Company to take advantage of that by having the diversity to serve both the electric power and oil and gas segments. And I think that it can't do anything but help us down the road from a strategic standpoint as our customers are looking to contractors like Quanta to provide a broader solution to them across their entire portfolio.

Tahira Afzal (Analyst - KeyBanc):

Thanks a lot, Jim.

Operator:

We will take our next question from Matt Duncan at Stephens.

Matt Duncan (Analyst - Stephens):

Good morning guys.

Jim O'Neil (President and CEO):

Hi, Matt.

Matt Duncan (Analyst - Stephens):

Jim, I'm going to come at trying to get a view on from a little bit different angle. If you were to not see any large electrical transmission projects awarded to you that you would begin work on next year, would you be able to grow that business on the top line just based on the small to medium size projects that you're seeing, or would that be difficult to do without large projects?

Jim O'Neil (President and CEO):

I think that would be difficult to do without large projects if we didn't see any new transmission projects. I think we would probably have it be flattish to slight negative. But I think the bottom line still could grow, particularly since we had some job issues and some weather issues in .

So we got a pretty good comp against to grow the bottom line, so I think there's two different dynamics working there. We certainly feel confident the bottom line could grow in over in the electric power segment.

Matt Duncan (Analyst - Stephens):

Okay. And in oil and gas, a couple things. Can you give us a little bit of color on what types of projects you were seeing out there in the bid environment?

Are you seeing implied margins in these bids get any better as this market's beginning to tighten? We're seeing good backlog growth across the industry, and given what you are expecting in main line pipeline work, is it fair to say that business ought to grow around % or perhaps better next year given the pace of backlog growth we're seeing out of you guys?

Jim O'Neil (President and CEO):

Yes, I mean I think if you look at backlog as a key indicator, you would expect that you would have a double-digit type growth on the top line if projects move through the permitting process as we expect. In order for it to have that material impact that we expect -- main line to have that material impact that we expect next year, I would expect that you would have that type of growth profile.

And we've talked about that in the past. We've talked about we would start seeing a material uptick in main line pipe construction opportunities.

As far as the margins, I think the margin profile is really driven a lot by the contract types and the strategic alliances that we have with many of our customers on main line. We're building multi-year programs for them, and the contractual relationship is different. And it's more of a shared risk, and it's conducive to us having more stable margins in that sector.

Certainly we have to execute, but I think that it's more favorable for us in the industry. You will see a better margin profile going forward.

Matt Duncan (Analyst - Stephens):

Yes, so I think the margins you said that segment can do are % to %. And I'm assuming with the mix shifting back to main line you ought to be in that range next year?

Derrick Jensen (CFO):

Matt, this is Derrick. I would tell you that schematically I wouldn't disagree with that. I think one of the main things that would probably give me pause is saying unique to next year is -- as we sit here today as from a guidance perspective.

And we will be trying to address that clearly as we move forward into, as Jim said, a February time frame when we give our ultimate guidance. But when we look at the last half of this year and push out at the main line jobs, and you look at ultimately how our margins in the third quarter and implied fourth-quarter margins in that segment, you can see how those delays in projects can individually impact the margin profile.

And so as we stand here today, as Jim had said, on the timing of those awards and/or their actual permitting or moving to construction, to the extent we see any of the latter half of next year get pushed at all, then you'd see some impact in that % to % dynamic. So that's why at this stage we aren't quite at the spot of quantifying, but what I'd say is whether from a volume perspective and if you look out over the multiple quarters exclusive of the finite period, then I'd say that we think there's a volume of work that should stay -- overall allow us to operate in that % to %. We just aren't yet quantifying that to based upon that risk of delay.

Operator:

We will go next to Steven Fisher with UBS.

Steven Fisher (Analyst - UBS):

Thanks, good morning.

Jim O'Neil (President and CEO):

Morning, Steve.

Steven Fisher (Analyst - UBS):

Morning. I know you guys have been hesitant to let key resources go while big projects are still in the works, but what are you doing to improve your cost position and margins particularly in electric? And I guess what timing would you have to see in terms of these big projects in order to make a decision to be more aggressive in cost action?

Jim O'Neil (President and CEO):

I don't want to give the impression that we haven't let anybody go. We've had some of our operating units adjusting costs in areas regionally that we have seen some softness, but it isn't imperative that we maintain some critical personnel and some specialized equipment to execute on these larger projects.

It is a fluid situation, Steve. I can't give you a black and white answer that says in January or March, if we don't see improvement, we're going to make some significant cuts. But I do want to reiterate that we understand where we need to be as a Company and as a Management team with our margin profile, and we will continue to be diligent on that and evaluate the environment on a basis and make the decisions when necessary.

I think we set the expectations that we're going to have a better year in than we did in , and we will have a better year in the electric power segment on the bottom line in than in . So there will have to be -- either we will get main line work or we're going to have to make some adjustments -- excuse me, large transmission work or make adjustments. But I can't put a timeline on that.

Steven Fisher (Analyst - UBS):

Okay, and on the -- sticking with the electric business, with revenues down % in the quarter, FX sounds like there's only about a % impact. So still a double-digit decline.

And I know, Jim, you really can't predict the large transmission project timing, that's very fair. But are there any other things that you can see with high degree of confidence that will moderate that double-digit pace over the next few quarters, be it acquisitions or anything like that? And then if it's still a double-digit pace of decline, is that a scenario where you can still feel like you can grow your bottom line in electric power?

Jim O'Neil (President and CEO):

Well, I want to say that on the full year, we expect growth on an organic basis. As we go into the first half of next year, we have seasonality for one thing. And I do expect that some of the fourth-quarter dynamics will take -- will go likely transition into the first part of next year.

So we have large projects in backlog, and we expect we will accelerate our move into construction at some point in time during the year. I just don't want to predict right now when that's going to happen. But I do expect the electric power segment to perform better on the bottom line organically than what it has in .

Steven Fisher (Analyst - UBS):

Okay, thanks.

Operator:

We will go next to William Bremer at Maxim Group.

William Bremer (Analyst - Maxim Group):

Good morning gentlemen and appreciate the color.

Jim O'Neil (President and CEO):

Good morning, Bill.

William Bremer (Analyst - Maxim Group):

You mentioned you pulled out Integrity, and I'd like to go there first. Can you give us a sense of the massive service agreements that are attached to that?

What size -- how many years do these contracts go out, and can you give us a sense of the top diameters that you're working with there on these pipelines? That is the first question.

Second, love to get an update on two markets that you didn't voice today which would be Australia as well as Canada, and just give us a sense of what's happening there now and the strategy going forward if they don't improve?

Jim O'Neil (President and CEO):

Yes, thank you, Bill. As far as the Integrity work, yes, it's an area of our business that continues to grow. We continue to expand there.

We do have master service agreements in place for several customers. They range from three to five years on average, the PG&E contract being the flagship for that type of contract.

The size of pipes range, they vary. You've got cast iron replacement programs, and you've got some smaller diameter, anywhere from two-inch residential type programs to -inch main line programs in rural or municipal areas. So the pipe sizes range the full gamut.

As far as comments on Australia, I mean Australia has been hit hard by the oil price, and in the China, China's growth slowing. So the exports are less than what we anticipated when we first entered that market.

But with that said, it's still an area that we are excited to be in on the ground floor, and we will continue to build that business over a multi-year basis. I think it's going to be important to Quanta five years from now.

The contributions from Australia and other international areas like Canada and Latin America will be important five years from now, but we are going to see the Canadian in Alberta. Alberta, Australia and the Gulf of Mexico have been impacted by the price of oil. I don't expect much more downturn in those areas.

I think they settled out, and in fact, we are seeing some areas return to some level of growth as some of the competitors, the smaller competitors in those markets have exited. But it's a real-time situation that we're monitoring, but any softness in those markets will certainly be made up by the main line revenue that we expect to move to construction over the next several years.

Operator:

We will go next to John Rogers at D.A. Davidson.

John Rogers (Analyst - D.A. Davidson & Co.):

Hi, good morning.

Jim O'Neil (President and CEO):

Good morning, John.

John Rogers (Analyst - D.A. Davidson & Co.):

Just a little more color if I could in terms of the T&D or the electrical business. Jim, what's the margin that's in your backlog now or directionally versus what you've just seen? I'm just trying to get to the confidence that it gets better next year with or without the big transmission project.

Derrick Jensen (CFO):

Yes, John, actually it's Derrick. From a margin perspective in backlog and on electric power, what I'd say is we are going to have in our mind a bit of pressure on those margins.

It's not so much though from the standpoint of what we're doing from the bidding perspective. It's much of what we're seeing more from the standpoint of our expectations of the performance again that were primarily from the dynamic of what Jim spoke about.

We've got T&D resources from the large transmission work that have been moved over, and some of those resources are working on some of that smaller transmission work. And so to that extent as we think about how we expect that backlog to perform, arguably structurally, we have to believe that it's going to perform at a lower rate. That doesn't necessarily translate into our aspect of bidding it lower, but it's just that what we were saying now is that based upon this performance, we're going to say we think it will currently execute at a slightly lower rate.

John Rogers (Analyst - D.A. Davidson & Co.):

That's very helpful. And then just on the pipeline side or the oil and gas side of the business, can you give us -- because it sounds like we're going to take another step down in margins here before they recover. And how much excess overhead are you carrying there now? Or maybe another way to ask it is, what's your capacity to do work in that segment?

Jim O'Neil (President and CEO):

Well, certainly our fixed costs in the oil and gas segment have continued to increase because we've got to prepare for this main line --

John Rogers (Analyst - D.A. Davidson & Co.):

Right.

Jim O'Neil (President and CEO):

Pipe expansion. So it's -- there is some impact there, and that is a drag on margins, especially when we expected some of these programs to start in the fourth quarter this year and they've been pushed. So we have so much work coming in that we're probably going to see some pushes, but it's going to -- we're still going to have a pretty nice uptick in revenues in that segment with main line contributions, even with pushes, because there's just so much work that's supposed to move the construction in .

You also have the Canadian dynamic with seasonality and seasonality going on right now. So you've got to be prepared because if the ground freezes, you will go to work and there's going to be a significant amount of it in Canada during this time of the year. If it doesn't, you're not going to mobilize.

So we've just got that dynamic going on, but we certainly have a higher fixed cost than that business today than we did last year because you can't just turn the switch on and start working on the amount of main line projects that we expect. You've got to prepare for that, and that takes time and it all costs money to do so.

Operator:

And we will go next to Alex Rygiel with FBR Capital Markets .

Min Cho (Analyst - FBR Capital Markets):

Great, good morning. This is Min Cho for Alex. Thanks for taking my question.

Given the uncertainty about some of the timing of the backlog moving into construction phase, do you feel -- how conservative is your -month backlog number? Is there still a certain amount of risk to that number?

Jim O'Neil (President and CEO):

Well, our backlog, we've been consistent the way we've booked backlog. And it's -- typically once we get an executed contract or some form of executed contract from the customer, it goes into backlog.

So I would say that the way we book backlog is very conservative, and I have not seen any fixed price contract that's gone into backlog ever to my knowledge get pulled out of backlog. Once it's in backlog, it moves to construction.

We've made MSA adjustments from time to time. Back in and when we went into the banking crisis, we had to adjust MSAs in backlog. But as far as lump sum fixed price contracts, I would say that I'm very -- with a high degree of confidence that if it hits backlog, it's going into construction.

Min Cho (Analyst - FBR Capital Markets):

Right. I'm concerned more with the -month backlog number and the potential for push outs of projects beyond that months?

Jim O'Neil (President and CEO):

Well okay, I understand. I think that again, you're probably going to have pushes in -month backlog because we've seen pushes over the last three to four years, and nothing's changed in that dynamic.

But what's different is that there's going to be a significant amount of main line work. We booked as we talked today on the call several billion dollars worth of main line projects, many of which will be moving to construction or plan to move to construction in .

Will you have some pushes in that backlog? Absolutely. I'd say it's almost certain you will have some pushes, but with what's left that does go in , it's still going to be materially more than what we seen here in , so we will have some pushes out of backlog.

Min Cho (Analyst - FBR Capital Markets):

Okay.

Jim O'Neil (President and CEO):

There's no question in my mind that will happen, but it's not going to impact our excitement about what moves revenue in .

Min Cho (Analyst - FBR Capital Markets):

Okay that's fair. Also I know you've been asked this question in the past and you've been fairly conservative about the opportunity in Mexico, for natural gas pipe. Any change to the strategy there?

Jim O'Neil (President and CEO):

No. Mexico continues to be an area that we recognize there will be significant amount of opportunities there. And it just depends upon our customer base, especially some of our key customers, whether they move down there and they want us to move with them in more of a collaborative partnership type role.

We continue to evaluate it, but it is a higher risk area than Canada and the United States for sure, and there's a lot of work for us to do here in Canada and the US. So we will go to Mexico if we can mitigate the risk or we will evaluate going to Mexico if we can mitigate the risk, but right now, our opportunities are in Canada and the US.

Operator:

We will go next to Jamie Cook at Credit Suisse.

Unidentified Participant:

Hi, good morning. This is actually Ben on for Jamie. Two questions for Derrick.

First I guess going back to the margins. I appreciate you can't quantify your expectations for , but can you at least help us with your expectations by segment for Q just so we can get a better sense for the run rate in ?

And then second, just on the free cash flow. Conversion has been pretty good year to date. I know it will come down in Q, but how should we think about just because as main line ramps up, I imagine more cash will be tied up in working capital.

Derrick Jensen (CFO):

Yes, actually starting with your last question, I think that's a fair assumption for . Exactly right, the main line projects have a tendency to be fairly rapid ramp-ups and be sizeable projects that happen over a short period of time. So depending on the timing of that, you can see a pretty substantial draw of that capital.

And then from a timing perspective then, of course it depends on how much of that work is coming in the fourth quarter as to whether -- if any of that gets pushed, whether that would turn to cash in or continue the roll and make it such that it goes into . So I do believe it's a fair expectation that cash flow will be lower than cash flow.

From a margin perspective on the fourth quarter, I can comment I'd say electric power is probably going to be in and around the % or % range, we will say, and oil and gas because the timing is probably like in say the % to % range. One thing though, you made the comment about it being a run rate for . I don't know that I would be looking at those fourth-quarter margins to be indicative of run rates per se.

One of the main things to recall, remember, is the seasonality aspect of the business. It's typical for our fourth-quarter margins to drift based upon the lower revenues or weather dynamics and seasonality let alone the fact of the impact of some of the main line awards, et cetera. So that's how the fourth quarter will lay out, but I'd be hesitant to say exactly how that's going to impact at this stage.

Unidentified Participant:

Okay, thanks a lot. Very helpful.

Derrick Jensen (CFO):

Sure.

Operator:

We will go next to Vishal Shah at Deutsche Bank.

Vishal Shah (Analyst - Deutsche Bank):

Yes, hi, thanks for taking my question. Jim, I apologize if this has been already asked, but can you maybe just talk about how you think the backlog is in terms of what percentage of your backlog has cleared permitting and how much still needs regulatory approval for ?

Jim O'Neil (President and CEO):

It's in various stages. I would say that once a project moves to backlog in general, most of the permitting and signing has been done, and there's a path to construction. In other words, they see that they should be able to get through the remaining hurdles.

Typically if projects are challenged to get permits that they don't move to construction typically or to the construction phase or to backlog. But I would say that in general, there's a path to getting these projects fully permitted into construction if they are in backlog.

Vishal Shah (Analyst - Deutsche Bank):

And what visibility did you have in the last transmission side in terms of the permitting process? What are your customers telling you in terms of timeline, and how do you plan for that when you think about the workforce that you have on standby for some of those projects? Thank you.

Jim O'Neil (President and CEO):

Well I mean, I think that that's an art more than a science, and we're in constant discussion with our customers. So we have a pretty good feel for when projects will move to construction. I mean obviously, we've had some surprises, so have our customers.

Really the overall profile on backlog as far as projects moving from backlog to construction hasn't changed. It's just that projects are bigger and cover longer distances and more populous areas.

So it's just a little bit more of a sensitive process for our customers to get through. But we're certainly in constant communication with our customers, and we try to plan our resources accordingly to the best we can.

Operator:

We will go next to Adam Thalhimer with BB&T Capital markets.

Adam Thalhimer (Analyst - BB&T):

Good morning, guys. Jim, on the potential delays on the pipeline side, is that -- what are you thinking about there? Is that all permitting, or are you -- because these MLPs, the stocks are down, they are talking about less access to capital. Does that matter too or is it just all permits?

Jim O'Neil (President and CEO):

It's mostly all permits. The country needs a big plant, and despite what's going on with the MLPs and in the issues that you mentioned, I mean, we've got to get product moved.

You've got to get this natural gas to these markets, and that's -- the shales are shutdown in many areas because they don't have take away capacity especially in the Marcellus and Utica. And the coal to gas switching is creating an environment where our customers need redundant gas pipeline systems in order to feed these power plants -- these new gas powered plants.

So the need for the big pipe is there regardless of the economic situation or the MLP environment. And that's what the big driver is on the pipeline boom that we expect or increase in main line pipe that we expect over the next several years.

Adam Thalhimer (Analyst - BB&T):

Okay, that's helpful. And then on the transmission side, relative to two or three or four years ago, have you seen increased competition?

Jim O'Neil (President and CEO):

No, it's the same people in the industry. You might see a Company move into the business, but they are tapping into the same resource base.

Again, you've got a limited amount of superintendents and foremen in this industry. It's a very specialized industry, but field leadership is extremely important in my opinion in order to be successful as a contractor.

This business has only ramped up really in a big way five years ago, and it's really put a strain on the industry especially at the field leadership position where it could take a decade or more to train a qualified journeyman/lineman that moves to a general foreman or a superintendent position. So I really haven't seen the competitive environment change with the blue collar workforce that executes all the work. And I think that's the most important aspect of what we do is having those self-performed capabilities, and I have not seen a significant shift if at all with that -- in that area of our business.

Operator:

We will take our final question from Jeff Volshteyn at JPMorgan .

Jeff Volshteyn (Analyst - JPMorgan):

Good morning and thank you for taking my question. I'm going to be quick. So just Jim, following on your commentary on large electric projects.

I surely understand the complexity around permitting particularly in large metropolitan areas, but perhaps you can give us a little bit of color where the delays are coming from. Is that local agencies, federal agencies, maybe a certain geography or certain functions that are being consistently slower in permitting?

Jim O'Neil (President and CEO):

Well, I don't want to sound flippant in my question, but it's all of the above. Its just become more complicated when you get into -- I mean, it's every single municipality. It's every county. It's every state.

And it's a very difficult process for our customers to get through especially in the more populous areas of the United States and Canada. You just have more jurisdictions and more permitting, and it just takes time and it's no different than really ten years ago.

I mean, some of the first transmission projects that we started building in were in the permitting process for to years in California to get approved, so it just takes time, and it's not a matter of if this infrastructure gets built. It's when, and the environmental groups have become more organized and so forth. You see that in the media, and it's just a more difficult environment. But what's frustrating to us is to predict when these projects move or forecast when these projects move to construction.

Jeff Volshteyn (Analyst - JPMorgan):

Do you feel that these projects are appropriately funded and there's not a funding issue as well?

Jim O'Neil (President and CEO):

It's not a funding issue for the customers that we're working for, no. Many of our customers have, when you look at the pipeline companies, they have firm shipping agreements in place, shipper agreements in place to build the infrastructure.

And our customers who need to build pipeline infrastructure to feed power plants and so forth, if it's not a independent pipeline company that owns that project that has a shipper agreement in place, it's a utility that gets recouped through the rate base. So no, financing is not an issue with the projects that we see in our backlog.

Operator:

At this time, that does conclude today's question and answer session. I'd like to turn the call back over to Management for any additional or closing remarks.

Jim O'Neil (President and CEO):

Okay, well this is Jim O'Neil. I would like to thank all of you for participating in our third-quarter conference call.

We do appreciate your questions and your ongoing interest in Quanta Services . Thank you and this concludes our call for today.

Operator:

This does conclude today's conference. Thank you for your participation.