

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 11/15/94 for the Period Ending 09/30/94

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

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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 September 30, 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 November 1, 1994:

Class B Common Stock	1,000,400 shares
Class C Common Stock	15,079,504 shares
Class D Common Stock	20,375,208 shares

PETER KIEWIT SONS', INC.

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PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Earnings
(unaudited)

(dollars in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Revenue	\$ 913	\$ 620	\$ 2,203	\$ 1,600
Cost of Revenue	(799)	(529)	(1,929)	(1,364)
	<u>114</u>	<u>91</u>	<u>274</u>	<u>236</u>
Operating Expenses	(73)	(45)	(221)	(125)
	<u></u>	<u></u>	<u></u>	<u></u>
Operating Income	41	46	53	111
Other Income (Expense):				
Gain on Subsidiary's Stock Issuances, net	-	131	28	211
Investment Income	11	25	50	16
Interest Expense	(20)	(1)	(56)	(6)
Other, net	10	7	21	15
	<u></u>	<u></u>	<u></u>	<u></u>
Earnings Before Income Taxes and Minority Interest	42	208	96	347
Provision for Income Taxes	(24)	(72)	(48)	(121)
Minority Interest in Loss of Subsidiaries	11	1	26	1
Net Earnings	<u>\$ 29</u> =====	<u>\$ 137</u> =====	<u>\$ 74</u> =====	<u>\$ 227</u> =====
Earnings Attributable to Class B&C Stock:				
Net Earnings	<u>\$ 41</u> =====	<u>\$ 34</u> =====	<u>\$ 58</u> =====	<u>\$ 61</u> =====
Earnings per Common and Common Equivalent Share	<u>\$ 2.67</u> =====	<u>\$ 1.95</u> =====	<u>\$ 3.77</u> =====	<u>\$ 3.51</u> =====

Earnings (Loss)				
Attributable to				
Class D Stock:				
Net Earnings (Loss)	\$ (12)	\$ 103	\$ 16	\$ 166
	=====	=====	=====	=====
Earnings (Loss) per				
Common and Common				
Equivalent Share	\$ (.58)	\$ 5.12	\$.77	\$ 8.34
	=====	=====	=====	=====
Cash Dividends per				
Common Share:				
B&C Stock	\$ -	\$ -	\$.45	\$.30
	=====	=====	=====	=====
D Stock	\$ -	\$ -	\$ -	\$.50
	=====	=====	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

	September 30, 1994 (unaudited)	December 25, 1993
(dollars in millions)		
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 443	\$ 296
Marketable securities	1,076	1,082
Receivables, less allowance of \$7 and \$7	390	296
Costs and earnings in excess of billings on uncompleted contracts	190	79
Investment in construction joint ventures	89	81
Deferred income taxes	74	66
Other	59	54
Total Current Assets	<u>2,321</u>	<u>1,954</u>
Property, Plant and Equipment, less accumulated depreciation and amortization of \$700 and \$636	1,065	844
Investments	258	233
Intangible Assets, net	661	427
Other Assets	225	226
	<u>\$ 4,530</u> =====	<u>\$ 3,684</u> =====
<hr/>		

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

(dollars in millions, except per share data)	September 30,	December 25,
	1994 (unaudited)	1993
<hr/> Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 281	\$ 260
Current portion of long-term debt:		
Telecommunications	9	7
Other	9	8
Accrued costs and billings in excess of revenue on uncompleted contracts	190	107
Accrued insurance costs	71	67
Other	203	140
Total Current Liabilities	<hr/> 763	<hr/> 589
Long-Term Debt, less current portion:		
Telecommunications	932	420
Other	69	42
Deferred Income Taxes	418	385
Retirement Benefits	67	71
Accrued Reclamation Costs	102	99
Other Liabilities	122	109
Minority Interest	344	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: 15,079,504 outstanding in 1994 and 16,316,070 in 1993	1	1
Class D, authorized 50,000,000 shares: 20,371,308 outstanding in 1994 and 20,010,696 in 1993	1	1

Additional paid-in capital	180	164
Foreign currency adjustment	(4)	(3)
Net unrealized holding gains (losses)	(4)	9
Retained earnings	1,539	1,499
Total Stockholders' Equity	<u>1,713</u>	<u>1,671</u>
	<u>\$ 4,530</u>	<u>\$ 3,684</u>
	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows
(unaudited)

	Nine months ended September 30,	
(dollars in millions)	1994	1993
Cash flows from operations:		
Net cash provided by continuing operations	\$ 146	\$ 159
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	1,503	3,519
Purchases of marketable securities	(1,522)	(3,901)
Proceeds from sales of property, plant and equipment, and other investments	14	14
Capital expenditures	(313)	(129)
Acquisition of APAC-Arizona, Inc.	(47)	-
Acquisition of Centex Telemanagement, Inc., net of cash acquired	(199)	-
Proceeds from sale of cellular properties	182	-
Purchases of California Energy stock	(26)	-
Deferred development costs and other	(66)	(11)
Net cash used in investing activities	(474)	(508)
Cash flows from financing activities:		
Issuances of subsidiary's stock	5	455
Proceeds from long-term debt borrowings	677	14
Payments on long-term debt, including current portion	(189)	(7)
Net change in short-term borrowings	-	(80)
Repurchases of common stock	(31)	(54)
Issuance of common stock	19	24
Dividends paid	(13)	(27)
Other	-	1
Net cash provided by financing activities	468	326
Cash flows from discontinued packaging operations	6	10
Effect of exchange rates on cash	1	(3)
Net change in cash and cash equivalents	147	(16)
Cash and cash equivalents at beginning of period	296	203
Cash and cash equivalents at end of period	\$ 443	\$ 187
=====		

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows
(unaudited)

(dollars in millions)	Nine months ended September 30,	
	1994	1993
<hr/>		
Noncash investing activities:		
Issuance of MFS stock for purchase of telecommunications companies	\$ 23	\$ -
MFS stock transactions to settle contingent purchase price adjustment	25	-
<hr/>		

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.

Where appropriate, items within the consolidated 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. Fully diluted earnings per share have not been presented because it is not materially different from primary earnings per share. The number of shares used in computing earnings per share was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Class B&C	16,104,794	17,527,842	15,316,445	17,229,434
Class D	20,375,280	19,978,247	20,457,392	19,922,955

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 data management services

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

3. Summarized Financial Information (continued):

business, an investment 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 (in millions, except per share data).

Construction & Mining Group:

	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Results of Operations:				
Revenue	\$ 680	\$ 516	\$ 1,619	\$ 1,328
	=====	=====	=====	=====
Net earnings	\$ 41	\$ 34	\$ 58	\$ 61
	=====	=====	=====	=====

Earnings per share	\$ 2.67 =====	\$ 1.95 =====	\$ 3.77 =====	\$ 3.51 =====
		September 30, 1994	December 25, 1993	
Financial Position:				
Working capital		\$ 340	\$ 372	
Total assets		1,007	889	
Long-term debt, less current portion		7	10	
Stockholders' equity		497	480	

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

3. Summarized Financial Information (continued):

Included within earnings before income taxes is mine service income from the Diversified Group of \$7 million for the three months ended September 30, 1994 and 1993 and \$22 million and \$21 million for the nine months ended September 30, 1994 and 1993.

Diversified Group:

	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Results of Operations:				
Revenue	\$ 233 =====	\$ 104 =====	\$ 584 =====	\$ 272 =====
Net earnings (loss)	\$ (12) =====	\$ 103 =====	\$ 16 =====	\$ 166 =====
Earnings (loss) per share	\$ (.58) =====	\$ 5.12 =====	\$.77 =====	\$ 8.34 =====
	September 30, 1994		December 25, 1993	
Financial Position:				
Working capital	\$ 1,218		\$ 993	
Total assets	3,529		2,809	
Long-term debt, less current portion	994		452	
Stockholders' equity	1,216		1,191	

Included within earnings before income taxes is mine management fees paid to the Construction & Mining Group of \$7 million for the three months ended September 30, 1994 and 1993 and \$22 million and \$21 million for the nine months ended September 30, 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. for \$47 million in cash. The Company accounted for the acquisition as a purchase and has consolidated APAC's operating results since the acquisition date. The fair value of the net tangible assets acquired totalled \$30 million. Goodwill of \$17 million is being amortized over 20 years. APAC's operating results prior to the acquisition were not significant relative to the Company's results.

On May 18, 1994, the Company acquired Centex Telemanagement, Inc. ("Centex"), a company which provides outsourced telecommunications management services for small and medium-sized businesses, for \$250 million. The Company accounted for the acquisition using the purchase method and has consolidated Centex's operating results since the acquisition date. The total purchase price in

excess of the fair market value of net assets acquired, \$144 million, was recorded as goodwill and will be amortized over 40 years. The unaudited pro forma results below reflect certain adjustments, primarily increased amortization, assuming the acquisition occurred at the beginning of 1993. These results do not necessarily indicate future results, nor the results of historical operations had the acquisition actually happened on the assumed date (in millions, except per share data).

	For the nine months ended September 30, 1994	For the nine months ended September 30, 1993
Revenue	\$ 2,270 =====	\$ 1,728 =====
Net earnings	\$ 68 =====	\$ 215 =====
Earnings per share of Class D stock	\$.46 =====	\$ 7.74 =====

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,

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

5. Long-Term Debt (continued):

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, MFS 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' 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 to or merge with another company.

In March of 1994, C-TEC's telephone group refinanced \$135 million of mortgage notes payable to the United States of America. Although the new agreement does not restrict telephone group dividends, it does require the telephone group to maintain specified ratios for total leverage, interest coverage, and equity to total capitalization.

6. Other Matters:

Marketable securities at September 30, 1994 and December 25, 1993 include approximately \$60 million and \$56 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at September 30, 1994 and December 25, 1993 include approximately \$63 million and \$37 million, respectively of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

In 1994, the Company settled, for \$25 million, a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic 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 for MFS employee stock options,

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

6. Other Matters (continued):

resulted in a \$28 million net gain to the Company.

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.

On September 9, 1994, C-TEC Corporation ("C-TEC") sold its cellular properties to Independent Cellular Network, Inc. for \$190 million. The Company received \$182 million of proceeds and recorded an \$8 million receivable. The Company did not recognize a gain or loss from this transaction, but instead reallocated the original purchase price among C-TEC's net assets as required by purchase accounting guidelines. C-TEC's cellular properties had sales of \$6 million and \$20 million for the quarter and nine months ended September 30, 1994.

MFS has signed a merger agreement with RealCom Office Communications, Inc. ("RealCom"). MFS anticipates that it will issue approximately 1.6 million shares to complete the merger. Some of the purchase price may be payable in cash in lieu of common stock. The merger agreement is dependent on certain events, including approval of the agreement by RealCom shareholders. The transaction is expected to close in the fourth quarter of 1994.

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

6. Other Matters (continued):

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 or results of operations.

See "Legal Proceedings" with respect to the Whitney Benefits

case.

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.

Results of Operations - Third Quarter 1994 vs. Third Quarter 1993

Revenue from operations for the three months ended September 30 comprised the following (in millions):

	1994	1993
	<hr/>	<hr/>
Construction	\$ 672	\$ 505
Mining	68	69
Telecommunications	164	43
Other	9	3
	<hr/>	<hr/>
	\$ 913	\$ 620
	=====	=====
 Construction		
<hr/>		

Construction revenue rose 33% in the third quarter of 1994 as compared to the third quarter of 1993. The increase is primarily attributable to the APAC acquisition completed in the first quarter of 1994 and a 20% increase in the size of new contracts awarded this year. The Company's current contract backlog increased to \$2.4 billion from \$2.2 billion in 1993. The increase in contract size and the expansion into new markets resulted in the increase. Foreign operations, principally Canada, account for 20% and projects on the west coast account for 42% of the total backlog. The San Joaquin Hills toll road project accounts for 15% of the contract backlog and is scheduled to be completed in 1997.

Gross margins on construction contracts declined from 12% in the third quarter of 1993 to 11% during the same period in 1994. In 1994, the margins were adversely affected by the recognition of projected cost overruns on certain projects and a decline in the original bidding margin on work completed during the period. The lower bidding margins are a result of increased competition in

PETER KIEWIT SONS', INC.

Results of Operations - Third Quarter 1994 vs. Third Quarter 1993

(continued)

Construction (continued)

the construction industry. The recognition of income from the construction of the San Joaquin Hills toll road partially offset the overruns and declining margins.

Mining

Mining gross profits were 46% and 43% in the third quarter of 1994 and 1993. In 1994, alternate source coal sales accounted for 31% of revenues and 52% of gross profits compared to 26% and 50% in 1993.

Telecommunications

In the third quarter of 1994, C-TEC and MFS accounted for 46% and 54% of telecommunications revenues. The telephone and cable groups generated the majority, \$31 million and \$24 million, respectively, of C-TEC's revenues while MFS' revenue consisted of \$72 million from telecommunications services and \$16 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$42 million of telecommunications services revenue. The remainder of MFS' growth over 1993 correlates to increased market penetration of \$12 million by MFS Telecom, MFS Datanet, and MFS Intelenet being offset by decreases in revenue recognized from the network systems integration project with the State of Iowa.

Telecommunications cost of revenue totalled \$156 million and \$42 million for the third quarter of 1994 and 1993. C-TEC's operations generated \$48 million of the 1994 costs with \$14 million and \$18 million related to the telephone and cable groups. MFS' telecommunications services had \$95 million in costs of revenue - \$42 million from Centex. The remainder of MFS' increased costs related to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

PETER KIEWIT SONS', INC.

Results of Operations - Third Quarter 1994 vs. Third Quarter 1993

(continued)

Operating Expenses

Third quarter 1994 operating expenses exceeded 1993 expenses by 62%. The telecommunications segment generated the majority of the growth with C-TEC and MFS accounting for 71% and 25% of the increase. Slight decreases in other expenses offset the presence of C-TEC and increase in MFS.

Gain on Subsidiary's Stock Issuances, net

The gain in 1993 resulted from the secondary offering of MFS stock.

Investment Income

Investment income includes interest, gains and losses on the sales of securities, dividends and net equity earnings. Investment income in the third quarter of 1994 declined 56% from 1993. The principal reason for the decline was \$15 million in losses from the sales and writedown of securities in 1994.

Interest Expense

Interest expense of \$20 million includes \$11 million interest on MFS debt and \$8 million on C-TEC debt.

Other Income, net

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

Taxes

The effective income tax rate in the third 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.

Results of Operations - Nine Months 1994 vs. Nine months 1993

Revenue from each of the Company's business segments for the nine months ended September 30 comprised the following (in millions):

	1994	1993
	<hr/>	<hr/>
Construction	\$ 1,594	\$ 1,308
Mining	187	178
Telecommunications	405	103
Other	17	11
	<hr/>	<hr/>
	\$ 2,203	\$ 1,600
	=====	=====
 Construction		
<hr/>		

Construction revenues increased 22% in the first nine months of 1994 as compared to the same period in 1993. Revenues generated from the APAC acquisition, an increase in joint venture work and a 20% increase in the size of new contracts awarded contributed to the higher volume. The increase in joint venture revenue resulted from several design-build projects, awarded in 1992 and 1993, entering the construction phase. These projects include the San Joaquin Hills toll road in southern California, and the Montgomery County Resource Recovery Facility near Baltimore, Maryland.

The gross margin on construction contracts declined to 8% in 1994 from 11% in 1993. In 1994, the margins were adversely affected by the recognition of projected cost overruns on certain projects and a decline in original bidding margins on work completed during the period. The lower margins are a result of the increased competition in the construction industry. The recognition of income from the construction of the San Joaquin Hills toll road partially offset the overruns and declining margins. A \$20 million reduction of reserves previously established for the Denmark tunnel project favorably impacted 1993 margins.

Mining

Mining gross profits were 47% and 45% in the first nine months of 1994 and 1993. In 1994, alternate source coal sales accounted for 30% of revenues and 47% of gross profits compared to 29% and 55% in 1993.

PETER KIEWIT SONS', INC.

Results of Operations - Nine Months 1994 vs. Nine months 1993
(continued)

Telecommunications

In the first nine months of 1994, C-TEC and MFS accounted for 54% and 46% of telecommunications revenues. The telephone and cable groups generated the majority, \$92 million and \$71 million, of C-TEC's revenues while MFS' revenues consisted of \$142 million from telecommunications services and \$43 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$63 million of telecommunications services revenue since the date of acquisition. The remainder of MFS growth correlates to continued market penetration from all MFS businesses.

Telecommunications cost of revenue totalled \$353 million and \$101 million for the first nine months of 1994 and 1993. C-TEC's operations generated \$137 million of costs with \$42 million and \$55 million related to the telephone and cable groups.

MFS' telecommunications services had \$183 million in costs of revenue - \$62 million from Centex. The remainder of MFS' increased costs relates to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

Operating Expenses

Operating expenses for the first nine months of 1994 exceeded those of 1993 by 77%. The telecommunications operations generated the majority of the increase with C-TEC and MFS accounting for 69% and 24% of the increase. Modest decreases in several administrative departments account for the remainder of the difference.

Gain on Subsidiary's Stock Issuances, net

In 1994, the Company settled, for \$25 million, a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic 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 for MFS employee stock options, resulted in a \$28 million net gain to the Company. The gain in 1993 resulted from the initial and secondary public offerings of MFS stock.

PETER KIEWIT SONS', INC.

Results of Operations - Nine Months 1994 vs. Nine months 1993
(continued)

Investment Income

Investment income for the first nine months of 1994 increased \$34 million over 1993. The improvement resulted from the decline in the net loss on sales of securities from \$41 million in 1993 to \$13 million in 1994, and an increase in interest income.

Interest Expense

Interest expense of \$56 million includes \$30 million of interest on MFS debt and \$23 million of interest on C-TEC debt.

Other Income, net

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

Taxes

The effective income tax rate in the first nine months 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 - September 30, 1994 vs. December 25, 1993

The Company's working capital increased \$193 million or 14% during the first nine months of 1994.

Cash used in investing activities during the first nine months of 1994 includes \$313 million of capital expenditures (primarily MFS networks), \$199 for the acquisition of Centex, \$47 million for the purchase of APAC and \$26 million for the purchase of California Energy stock. Partially offsetting these uses were the \$182 million of proceeds from the sale of C-TEC's cellular properties.

Financing activities generated \$468 million during the first nine months of 1994, the majority of which related to MFS. MFS' 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 \$275 - 325 million in 1994 and in excess of \$1 billion over the next 3 - 5 years to expand its operations to a total of 75 markets (including approximately 10 international markets).

Other financing activity for the nine months 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 businesses - 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 complement existing and/or planned services. Such acquisitions 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.

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

PETER KIEWIT SONS', INC.

Financial Condition - September 30, 1994 vs. December 25, 1993

(continued)

its subsidiaries. MFS intends to consider appropriate opportunities to establish strategic relationships.

C-TEC has filed a registration statement related to a rights offering of shares of its common stock. The net proceeds from the rights offering will be approximately \$296 million if the rights are fully exercised. KDG expects to exercise all of its rights and to oversubscribe for additional rights not otherwise exercised - an investment of \$100 - \$150 million. The funds generated from the rights issuance and the cellular sale will enable C-TEC to expand and develop its cable television and telephone systems into full service networks, pursue potential acquisitions, prepay certain indebtedness, and independently finance its current working capital and investment requirements.

The Company's working capital position at September 30, 1994, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities.

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 ("SMCRA"), 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 SMCRA 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 judgment would bear interest compounded annually from 1977 until payment. Kiewit has calculated the interest for the period from 1977 to present at \$243 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award. At September 30, 1994, Kiewit and Whitney would be entitled to \$204 million and \$99 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 judgment 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 has appealed 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.

Item 6. Exhibits & Reports on Form 8-K

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

Exhibit
Number

27 Financial Data Schedule

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 third 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: November 14, 1994

/s/ R. E. Julian

Robert E. Julian
Executive Vice President
Chief Financial Officer

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit
No.

27	Financial Data Schedule
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

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Financial Statements:

Condensed Statements of Earnings for the three months ended September, 1994 and 1993 and the nine months ended September 30, 1994 and 1993 Condensed Balance Sheets as of September 30, 1994 and December 25, 1993

Condensed Statements of Cash Flows for the nine months ended September 30, 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 Earnings (unaudited)

(dollars in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Revenue	\$ 680	\$ 516	\$ 1,619	\$ 1,328
Cost of Revenue	(605)	(452)	(1,483)	(1,174)
	<u>75</u>	<u>64</u>	<u>136</u>	<u>154</u>
Operating Expenses	(32)	(29)	(94)	(83)
	<u>43</u>	<u>35</u>	<u>42</u>	<u>71</u>
Operating Income				
Other Income (Expense):				
Investment Income				
(Loss)	3	4	9	(6)
Interest Expense	-	(1)	(1)	(2)
Other, net	16	11	38	29
	<u>62</u>	<u>49</u>	<u>88</u>	<u>92</u>
Earnings Before Income Taxes				
Provision for Income Taxes	(21)	(15)	(30)	(31)
	<u>41</u>	<u>34</u>	<u>58</u>	<u>61</u>
Net Earnings	=====	=====	=====	=====
Earnings Per Common & Common Equivalent Share	\$ 2.67	\$ 1.95	\$ 3.77	\$ 3.51
	=====	=====	=====	=====
Cash Dividends per Common Share	\$ -	\$ -	\$.45	\$.30
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Balance Sheets

(dollars in millions)	September 30, 1994 (unaudited)	December 25, 1993
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 56	\$ 99
Marketable securities	156	183
Receivables, less allowance of \$4 and \$5	256	215
Costs and earnings in excess of billings on uncompleted construction contracts	168	75
Investment in construction joint ventures	89	81
Deferred income taxes	54	48
Other	19	18
Total Current Assets	<hr/> 798	<hr/> 719
Property, Plant and Equipment, less accumulated depreciation and amortization of \$388 and \$384	137	107
Intangible Assets	16	-
Other Assets	56	63
	<hr/> \$ 1,007	<hr/> \$ 889
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$41 and \$37	\$ 159	\$ 148
Current portion of long-term debt	3	4
Accrued costs and billings in excess of revenue on uncompleted contracts	162	87
Accrued insurance costs	71	65
Other	63	43
Total Current Liabilities	<hr/> 458	<hr/> 347
Long-Term Debt, less current portion	7	10
Other Liabilities	45	52
Stockholders' Equity (Redeemable Common Stock, \$352 million aggregate redemption value)		
Common equity	501	483
Foreign currency adjustment	(4)	(3)
Total Stockholders' Equity	<hr/> 497	<hr/> 480
	<hr/> \$ 1,007	<hr/> \$ 889
	=====	=====
<hr/>		

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Cash Flows (unaudited)

	Nine months ended September 30,	
(dollars in millions)	1994	1993
Cash flows from operations:		
Net cash provided by operations	\$ 73	\$ 65
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	258	443
Purchases of marketable securities	(235)	(399)
Proceeds from sales of property, plant and equipment	14	9
Capital expenditures	(53)	(40)
Acquisition of APAC-Arizona, Inc.	(47)	-
Other	(4)	(8)
Net cash provided by (used in) investing activities	(67)	5
Cash flows from financing activities:		
Payments on long-term debt, including current portion	(4)	(1)
Issuances of common stock	19	16
Repurchases of common stock	(10)	(14)
Dividends paid	(13)	(10)
Exchange of Class B&C Stock for Class D Stock, net	(42)	(27)
Other	-	(6)
Net cash used in financing activities	(50)	(42)
Effect of exchange rates on cash	1	(3)
Net change in cash and cash equivalents	(43)	25
Cash and cash equivalents at beginning of period	99	68
Cash and cash equivalents at end of period	\$ 56	\$ 93
	=====	=====

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.

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 16,104,794 and 17,527,842 for the three months ended September 30, 1994 and 1993 and 15,316,445 and 17,229,434 for the nine months ended September 30, 1994 and 1993. Fully diluted earnings per share have not been presented because it is not materially different from primary earnings per share.

KIEWIT CONSTRUCTION & MINING 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	
	September 30, 1994	December 25, 1993
Cash and cash equivalents	\$ 53	\$ 47
Marketable securities	15	11
Property, plant and equipment, net	2	12
Other assets	20	11
Total Assets	\$ 90 =====	\$ 81 =====
Accounts payable	\$ 32	\$ 27
Convertible debentures	2	2
Notes to former stockholders	5	8
Other liabilities	12	7
Total Liabilities	\$ 51 =====	\$ 44 =====

	Group			
	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Investment income, net of interest expense	\$ -	\$ (1)	\$ 1	\$ (1)
Other income, net	2	1	-	2

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

3. Summarized Financial Information (continued):

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 \$7 million and \$6 million for the three months ended September 30, 1994 and 1993 and \$20 million and \$19 million for the nine months ended September 30, 1994 and 1993.

Mining service income that the Group recognized from the Group's mine service agreement with the Diversified Group was \$7 million for the three months ended September 30, 1994 and 1993 and \$22 million and \$21 million for the nine months ended September 30, 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. for \$47 million in cash. The Group accounted for the acquisition as a purchase and has consolidated APAC's operating results since the acquisition date. The fair value of the assets acquired and liabilities assumed totalled \$51 million and \$21 million, respectively. Goodwill of \$17 million is being amortized over 20 years. APAC's operating results prior to the acquisition were not significant relative to the Group's results.

5. Other Matters:

Marketable securities at September 30, 1994 and December 25, 1993 include approximately \$60 million and \$56 million, respectively, of

investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at September 30, 1994 and December 25, 1993 include approximately \$61 million and \$37 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

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 or results of operations.

KIEWIT CONSTRUCTION & MINING GROUP

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

Results of Operations - Third Quarter 1994 vs. Third Quarter 1993

Construction

Construction revenue rose 33% in the third quarter of 1994 as compared to the third quarter of 1993. The increase is primarily attributable to the APAC acquisition completed in the first quarter of 1994 and a 20% increase in the size of new contracts awarded this year. The Group's current contract backlog increased to \$2.4 billion from \$2.2 billion in 1993. The increase in contract size and the expansion to new markets resulted in the increase. Foreign operations, principally Canada, account for 20% and projects on the west coast account for 42% of the total backlog. The San Joaquin Hills toll road project accounts for 15% of the contract backlog and is scheduled to be completed in 1997.

Gross margins on construction contracts declined from 12% in the third quarter of 1993 to 11% during the same period in 1994. In 1994, the margins were adversely affected by the recognition of projected cost overruns on certain projects and a decline in bidding margin on work completed during the period. The lower margins are a result of increased competition in the construction industry. Partially offsetting the overruns and declining margins was the recognition of income from the construction of the San Joaquin toll road.

Operating Expenses

Operating expenses increased \$3 million in the third quarter of 1994 compared to 1993. Modest increases in administrative departments account for the increase.

Other Income, net

A \$5 million increase in asset disposition gains caused the change in other income. Other income for both periods includes \$7 million of mine service income.

KIEWIT CONSTRUCTION & MINING GROUP

Results of Operations - Nine Months 1994 vs. Nine Months 1993

Construction

Construction revenues increased 22% in the first nine months of 1994 as compared to the same period in 1993. Revenues generated from the APAC acquisition, an increase in joint venture work and a 20% increase in the size of new contracts awarded contributed to the higher volume. The increase in joint venture revenue resulted from several design-build projects, awarded in 1992 and 1993, entering the construction phase. These projects include the San Joaquin Hill toll road in southern California, and the Montgomery County Resource Recovery Facility near Baltimore, Maryland.

The gross margin on construction contracts declined to 8% in 1994 from 11% in 1993. In 1994, the margins were adversely affected by the recognition of projected cost overruns on certain projects and a decline in bidding margin on work completed during the period. The lower bidding margins are a result of increased competition in the construction industry. The recognition of income from the construction of the San Joaquin Hills toll road partially offset the overruns and declining margins. A \$20 million reduction of reserves previously established for the Denmark tunnel project favorably impacted 1993 margins.

Operating Expenses

Operating expenses increased \$11 million, or 13%, in the three quarters of 1994 compared to 1993. Higher professional service fees and modest increases in several administrative departments account for the slight increase.

Investment Income

Investment income increased \$15 million in the three quarters 1994 compared to 1993. A \$19 million loss on the sale and writedown of certain derivative securities adversely affected 1993 results.

Other Income, net

Increases in asset disposition gains caused the change in other income. Mine service income amounted to \$22 million in 1994 and \$21 million in 1993.

KIEWIT CONSTRUCTION & MINING GROUP

Financial Condition - September 30, 1994 vs. December 25, 1993

The Company's working capital decreased \$32 million or 9% during the three quarters of 1994.

Cash used in investing activities during the three quarters of 1994 includes \$53 million of capital expenditures, \$47 million for the purchase of APAC, and an additional \$4 million investment in an electrical contractor. Net proceeds from the sales and maturities of marketable securities of \$23 million and proceeds from sales of equipment of \$14 million provided cash during the period.

Financing activities used \$50 million during the three quarters of 1994. The principal uses of cash were the net conversion of B&C shares for D shares for \$42 million, the repurchase of B&C shares for \$10 million and the payment of dividends on B&C shares of \$13 million. Partially offsetting the uses was the sale of B&C shares for \$19 million.

The Group anticipates investing between \$40 and \$75 million annually in its construction business (primarily in equipment), 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 September 30, 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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Financial Statements:

Condensed Statements of Operations for the three months ended September 30, 1994 and 1993 and the nine months ended September 30, 1994 and 1993 Condensed Balance Sheets as of September 30, 1994 and December 25, 1993

Condensed Statements of Cash Flows for the nine months ended September 30, 1994 and 1993 Notes to Condensed Financial Statements

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

KIEWIT DIVERSIFIED GROUP

Condensed Statements of Operations (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(dollars in millions, except per share data)	1994	1993	1994	1993
Revenue	\$ 233	\$ 104	\$ 584	\$ 272
Cost of Revenue	(194)	(77)	(446)	(190)
	<u>39</u>	<u>27</u>	<u>138</u>	<u>82</u>
Operating Expenses	(48)	(23)	(149)	(63)
	<u></u>	<u></u>	<u></u>	<u></u>
Operating Income (Loss)	(9)	4	(11)	(19)
Other Income (Expense):				
Gain on Subsidiary's				
Stock Issuances, net	-	131	28	211
Investment Income	8	21	41	22
Interest Expense	(20)	-	(55)	(4)
Other, net	1	3	5	7
	<u></u>	<u></u>	<u></u>	<u></u>
Earnings (Loss) Before Income Taxes and Minority Interest in Loss of Subsidiaries	(20)	159	8	255
Provision for Income Taxes	(3)	(57)	(18)	(90)
Minority Interest in Loss of Subsidiaries	11	1	26	1
	<u></u>	<u></u>	<u></u>	<u></u>
Net Earnings (Loss)	\$ (12) =====	\$ 103 =====	\$ 16 =====	\$ 166 =====
Earnings (Loss) Per Common & Common Equivalent Share	\$ (.58) =====	\$ 5.12 =====	\$.77 =====	\$ 8.34 =====
Cash Dividends per Common Share	\$ - =====	\$ - =====	\$ - =====	\$.50 =====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

(dollars in millions)	September 30, 1994 (unaudited)	December 25, 1993
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 387	\$ 197
Marketable securities	920	899
Receivables, less allowance of \$3 and \$2	137	86
Other	82	58
Total Current Assets	<hr/> 1,526	<hr/> 1,240
Property, Plant and Equipment, less accumulated depreciation and amortization of \$312 and \$252	928	737
Intangible Assets, net	645	427
Investments	258	233
Other Assets	172	172
	<hr/> \$ 3,529	<hr/> \$ 2,809
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 122	\$ 113
Current portion of long-term debt:		
Telecommunications	9	7
Other	6	4
Accrued costs and billings in excess of revenue on uncompleted contracts	28	20
Accrued reclamation and other mining costs	18	23
Other	125	80
Total Current Liabilities	<hr/> 308	<hr/> 247
Long-Term Debt, less current portion:		
Telecommunications	932	420
Other	62	32
Deferred Income Taxes	421	394
Retirement Benefits	66	71
Accrued Reclamation Costs	102	99
Other Liabilities	78	57
Minority Interest	344	298
Stockholders' Equity (Redeemable Common Stock, \$1.2 billion aggregate redemption value)		
Common equity	1,220	1,182
Net unrealized holding gains (losses)	(4)	9
Total Stockholders' Equity	<hr/> 1,216	<hr/> 1,191
	<hr/> \$ 3,529	<hr/> \$ 2,809
	=====	=====
<hr/>		

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP
Condensed Statements of Cash Flows
(unaudited)

	Nine months ended September 30,	
(dollars in millions)	1994	1993
<hr/>		
Cash flows from operations:		
Net cash provided by continuing operations	\$ 75	\$ 94
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	1,245	3,076
Purchases of marketable securities	(1,287)	(3,502)
Acquisition of Centex, net of cash acquired	(199)	-
Capital expenditures	(260)	(88)
Proceeds from sale of cellular properties	182	-
Purchases of California Energy stock	(26)	-
Deferred development costs and other	(62)	1
Net cash used in investing activities	(407)	(513)
Cash flows from financing activities:		
Issuances of subsidiary's stock	5	455
Proceeds from long-term debt borrowings	677	13
Payments on long-term debt, including current portion	(185)	(6)
Net change in short-term borrowings	-	(80)
Issuances of common stock	-	8
Repurchases of common stock	(21)	(40)
Dividends paid	-	(17)
Exchange of Class B&C Stock for Class D Stock, net	42	27
Other	(2)	8
Net cash provided by financing activities	516	368
Cash flows from discontinued packaging operations	6	10
Net change in cash and cash equivalents	190	(41)
Cash and cash equivalents at beginning of period	197	135
Cash and cash equivalents at end of period	\$ 387	\$ 94
	=====	=====
Noncash investing activities:		
Issuance of MFS stock for the purchase of telecommunications companies and minority interest	\$ 23	\$ -
MFS stock transaction to settle contingent purchase price adjustment	25	-

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 20,375,280 and 19,978,247 for the three months ended September 30, 1994 and 1993 and 20,457,392 and 19,922,955 for the nine months ended September 30, 1994 and 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	
	September 30, 1994	December 25, 1993
Cash and cash equivalents	\$ 53	\$ 47
Marketable securities	15	11
Property, plant and equipment, net	2	12
Other assets	20	11
Total Assets	\$ 90 =====	\$ 81 =====
Accounts payable	\$ 32	\$ 27
Convertible debentures	2	2
Notes to former stockholders	5	8
Other liabilities	12	7
Total Liabilities	\$ 51 =====	\$ 44 =====

	Group			
	Three months ended September 30,		Nine months ended September 30,	
	1994	1993	1994	1993
Investment income, net of interest expense	\$ -	\$ (1)	\$ 1	\$ (1)
Other income, net	2	1	-	2

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

3. Summarized Financial Information (continued):

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 \$5 million and \$3 million for the three months ended September 30, 1994 and 1993 and \$9 million for the nine months ended September 30, 1994 and 1993.

Mining service expense from the Group's mine service agreement with the Construction & Mining Group was \$7 million for the three months ended September 30, 1994 and 1993 and \$22 million and \$21 million for the nine months ended September 30, 1994 and 1993.

4. Acquisitions:

On May 18, 1994, MFS Communications Company, Inc. ("MFS") acquired Centex Telemanagement, Inc. ("Centex"), a company which provides outsourced telecommunications management services for small and medium-sized businesses, for \$250 million. The Group accounted for the acquisition using the purchase method and has consolidated Centex's operating results since the acquisition date. The total purchase price in excess of the fair market value of net assets acquired, \$144 million, was recorded as goodwill and will be amortized over 40 years. The unaudited proforma results below reflect certain adjustments, primarily increased amortization, assuming the acquisition occurred at the beginning of 1993.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

4. Acquisitions (continued):

These results do not necessarily indicate future results, nor the results of historical operations had the acquisition actually happened on the assumed date (in millions, except per share data).

	For the nine months ended September 30, 1994	For the nine months ended September 30, 1993
Revenue	\$ 651 =====	\$ 408 =====
Net earnings	\$ 10 =====	\$ 154 =====
Earnings per share of Class D Stock	\$.46 =====	\$ 7.74 =====

5. Long-Term Debt:

On January 19, 1994, 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, MFS 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' subsidiaries, including trade payables. The notes contain certain covenants which, among other things, restrict MFS' ability to incur additional debt, create liens, enter into sale and leaseback transactions, pay dividends, make certain restricted payments, enter into transactions with affiliates,

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

5. Long-Term Debt (continued):

and sell assets to or merge with another company.

In March of 1994, C-TEC's telephone group refinanced \$135 million of mortgage notes payable to the United States of America. Although the new agreement does not restrict telephone group dividends, it does require the telephone group to maintain specified ratios for total leverage, interest coverage, and equity to total capitalization.

6. Other Matters:

In 1994, the Group settled, for \$25 million, a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic 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 for MFS employee stock options, resulted in a \$28 million net gain to the Group.

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.

On September 9, 1994 C-TEC Corporation ("C-TEC") sold certain cellular properties to Independent Cellular Network, Inc. for \$190 million.

The Group received \$182 million of proceeds and recorded an \$8 million receivable. The Group did not recognize a gain or loss from this transaction, but instead reallocated the original purchase price among

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

6. Other Matters (continued):

C-TEC's net assets as required by purchase accounting guidelines. The cellular properties had sales of \$6 million and \$20 million for the quarter and nine months ended September 30, 1994.

MFS has signed a merger agreement with RealCom Office Communications, Inc. ("RealCom"). MFS anticipates that it will issue approximately 1.6 million shares to complete the merger. Some of the purchase price may be payable in cash in lieu of common stock. The merger agreement is dependent on certain events, including approval of the agreement by RealCom shareholders. The transaction is expected to close in the fourth quarter of 1994.

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 or results of operations.

See "Legal Proceedings" with respect to the Whitney Benefits

case.

KIEWIT DIVERSIFIED GROUP

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

Results of Operations - Third Quarter 1994 vs. Third Quarter 1993

Revenue from the Group's segments for the third quarter were (in millions):

	1994	1993
	<hr/>	<hr/>
Mining	\$ 62	\$ 60
Telecommunications	164	43
Other	7	1

Mining

Mining gross profits were 45% in the third quarter of 1994 and 1993. In 1994, alternate source coal sales accounted for 34% of revenues and 57% of gross profits compared to 30% and 56% in 1993.

Telecommunications

In the third quarter of 1994, C-TEC and MFS accounted for 46% and 54% of telecommunications revenues. The telephone and cable groups generated the majority, \$31 million and \$24 million, respectively, of C-TEC's revenues while MFS' revenue consisted of \$72 million from telecommunications services and \$16 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$42 million of telecommunications services revenue. The remainder of MFS' growth over 1993 correlates to increased market penetration of \$12 million by MFS Telecom, MFS Datanet, and MFS Intelenet being offset by decreases in revenue recognized from the network systems integration project for the State of Iowa.

Telecommunications cost of revenue totalled \$156 million and \$42 million for the third quarter of 1994 and 1993. C-TEC's operations generated \$48 million of the 1994 costs with \$14 million and \$18 million related to the telephone and cable groups. MFS' telecommunications services had \$95 million in costs of revenue - \$42 million from Centex. The remainder of MFS' increased costs

KIEWIT DIVERSIFIED GROUP

Results of Operations - Third Quarter 1994 vs. Third Quarter 1993

(continued)

related to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

Operating Expenses

Operating expenses for the third quarter of 1994 exceeded those of 1993 by 109%. The telecommunications segment generated the growth with C-TEC and MFS accounting for 80% and 28% of the increase, respectively. Slight decreases in other expenses offset the presence of C-TEC and increase in MFS. Operating expenses for both periods include \$7 million of mine management fees paid to the Construction and Mining Group.

Gain on Subsidiary's Stock Issuances, net

The gain in 1993 resulted from the secondary offering of MFS stock.

Investment Income

Investment income includes interest, gains and losses on sales of securities, dividends, and net equity earnings. Investment income for the third quarter of 1994 decreased \$13 million from 1993. In 1994 the Group realized losses of \$11 million on the sale of marketable securities.

Interest Expense

Interest expense of \$20 million consists of \$11 million on MFS debt and \$9 million on C-TEC debt.

Other Income, net

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

Taxes

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

KIEWIT DIVERSIFIED GROUP

Results of Operations - Nine Months 1994 vs. Nine Months 1993

Revenue from the Group's segments for the first nine months of 1994 and 1993 were (in millions):

	1994	1993
	-----	-----
Mining	\$ 168	\$ 162
Telecommunications	405	103
Other	11	7

Mining

Mining gross profits were 48% and 47% in the first nine months of 1994 and 1993. In 1994, alternate source coal sales accounted for 32% of revenues and 51% of gross profits compared to 31% and 58% in 1993.

Telecommunications

In the first nine months of 1994, C-TEC and MFS accounted for 54% and 46% of telecommunications revenues. The telephone and cable groups generated the majority, \$92 million and \$71 million, of C-TEC's revenues while MFS' revenues consisted of \$142 million from telecommunications services and \$43 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$63 million of telecommunications services revenue since the date of acquisition. The remainder of MFS growth correlates to continued market penetration from all MFS businesses.

Telecommunications cost of revenue totalled \$353 million and \$101 million for the first nine months of 1994 and 1993. C-TEC's operations generated \$137 million of costs with \$42 million and \$55 million related to the telephone and cable groups.

MFS' telecommunications services had \$183 million in costs of revenue - \$62 million from Centex. The remainder of MFS' increased costs relates to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

KIEWIT DIVERSIFIED GROUP

Results of Operations - Nine Months 1994 vs. Nine Months 1993

(continued)

Operating Expenses

Operating expenses for the first nine months of 1994 exceeded those of 1993 by 137%. The telecommunications segment generated the increase with C-TEC and MFS accounting for 69% and 24% of the increase. Operating expenses for both periods include mine management fees paid to the Construction and Mining Group. The fees totalled \$22 million and \$21 million for the 1994 and 1993 periods.

Gain on Subsidiary's Stock Issuances, net

In 1994, the Group settled, for \$25 million, a contingent purchase price adjustment resulting from MFS' 1990 purchase of Chicago Fiber Optic 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 and for MFS employee stock options, resulted in a \$28 million net gain to the Group. The gain in 1993 resulted from the public offerings of MFS stock.

Investment Income

In 1993 the Group experienced approximately \$24 million of realized losses and permanent writedowns on certain derivative securities. In the third quarter of 1994 the Group realized losses of \$11 million on the sale of marketable securities which were offset by an \$8 million increase in interest income.

Interest Expense

Interest expense of \$55 million includes of \$30 million on MFS debt and \$23 million on C-TEC debt.

Other Income, net

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

KIEWIT DIVERSIFIED GROUP

Results of Operations - Nine Months 1994 vs. Nine Months 1993

(continued)

Taxes

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

KIEWIT DIVERSIFIED GROUP

Financial Condition - September 30, 1994 vs. December 25, 1993

The Group's working capital increased \$225 million or 23% during the three quarters of 1994.

Cash used in investing activities during the three quarters of 1994 includes the net purchase of marketable securities of \$42 million, \$260 million of capital expenditures (\$207 million by MFS), and \$199 million for the acquisition of Centex, and over \$50 million of deferred costs on telecommunications operations, the construction of a toll road, and international power project activities.

Financing activities generated \$516 million during the three quarters of 1994, the majority of which is related to MFS. MFS' 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 \$275 - 325 million in 1994 and in excess of \$1 billion over 3 - 5 years to expand its operations to a total of 75 markets (including approximately 10 international markets).

Other financing activity for the year includes C-TEC borrowing approximately \$135 million to refinance certain mortgage notes payable, the net exchange of Class B&C stock for Class D stock for \$42 million and the repurchase of Class D stock for \$21 million. C-TEC's 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 businesses - 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 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.

From time to time, MFS has also had discussions with other communications entities concerning the establishment of possible strategic relationships, including transactions involving

KIEWIT DIVERSIFIED GROUP

Financial Condition - September 30, 1994 vs. December 25, 1993

(continued)

acquisitions, combinations and equity investments in MFS or one of its subsidiaries. MFS intends to consider appropriate opportunities to establish strategic relationships.

C-TEC has filed a registration statement related to a rights offering of shares of its common stock. The net proceeds from the rights offering will be approximately \$296 million if the rights are fully exercised. KDG expects to exercise all of its rights and to oversubscribe for additional rights not otherwise exercised - an investment of \$100 - 150 million. The funds generated from the rights issuance and the cellular sale will enable C-TEC to expand and develop its cable television and telephone systems into full service networks, pursue potential acquisitions, prepay certain indebtedness, and independently finance its current working capital and investment requirements.

The Group's working capital position at September 30, 1994, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities.

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

[DESCRIPTION] FINANCIAL DATA SCHEDULE FOR 1994 FORM 10-Q

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This schedule contains summary financial information extracted from the Form 10-Q for the period ending September 30, 1994 and is qualified in its entirety by reference to such financial statements.

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