

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-Q (Quarterly Report)

Filed 05/16/94 for the Period Ending 03/31/94

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, CO 80021
Telephone	7208881000
CIK	0000794323
Symbol	LVLT
SIC Code	4813 - Telephone Communications, Except Radiotelephone
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-Q (Quarterly Report)

Filed 5/16/1994 For Period Ending 3/31/1994

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, Colorado 80021
Telephone	720-888-1000
CIK	0000794323
Industry	Communications Services
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# FORM 10-Q

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended March 31, 1994

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period \_\_\_\_\_ to \_\_\_\_\_

*Commission file number 0-15658*

### PETER KIEWIT SONS', INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

47-0210602  
(I.R.S. Employer  
identification No.)

1000 Kiewit Plaza, Omaha, Nebraska  
(Address of principal executive offices)

68131  
(Zip Code)

402-342-2052

(Registrant's telephone number,  
including area code)

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

The number of shares outstanding of each class of the issuer's common stock, as of May 1, 1994:

Class B Common Stock.....	1,000,400 shares
Class C Common Stock.....	14,142,652 shares
Class D Common Stock.....	20,442,129 shares

**PETER KIEWIT SONS', INC.**

**Part I - Financial Information**

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PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Earnings  
(unaudited)

(dollars in millions, except per share data)	Three months ended March 31,	
	1994	1993
Revenue	\$ 573	\$ 437
Cost of Revenue	(521)	(387)
	<u>52</u>	<u>50</u>
Operating Expenses	(54)	(40)
Operating Income (Loss)	<u>(2)</u>	<u>10</u>
Other Income (Expense):		
Gain on Subsidiary's Stock Activity, net	25	-
Investment Income	21	19
Interest Expense	(17)	(2)
Other, net	3	3
	<u>32</u>	<u>20</u>
Earnings Before Income Taxes and Minority Interest	30	30
Provision for Income Taxes	(14)	(10)
Minority Interest in Loss of Subsidiaries	7	-
Net Earnings	<u>\$ 23</u>	<u>\$ 20</u>
	=====	=====
Earnings (Loss) Attributable to Class B&C Stock:		
Net Earnings (Loss)	\$ (2)	\$ 5
	=====	=====
Earnings (Loss) per Common and Common Equivalent Share	\$ (.14)	\$ .25
	=====	=====
Earnings Attributable to Class D Stock:		
Net Earnings	\$ 25	\$ 15
	=====	=====
Earnings per Common and Common Equivalent Share	\$ 1.21	\$ .77
=====	=====	=====

Cash Dividends per Common Share:		
B&C Stock	\$ -	\$ .30
	=====	=====
D Stock	\$ -	\$ .50
	=====	=====

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See accompanying notes to consolidated condensed financial statements.

**PETER KIEWIT SONS', INC.**

**Consolidated Condensed Balance Sheets**

	March 31, 1994	December 25, 1993
(dollars in millions)	(unaudited)	
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 259	\$ 296
Marketable securities	1,433	1,082
Receivables, less allowance of \$7 and \$7	331	296
Costs and earnings in excess of billings on uncompleted contracts	91	79
Investment in construction joint ventures	58	81
Deferred income taxes	75	66
Other	68	54
Total Current Assets	<hr/> 2,315	<hr/> 1,954
Property, Plant and Equipment, less accumulated depreciation and amortization of \$656 and \$636	910	844
Investments	233	233
Intangible Assets, net	496	415
Other Assets	239	238
	<hr/> \$ 4,193	<hr/> \$ 3,684
	=====	=====
<hr/>		

See accompanying notes to consolidated condensed financial statements.

**PETER KIEWIT SONS', INC.**

**Consolidated Condensed Balance Sheets**

(dollars in millions, except per share data)	March 31, 1994 (unaudited)	December 25, 1993
<hr/> Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 237	\$ 260
Current portion of long-term debt:		
Telecommunications	9	7
Other	8	8
Accrued costs and billings in excess of revenue on uncompleted contracts	120	107
Accrued insurance costs	68	67
Other	140	140
Total Current Liabilities	<hr/> 582	<hr/> 589
Long-Term Debt, less current portion:		
Telecommunications	911	420
Other	58	42
Deferred Income Taxes	409	385
Retirement Benefits	70	71
Accrued Reclamation Costs	93	92
Other Liabilities	104	116
Minority Interest	310	298
Stockholders' Equity:		
Preferred stock, no par value, Authorized 250,000 shares: no shares outstanding	-	-
Common stock, \$.0625 par value, \$1.6 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: 1,000,400 outstanding in 1994 and 1,180,400 in 1993	-	-
Class C, authorized 125,000,000 shares: 14,187,510 outstanding in 1994 and 16,316,070 in 1993	1	1
Class D, authorized 50,000,000 shares: 20,525,144 outstanding in 1994 and 20,010,696 in 1993	1	1
Additional paid-in capital	161	164
Foreign currency adjustment	(7)	(3)
Net unrealized holding gains (losses)	(2)	9
Retained earnings	1,502	1,499
	<hr/>	<hr/>



Total Stockholders' Equity	1,656	1,671
	<u>\$ 4,193</u>	<u>\$ 3,684</u>
	=====	=====

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See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows  
(unaudited)

(dollars in millions)	Three months ended March 31,	
	1994	1993
Cash flows from operations:		
Net cash provided by continuing operations	\$ 3	\$ 39
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	992	1,856
Purchases of marketable securities	(1,355)	(1,823)
Proceeds from sales of property, plant and equipment, and other investments	4	5
Capital expenditures	(74)	(33)
Acquisition of APAC-Arizona, Inc.	(49)	-
Redemption of U.S. Can Preferred Stock	-	12
Deferred development costs and other	(8)	(3)
Net cash provided by (used in) investing activities	(490)	14
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	639	-
Payments on long-term debt, including current portion	(159)	(1)
Net change in short-term borrowings	1	(80)
Repurchases of common stock	(22)	(46)
Dividends paid	(6)	(12)
Other	(3)	-
Net cash provided by (used in) financing activities	450	(139)
Cash flows from discontinued packaging operations:		
Proceeds from sales of discontinued packaging operations	-	10
Other cash provided by discontinued packaging operations	2	-
Net cash provided by discontinued packaging operations	2	10
Effect of exchange rates on cash	(2)	-
Net change in cash and cash equivalents	(37)	(76)

Cash and cash equivalents at beginning of period	296	203
Cash and cash equivalents at end of period	<u>\$ 259</u>	<u>\$ 127</u>
	=====	=====
Noncash investing activities:		
Issuance of MFS stock for purchase of telecommunications companies	\$ 19	\$ -
MFS stock transactions to settle contingent purchase price liability	25	-
Noncash financing activities:		
Dividends declared	\$ -	\$ 15

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See accompanying notes to consolidated condensed financial statements.

# PETER KIEWIT SONS', INC.

## Notes to Consolidated Condensed Financial Statements

### 1. Basis of Presentation:

The consolidated condensed balance sheet of Peter Kiewit Sons', Inc. ("PKS") and subsidiaries (the "Company") at December 25, 1993 has been condensed from the Company's audited balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position and results of operations for the periods presented. The Company's accounting policies and certain other disclosures are set forth in the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 25, 1993.

Marketable securities at March 31, 1994 and December 25, 1993 include approximately \$62 million and \$56 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at March 31, 1994 and December 25, 1993 include approximately \$51 million and \$37 million, respectively of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

Where appropriate, items within the consolidated condensed financial statements have been reclassified from the previous periods to conform to current year presentation.

### 2. Earnings (Loss) Per Share:

Primary earnings (loss) per share of common stock have been computed using the weighted average number of shares outstanding during each period. Fully diluted earnings (loss) per share have not been presented because it is not materially different from primary earnings (loss) per share. The number of shares used in computing earnings (loss) per share was as follows:

	Three months ended March 31,	
	1994	1993
Class B&C	15,376,585	17,190,330
Class D	20,546,044	19,913,554

**Notes to Consolidated Condensed Financial Statements****3. Summarized Financial Information:**

Holders of Class B&C Stock (Construction & Mining Group) and Class D Stock (Diversified Group) are stockholders of PKS. The Construction & Mining Group contains the Company's traditional construction operations and certain mining services. The Diversified Group contains coal mining properties, telecommunications subsidiaries, a minority interest in California Energy Company, Inc. ("California Energy") and miscellaneous investments. Corporate assets and liabilities which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group are allocated equally between the two groups.

A summary of the results of operations and financial position for the Construction & Mining Group and the Diversified Group follows. The summary information for December 25, 1993 was derived from the audited financial statements of the respective groups which were exhibits to the 1993 Annual Report. All other summary information was derived from the unaudited financial statements of the respective groups which are exhibits to this Form 10-Q. All significant intercompany accounts and transactions, except those directly between the Construction & Mining Group and the Diversified Group, have been eliminated.

Construction & Mining Group:	Three months ended March 31,	
	1994	1993
Results of Operations:		
Revenue	\$ 411	\$ 354
	=====	=====
Net earnings (loss)	\$ (2)	\$ 5
	=====	=====
Earnings (loss) per share	\$ (.14)	\$ .25
	=====	=====

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Condensed Financial Statements**

3. Summarized Financial Information (continued):

	March 31, 1994	December 25, 1993
Financial Position:		
Working capital	\$ 269	\$ 372
Total assets	838	889
Long-term debt, less current portion	8	10
Stockholders' equity	421	480

Included within earnings before income taxes is mine service income from the Diversified Group of \$7 million in 1994 and 1993.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Condensed Financial Statements**

3. Summarized Financial Information (continued):

Diversified Group:	Three months ended March 31,	
	1994	1993
Results of Operations:		
Revenue	\$ 162 =====	\$ 83 =====
Net earnings	\$ 25 =====	\$ 15 =====
Earnings per share	\$ 1.21 =====	\$ .77 =====
	March 31, 1994	December 25, 1993
Financial Position:		
Working capital	\$ 1,464	\$ 993
Total assets	3,363	2,809
Long-term debt, less current portion	961	452
Stockholders' equity	1,235	1,191

Included within earnings before income taxes is mine management fees paid to the Construction & Mining Group of \$7 million in 1994 and 1993.

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Condensed Financial Statements**

**4. Acquisitions:**

On February 28, 1994, the Company acquired APAC Arizona, Inc. ("APAC"), a contracting and construction materials business, from Ashland Oil Company, Inc.

The acquisition of APAC for \$49 million in cash, subject to certain adjustments, was accounted for as a purchase and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed, as follows:

**Assets:**

Trade accounts receivable	\$ 24
Other current assets	5
Property, plant and equipment	22
Intangible assets	18
Other assets	1

**Liabilities:**

Current liabilities	(15)
Deferred income taxes	(6)

\$ 49  
=====

Results of APAC's operations are included in the Company's consolidated results of operations since the date of acquisition. APAC's results of operations prior to the acquisition were not significant relative to the Company's results.

**5. Long-Term Debt:**

On January 19, 1994, MFS Communications Company, Inc. ("MFS") issued 9-3/8% Senior Discount Notes due January 15, 2004. Cash interest will not be paid on the notes prior to January 15, 1999. Accordingly, MFS recorded the net proceeds, exclusive of transaction costs, of approximately \$500 million as long-term debt and is accruing to the principal amount of the notes of \$788 million through January 1999. Commencing July 15, 1999 cash interest will be payable semi-annually.



## **PETER KIEWIT SONS', INC.**

### **Notes to Consolidated Condensed Financial Statements**

#### **5. Long-Term Debt (continued):**

On or after January 15, 1999, the notes will be redeemable at the option of MFS, in whole or in part, as stipulated in the note agreement. In addition, under certain conditions related to a change in control of MFS, they may be required to repurchase all or any part of the notes as stipulated in the note agreement. The notes are senior unsecured obligations of MFS and are subordinated to all current and future indebtedness of MFS's subsidiaries, including trade payables. The notes contain certain covenants which, among other things restrict MFS's ability to incur additional debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates, and sell assets or merge with another company.

#### **6. Other Matters:**

In 1994, the Company settled, for \$25 million, a contingent liability resulting from MFS' 1990 purchase of Chicago Fiber Optics Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Company, valued at current market prices, as payment of the obligation. This transaction, along with stock issuances for acquisitions by MFS and the exercise of MFS employee stock options, resulted in a \$25 million net gain to the Company.

On March 16, 1994 MFS made an offer to purchase all outstanding shares of common stock and associated preferred share purchase rights of Centex Telemanagement, Inc. (Centex) at \$9 per share. On May 2, 1994, MFS announced that it had signed a merger agreement with Centex, which amended its offer to \$11 per share. The offer is conditioned upon, among other things, there being validly tendered a number of shares that, when added to the number of shares currently beneficially owned by MFS, will represent at least a majority of the Centex shares outstanding on a fully diluted basis. The offer expires on May 17, 1994.

On March 4, 1994, several former stockholders of an MFS subsidiary filed a lawsuit against MFS, Kiewit Diversified Group, Inc. ("KDG") and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of the subsidiary to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs

**PETER KIEWIT SONS', INC.**

**Notes to Consolidated Condensed Financial Statements**

**6. Other Matters (continued):**

allege that MFS fraudulently concealed material information about its plans from them causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS' liabilities pursuant to the indemnity agreement. Any settlement amount would be treated as an adjustment of the original purchase price and recorded as additional goodwill.

The Company is involved in other various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability for legal proceedings beyond that provided should not materially affect the Company's financial position.

See "Legal Proceedings" with respect to the Whitney Benefits case.

**7. Subsequent Event:**

On April 1, 1994, C-TEC Corporation ("C-TEC") signed an agreement to sell its cellular properties to Independent Cellular Network, Inc. for \$183 million, subject to regulatory approvals. The Company does not expect to recognize a gain or loss from this transaction, but instead will reallocate the original purchase price among C-TEC's net assets as required by purchase accounting guidelines.

## PETER KIEWIT SONS', INC.

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

Separate management's discussion and analysis of financial condition and results of operations for the Kiewit Construction & Mining Group and the Kiewit Diversified Group have been filed as Exhibits 99.A and 99.B to this report. The Company will furnish without charge a copy of such exhibits upon the written request of a stockholder addressed to Stock Registrar, Peter Kiewit Sons', Inc., 1000 Kiewit Plaza, Omaha, Nebraska 68131.

Revenue from each of the Company's business segments for the three months ended March 31 comprised the following (in millions):

	1994	1993
	<hr/>	<hr/>
Construction	\$ 405	\$ 350
Mining	57	55
Telecommunications	107	29
Other	4	3

### **Results of Operations - First Quarter 1994 vs. First Quarter 1993**

#### **Construction**

Construction revenue increased 16% during the first quarter of 1994 compared to the same period in 1993. The increase primarily relates to a 30% increase in joint venture revenues and revenues generated by APAC. The increase in joint venture revenue resulted from several large design-build projects awarded in 1992 and 1993 entering the construction phase. These projects include the San Joaquin Toll Road project in southern California and the Montgomery County Resource Recovery Facility near Baltimore, Maryland. The Company's contract backlog remained at \$2.2 billion at March 31, 1994. Foreign operations, principally Canada, accounted for 10%, and projects on the west coast accounted for approximately 50% of the total backlog. The San Joaquin Toll Road joint venture accounts for 19% of the contract backlog and is scheduled for completion in 1997.

The gross margin on construction contracts decreased to 4% for the first quarter of 1994 from 7% during the first quarter of 1993. The recognition of projected cost overruns on certain east coast projects and the deferral of gains on the San Joaquin Toll Road project, because of environmental and construction uncertainties, contributed to the decline.

## PETER KIEWIT SONS', INC.

### Results of Operations - First Quarter 1994 vs. First Quarter 1993

(continued)

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#### **Mining**

Mining revenues and gross profits for the first quarter of 1994 increased 3% and 9%, respectively, over the first quarter of 1993. Additional sales on the "spot" coal market from the Black Butte mine favorably impacted revenue and earnings. Downsizing of the Black Butte mine during the last nine months of 1993 also contributed to the higher margin. The downsizing resulted from the renegotiation of the Commonwealth Edison Company contract in late 1992.

#### **Telecommunications**

In the first quarter of 1994, the components of telecommunications revenue were: 68% - C-TEC operations; 21% - MFS telecommunications services; and 11% - MFS network systems integration and facilities management services. In the first quarter of 1993, revenue was comprised of 52% - MFS telecommunications services and 48% MFS network systems integration and facilities management services.

C-TEC activity accounted for \$72 million of telecommunications revenues. The telephone and cable television groups generated the majority of the revenues.

MFS telecommunications services revenue rose \$7 million, or 47%, to \$22 million from the first quarter of 1993. Market penetration and network expansion in New York, Chicago, Washington, D.C., New Jersey, and Atlanta accounted for 67% of the increase. New services provided by MFS Datanet and MFS Intelenet also contributed to the revenue increase.

MFS network systems integration and facilities management revenue decreased \$1 million, or 7%, to \$13 million, from the first quarter of 1993. Increases in revenue recognized by various network systems projects partially offset a decrease in revenue recognized from the network integration project for the State of Iowa which is now substantially complete.

Components of 1994's first quarter telecommunications cost of revenue were: 62% - C-TEC operations; 29% - MFS telecommunications services; and 9% - MFS network systems integration and facilities management services. In the first quarter of 1993 cost of revenue consisted of 57% - MFS

**PETER KIEWIT SONS', INC.**

**Results of Operations - First Quarter 1994 vs. First Quarter 1993**

(continued)

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**Telecommunications (continued)**

telecommunications services and 43% - MFS network systems integration and facilities management services.

C-TEC activity accounted for \$61 million of telecommunications cost of revenue. The telephone and cable television groups generated the majority of these costs.

MFS telecommunications services cost of revenue increased \$13 million, or 81%, to \$29 million from the first quarter of 1993. The increase reflects operating costs associated with MFS Datanet and MFS Intelenet and higher costs associated with the networks. Nearly 40% of the increase relates to depreciation of existing networks.

MFS network systems integration and facilities management services cost of revenue decreased \$2 million, or 19%, to \$9 million from the first quarter of 1993. A decrease in the State of Iowa project's direct costs more than offset increased costs on other network systems projects.

## PETER KIEWIT SONS', INC.

### Results of Operations - First Quarter 1994 vs. First Quarter 1993

(continued)

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#### **Operating Expenses**

First quarter 1994 operating expenses exceeded first quarter 1993 expenses by \$14 million, or 35%. The telecommunications operations generated the majority of the increase. MFS's operating expenses rose \$6 million, or 44%, while C-TEC's amounted to \$2 million. Modest increases in several administrative departments accounted for the remainder of the increase.

#### **Investment Income**

Investment income includes interest, gains and losses on sales of securities, dividends, and net equity earnings. Investment income for the first quarter of 1994 increased \$2 million, or 10%, over the first quarter of the previous year. A \$4 million increase in gains on the sale of securities offset slight declines in other areas. Despite interest income remaining constant between the two periods, the mix of interest income changed significantly. MFS had interest income during the quarter of \$7 million compared to just \$1 million in the prior period. Interest income from other entities declined significantly due to decreases in their investment portfolios.

#### **Interest Expense**

Interest expense of \$17 million consists of \$8 million interest on MFS' debt issuance, \$8 million on C-TEC debt, and \$1 million on other debt.

#### **Other Income, net**

Other income consists of gains and losses from asset dispositions and other miscellaneous activities.

**PETER KIEWIT SONS', INC.**

**Results of Operations - First Quarter 1994 vs. First Quarter 1993**

(continued)

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**Gain on Subsidiary's Stock Activity, net**

In 1994, the Company settled, for \$25 million, a contingent liability resulting from MFS' 1990 purchase of Chicago Fiber Optics Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Company, valued at current market prices, as payment of the obligation. This transaction, along with stock issuances for acquisitions by MFS and the exercise of MFS employee stock options, resulted in a \$25 million net gain to the Company.

**Taxes**

The effective income tax rate in the first quarter of 1994 differs from the expected statutory rate of 35% due to net operating loss limitations on losses generated by MFS.

## **PETER KIEWIT SONS', INC.**

### **Financial Condition - March 31, 1994 vs. December 25, 1993**

The Company's working capital increased \$368 million or 27% during the first quarter of 1994.

Cash used in investing activities during the first quarter of 1994 includes the net purchase of marketable securities of \$363 million, \$74 million of capital expenditures, and \$49 million for the purchase of APAC.

Financing activities generated \$450 million during the first quarter of 1994, the majority of which related to MFS. MFS's debt issuance resulted in net proceeds of approximately \$500 million. MFS requires significant capital to fund future building expansion and acquisition of communications networks in major metropolitan areas. MFS intends to invest \$250 million in 1994 and in excess of \$1 billion over the next three to five years to expand its operations to a total of 75 markets (including approximately 10 international markets).

Other financing activity for the quarter included C-TEC borrowing approximately \$135 million to refinance certain mortgage notes payable. C-TEC's prepayment of mortgage notes payable and subsequent refinancing removed certain restrictions on the amount of dividends and other distributions of capital which may be made by C-TEC's Telephone subsidiary .

The Company anticipates investing between \$45 and \$85 million annually in its construction and mining businesses, making significant investments in its energy business - including its joint venture agreement with California Energy covering international power project development activities - and searching for opportunities to acquire capital intensive businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchases of common stock.

MFS, from time to time, evaluates acquisitions, either as an alternative to constructing networks or introducing services that compliment existing and/or planned services. Such acquisitions, including the Centex transaction, may be significant in size and could use a substantial portion of MFS' available cash. MFS may fund future activity through additional debt or equity financing.



**PETER KIEWIT SONS', INC.**

**Financial Condition - March 31, 1994 vs. December 25, 1993**

(continued)

From time to time, MFS has also had discussions with other communications entities concerning the establishment of possible strategic relationships, including transactions involving acquisitions, combinations and equity investments in MFS or one of its subsidiaries. MFS intends to consider appropriate opportunities to establish strategic relationships.

The Company's working capital position at March 31, 1994, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities. C-TEC expects to independently finance its 1994 working capital and investment requirements.

**PETER KIEWIT SONS', INC.**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney is the owner, and Kiewit is the lessee, of a coal deposit underlying a 1,300 acre tract in Sheridan County, Wyoming. The coal was rendered unmineable by the Surface Mining Control and Reclamation Act of 1977 ("SMRCA"), which prohibited surface mining of coal in certain alluvial valley floors significant to farming. In 1983, Kiewit and Whitney filed an action, now titled Whitney Benefits, Inc. and Peter Kiewit Sons' Co. v. The United States, in the U.S. Court of Federal Claims ("Claims Court"), alleging that the enactment of SMRCA constituted a taking of their coal without just compensation. In 1989, the Claims Court ruled that a taking had occurred and awarded plaintiffs the 1977 fair market value of the property (\$60 million) plus interest. In 1991, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Claims Court and the U.S. Supreme Court denied certiorari. On February 10, 1994, the Claims Court issued an opinion which provided that the \$60 million judgement would bear interest compounded annually from 1977 until payment. Kiewit has calculated the interest for the period from 1977 to present at \$234 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award. At March 31, 1994, Kiewit and Whitney would be entitled to \$198 million and \$96 million, respectively.

The government filed two post-trial motions in the Claims Court during 1992. The government requested a new trial to redetermine the 1977 value of the property. The government also filed a motion to reopen and set aside the 1989 judgement as void and to dismiss plaintiffs' complaint for lack of jurisdiction. On May 3, 1994, the Claims Court entered a written order denying both motions. The government may appeal from that order, as well as the order regarding compound interest. It is not presently known when these proceedings will be concluded, what amount Kiewit will ultimately receive, nor when payment will occur.

**PETER KIEWIT SONS', INC.**

**PART II - OTHER INFORMATION (continued)**

**Item 6. Exhibits & Reports on Form 8-K**

(a) Exhibits filed as part of this report are listed below.

Exhibit  
Number

99.A Kiewit Construction & Mining Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

99.B Kiewit Diversified Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

(b) No reports on Form 8-K were filed by the Company during the first quarter of 1994.

## **SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### **PETER KIEWIT SONS', INC.**

*Dated: May 13, 1994*

*/s/ R. E. Julian*

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*Robert E. Julian  
Executive Vice President  
Chief Financial Officer*

**PETER KIEWIT SONS', INC. AND SUBSIDIARIES**

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99.A	Kiewit Construction & Mining Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.	
99.B	Kiewit Diversified Group Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.	

**Exhibit 99.A**

**KIEWIT CONSTRUCTION & MINING GROUP**

Index to Financial Statements and

Management's Discussion and Analysis of Financial Condition and Results of Operations

**Page**

Financial Statements

Condensed Statements of Operations for the three months ended March 31, 1994 and 1993 Condensed Balance Sheets as of March 31, 1994 and December 25, 1993

Condensed Statements of Cash Flows for the three months ended March 31, 1994 and 1993 Notes to Condensed Financial Statements

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

# KIEWIT CONSTRUCTION & MINING GROUP

## Condensed Statements of Operations (unaudited)

	Three months ended March 31,	
(dollars in millions, except per share data)	1994	1993
Revenue	\$ 411	\$ 354
Cost of Revenue	(393)	(330)
	<u>18</u>	<u>24</u>
Operating Expenses	(33)	(28)
Operating Income	<u>(15)</u>	<u>(4)</u>
Other Income (Expense):		
Investment Income	2	5
Interest Expense	-	(1)
Other, net	10	9
	<u>12</u>	<u>13</u>
Earnings (Loss) Before Income Taxes	<u>(3)</u>	<u>9</u>
(Provision) Benefit for Income Taxes	1	(4)
Net Earnings (Loss)	<u>\$ (2)</u>	<u>\$ 5</u>
	=====	=====
Earnings (Loss) Per Common & Common Equivalent Share	<u>\$ (.14)</u>	<u>\$ .25</u>
	=====	=====
Cash Dividends per Common Share	<u>\$ -</u>	<u>\$ .30</u>
	=====	=====

See accompanying notes to condensed financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Condensed Balance Sheets

	March 31, 1994 (unaudited)	December 25, 1993
(dollars in millions)		
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 23	\$ 99
Marketable securities	149	183
Receivables, less allowance of \$5 and \$5	236	215
Costs and earnings in excess of billings on uncompleted construction contracts	84	75
Investment in construction joint ventures	58	81
Deferred income taxes	55	48
Other	31	18
<b>Total Current Assets</b>	<b>636</b>	<b>719</b>
Property, plant and equipment, less accumulated depreciation and amortization of \$385 and \$384	130	107
Deferred income taxes	-	9
Intangible assets	18	-
Other assets	54	54
	<b>\$ 838</b>	<b>\$ 889</b>
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable, including retainage of \$41 and \$37	\$ 144	\$ 148
Current portion of long-term debt	3	4
Accrued construction costs and billings in excess of revenue on uncompleted contracts	103	87
Accrued insurance costs	66	65
Other	51	43
<b>Total Current Liabilities</b>	<b>367</b>	<b>347</b>
Long-term debt, less current portion	8	10
Other Liabilities	42	52
Stockholders' Equity (Redeemable Common Stock, \$339 million aggregate redemption value)		



Common equity	427	483
Net unrealized holding losses	(1)	-
Foreign currency adjustment	(5)	(3)
Total Stockholders' Equity	<u>421</u>	<u>480</u>
	<u>\$ 838</u>	<u>\$ 889</u>
	=====	=====

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See accompanying notes to condensed financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Condensed Statements of Cash Flows (unaudited)

	Three months ended March 31,	
(dollars in millions)	1994	1993
Cash flows from operations:		
Net cash provided by (used in) operations	\$ 18	\$ (3)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	109	337
Purchases of marketable securities	(78)	(333)
Proceeds from sales of property, plant and equipment	2	5
Capital expenditures	(12)	(9)
Acquisition of APAC-Arizona, Inc.	(49)	-
Other	(2)	(2)
Net cash used in investing activities	(30)	(2)
Cash flows from financing activities:		
Payments on long-term debt, including current portion	(4)	-
Repurchases of common stock	(8)	(10)
Dividends paid	(6)	(5)
Exchange of Class B&C Stock for Class D Stock	(44)	(24)
Net cash used in financing activities	(62)	(39)
Effect of exchange rates on cash	(2)	-
Net change in cash and cash equivalents	(76)	(44)
Cash and cash equivalents at beginning of period	99	68
	\$ 23	\$ 24
	=====	=====
Noncash financing activities:		
Dividends declared	\$ -	\$ 5

See accompanying notes to condensed financial statements.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Condensed Financial Statements

### 1. Basis of Presentation:

The condensed balance sheet of Kiewit Construction & Mining Group (the "Group") at December 25, 1993 has been condensed from the Group's audited balance sheet as of that date. All other financial statements contained herein are unaudited and have been prepared using the historical amounts included in the Peter Kiewit Sons', Inc. ("PKS") consolidated condensed financial statements. The Group's accounting policies and certain other disclosures are set forth in the notes to the financial statements contained in PKS' Annual Report on Form 10-K as an exhibit for the year ended December 25, 1993.

Although the financial statements of PKS' Construction & Mining Group and Diversified Group separately report the assets, liabilities and stockholders' equity of PKS attributed to each such group, legal title to such assets and responsibility for such liabilities will not be affected by such attribution. Holders of Class B&C Stock and Class D Stock are stockholders of PKS. Accordingly, the PKS consolidated condensed financial statements and related notes as well as those of the Kiewit Diversified Group should be read in conjunction with these financial statements.

Marketable securities at March 31, 1994 and December 25, 1993 include approximately \$62 million and \$56 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at March 31, 1994 and December 25, 1993 include approximately \$50 million and \$37 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

Where appropriate, items within the condensed financial statements have been reclassified from the previous periods to conform to current year presentation.

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Condensed Financial Statements

### 2. Earnings (Loss) Per Share:

Primary earnings (loss) per share of common stock have been computed using the weighted average number of shares outstanding during each period. The number of shares used in computing earnings (loss) per share was 15,376,585 for the three months ended March 31, 1994 and 17,190,330 for the three months ended March 31, 1993. Fully diluted earnings (loss) per share have not been presented because it is not materially different from primary earnings (loss) per share.

### 3. Summarized Financial Information:

The Group's 50% portion of PKS' corporate assets and liabilities and related transactions, which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group, is as follows (in millions):

	Group	
	March 31, 1994	December 25, 1993
Cash and cash equivalents	\$ 24	\$ 47
Marketable securities	23	11
Property, plant and equipment, net	12	12
Other assets	20	11
Total Assets	<u>\$ 79</u> =====	<u>\$ 81</u> =====
Accounts payable	\$ 28	\$ 27
Convertible debentures	2	2
Notes to former stockholders	6	8
Liability for stock appreciation rights	1	2
Other liabilities	6	5
Total Liabilities	<u>\$ 43</u> =====	<u>\$ 44</u> =====

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Condensed Financial Statements

### 3. Summarized Financial Information (continued):

	Group	
	Three months ended March 31,	
	1994	1993
Investment income, net of interest expense	\$ -	\$ -
Other costs, net	1	-

Corporate general and administrative costs have been allocated to the Group based upon certain measures of business activities, such as employment, investments, and sales, which management believes to be reasonable. These allocations were \$6 million for the three months ended March 31, 1994 and 1993.

Mining service income that the Group recognized as a result of the Group's mine service agreement with the Diversified Group was \$7 million in 1994 and 1993.

### 4. Acquisitions:

On February 28, 1994, the Group acquired APAC Arizona, Inc. ("APAC"), a contracting and construction materials business, from Ashland Oil Company, Inc.

The acquisition of APAC for \$49 million in cash, subject to adjustments, was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed, as follows:

Assets:	
Trade accounts receivable	\$ 24
Other current assets	5
Property, plant and equipment	22
Intangible assets	18
Other assets	1

# KIEWIT CONSTRUCTION & MINING GROUP

## Notes to Condensed Financial Statements

### 4. Acquisitions (continued):

#### Liabilities:

Current liabilities	(15)
Deferred income taxes	(6)
	<hr/>
	\$ 49
	=====

Results of APAC's operations are included in the Group's results of operations since the date of acquisition. APAC's results of operations prior to the acquisition were not significant relative to the Group's results.

### 5. Other Matters:

The Group is involved in various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability for legal proceedings beyond that provided should not materially affect the Group's financial position.

## KIEWIT CONSTRUCTION & MINING GROUP

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

#### **Results of Operations - First Quarter 1994 vs. First Quarter 1993**

##### **Construction**

Construction revenue increased 16% during the first quarter of 1994 compared to the same period in 1993. The increase primarily relates to a 30% increase in joint venture revenues and revenues generated by the APAC-Arizona acquisition. The increase in joint venture revenue resulted from several large design-build projects awarded in 1992 and 1993 entering the construction phase. These projects include the San Joaquin Toll Road project in southern California and the Montgomery County Resource Recovery Facility near Baltimore, Maryland. The Groups's contract backlog remained at \$2.2 billion at March 31, 1994. Foreign operations, principally Canada, accounted for 10%, and projects on the west coast accounted for approximately 50% of the total backlog. The San Joaquin Toll Road joint venture accounts for 19% of the contract backlog and is scheduled for completion in 1997.

The gross margin on construction contracts decreased to 4% for the first quarter of 1994 from 7% during the first quarter of 1993. The recognition of projected cost overruns on certain east coast projects and the deferral of gains on the San Joaquin Toll Road project, because of environmental and construction uncertainties, contributed to the decline.

## KIEWIT CONSTRUCTION & MINING GROUP

### Results of Operations - First Quarter 1994 vs. First Quarter 1993

(continued)

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#### **Operating Expenses**

Operating expenses increased \$5 million, or 18%, in the first three months of 1994 compared to 1993. Modest increases in several administrative departments accounted for the slight increase.

#### **Investment Income**

Investment income decreased to \$2 million in the first quarter of 1994 from \$5 million in the first quarter of the previous year. The decrease relates primarily to a reduction in cash and marketable securities.

#### **Other Income, net**

Other income consists of mine management fees, gains and losses from asset dispositions, and other miscellaneous activities.



## KIEWIT CONSTRUCTION & MINING GROUP

### **Financial Condition - March 31, 1994 vs. December 25, 1993**

The Company's working capital decreased \$103 million or 28% during the first quarter of 1994.

Cash used in investing activities during the first quarter of 1994 includes \$12 million of capital expenditures and \$49 million for the purchase of APAC, offset by net proceeds from the sales and maturities of marketable securities of \$31 million.

Financing activities used \$62 million during the first quarter of 1994. The conversion of Class B&C Stock for Class D Stock accounted for \$44 million. The repurchase of Class B&C stock totalled \$8 million.

The Group anticipates investing between \$40 and \$75 million annually in its construction business, and purchasing additional shares of an electrical contractor - the Group is committed to 80% ownership by 1997. Other long-term liquidity uses include payment of income taxes and repurchases and conversions of common stock.

The Group's working capital position at March 31, 1994, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities.

**Exhibit 99.B**

**KIEWIT DIVERSIFIED GROUP**

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Management's Discussion and Analysis of  
Financial Condition and Results of Operations

# KIEWIT DIVERSIFIED GROUP

## Condensed Statements of Earnings (unaudited)

	Three months ended March 31,	
(dollars in millions, except per share data)	1994	1993
Revenue	\$ 162	\$ 83
Cost of Revenue	(128)	(57)
	<u>34</u>	<u>26</u>
Operating Expenses	(28)	(19)
Operating Income	<u>6</u>	<u>7</u>
Other Income (Expense):		
Gain on Subsidiary's Stock		
Activity, net	25	-
Investment Income	19	14
Interest Expense	(17)	(1)
Other, net	-	1
	<u>27</u>	<u>14</u>
Earnings Before Income Taxes and Minority Interest	33	21
Provision for Income Taxes	(15)	(6)
Minority Interest	7	-
Net Earnings	<u>\$ 25</u> =====	<u>\$ 15</u> =====
Earnings Per Common & Common Equivalent Share	<u>\$1.21</u> =====	<u>\$ .77</u> =====
Cash Dividends per Common Share	<u>\$ -</u> =====	<u>\$ .50</u> =====

See accompanying notes to condensed financial statements.

# KIEWIT DIVERSIFIED GROUP

## Condensed Balance Sheets

(dollars in millions)	March 31, 1994 (unaudited)	December 25, 1993
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 236	\$ 197
Marketable securities	1,284	899
Receivables, less allowance of \$2 and \$2	96	86
Deferred income taxes	20	18
Other	51	40
<b>Total Current Assets</b>	<b>1,687</b>	<b>1,240</b>
Property, Plant and Equipment, less accumulated depreciation and amortization of \$271 and \$252	780	737
Investments	233	233
Intangible Assets, net	478	415
Other Assets	185	184
	<b>\$ 3,363</b>	<b>\$ 2,809</b>
	<b>=====</b>	<b>=====</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 93	\$ 113
Current portion of long-term debt:		
Telecommunications	9	7
Other	5	4
Accrued costs and billings in excess of revenue on uncompleted contracts	17	20
Accrued reclamation and other mining costs	20	23
Other	79	80
<b>Total Current Liabilities</b>	<b>223</b>	<b>247</b>
Long-Term Debt, less current portion:		
Telecommunications	911	420
Other	50	32
Deferred Income Taxes	409	394
Retirement Benefits	69	71
Accrued Reclamation Costs	93	92
Other Liabilities	63	64

Minority Interest	310	298
Stockholders' Equity (\$1.2 billion aggregate redemption value)		
Common equity	1,238	1,182
Foreign currency adjustment	(2)	-
Net unrealized holding gains (losses)	(1)	9
Total Stockholders' Equity	<u>1,235</u>	<u>1,191</u>
	<u>\$ 3,363</u>	<u>\$ 2,809</u>
	=====	=====

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See accompanying notes to condensed financial statements.

# KIEWIT DIVERSIFIED GROUP

## Condensed Statements of Cash Flows (unaudited)

	Three months ended March 31,	
(dollars in millions)	1994	1993
Cash flows from operations:		
Net cash provided by (used in)		
continuing operations	\$ (14)	\$ 42
Cash flows from investing activities:		
Proceeds from sales and maturities of		
marketable securities	882	1,519
Purchases of marketable securities	(1,277)	(1,490)
Capital expenditures	(62)	(24)
Redemption of U.S. Can preferred stock	-	12
Other	(4)	(1)
Net cash provided by (used in)		
investing activities	(461)	16
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	639	-
Payments on long-term debt, including		
current portion	(155)	(1)
Net change in short-term borrowings	1	(80)
Repurchases of common stock	(14)	(36)
Dividends paid	-	(7)
Exchange of Class B&C Stock for Class		
D Stock	44	24
Other	(3)	-
Net cash provided by (used in)		
financing activities	512	(100)
Cash flows from discontinued packaging		
operations:		
Proceeds from sales of discontinued		
packaging operations	-	10
Other cash provided by discontinued		
packaging operations	2	-
Net cash provided by discontinued		
packaging operations	2	10
Net change in cash and cash equivalents	39	(32)
Cash and cash equivalents at beginning		
of period	197	135
Cash and cash equivalents at end of period	\$ 236	\$ 103
	=====	=====

Noncash investing activities:		
Issuance of MFS stock for the purchase of telecommunications companies	\$ 19	\$ -
MFS stock transaction to settle contingent purchase price liability	25	-
Noncash financing activities:		
Dividends declared	\$ -	\$ 10
<hr/>		

See accompanying notes to condensed financial statements.

# KIEWIT DIVERSIFIED GROUP

## Notes to Condensed Financial Statements

### 1. Basis of Presentation:

The condensed balance sheet of Kiewit Diversified Group (the "Group") at December 25, 1993 has been condensed from the Group's audited balance sheet as of that date. All other financial statements contained herein are unaudited and have been prepared using historical amounts included in the Peter Kiewit Sons', Inc. ("PKS") consolidated condensed financial statements. The Group's accounting policies and certain other disclosures are set forth in the notes to the financial statements contained in PKS' Annual Report on Form 10-K as an exhibit for the year ended December 25, 1993.

Although the financial statements of PKS' Construction & Mining Group and Diversified Group separately report the assets, liabilities and stockholders' equity of PKS attributed to each such group, legal title to such assets and responsibility for such liabilities will not be affected by such attribution. Holders of Class B&C Stock and Class D Stock are stockholders of PKS. Accordingly, the PKS consolidated condensed financial statements and related notes as well as those of the Kiewit Construction & Mining Group should be read in conjunction with these financial statements.

Where appropriate, items within the condensed financial statements have been reclassified from the previous periods to conform to current year presentation.

### 2. Earnings Per Share:

Primary earnings per share of common stock have been computed using the weighted average number of shares outstanding during each period. The number of shares used in computing earnings per share was 20,546,044 for the three months ended March 31, 1994 and 19,913,554 for the three months ended March 31, 1993. Fully diluted earnings per share have not been presented because it is not materially different from primary earnings per share.



# KIEWIT DIVERSIFIED GROUP

## Notes to Condensed Financial Statements

### 3. Summarized Financial Information:

The Group's 50% portion of PKS' corporate assets and liabilities and related transactions, which are not separately identified with the ongoing operations of the Construction & Mining Group or the Diversified Group, is as follows (in millions):

	Group	
	March 31, 1994	December 25, 1993
Cash and cash equivalents	\$ 24	\$ 47
Marketable securities	23	11
Property, plant and equipment, net	12	12
Other assets	20	11
Total Assets	\$ 79 =====	\$ 81 =====
Accounts payable	\$ 28	\$ 27
Convertible debentures	2	2
Notes to former stockholders	6	8
Liability for stock appreciation rights	1	2
Other liabilities	6	5
Total Liabilities	\$ 43 =====	\$ 44 =====
	Group	
	Three months ended March 31,	
	1994	1993
Investment income, net of interest expense	\$ -	\$ -
Other costs, net	1	-

Corporate general and administrative costs have been allocated to the Group based upon certain measures of business activities, such as employment, investments and sales, which management believes to be reasonable. These allocations were \$3 million for the three months ended March 31, 1994 and 1993.

## KIEWIT DIVERSIFIED GROUP

### Notes to Condensed Financial Statements

#### 3. Summarized Financial Information (continued):

Mining service expense that the Group recognized as a result of the Group's mine service agreement with the Construction & Mining Group is \$7 million in 1994 and 1993.

#### 4. Long-Term Debt:

On January 19, 1994, MFS Communications Company, Inc. ("MFS") issued 9-3/8% Senior Discount Notes due January 15, 2004. Cash interest will not be paid on the notes prior to January 15, 1999. Accordingly, MFS recorded the net proceeds, exclusive of transaction costs, of approximately \$500 million as long-term debt and is accruing to the principal amount of the notes of \$788 million through January 1999. Commencing July 15, 1999 cash interest will be payable semi-annually.

On or after January 15, 1999, the notes will be redeemable at the option of MFS, in whole or in part, as stipulated in the note agreement. In addition, under certain conditions related to a change in control of MFS, they may be required to repurchase all or any part of the notes as stipulated in the note agreement. The notes are senior unsecured obligations of MFS and are subordinated to all current and future indebtedness of MFS's subsidiaries, including trade payables. The notes contain certain covenants which, among other things restrict MFS's ability to incur additional debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates, and sell assets or merge with another company.

#### 5. Other Matters:

In 1994, the Group settled, for \$25 million, a contingent liability resulting from MFS' 1990 purchase of Chicago Fiber Optics Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Group, valued at current market prices, as payment of the obligation. This transaction, along with stock issuances for acquisitions by MFS and the exercise of MFS employee stock options, resulted in a \$25 million net gain to the Group.

## KIEWIT DIVERSIFIED GROUP

### Notes to Condensed Financial Statements

#### 5. Other Matters (continued):

On March 16, 1994 MFS made an offer to purchase all outstanding shares of common stock and associated preferred share purchase rights of Centex Telemanagement, Inc. (Centex) at \$9 per share. On May 2, 1994, MFS announced that it had signed a merger agreement with Centex, which amended its offer to \$11 per share. The offer is conditioned upon, among other things, there being validly tendered a number of shares that, when added to the number of shares currently beneficially owned by MFS, will represent at least a majority of the Centex shares outstanding on a fully diluted basis. The offer expires on May 17, 1994.

On March 4, 1994, several former stockholders of an MFS subsidiary filed a lawsuit against MFS, Kiewit Diversified Group, Inc. ("KDG") and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. These shareholders sold shares of the subsidiary to MFS in September 1992. MFS completed an initial public offering in May 1993. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them causing them to sell their shares at an inadequate price. Plaintiffs have alleged damages of at least \$100 million. Defendants have meritorious defenses and intend to vigorously contest this lawsuit. Prior to the initial public offering, KDG agreed to indemnify MFS against any liabilities arising from the September 1992 sale; if MFS is deemed to be liable to plaintiffs, KDG will be required to satisfy MFS' liabilities pursuant to the indemnity agreement. Any settlement amount would be treated as an adjustment of the original purchase price and recorded as additional goodwill.

The Group is involved in other various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability for legal proceedings beyond that provided should not materially affect the Group's financial position.

See "Legal Proceedings" with respect to the Whitney Benefits

case.

## **KIEWIT DIVERSIFIED GROUP**

### **Notes to Condensed Financial Statements**

#### **6. Subsequent Event:**

On April 1, 1994, C-TEC Corporation ("C-TEC") signed an agreement to sell its cellular properties to Independent Cellular Network, Inc. for \$183 million, subject to regulatory approvals. The Group does not expect to recognize a gain or loss from this transaction, but instead will reallocate the original purchase price among C-TEC's net assets as required by purchase accounting guidelines.

## KIEWIT DIVERSIFIED GROUP

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

#### **Results of Operations - First Quarter 1994 vs. First Quarter 1993**

##### **Mining**

Mining revenues and gross profits for the first quarter of 1994 increased 3% and 9%, respectively, over the first quarter of 1993. Additional sales on the "spot" coal market from the Black Butte mine favorably impacted revenue and earnings. Downsizing of the Black Butte mine during the last nine months of 1993 also contributed to the higher margin. The downsizing resulted from the renegotiation of the Commonwealth Edison Company contract in late 1992.

##### **Telecommunications**

In the first quarter of 1994, the components of telecommunications revenue were: 68% - C-TEC operations; 21% - MFS telecommunications services; and 11% - MFS network systems integration and facilities management services. In the first quarter of 1993, revenue was comprised of 52% - MFS telecommunications services and 48% MFS network systems integration and facilities management services.

C-TEC activity accounted for \$72 million of telecommunications revenues. The telephone and cable television groups generated the majority of the revenues.

## KIEWIT DIVERSIFIED GROUP

### Results of Operations - First Quarter 1994 vs. First Quarter 1993

(continued)

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#### **Telecommunications (continued)**

MFS telecommunications services revenue rose \$7 million, or 47%, to \$22 million from the first quarter of 1993. Market penetration and network expansion in New York, Chicago, Washington, D.C., New Jersey, and Atlanta accounted for 67% of the increase. New services provided by MFS Datanet and MFS Intelenet also contributed to the revenue increase.

MFS network systems integration and facilities management revenue decreased \$1 million, or 8%, to \$13 million, from the first quarter of 1993. Increases in revenue recognized by various network systems projects partially offset a decrease in revenue recognized from the network integration project for the State of Iowa which is now substantially complete.

Components of 1994's first quarter telecommunications cost of revenue were: 62% - C-TEC operations; 29% - MFS telecommunications services; and 9% - MFS network systems integration and facilities management services. In the first quarter of 1993 operating expenses were comprised of 57% - MFS telecommunications services and 43% - MFS network systems integration and facilities management services.

C-TEC activity accounted for \$61 million of telecommunications cost of revenue. The telephone and cable television groups generated the majority of these costs.

MFS telecommunications services cost of revenue increased \$13 million, or 81%, to \$29 million from the first quarter of 1993. The increase reflects operating costs associated with MFS Datanet and MFS Intelenet and higher costs associated with the networks. Nearly 40% of the increase relates to depreciation of existing networks.

MFS network systems integration and facilities management services cost of revenue decreased \$2 million, or 19%, to \$9 million from the first quarter of 1993. A decrease in the State of Iowa project's direct costs more than offset increased costs on other network systems projects.

## KIEWIT DIVERSIFIED GROUP

### Results of Operations - First Quarter 1994 vs. First Quarter 1993

(continued)

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#### **Operating Expenses**

First quarter 1994 operating expenses exceeded first quarter 1993 expenses by \$9 million, or 47%. The telecommunications segment generated the majority of the increase. MFS's selling and administrative expenses rose \$6 million, or 44%, while C-TEC's amounted to \$2 million. Operating expenses for both quarters include \$7 million of mine management fees paid to the Construction and Mining Group.

#### **Investment Income**

Investment income includes interest, gains and losses on sales of securities, dividends, and net equity earnings. Investment income for the first quarter of 1994 increased \$5 million, or 36%. A \$4 million increase in gains on the sale of securities accounted for the majority of the difference. Despite interest income remaining constant between the two periods, the mix of interest income changed significantly. MFS had interest income during the quarter of \$7 million compared to just \$1 million in the prior period. Interest income from the other Group entities declined significantly due to a decrease in their investment portfolios.

#### **Interest Expense**

Interest expense of \$17 million consists of \$8 million interest on MFS' debt issuance, \$8 million on C-TEC debt, and \$1 million on other debt.

#### **Other Income, net**

Other income consists of gains and losses from asset dispositions and other miscellaneous activities.

## KIEWIT DIVERSIFIED GROUP

### Results of Operations - First Quarter 1994 vs. First Quarter 1993

(continued)

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#### **Gain on Subsidiary's Stock Activity, net**

In 1994, the Group settled, for \$25 million, a contingent liability resulting from MFS' 1990 purchase of Chicago Fiber Optics Corporation ("CFO"). The former shareholders of CFO accepted MFS stock previously held by the Group, valued at current market prices, as payment of the obligation. This transaction, along with stock issuances for acquisitions by MFS and the exercise of MFS employee stock options, resulted in a \$25 million net gain to the Group.

#### **Taxes**

The effective income tax rate in the first quarter of 1994 differs from the expected statutory rate of 35% due to net operating loss limitations on losses generated MFS.



## KIEWIT DIVERSIFIED GROUP

### **Financial Condition - March 31, 1994 vs. December 25, 1993**

The Group's working capital increased \$471 million or 47% during the first quarter of 1994.

Cash used in investing activities during the first quarter of 1994 includes the net purchase of marketable securities of \$395 million and \$62 million of capital expenditures.

Financing activities generated \$512 million during the first quarter of 1994, the majority of which related to MFS. MFS's debt issuance resulted in net proceeds of approximately \$500 million. MFS requires significant capital to fund future building expansion or acquisition of communications networks in major metropolitan areas. MFS intends to invest \$250 million in 1994 and in excess of \$1 billion over the next three to five years to expand its operations to a total of 75 markets (including approximately 10 international markets).

Other financing activity for the quarter included C-TEC borrowing approximately \$135 million to refinance certain mortgage notes payable, the exchange of Class B&C stock for Class D stock for \$44 million and the repurchase of Class D stock for \$14 million. C-TEC's prepayment of mortgage notes payable and subsequent refinancing removed certain restrictions on the amount of dividends and other distributions of capital which may be made by C-TEC's Telephone subsidiary.

The Group anticipates investing up to \$10 million annually in its mining business, making significant investments in its energy business - including its joint venture agreement with California Energy covering international power project development activities - and searching for opportunities to acquire capital intensive businesses which provide for long-term growth. Other long-term liquidity uses include payment of income taxes and repurchases of common stock.

MFS, from time to time, evaluates acquisitions, either as an alternative to constructing networks or introducing services that compliment existing and/or planned services. Such acquisitions, including the Centex transaction, may be significant in size and could use a substantial portion of MFS' available cash. MFS may fund future activity through additional debt or equity financing.

## KIEWIT DIVERSIFIED GROUP

### Financial Condition - March 31, 1994 vs. December 25, 1993

(continued)

From time to time, MFS has also had discussions with other communications entities concerning the establishment of possible strategic relationships, including transactions involving acquisitions, combinations and equity investments in MFS or one of its subsidiaries. MFS intends to consider appropriate opportunities to establish strategic relationships.

The Group's working capital position at March 31, 1994, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities. C-TEC expects to independently finance its 1994 working capital and investment requirements.

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**End of Filing**

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