

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 08/15/94 for the Period Ending 06/30/94

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

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

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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 June 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 August 1, 1994:

Class B Common Stock.....	1,000,400 shares
Class C Common Stock.....	15,107,792 shares
Class D Common Stock.....	20,375,510 shares

PETER KIEWIT SONS', INC.

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PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Earnings
(unaudited)

	Three months ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per share data)	1994	1993	1994	1993
Revenue	\$ 717	\$ 543	\$ 1,290	\$ 980
Cost of Revenue	(623)	(449)	(1,130)	(835)
	<u>94</u>	<u>94</u>	<u>160</u>	<u>145</u>
Operating Expenses	(80)	(40)	(148)	(80)
	<u></u>	<u></u>	<u></u>	<u></u>
Operating Income	14	54	12	65
Other Income (Expense):				
Gain on Subsidiary's Stock Issuances, net	3	80	28	80
Investment Income (loss)	18	(28)	39	(9)
Interest Expense	(19)	(3)	(36)	(5)
Other, net	8	6	11	8
	<u>10</u>	<u>55</u>	<u>42</u>	<u>74</u>
Earnings Before Income Taxes and Minority Interest	24	109	54	139
Provision for Income Taxes	(10)	(39)	(24)	(49)
Minority Interest in Loss of Subsidiaries	8	-	15	-
	<u></u>	<u></u>	<u></u>	<u></u>
Net Earnings	\$ 22	\$ 70	\$ 45	\$ 90
	=====	=====	=====	=====
Earnings Attributable to Class B&C Stock:				
Net Earnings	\$ 19	\$ 22	\$ 17	\$ 27
	=====	=====	=====	=====
Earnings per Common and Common Equivalent Share	\$ 1.24	\$ 1.30	\$ 1.10	\$ 1.54
	=====	=====	=====	=====

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Earnings
(unaudited)

	Three months ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per share data)	1994	1993	1994	1993
Earnings Attributable to Class D Stock:				
Net Earnings	\$ 3	\$ 48	\$ 28	\$ 63
	=====	=====	=====	=====
Earnings per Common and Common Equivalent Share	\$.14	\$ 2.44	\$ 1.35	\$ 3.21
	=====	=====	=====	=====
Cash Dividends per Common Share:				
B&C Stock	\$.45	\$ -	\$.45	\$.30
	=====	=====	=====	=====

D Stock

\$ -
=====

\$ -
=====

\$ -
=====

\$.50
=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

	June 30, 1994	December 25, 1993
(dollars in millions)	(unaudited)	
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 315	\$ 296
Marketable securities	1,123	1,082
Receivables, less allowance of \$7 and \$7	364	296
Costs and earnings in excess of billings on uncompleted contracts	137	79
Investment in construction joint ventures	55	81
Deferred income taxes	83	66
Other	70	54
Total Current Assets	<hr/> 2,147	<hr/> 1,954
Property, Plant and Equipment, less accumulated depreciation and amortization of \$691 and \$636	987	844
Investments	246	233
Intangible Assets, net	709	427
Other Assets	227	226
	<hr/> \$ 4,316	<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)	June 30, 1994 (unaudited)	December 25, 1993
<hr/> Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 262	\$ 260
Current portion of long-term debt:		
Telecommunications	9	7
Other	8	8
Accrued costs and billings in excess of revenue on uncompleted contracts	148	107
Accrued insurance costs	72	67
Other	165	140
Total Current Liabilities	<hr/> 664	<hr/> 589
Long-Term Debt, less current portion:		
Telecommunications	916	420
Other	59	42
Deferred Income Taxes	402	385
Retirement Benefits	68	71
Accrued Reclamation Costs	101	99
Other Liabilities	122	109
Minority Interest	305	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: 15,121,492 outstanding in 1994 and 16,316,070 in 1993	1	1
Class D, authorized 50,000,000 shares: 20,378,430 outstanding in 1994 and 20,010,696 in 1993	1	1
Additional paid-in capital	180	164
Foreign currency adjustment	(7)	(3)
Net unrealized holding gains (losses)	(7)	9
Retained earnings	1,511	1,499
	<hr/>	<hr/>

Total Stockholders' Equity	1,679	1,671
	<u>\$ 4,316</u>	<u>\$ 3,684</u>
	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows
(unaudited)

(dollars in millions)	Six months ended June 30,	
	1994	1993
Cash flows from operations:		
Net cash provided by continuing operations	\$ 60	\$ 48
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	856	3,132
Purchases of marketable securities	(909)	(3,203)
Proceeds from sales of property, plant and equipment, and other investments	9	9
Capital expenditures	(170)	(77)
Acquisition of APAC-Arizona, Inc.	(47)	-
Acquisition of Centex Telemanagement, Inc., net of cash acquired	(189)	-
Redemption of U.S. Can Preferred Stock	-	12
Deferred development costs and other	(49)	(5)
Net cash used in investing activities	(499)	(132)
Cash flows from financing activities:		
Issuances of subsidiary's stock	3	233
Proceeds from long-term debt borrowings	659	-
Payments on long-term debt, including current portion	(184)	(2)
Net change in short-term borrowings	-	(30)
Repurchases of common stock	(30)	(50)
Issuance of common stock	19	21
Dividends paid	(13)	(27)
Net cash provided by financing activities	454	145
Cash flows from discontinued packaging operations	7	10
Effect of exchange rates on cash	(3)	-
Net change in cash and cash equivalents	19	71
Cash and cash equivalents at beginning of period	296	203
Cash and cash equivalents at end of period	\$ 315	\$ 274
	=====	=====
Noncash investing activities:		
Issuance of MFS stock for purchase of telecommunications companies	\$ 23	\$ -
MFS stock transactions to settle contingent purchase price liability	25	-

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 June 30,		Six months ended June 30,	
	1994	1993	1994	1993
Class B&C	15,232,250	16,968,572	15,306,347	17,081,835
Class D	20,446,882	19,876,053	20,497,789	19,895,207

PETER KIEWIT SONS', INC.

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, 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 June 30,		Six months ended June 30,	
	1994	1993	1994	1993
Results of Operations:				
Revenue	\$ 528	\$ 458	\$ 939	\$ 812
	=====	=====	=====	=====
Net earnings	\$ 19	\$ 22	\$ 17	\$ 27
	=====	=====	=====	=====
Earnings per share	\$ 1.24	\$ 1.30	\$ 1.10	\$ 1.54
	=====	=====	=====	=====

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

3. Summarized Financial Information (continued):

	June 30, 1994	December 25, 1993
Financial Position:		
Working capital	\$ 285	\$ 372
Total assets	902	889
Long-term debt, less current portion	7	10
Stockholders' equity	454	480

Included within earnings before income taxes is mine service income from the Diversified Group of \$8 million and \$7 million for the three months ended June 30, 1994 and 1993 and \$15 million and \$14 million for the six months ended June 30, 1994 and 1993.

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

3. Summarized Financial Information (continued):

Diversified Group:

	Three months ended June 30,		Six months ended June 30,	
	1994	1993	1994	1993
Results of Operations:				
Revenue	\$ 189 =====	\$ 85 =====	\$ 351 =====	\$ 168 =====
Net earnings	\$ 3 =====	\$ 48 =====	\$ 28 =====	\$ 63 =====
Earnings per share	\$.14 =====	\$ 2.44 =====	\$ 1.35 =====	\$ 3.21 =====
		June 30, 1994	December 25, 1993	
Financial Position:				
Working capital		\$ 1,198	\$ 993	
Total assets		3,433	2,809	
Long-term debt, less current portion		968	452	
Stockholders' equity		1,225	1,191	

Included within earnings before income taxes is mine management fees paid to the Construction & Mining Group of \$8 million and \$7 million for the three months ended June 30, 1994 and 1993 and \$15 million and \$14 million for the six months ended June 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 \$240 million. The Company accounted for the acquisition using the purchase method and has consolidated Centex's operating results since the acquisition date. The fair value of the net tangible assets acquired totalled \$47 million. Goodwill of \$143 million and other intangibles of \$50 million are being amortized over 40 and 3 years, respectively. 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 six months ended June 30, 1994	For the six months ended June 30, 1993
Revenue	\$ 1,357 =====	\$ 1,075 =====
Net earnings	\$ 40 =====	\$ 84 =====
Earnings per share of Class D stock	\$ 1.12 =====	\$ 2.90 =====

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

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.

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'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.

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 June 30, 1994 and December 25, 1993 include approximately \$54 million and \$56 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at June 30, 1994 and December 25, 1993 include approximately \$53 million and \$37 million, respectively of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

6. Other Matters (continued):

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 for MFS employee stock options, 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 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 transaction is expected to close in the third quarter of 1994. 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. C-TEC's cellular properties had sales of \$8 million and \$15 million for the quarter and six months ended June 30, 1994.

MFS has signed a merger agreement with RealCom Office Communications, Inc. ("RealCom"). The agreement calls for each outstanding share of RealCom common stock, subject to certain adjustments, to be converted into the right to receive a fractional share of MFS' common stock. MFS anticipates that it will issue approximately 1.6 million shares to complete the conversion. Some of the purchase price

PETER KIEWIT SONS', INC.

Notes to Consolidated Condensed Financial Statements

6. Other Matters (continued):

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 and certain federal and state regulatory approvals. The transaction is expected to close in the third quarter of 1994. The stock issuance will result in a gain to the Company.

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 and 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 - Second Quarter 1994 vs. Second Quarter 1993

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

	1994	1993
	<hr/>	<hr/>
Construction	\$ 517	\$ 453
Mining	62	54
Telecommunications	134	31
Other	4	5
	<hr/>	<hr/>
	\$ 717	\$ 543
	=====	=====

Construction

Construction revenue rose 14% in the second quarter of 1994 as compared to the second quarter of 1993. Substantially all of the increase is attributable to the APAC-Arizona, Inc. acquisition completed during the first quarter of 1994. The Company's contract backlog remained at \$2.2 billion at June 30, 1994. Foreign operations, principally Canada, account for 10% and projects on the west coast account for 47% of the total backlog. The San Joaquin Hills toll road project accounts for 18% of the contract backlog and is scheduled to be completed in 1997.

Gross margins on construction revenue declined from 15% in the second quarter of 1993 to 8% during the same period in 1994. The higher margins in 1993 resulted from the \$20 million reduction of reserves previously established for the Denmark tunnel project. The deferral of gains on the San Joaquin Hills toll road project, because of environmental and construction uncertainties, lowered margins in 1994.

PETER KIEWIT SONS', INC.

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

(continued)

Construction (continued)

The Company has been awarded a \$160 million contract to build a 165 megawatt geothermal plant in the Philippines. Construction of the project will begin in the third quarter and is scheduled for completion in 1997. The Company is exploring other construction opportunities in international markets.

Mining

Mining revenues and gross profits for the second quarter increased 15% and 20%, respectively over 1993. A slight increase in average price per ton of coal shipped and a rise in precious metal sales resulted in revenue and margin growth. Costs of revenue remained fairly constant as tons of coal shipped decreased by less than half a percent. In 1994, alternate source coal sales accounted for 26% of revenues and 40% of gross profits compared to 30% and 56% in 1993.

Telecommunications

In the second quarter of 1994, C-TEC and MFS accounted for 54% and 46% of telecommunications revenues. C-TEC's telephone and cable groups generated the majority, \$30 million and \$23 million, of C-TEC's revenues while MFS' revenue consisted of \$47 million from telecommunications services and \$14 million from systems integration and facilities management. MFS' new subsidiary, Centex, generated \$21 million of telecommunications services revenue from the date of acquisition. The remainder of MFS' growth correlates to expanded networks and the start-up of MFS Datanet and MFS Intelenet.

Telecommunications cost of revenue totalled \$110 million and \$31 million for the second quarter of 1994 and 1993. C-TEC's operations generated \$42 million of the costs with \$14 million and \$16 million related to the telephone and cable groups. MFS' telecommunications services had \$58 million in costs of revenue - \$20 million from Centex. The remainder of MFS' increased costs of revenue relate to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

PETER KIEWIT SONS', INC.

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

(continued)

Operating Expenses

Second quarter 1994 operating expenses exceeded second quarter 1993 expenses by 100%. The telecommunications segment generated the majority of the growth with C-TEC and MFS accounting for 60% and 24% of the increase. Modest increases in several administrative departments accounted for the remainder of the increase.

Gain on Subsidiary's Stock Issuances, net

During the second quarter of 1994, the Company purchased the outstanding shares of a MFS subsidiary from the minority stockholders by issuing MFS stock valued at market prices. This transaction, along with stock issuances for MFS employee stock options, resulted in a \$3 million net gain to the Company. The gain in 1993 resulted from the initial public 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 second quarter of 1994 increased \$46 million over 1993. A \$43 million loss on the sale and writedown of derivative securities in 1993 was the principal reason for the improvement.

Interest Expense

Interest expense of \$19 million includes \$11 million interest on MFS debt and \$7 million on C-TEC 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 - Second Quarter 1994 vs. Second Quarter 1993

(continued)

Taxes

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

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

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

	1994	1993
	<hr/>	<hr/>
Construction	\$ 922	\$ 803
Mining	119	109
Telecommunications	241	60
Other	8	8
	<hr/>	<hr/>
	\$ 1,290	\$ 980
	=====	=====

Construction

Construction revenue increased 15% in the first six months of 1994 as compared to the first six months of 1993. Revenues generated from the APAC acquisition and an increase in joint venture work contributed to the higher volume. 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 Hills toll road project in southern California and the Montgomery County Resource Recovery Facility near Baltimore, Maryland.

The gross margin on construction contracts decreased to 6% for the first half of 1994 from 11% in 1993. In 1994, margins were reduced by the recognition of projected cost overruns on certain projects and the deferral of gains on the San Joaquin Hills toll road project because of environmental and construction uncertainties. A \$20 million reduction of reserves previously established for the Denmark tunnel project favorably impacted 1993 margins.

PETER KIEWIT SONS', INC.

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

(continued)

Mining

Mining revenues and gross profits for the six months ended June 30, 1994 increased 9% and 14% over the first six months of 1993. A slight increase in average price per ton of coal shipped and a rise in precious metal sales resulted in revenue and margin growth. Costs of revenue remained fairly constant as tons of coal shipped decreased by less than half a percent. In 1994, alternate source coal sales accounted for 28% of revenues and 44% of gross profits compared to 30% and 58% in 1993.

Telecommunications

In the first six months of 1994, C-TEC and MFS accounted for 60% and 40% of telecommunications revenues. C-TEC's telephone and cable groups generated the majority, \$61 million and \$47 million, of C-TEC's revenues while MFS' revenues consisted of \$69 million from telecommunications services and \$27 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$21 million of telecommunications services revenue from the date of acquisition. The remainder of MFS growth correlates to expanded networks and the start-up of MFS Datanet and MFS Intelenet.

Telecommunications cost of revenue totalled \$196 million and \$58 million for the first six months of 1994 and 1993. C-TEC's operations generated \$89 million of the costs with \$28 million and \$37 million related to the telephone and cable groups. MFS' telecommunications services had \$87 million in costs of revenue - \$20 million from Centex. The remainder of MFS' increased costs relates to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

PETER KIEWIT SONS', INC.

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

(continued)

Operating Expenses

Operating expenses for the first six months of 1994 exceeded those of 1993 by 85%. The telecommunications operations generated the majority of the increase with C-TEC and MFS accounting for 57% and 22% of the increase. Modest increases in several administrative departments accounted for the remainder of the increase.

Gain on Subsidiary's Stock Issuances, 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 for MFS employee stock options, resulted in a \$28 million net gain to the Company. The gain in 1993 resulted from the initial public offering of MFS stock.

Investment Income

Investment income for the first six months of 1994 increased \$48 million over 1993. An approximate \$43 million loss on the sale and writedown of derivative securities in 1993 was the principal reason for the improvement.

Interest Expense

Interest expense of \$36 million includes \$19 million of interest on MFS debt and \$15 million of interest on C-TEC debt.

PETER KIEWIT SONS', INC.

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

(continued)

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 six 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 - June 30, 1994 vs. December 25, 1993

The Company's working capital increased \$118 million or 9% during the first six months of 1994.

Cash used in investing activities during the first six months of 1994 includes the net purchase of marketable securities of \$53 million, \$170 million of capital expenditures, \$189 for the acquisition of Centex, and \$47 million for the purchase of APAC.

Financing activities generated \$454 million during the first six months 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 group.

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 complement 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 - June 30, 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.

C-TEC recently announced plans to offer to its existing stockholders transferable subscription rights for C-TEC common stock. KDG expects to subscribe for its proportional share of that offering. Although there is no assurance that C-TEC will receive any proceeds from the rights offering, it expects to raise approximately \$300 million, approximately \$100 million from KDG. 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 and independently finance its 1994 working capital and investment requirements.

The Company's working capital position at June 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 \$238 million. Kiewit and Whitney have agreed that Kiewit and Whitney will receive 67.5 and 32.5 percent, respectively, of any award. At June 30, 1994, Kiewit and Whitney would be entitled to \$201 million and \$97 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.

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 second 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: August 15, 1994

/s/ R. E. Julian

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

PETER KIEWIT SONS', INC. AND SUBSIDIARIES

INDEX TO EXHIBITS

<u>Exhibit No.</u>		<u>Page No.</u>
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.	

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: August 15, 1994

Robert E. Julian Executive Vice President Chief Financial Officer

Exhibit 99.A

KIEWIT CONSTRUCTION & MINING GROUP

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Condensed Statements of Earnings for the three months ended June 30, 1994 and 1993 and the six months ended June 30, 1994 and 1993

Condensed Balance Sheets as of June 30, 1994 and December 25, 1993

Condensed Statements of Cash Flows for the three months ended June 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)

	Three months ended June 30,		Six months ended June 30,	
(dollars in millions, except per share data)	1994	1993	1994	1993
Revenue	\$ 528	\$ 458	\$ 939	\$ 812
Cost of Revenue	(485)	(392)	(878)	(722)
	<u>43</u>	<u>66</u>	<u>61</u>	<u>90</u>
Operating Expenses	(29)	(26)	(62)	(54)
	<u></u>	<u></u>	<u></u>	<u></u>
Operating Income (Loss)	14	40	(1)	36
Other Income (Expense):				
Investment Income				
(Loss)	4	(15)	6	(10)
Interest Expense	(1)	-	(1)	(1)
Other, net	12	9	22	18
	<u>15</u>	<u>(6)</u>	<u>27</u>	<u>7</u>
Earnings Before Income Taxes	29	34	26	43
Provision for Income Taxes	(10)	(12)	(9)	(16)
	<u></u>	<u></u>	<u></u>	<u></u>
Net Earnings	\$ 19 =====	\$ 22 =====	\$ 17 =====	\$ 27 =====
Earnings Per Common & Common Equivalent Share	\$ 1.24 =====	\$ 1.30 =====	\$ 1.10 =====	\$ 1.54 =====
Cash Dividends per Common Share	\$.45 =====	\$ - =====	\$.45 =====	\$.30 =====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Balance Sheets

	June 30, 1994	December 25, 1993
(dollars in millions)	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 42	\$ 99
Marketable securities	139	183
Receivables, less allowance of \$4 and \$5	237	215
Costs and earnings in excess of billings on uncompleted construction contracts	123	75
Investment in construction joint ventures	55	81
Deferred income taxes	61	48
Other	24	18
Total Current Assets	<u>681</u>	<u>719</u>

Property, Plant and Equipment, less accumulated depreciation and amortization of \$391 and \$384	144	107
Deferred Income Taxes	2	9
Intangible Assets	16	-
Other Assets	59	54
	<u>\$ 902</u>	<u>\$ 889</u>
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$38 and \$37	\$ 141	\$ 148
Current portion of long-term debt	3	4
Accrued construction costs and billings in excess of revenue on uncompleted contracts	126	87
Accrued insurance costs	70	65
Other	56	43
Total Current Liabilities	<u>396</u>	<u>347</u>
Long-Term Debt, less current portion	7	10
Other Liabilities	45	52
Stockholders' Equity (Redeemable Common Stock, \$353 million aggregate redemption value)		

Common equity	460	483
Net unrealized holding losses	(1)	-
Foreign currency adjustment	(5)	(3)
	<hr/>	<hr/>
Total Stockholders' Equity	454	480
	<hr/>	<hr/>
	\$ 902	\$ 889
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Cash Flows (unaudited)

	Six months ended June 30,	
(dollars in millions)	1994	1993
Cash flows from operations:		
Net cash provided by (used in) operations	\$ 42	\$ (10)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	138	514
Purchases of marketable securities	(97)	(453)
Proceeds from sales of property, plant and equipment	6	7
Capital expenditures	(41)	(20)
Acquisition of APAC-Arizona, Inc.	(47)	-
Other	(7)	(9)
Net cash provided by (used in) investing activities	(48)	39
Cash flows from financing activities:		
Payments on long-term debt, including current portion	(4)	(1)
Issuances of common stock	19	15
Repurchases of common stock	(9)	(12)
Dividends paid	(13)	(10)
Exchange of Class B&C Stock for Class D Stock, net	(42)	(22)
Other	-	(4)
Net cash used in financing activities	(49)	(34)
Effect of exchange rates on cash	(2)	-
Net change in cash and cash equivalents	(57)	(5)
Cash and cash equivalents at beginning of period	99	68
	\$ 42	\$ 63
	=====	=====

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.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

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 15,232,250 and 16,968,572 for the three months ended June 30, 1994 and 1993 and 15,306,347 and 17,081,835 for the six months ended June 30, 1994 and 1993. Fully diluted earnings per share have not been presented because it is not materially different from primary earnings 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	
	June 30, 1994	December 25, 1993
Cash and cash equivalents	\$ 38	\$ 47
Marketable securities	20	11
Property, plant and equipment, net	13	12
Other assets	12	11
Total Assets	<u>\$ 83</u> =====	<u>\$ 81</u> =====
Accounts payable	\$ 31	\$ 27
Convertible debentures	2	2
Notes to former stockholders	6	8
Liability for stock appreciation rights	1	2
Other liabilities	7	5
Total Liabilities	<u>\$ 47</u> =====	<u>\$ 44</u> =====

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

3. Summarized Financial Information (continued):

	Group			
	Three months ended		Six months ended	
	June 30,		June 30,	
	1994	1993	1994	1993
Investment income, net of interest expense	\$ 1	\$ -	\$ 1	\$ -
Other costs, net	(1)	(1)	(2)	(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 \$7 million and \$6 million for the three months ended June 30, 1994 and 1993 and \$13 million and \$12 million for the six months ended June 30, 1994 and 1993.

Mining service income that the Group recognized from the Group's mine service agreement with the Diversified Group was \$8 million and \$7 million for the three months ended June 30, 1994 and 1993 and \$15 million and \$14 million for the six months ended June 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.

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

5. Other Matters:

Marketable securities at June 30, 1994 and December 25, 1993 include approximately \$54 million and \$56 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at June 30, 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.

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 and results of operations.

KIEWIT CONSTRUCTION & MINING GROUP

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

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

Construction

Construction revenue rose 14% in the second quarter of 1994 as compared to 1993. Substantially all of the increase is attributable to the APAC-Arizona, Inc. acquisition completed during the first quarter of 1994. The Group's contract backlog remained at \$2.2 billion at June 30, 1994. Foreign operations, principally Canada, accounted for 10%, and projects on the west coast accounted for approximately 47% of the total backlog. The San Joaquin Hills toll road joint venture accounts for 18% of the contract backlog and is scheduled for completion in 1997.

Gross margins on construction revenue declined from 15% in the second quarter of 1993 to 8% in 1994. The higher margins in 1993 resulted from the reduction of reserves established for the Denmark tunnel project. The deferral of gains on the San Joaquin Hills toll road project, because of environmental and construction activities, lowered margins in 1994.

The Group has been awarded a \$160 million contract to build a 165 megawatt geothermal plant in the Philippines. Construction of the project will begin in the third quarter and is scheduled for completion in 1997. The Group is exploring other construction opportunities in international markets.

Operating Expenses

Operating expenses increased \$3 million, or 12%, in the second quarter of 1994 compared to 1993. Higher professional service fees and modest increases in several administrative departments accounted for the slight increase.

Investment Income

Investment income increased \$19 million in the quarter ending June 30, 1994 as compared to 1993. The improvement relates to the \$19 million loss on the sale and permanent writedown of certain derivative securities in the second quarter of 1993.

KIEWIT CONSTRUCTION & MINING GROUP

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

(continued)

Other Income, net

Increases in mine management fees and asset disposition gains caused the change in other income.

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

Construction

Construction revenue increased 15% during the first half of 1994 compared to 1993. Revenues generated by the APAC companies and joint ventures contributed to the higher volume. 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 Hills toll road project in southern California and the Montgomery County Resource Recovery Facility near Baltimore, Maryland.

The gross margin on construction contracts decreased to 6% for the first half of 1994, from 11% in 1993. In 1994 margins were reduced by the recognition of projected cost overruns on certain projects and the deferral of gains on the San Joaquin Hills toll road project because of environmental and construction uncertainties. A \$20 million reduction of reserves previously established for the Denmark tunnel project favorably impacted 1993 margins.

Operating Expenses

Operating expenses increased \$8 million, or 15%, in the first half of 1994 compared to 1993. Higher professional service fees and modest increases in several administrative departments accounted for the slight increase.

Investment Income

Investment income increased \$16 million during the first half of 1994 compared to 1993. The \$19 million loss on the sale and writedown of certain derivative securities adversely affected 1993 results. A decline in interest income resulting from a reduction in cash and marketable

securities partially offsets the absence of the writedown in 1994.

KIEWIT CONSTRUCTION & MINING GROUP

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

Other Income, net

Increases in mine management fees and asset disposition gains caused the change in other income.

KIEWIT CONSTRUCTION & MINING GROUP

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

The Company's working capital decreased \$87 million or 23% during the first half of 1994.

Net cash provided by operations for the six months ended June 30, 1994 increased \$52 million over 1993. Improved cash flows from construction joint ventures was the principal reason for the increase.

Cash used in investing activities during the first quarter of 1994 includes \$41 million of capital expenditures and \$47 million for the purchase of APAC, offset by net proceeds from the sales and maturities of marketable securities of \$41 million.

Financing activities used \$49 million during the first half 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 \$9 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, 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 June 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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Management's Discussion and Analysis of
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KIEWIT DIVERSIFIED GROUP

Condensed Statements of Earnings (unaudited)

	Three months ended June 30,		Six months ended June 30,	
(dollars in millions, except per share data)	1994	1993	1994	1993
Revenue	\$ 189	\$ 85	\$ 351	\$ 168
Cost of Revenue	(138)	(57)	(252)	(113)
	<u>51</u>	<u>28</u>	<u>99</u>	<u>55</u>
Operating Expenses	(59)	(21)	(101)	(40)
Operating Income (Loss)	<u>(8)</u>	<u>7</u>	<u>(2)</u>	<u>15</u>
Other Income (Expense):				
Gain on Subsidiary's Stock Issuances, net	3	80	28	80
Investment Income (Loss)	14	(13)	33	1
Interest Expense	(18)	(3)	(35)	(4)
Other, net	4	4	4	4
	<u>3</u>	<u>68</u>	<u>30</u>	<u>81</u>
Earnings (Loss) Before Income Taxes and Minority Interest in Loss of Subsidiaries	(5)	75	28	96
Provision for Income Taxes	-	(27)	(15)	(33)
Minority Interest in Loss of Subsidiaries	8	-	15	-
Net Earnings	<u>\$ 3</u> =====	<u>\$ 48</u> =====	<u>\$ 28</u> =====	<u>\$ 63</u> =====
Earnings Per Common & Common Equivalent Share	<u>\$.14</u> =====	<u>\$ 2.44</u> =====	<u>\$ 1.35</u> =====	<u>\$ 3.21</u> =====
Cash Dividends per Common Share	<u>\$ -</u> =====	<u>\$ -</u> =====	<u>\$ -</u> =====	<u>\$.50</u> =====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

	June 30, 1994	December 25, 1993
(dollars in millions)	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 273	\$ 197
Marketable securities	984	899
Receivables, less allowance of \$3 and \$2	129	86
Other	97	58
Total Current Assets	<u>1,483</u>	<u>1,240</u>
Property, Plant and Equipment, less accumulated depreciation and amortization of \$300 and \$252	843	737

Intangible Assets, net	693	427
Investments	246	233
Other Assets	168	172
	<u>\$ 3,433</u>	<u>\$ 2,809</u>
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 121	\$ 113
Current portion of long-term debt:		
Telecommunications	9	7
Other	5	4
Accrued costs and billings in excess of revenue on uncompleted contracts	22	20
Accrued reclamation and other mining costs	18	23
Other	110	80
Total Current Liabilities	<u>285</u>	<u>247</u>
Long-Term Debt, less current portion:		
Telecommunications	916	420
Other	52	32
Deferred Income Taxes	404	394
Retirement Benefits	67	71
Accrued Reclamation Costs	101	99

Other Liabilities 78 57

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets (continued)

(dollars in millions)	June 30, 1994 (unaudited)	December 25, 1993
Minority Interest	305	298
Stockholders' Equity (Redeemable common stock, \$1.2 billion aggregate redemption value)		
Common equity	1,233	1,182
Foreign currency adjustment	(2)	-
Net unrealized holding gains (losses)	(6)	9
Total Stockholders' Equity	1,225	1,191
	\$ 3,433	\$ 2,809
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP
Condensed Statements of Cash Flows
(unaudited)

	Six months ended June 30,	
(dollars in millions)	1994	1993
Cash flows from operations:		
Net cash provided by continuing operations	\$ 19	\$ 58
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	718	2,655
Purchases of marketable securities	(812)	(2,787)
Acquisition of Centex, net of cash acquired	(189)	-
Capital expenditures	(129)	(57)
Redemption of U.S. Can preferred stock	-	12
Other	(41)	6
Net cash used in investing activities	(453)	(171)
Cash flows from financing activities:		
Issuances of subsidiary's stock	3	233
Proceeds from long-term debt borrowings	659	-
Payments on long-term debt, including current portion	(180)	(1)
Net change in short-term borrowings	-	(30)
Issuances of common stock	-	6
Repurchases of common stock	(20)	(38)
Dividends paid	-	(17)
Exchange of Class B&C Stock for Class D Stock, net	42	22
Other	-	4
Net cash provided by financing activities	504	179
Cash flows from discontinued packaging operations	7	10
Effect of Exchange rates on cash	(1)	-
Net change in cash and cash equivalents	76	76
Cash and cash equivalents at beginning of period	197	135
Cash and cash equivalents at end of period	\$ 273 =====	\$ 211 =====
Noncash investing activities:		
Issuance of MFS stock for the purchase of telecommunications companies and minority interest	\$ 23	\$ 1
MFS stock transaction to settle contingent purchase price liability	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 20,446,882 and 19,876,053 for the three months ended June 30, 1994 and 1993 and 20,497,789 and 19,895,207 for the six months ended June 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	
	June 30, 1994	December 25, 1993
Cash and cash equivalents	\$ 38	\$ 47
Marketable securities	20	11
Property, plant and equipment, net	13	12
Other assets	12	11
Total Assets	<u>\$ 83</u> =====	<u>\$ 81</u> =====
Accounts payable	\$ 31	\$ 27
Convertible debentures	2	2
Notes to former stockholders	6	8
Liability for stock appreciation rights	1	2
Other liabilities	7	5
Total Liabilities	<u>\$ 47</u> =====	<u>\$ 44</u> =====

	Group			
	Three months ended June 30,		Six months ended June 30,	
	1994	1993	1994	1993
Investment income, net of interest expense	\$ 1	\$ -	\$ 1	\$ -
Other costs, net	(1)	(1)	(2)	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 \$1 million and \$3 million for the three months ended June 30, 1994 and 1993 and \$4 million and \$6 million for the six months ended June 30, 1994 and 1993.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

3. Summarized Financial Information (continued):

Mining service expense from the Group's mine service agreement with the Construction & Mining Group was \$8 million and \$7 million for the three months ended June 30, 1994 and 1993 and \$15 million and \$14 million for the six months ended June 30, 1994 and 1993.

4. Acquisitions:

On May 18, 1994, the Group acquired Centex Telemanagement, Inc. Inc. ("Centex") - a company which provides outsourced telecommunications management services for small and medium- sized businesses - for \$240 million. The Group accounted for the acquisition using the purchase method and has consolidated Centex's operating results since the acquisition date. The fair value of the net tangible assets acquired totalled \$47 million. Goodwill of \$143 million and other intangible assets of \$50 million are being amortized over 40 and 3 years, respectively. The unaudited proforma 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 six months ended June 30, 1994	For the six months ended June 30, 1993
Revenue	\$ 418	\$ 263

	=====	=====
Net earnings	\$ 23	\$ 57
	=====	=====
Earnings per share of Class D Stock	\$ 1.12	\$ 2.90
	=====	=====

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,

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

5. Long-Term Debt (continued):

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'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 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 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 for MFS employee stock options, resulted in a \$28 million net gain to the Group.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

6. Other Matters (continued):

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 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 transaction is expected to close in the third quarter of 1994. The Group will not 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. The cellular properties had sales of \$8 million and \$15 million for the quarter and six months ended June 30, 1994.

MFS has signed a merger agreement with RealCom Office Communications, Inc. ("RealCom"). The agreement calls for each outstanding share of RealCom common stock, subject to certain adjustments, to be converted into the right to receive a fractional share of MFS' common stock. MFS anticipates that it will issue approximately 1.6 million shares to complete the conversion. 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 and certain federal and state regulatory approvals. The transaction is expected to close in the third quarter of 1994. The stock issuance will result in a gain to the Group.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

6. Other Matters (continued):

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 and 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 - Second Quarter 1994 vs. Second Quarter 1993

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

	1994	1993
	<hr/>	<hr/>
Mining	\$ 53	\$ 50
Telecommunications	134	31
Other	2	4

Mining

Mining revenues and gross profits for the second quarter of 1994 increased 6% and 12% over the second quarter of 1993. A slight increase in average price per ton of coal shipped resulted in revenue and margin growth. Costs of revenue remained constant as tons shipped decreased by less than half a percent. In 1994, alternate source coal sales accounted for 30% of revenues and 44% of gross profits compared to 32% and 58% in 1993.

Telecommunications

In the second quarter of 1994, C-TEC and MFS accounted for 54% and 46% of telecommunications revenues. C-TEC's telephone and cable groups generated the majority, \$30 million and \$23 million, respectively, of C-TEC's revenues while MFS' revenue consisted of \$47 million from telecommunications services and \$14 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$21 million of telecommunications services revenue since the date of acquisition. The remainder of MFS' growth over 1993 correlates to expanded networks and the start-up of MFS Datanet and MFS Intelenet.

Telecommunications cost of revenue totalled \$111 million and \$31 million for the second quarter of 1994 and 1993. C-TEC's operations generated \$42 million of the 1994 costs with \$14 million and \$16 million related to the telephone and cable groups. MFS' telecommunications services had \$58 million in costs of

KIEWIT DIVERSIFIED GROUP

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

(continued)

Telecommunications (continued)

revenue - \$20 million from Centex. The remainder of MFS' increased costs related to expanded networks and the continued development of MFS Datanet and MFS Intelenet.

Operating Expenses

Operating expenses for the second quarter of 1994 exceeded those of 1993 by 181%. The telecommunications segment generated the growth with C-TEC and MFS accounting for 63% and 25% of the increase, respectively. Operating expenses for both periods include mine management fees paid to the Construction and Mining Group. The fees totalled \$8 million and \$7 million for the 1994 and 1993 periods.

Gain on Subsidiary's Stock Issuances, net

During the second quarter of 1994 the Group purchased the outstanding shares of a MFS subsidiary from the minority shareholders by issuing MFS stock valued at market prices. This transaction along with the exercise of MFS employee stock options, resulted in a \$3 million net gain to the Group. The gain in 1993 resulted from the initial public 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 second quarter of 1994 increased \$27 million from 1993. In the second quarter of 1993 the Group experienced approximately \$24 million of realized losses and permanent write-downs on certain derivative securities. The absence of such losses coupled with a \$3 million increase in interest income made up the majority of this quarter's increase.

Interest Expense

Interest expense of \$18 million consists of \$11 million on MFS debt and \$7 million on C-TEC debt.

KIEWIT DIVERSIFIED GROUP

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

(continued)

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 second 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 - Six Months 1994 vs. Six Months 1993

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

	1994	1993
	<hr/>	<hr/>
Mining	\$ 106	\$ 102
Telecommunications	241	60
Other	4	6

Mining

Mining revenues and gross profits for the six months ended June 30, 1994 increased 4% and 8% over the first six months of 1993. A slight increase in average price per ton of coal shipped resulted in revenue and margin growth. Costs of revenue remained constant as tons shipped decreased by less than half a percent. In 1994, alternate source coal sales accounted for 31% of revenues and 47% of gross profits compared to 32% and 59% in 1993.

Telecommunications

In the first six months of 1994, C-TEC and MFS accounted for 60% and 40% of telecommunications revenues. C-TEC's telephone and cable groups generated the majority, \$61 million and \$47 million, of C-TEC's revenues while MFS' revenues consisted of \$69 million from telecommunications services and \$27 million from systems integration and facilities management. MFS' new subsidiary, Centex, produced \$21 million of telecommunications services revenue since the date of acquisition. The remainder of MFS growth correlates to expanded networks and the start-up of MFS Datanet and MFS Intelenet.

Telecommunications cost of revenue totalled \$196 million and \$58 million for the first six months of 1994 and 1993. C-TEC's operations generated \$89 million of costs with \$28 million and \$37 million related to the telephone and cable groups. MFS' telecommunications services had \$87 million in costs of revenue - \$20 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 - Six Months 1994 vs. Six Months 1993

(continued)

Operating Expenses

Operating expenses for the first six months of 1994 exceeded those of 1993 by 152%. The telecommunications segment generated the increase with C-TEC and MFS accounting for 64% and 25% of the increase. Operating expenses for both periods include mine management fees paid to the Construction and Mining Group. The fees totalled \$15 million and \$14 million for the 1994 and 1993 periods.

Gain on Subsidiary's Stock Issuances, 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 and for MFS employee stock options, resulted in a \$28 million net gain to the Group. The gain in 1993 resulted from the initial public offering of MFS stock.

Investment Income

In the second quarter of 1993 the Group experienced approximately \$24 million of realized losses and permanent writedowns on certain derivative securities. The absence of such losses coupled with a \$5 million increase in interest income made up the majority of the increase.

Interest Expense

Interest expense of \$35 million consists of \$19 million on MFS debt and \$15 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 - Six Months 1994 vs. Six Months 1993

(continued)

Taxes

The effective income tax rate in the first half 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 - June 30, 1994 vs. December 25, 1993

The Group's working capital increased \$205 million or 21% during the first half of 1994.

Cash used in investing activities during the first half of 1994 includes the net purchase of marketable securities of \$94 million, \$129 million of capital expenditures and \$189 for the acquisition of Centex.

Financing activities generated \$504 million during the first half 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 \$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 net exchange of Class B&C stock for Class D stock for \$42 million and the repurchase of Class D stock for \$20 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 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 - June 30, 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.

C-TEC recently announced plans to offer to its existing stockholders transferable subscription rights for C-TEC common stock. KDG expects to subscribe for its proportional share of that offering. Although there is no assurance that C-TEC will receive any proceeds from the rights offering, it does expect to raise approximately \$300 million, of which approximately \$100 million is from KDG. 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 and independently finance its 1994 working capital and investment requirements.

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

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