

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 08/14/96 for the Period Ending 06/30/96

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 June 30, 1996

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)

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

47-0210602
(I.R.S. Employer
Identification No.)
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 reports(s)), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No

The number of shares outstanding of each class of the issuer's common stock, as of August 1, 1996:

Class B Common Stock	263,468 shares
Class C Common Stock	10,754,013 shares
Class D Common Stock	23,181,650 shares

PETER KIEWIT SONS', INC.

Part I - Financial Information

Item 1. Financial Statements:

Consolidated Condensed Statements of Earnings Consolidated Condensed Balance Sheets Consolidated Condensed Statements of Cash Flows
Notes to Consolidated Condensed Financial Statements

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

Part II - Other Information

Item 1. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

Signatures

Index to Exhibits

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)	1996	1995	1996	1995
Revenue	\$ 731	\$ 697	\$ 1,387	\$1,260
Cost of Revenue	(607)	(591)	(1,183)	(1,081)
	-----	-----	-----	-----
	124	106	204	179
General and Administrative Expenses	(66)	(53)	(125)	(106)
	-----	-----	-----	-----
Operating Earnings	58	53	79	73
Other Income (Expense):				
Investment Income, net	20	14	40	30
Interest Expense, net	(7)	(6)	(15)	(13)
Other, net	8	164	14	174
	-----	-----	-----	-----
	21	172	39	191
Equity Loss in MFS	-	(43)	-	(85)
	-----	-----	-----	-----
Earnings Before Income Taxes and Minority Interest	79	182	118	179
Provision for Income Taxes	(32)	(79)	(46)	(100)
Minority Interest in Net Income of Subsidiaries	(1)	(6)	(1)	(8)
	-----	-----	-----	-----
Net Earnings	\$ 46	\$ 97	\$ 71	\$ 71
	=====	=====	=====	=====
Earnings Attributable to Class B&C Stock	\$ 29	\$ 36	\$ 36	\$ 34
	=====	=====	=====	=====
Earnings Attributable to Class D Stock	\$ 17	\$ 61	\$ 35	\$ 37
	=====	=====	=====	=====
Net Earnings per Common and Common Equivalent Share:				
Class B&C	\$2.79	\$ 2.59	\$ 3.46	\$ 2.44
	=====	=====	=====	=====
Class D	\$.77	\$ 2.87	\$ 1.54	\$ 1.75
	=====	=====	=====	=====
Cash Dividends per Common Share:				
Class B&C	\$.60	\$.45	\$.60	\$.45
	=====	=====	=====	=====
Class D	\$ -	\$ -	\$ -	\$ -
	=====	=====	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

	June 30, 1996	December 30, 1995
(dollars in millions, except per share data)	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 426	\$ 457
Marketable securities	555	604
Receivables, less allowance of \$18 and \$12	351	329
Costs and earnings in excess of billings on uncompleted contracts	104	78
Investment in construction joint ventures	67	73
Deferred income taxes	78	66
Other	57	59
	-----	-----
Total Current Assets	1,638	1,666
Property, Plant and Equipment, less accumulated depreciation and amortization of \$735 and \$710	805	782
Investments	610	542
Intangible Assets, net	363	363
Other Assets	80	114
	-----	-----
	\$ 3,496	\$ 3,467
	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

	June 30, 1996	December 30, 1995
(dollars in millions, except per share data)	(unaudited)	
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 218	\$ 240
Short-term borrowings	-	45
Current portion of long-term debt:		
Telecommunications	30	36
Other	2	6
Accrued costs and billings in excess of revenue on uncompleted contracts	176	121
Accrued insurance costs	76	79
Other	131	139
	-----	-----
Total Current Liabilities	633	666
Long-Term Debt, less current portion:		
Telecommunications	260	264
Other	114	106
Deferred Income Taxes	234	236
Retirement Benefits	52	54
Accrued Reclamation Costs	97	100
Other Liabilities	203	220
Minority Interest	221	214
Stockholders' Equity:		
Preferred stock, no par value, authorized 250,000 shares: no shares outstanding	-	-
Common stock, \$.0625 par value, \$1.5 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: 263,468 outstanding in 1996 and 1995	-	-
Class C, authorized 125,000,000 shares: 10,765,050 outstanding in 1996 and 10,616,901 in 1995	1	1

Class D, authorized 50,000,000 shares:		
23,182,425 outstanding in 1996 and		
23,027,974 in 1995	1	1
Additional paid-in capital	234	210
Foreign currency adjustment	(5)	(6)
Net unrealized holding gain	15	17
Retained earnings	1,436	1,384
	-----	-----
Total Stockholders' Equity	1,682	1,607
	-----	-----
	\$ 3,496	\$ 3,467
	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows (unaudited)

	Six Months Ended June 30,	
(dollars in millions)	1996	1995
Cash flows from continuing operations:		
Net cash provided by continuing operations	\$ 137	\$ 208
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	196	261
Purchases of marketable securities	(156)	(203)
Proceeds from sale of property, plant and equipment, and other investments	20	9
Capital expenditures	(80)	(103)
Acquisitions and investments in affiliates	(86)	(172)
Other	2	(1)
	-----	-----
Net cash used in investing activities	(104)	(209)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	11	31
Payments on long-term debt, including current portion	(17)	(11)
Net change in short-term borrowings	(45)	-
Repurchases of common stock	(15)	(6)
Dividends paid	(25)	(13)
Issuance of common stock	27	26
	-----	-----
Net cash provided by (used in) financing activities	(64)	27
Cash flows from proceeds due to sales of discontinued packaging operations	-	29
Cash and cash equivalents of MFS at beginning of period	-	(22)
Effect of exchange rates on cash	-	1
	-----	-----
Net change in cash and cash equivalents	(31)	34
Cash and cash equivalents at beginning of period	457	400
	-----	-----
Cash and cash equivalents at end of period	\$ 426	\$ 434
	=====	=====

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 30, 1995 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 30, 1995.

Marketable securities at June 30, 1996 and December 30, 1995 include approximately \$60 million and \$62 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at June 30, 1996 and December 30, 1995 include approximately \$56 million and \$50 million, respectively of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

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

2. Earnings 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 they are not materially different from primary earnings per share. The number of shares used in computing earnings per share was as follows:

Three Months Ended	Six Months Ended	June 30, 1996	June 30, 1995	1996	1995	Class B&C	10,353,305	13,998,740	10,305,087	13,954,135
Class D	23,205,830	21,257,541	23,221,026	21,261,632						

Pursuant to the Restated Certificate of Incorporation, the stock price calculation is computed annually using the number of shares outstanding at the end of the fiscal year.

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 construction and materials operations performed by Kiewit Construction Group Inc. and certain mining services performed by Kiewit Mining Group Inc. The Diversified Group contains coal mining properties owned by Kiewit Coal Properties Inc., communications companies owned by C-TEC Corporation ("C-TEC"), a minority interest in CalEnergy Company, Inc. ("CE"), international energy projects and miscellaneous investments, all owned by Kiewit Diversified Group Inc. ("KDG"). 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 30, 1995 was derived from the audited financial statements of the respective groups which were exhibits to the 1995 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,	
	1996	1995	1996	1995
Results of Operations:				
Revenue	\$ 570	\$ 558	\$ 1,072	\$ 984
Net earnings	29	36	36	34
Earnings per share	2.79	2.59	3.46	2.44
			June 30, 1996	December 30, 1995
Financial Position:				
Working capital			\$ 287	\$ 248
Total assets			1,002	991
Long-term debt, less current portion			9	9
Stockholders' equity			500	467

Included within the results of operations are mine management fees paid by the Diversified Group of \$8

million and \$7 million for the three months ended June 30, 1996 and 1995 and \$15 million for the six months ended June 30, 1996 and 1995.

(in millions, except per share data)

Diversified Group:				
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	1996	1995	1996	1995
Results of Operations:				
Revenue	\$ 162	\$ 139	\$ 317	\$ 278
Net earnings	17	61	35	37
Earnings per share	.77	2.87	1.54	1.75
			June 30,	December 30,
			1996	1995
Financial Position:				
Working capital		\$ 718	\$ 752	
Total assets		2,497	2,490	
Long-term debt, less current portion		365	361	
Stockholders' equity		1,182	1,140	

Included within the results of operations is mine management fees paid to the Construction & Mining Group of \$8 million and \$7 million for the three months ended June 30, 1996 and 1995 and \$15 million for the six months ended June 30, 1996 and 1995.

4. Acquisitions:

On March 6, 1996, RCN Corporation ("RCN") a subsidiary of KDG, closed an asset purchase agreement, along with other ancillary agreements, with Liberty Cable Company, Inc. ("Liberty") to purchase an indirect 80% interest in certain private cable systems in New York City and New Jersey. The cable systems provide subscription television services using microwave frequencies. RCN paid sellers \$27 million on the closing date and has a contingent payment obligation of \$15 million that it expects to pay in full.

Payment of the obligation is contingent upon Liberty attaining specific levels of subscribers. The transaction was accounted for as a purchase and Liberty's operating results have been consolidated since the acquisition date. Intangible assets recognized to date are approximately \$18 million, which are being amortized over periods of 5 to 15 years. Payments of the contingent obligation will also be included in intangible assets. Liberty's 1995 and 1996 operating results prior to the acquisition were not significant relative to the Company's results.

On April 1, 1996, RCN purchased Residential Communications Network from C-TEC at its book value of \$17.5 million. Residential Communications Network is a start-up joint effort with RCN which plans to provide telecommunications services to the residential market. The transaction was accounted for as a purchase.

On August 8, 1996 C-TEC announced a plan to rescind the sale of Residential Communications Network to RCN and acquire the assets of Liberty from RCN and merge those operations with C-TEC. This action coincides with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC has also agreed in principle to exercise its option to unwind the agreement to sell to RCN its other non-core assets: the long distance group ("CLD") and C-TEC International which holds the 40% interest in Megacable S.A. de C.V. and a \$13 million note payable by Mazon Corporativo, S.A. de C.V., collateralized by additional stock of Megacable ("C-TEC International"). The agreement provides for the assets to be purchased under the same terms and conditions under which they were sold.

5. Investments:

In February 1996, the Company exercised 1.5 million CE options at a price of \$9 per share. The transaction increased the Company's ownership interest in CE to 24%. In addition, the Company has 4.3 million options to purchase additional CE stock at prices of \$11.625 to \$12 per share. Of these, 3.3 million options at \$12 per share may be exercised if CE's common stock trades at or above \$24 per share for 180 consecutive days.

6. Other Matters:

In June 1996, the Company's stockholders approved the 1995 Class D Stock plan. Under the plan, the Company may not grant benefits with respect to more than 1 million shares of Class D Common Stock ("Shares") during the 10 year term of the plan. The Company may not grant benefits with respect to more than 500,000 Shares in any two year period and may not grant benefits to any one participant with respect to more than 200,000 Shares. Stock options must have an exercise price that is not less than the fair market value of the Shares on the grant date and become exercisable at a rate of 20% per year over a five year period. On June 30, 1996, 268,000 options, at an exercisable price of \$40.40 have been granted and remain outstanding. The Company has included the disclosure required in Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" which establishes a fair value method of accounting for stock options and other equity instruments. The compensation cost for the Company's 1995 Class D Stock plan using the Black-Scholes model and assuming no dividends, 0% volatility, risk-free interest rate of 6.84% and a 10 year life of the option, would not have a material effect on the Company's financial statements.

In 1994, several former shareholders of a subsidiary of MFS Communications Company, Inc. ("MFS") filed a lawsuit against MFS, KDG and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. Plaintiffs allege

that MFS fraudulently concealed material information from them, causing them to sell their shares in the subsidiary to MFS at an inadequate price. The lawsuit was settled in July 1996. KDG had previously agreed to indemnify MFS against any liabilities arising from this lawsuit. The settlement, net of reserves established will not materially affect the Company's financial position or results of operations.

The Company is involved in various other 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, future results of operations or future cash flows.

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 part of Exhibits 99.A and 99.B to this report. The Company will furnish a copy of such exhibits without charge 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 1996 vs Second Quarter 1995

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

	1996	1995
Construction	\$ 566	\$ 547
Mining	62	61
Telecommunications	93	79
Other	10	10
	-----	-----
	\$ 731	\$ 697
	=====	=====

Construction. Construction revenue rose 3% in the second quarter of 1996 compared to the same period in 1995. The increase is primarily due to new work in the form of joint ventures as well as increased materials sales. Contract backlog at June 30, 1996 was \$2 billion, of which 7% is attributable to foreign operations, principally, Canada, the Philippines and Indonesia. Projects on the west coast account for 36% of the total backlog which includes San Joaquin Toll Road backlog of \$58 million.

Gross margin on construction contracts increased to 9% from 8% during the same period in 1995. Increased operational efficiencies, primarily on joint venture projects, as well as claim settlements favorably affected construction margins. In addition, the growing materials business continued to have a positive impact on margins.

Mining. Mining revenue for the second quarter of 1996 was \$1 million greater than the second quarter of 1995. Higher alternate coal sales and greater coal shipments offset the absence of precious metal sales. The greater coal shipments were a combination of additional spot and contract coal sales compared to the second quarter of 1995. The precious metal inventory was essentially liquidated during 1995 resulting in the sales decline.

Operating margins increased 4% over the same period in 1995. The absence of lower margin precious metal sales and the increase in high margin alternate source coal sales combined to increase operating margins. Higher shipments of contract coal also contributed to the increase in margins.

Telecommunications. Revenue for C-TEC's telephone group increased \$3 million or 8% during the second quarter of 1996 compared to the same period in 1995. The increase is primarily due to higher local network revenue, intrastate access revenue, business sales and internet access service revenue. Cable revenue increased \$10 million or 32% in 1996. The acquisition of Twin County Trans Video, Inc. ("Twin County") in May 1995, the consolidation of Mercom, Inc. ("Mercom") in August 1995, and the effects of a rate increase in February 1996, were primarily responsible for the improved revenue figures.

The cost of revenue, excluding depreciation and amortization, for the telephone group increased 21% in 1996. Higher compensation expense, material costs associated with the business sales and internet services, and consulting expenses for a variety of regulatory and operational matters contributed to the increase. The cable group's costs increased primarily due to the expenses associated with the additional Twin County and Mercom subscribers and higher programming fees. Additional depreciation and amortization expense resulting from the Twin County and Mercom acquisitions also contributed to a decline in earnings.

General and Administrative Expenses. General and administrative expenses increased 24% in 1996. The acquisition of Twin County, the consolidation of Mercom, the costs associated with the C-TEC restructuring and higher compensation expenses all contributed to the increase in expenses.

Investment Income, net. A 43% increase in investment income is primarily attributable to improved results on the sale of marketable securities.

The Company realized gains of \$2 million on the sale of equity securities in 1996 as compared to a \$3 million loss on the disposition of certain securities in 1995.

Other, net. Other income includes gains and losses on the disposition of property, plant and equipment and other assets, gains on subsidiary stock transactions and other items. In 1996, the absence of Whitney Benefit proceeds and the Kinross transaction gain were partially offset by increased gains on the sale of construction equipment.

Equity Loss in MFS. MFS is a leading provider of communications services to business. The Company spun-off its investment in MFS to Class D stockholders on September 30, 1995. Prior to the spinoff, the Company included its proportionate share of MFS' losses in the statement of earnings. The significant initial development and roll out expenses associated with the expansion activities announced by MFS in 1993 and 1995 adversely affected MFS' 1995 results.

Provision for Income Taxes. The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. In 1995, the net operating loss limitations of MFS and the settlement of prior period issues, resulted in the higher effective rate.

Results of Operations - Six Months 1996 vs. Six Months 1995

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

	1996	1995
Construction	\$ 1,065	\$ 966
Mining	118	127
Telecommunications	183	152
Other	21	15
	-----	-----
	\$1,387	\$1,260
	=====	=====

Construction. Construction and materials revenues increased by \$99 million or 10% during the first six months of 1996 compared to the same period in 1995. Materials sales increased by 18% due to more favorable weather and market conditions. Also contributing to the increase was a 33% increase in joint venture revenues primarily from new work and the San Joaquin Toll Road project.

Gross margins on construction and materials projects increased to 7% for the first six months of 1996 compared to 6% for the same period in 1995. Increased operational efficiencies, primarily on joint venture projects, as well as claim settlements favorably affected construction margins. In addition, the growing materials business continued to have a positive impact on margins.

Mining. Mining revenue decreased \$9 million in the first half of 1996 compared to the same period in 1995. The decrease is the result of fewer precious metal sales. Precious metal inventory was essentially liquidated in 1995 resulting in the decrease in 1996 when compared to 1995. Lower spot market sales were offset by an increase in alternate source coal sales.

Operating margins increased 3% in the first half of 1996 when compared to the same period in 1995. The absence of low margin precious metal sales combined with the increase in high margin alternate coal raised operating margins.

Telecommunications. For the six months ended June 30, 1996, CTEC's telephone group experienced a \$5 million or 8% increase in revenue compared to the same period in 1995. The increase was primarily due to increases in local network service, network access revenues, business sales and internet access service revenue. Cable revenue increased \$24 million or 44% in 1996. The acquisition of Twin County, the consolidation of Mercom and the effects of rate increases in April 1995 and February 1996, were primarily responsible for the increase in revenue.

The cost of revenue, excluding depreciation and amortization, for the telephone group increased 6% in 1996. The increase is primarily due to higher payroll expense and higher consulting fees for regulatory and operational matters. The cable group's costs increased primarily due to higher program fees, channel additions, and subscriber growth associated with the Twin County and Mercom acquisitions. Also contributing to a decline in earnings was additional depreciation and amortization expense resulting from the Twin County and Mercom acquisitions.

General and Administrative Expenses. General and administrative expenses increased 18% in 1996. The acquisition of Twin County, the consolidation of Mercom, the costs associated with the C-TEC restructuring and higher compensation expenses all contributed to the increase in expenses.

Investment Income, net. A 33% increase in investment income is attributable to improved results on the sale of marketable securities and higher equity earnings. The Company realized gains of \$2 million on the sale of equity securities in 1996 as compared to a \$4 million loss on the disposition of certain securities in 1995.

Improvements in the net earnings of equity method investees, primarily CE, Megacable S.A. de C.V. and ME Holding, Inc. contributed to the improved results.

Other, net. In 1996, the absence of Whitney Benefit proceeds, Kinross transaction gain and gains on subsidiary stock transactions were partially offset by increased gains on the sale of construction equipment.

Financial Condition - June 30, 1996 vs. December 30, 1995

The Company's working capital increased \$5 million or 1% during the first six months of 1996. The increase was mainly due to cash provided by operations. The increase was offset by cash used to fund investing and financing activities.

Investing activities include \$86 million of investments, and \$80 million of capital expenditures, including \$8 million for the construction of a privately owned toll road. The investments primarily include KDG's \$27 million for an indirect 80% interest in Liberty, the exercise of CE options to purchase CE stock for \$14 million, \$4 million investment in a Philippine power project and \$30 million investment in three Indonesian power projects. These capital outlays were partially offset by \$40 million of net proceeds from the sale of marketable securities and \$20 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources include \$27 million for the issuance of Class "C" Stock and \$11 million of long-term debt borrowing for the construction financing of a privately owned toll road. Financing uses primarily consisted of \$45 million for the repayment of short-term borrowings, C-TEC's \$12 million outlay for the payment of long-term debt, \$15 million for stock repurchases and \$25 million of cash dividends.

The Company also anticipates making significant investments in its construction, infrastructure, telecommunications and energy businesses including its joint venture agreement with CE covering international power project development activities - and searching for opportunities to acquire businesses which provide for long-term growth. The Company may also exercise 3.3 million CE options at \$12 per share if CE's common stock continues to trade at or above \$24 per share for 180 consecutive days. Other long-term liquidity uses include payment of income taxes and repurchasing the Company's stock. The Company's current financial condition and borrowing capacity should be sufficient for immediate operating and investing activities.

On November 8, 1995, C-TEC announced that it would evaluate strategic options for its various business units with a view toward enhancing shareholder value. Specifically, C-TEC evaluated the advisability and feasibility of separating or restructuring its local telephone business, its cable television business, and its various other communications businesses. C-TEC engaged the investment banking firm Merrill Lynch & Co. to assist with the process.

In March 1996, under the terms of an agreement, RCN agreed to pay C-TEC approximately \$123 million for certain of C-TEC's assets, including CLD, C-TEC International, and Residential Communications Network. RCN purchased Residential Communications Network for cash in a transaction that closed on April 1, 1996.

On August 8, C-TEC announced a plan to rescind the sale of Residential Communications Network to RCN and acquire the assets of Liberty Cable from RCN and merge those operations with C-TEC. This action coincides with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC has also agreed in principle to exercise its option to unwind the agreement to sell to RCN its other non-core assets, CLD and C-TEC International. The agreement provides for the assets to be purchased under the same terms and conditions under which they were sold. C-TEC will continue to explore ways to increase its profitability and value which could include a restructuring transaction.

PETER KIEWIT SONS', INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

MFS Litigation.

In 1994, several former shareholders of a subsidiary of MFS Communications Company, Inc. ("MFS") filed a lawsuit against MFS, KDG and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. Plaintiffs allege that MFS fraudulently concealed material information from them, causing them to sell their shares in the subsidiary to MFS at an inadequate price. The lawsuit was settled in July 1996. KDG had previously agreed to indemnify MFS against any liabilities arising from this lawsuit. The settlement, net of reserves established, will not materially affect the Company's financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

The Corporation's annual stockholders meeting was held on June 8, 1996. Stockholders were asked to vote on three matters: (1) the election of the Directors; (2) the approval of the Company's 1996 Bonus Plan; and (3) approval of the Company's 1995 Class D Stock Plan. Proxies were received representing 9,813,042 of the 9,939,001 eligible Class C votes and 22,311,540 of the 23,217,100 eligible Class D votes.

Election of Directors

Separate elections of Class C and Class D directors were held. Directors were elected to serve one-year terms. A slate of nominees was

proposed by the incumbent directors. No additional nominations were received and all the nominees proposed by the board were elected. The following table shows the votes counted for each candidate and the votes counted against (or withheld from) each candidate.

Class C Directors	Votes For	Votes Against
Richard W. Colf	9,804,242	8,800
Richard Geary	9,804,242	8,800
Bruce E. Grewcock	9,773,453	39,589
William L. Grewcock	9,792,995	20,047
Tait P. Johnson	9,745,714	67,328
Leonard W. Kearney	9,804,242	8,800
Peter Kiewit, Jr.	9,804,242	8,800
Walter Scott, Jr.	9,804,242	8,800
Kenneth E. Stinson	9,804,242	8,800
George B. Toll	9,789,372	23,670
Class D Directors		
James Q. Crowe	22,221,681	89,859
Robert B. Daugherty	22,207,171	104,369
Charles M. Harper	22,236,081	75,459
Richard R. Jaros	22,236,081	75,459
Robert E. Julian	22,040,736	270,804

Approval of the 1996 Bonus Plan

The Peter Kiewit Sons', Inc. 1996 Bonus Plan

is intended to serve as a qualified performance-based compensation program under Section 162(m) of the Internal Revenue Code, in order to preserve the Company's tax deduction for compensation paid to certain of the Company's executive officers. Bonuses are payable only after satisfaction of pre-set financial goals.

Votes For Votes Against Abstain 28,893,338 2,608,285 622,959

Approval of the 1995 Class D Stock Plan

Stockholders approval of the 1995 Class D Stock Plan (the "Plan") is necessary under Section 162(m) of the Internal Revenue Code, in order to preserve the Company's tax deduction for compensation paid upon the exercise of stock options granted to certain employees of KDG or PKS. A maximum of one million shares may be issued during the ten year term of the Plan. Options must have an exercise price not less than fair market value of Class D shares at the date of grant.

Votes For Votes Against Abstain 29,492,825 2,031,255 600,502

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 (for electronic filing purposes only)

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 1996.

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 14, 1996

*\s\ Richard R. Jaros
Richard R. Jaros
Executive Vice President and
Chief Financial Officer*

INDEX TO EXHIBITS

Exhibit
No.

27 Financial Data Schedule (For electronic filing purposes only)

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.

ARTICLE 5

This schedule contains summary financial information extracted from the Form 10-Q for the period ending June 30, 1996 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 28 1996
PERIOD END	JUN 30 1996
CASH	426
SECURITIES	555
RECEIVABLES	369
ALLOWANCES	18
INVENTORY	17
CURRENT ASSETS	1,638
PP&E	1,540
DEPRECIATION	735
TOTAL ASSETS	3,496
CURRENT LIABILITIES	633
BONDS	374
PREFERRED MANDATORY	2
PREFERRED	0
COMMON	0
OTHER SE	1,680
TOTAL LIABILITY AND EQUITY	3,496
SALES	1,183
TOTAL REVENUES	1,387
CGS	1,042
TOTAL COSTS	1,183
OTHER EXPENSES	125
LOSS PROVISION	0
INTEREST EXPENSE	15
INCOME PRETAX	118
INCOME TAX	46
INCOME CONTINUING	71
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	71
EPS PRIMARY	\$3.46 ¹
EPS DILUTED	\$3.46 ¹

¹ \$3.46 represents Class C Stock earnings per share, Class D Stock earnings per share \$1.54

Exhibit 99.A**KIEWIT CONSTRUCTION & MINING GROUP**

Index to Financial Statements and

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

Financial Statements:

Condensed Statements of Earnings for the three months ended June 30, 1996 and 1995 and the six months ended June 30, 1996 and 1995

Condensed Balance Sheets as of June 30, 1996 and December 30, 1995

Condensed Statements of Cash Flows for the six months ended June 30, 1996 and 1995 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)	1996	1995	1996	1995
Revenue	\$ 570	\$ 558	\$ 1,072	\$ 984
Cost of Revenue	(511)	(512)	(989)	(921)
	-----	-----	-----	-----
	59	46	83	63
General and Administrative Expenses	(29)	(29)	(59)	(61)
	-----	-----	-----	-----
Operating Earnings	30	17	24	2
Other Income (Expense):				
Investment Income, net	4	3	8	6
Interest Expense, net	(1)	-	(2)	(1)
Other, net	15	35	29	46
	-----	-----	-----	-----
	18	38	35	51
	-----	-----	-----	-----
Earnings Before Income Taxes	48	55	59	53
Provision for Income Taxes	(19)	(19)	(23)	(19)
	-----	-----	-----	-----
Net Earnings	\$ 29	\$ 36	\$ 36	\$ 34
	=====	=====	=====	=====
Earnings per Common and Common Equivalent Share	\$ 2.79	\$ 2.59	\$ 3.46	\$2.44
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP**Condensed Balance Sheets**

	June 30, 1996	December 30, 1995
(dollars in millions)	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 99	\$ 94
Marketable securities	107	120
Receivables, less allowance of \$16 and \$10	261	258
Costs and earnings in excess of billings on uncompleted contracts	104	78

Investment in construction joint ventures	67	73
Deferred income taxes	68	61
Other	20	23
	-----	-----
Total Current Assets	726	707
Property, Plant and Equipment, less accumulated depreciation and amortization of \$413 and \$421	167	161
Investments	90	83
Other Assets	19	40
	-----	-----
	\$ 1,002	\$ 991
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage of \$33 and \$42	\$ 162	\$ 179
Short-term borrowings	-	45
Current portion of long-term debt	-	2
Accrued construction costs and billings in excess of revenue on uncompleted contracts	164	111
Accrued insurance costs	76	79
Other	37	43
	-----	-----
Total Current Liabilities	439	459
Long-Term Debt, less current portion	9	9
Other Liabilities	54	56

Stockholders' Equity (Redeemable common stock, \$342 million aggregate redemption value):

Common equity	504	471
Net unrealized holding gain	-	1
Foreign currency adjustment	(4)	(5)
	-----	-----
Total Stockholders' Equity	500	467
	-----	-----
	\$ 1,002	\$ 991
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Cash Flows (unaudited)

(dollars in millions)	Six Months Ended	
	June 30, 1996	1995
Cash flows from operations:		
Net cash provided by operations	\$ 73	\$ 47
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	67	147
Purchases of marketable securities	(57)	(89)
Proceeds from sales of property, plant and equipment	16	9
Acquisitions	(3)	-
Capital expenditures	(36)	(47)
Other	-	(4)
	-----	-----
Net cash provided by (used in) investing activities	(13)	16
Cash flows from financing activities:		
Payments on long-term debt, including current portion	(2)	(2)
Net change in short-term borrowings	(45)	-
Issuance of common stock	27	24
Repurchases of common stock	(4)	(4)
Dividends paid	(12)	(13)
Exchange of Class B&C Stock for Class D Stock, net	(19)	(54)
	-----	-----
Net cash used in financing activities	(55)	(49)
	-----	-----

Net change in cash and cash equivalents	5	14
Cash and cash equivalents at beginning of period	94	70
	-----	-----
Cash and cash equivalents at end of period	\$ 99	\$ 84
	=====	=====

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 30, 1995 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 30, 1995.

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

Marketable securities at June 30, 1996 and December 30, 1995 include approximately \$60 million and \$62 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at June 30, 1996 and December 30, 1995 include approximately \$56 million and \$50 million, respectively, of retainage on uncompleted projects, the majority of which is expected to be collected within one year.

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

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 they are not materially different from primary earnings per share. The number of shares used in computing earnings per share was 10,353,305 and 13,998,740 for the three months ended June 30, 1996 and 1995 and 10,305,087 and 13,954,135 for the six months ended June 30, 1996 and 1995.

Pursuant to the Restated Certificate of Incorporation of PKS, the stock price calculation is computed annually using the number of shares outstanding at the end of the fiscal year.

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, and items attributable to the Group are as follows:

(dollars in millions)

	June 30, 1996	December 30, 1995
Cash and cash equivalents	\$ -	\$ 4
Marketable securities	5	10
Property, plant and equipment, net	5	5
Other assets	4	4
	-----	-----
Total Assets	\$ 14	\$ 23
	=====	=====
Accounts payable	\$ 4	\$ 10
Long-term debt, including current portion	9	11

Other liabilities	2	-
	-----	-----
Total Liabilities	\$ 15	\$ 21
	=====	=====

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
Other income (expense), net	\$ -	\$ -	\$ (1)	\$ (1)

Corporate general and administrative costs have been allocated to the Group. These allocations were less than \$1 million for the three months ended June 30, 1996 and 1995 and \$1 million for the six months ended June 30, 1996 and 1995.

Mine management income from the Diversified Group was \$8 million and \$7 million for the three months ended June 30, 1996 and 1995 and \$15 million for the six months ended June 30, 1996 and 1995.

4. Other Matters:

The Group is involved in various lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability, beyond that provided, should not materially affect the Group's financial position, future results of operations or future cash flows.

Results of Operations - Second Quarter 1996 vs. Second Quarter 1995

Revenue from each of the Group's business segments for the three months ended June 30, was (in millions):

	Three Months Ended June 30,	
	1996	1995
Construction	\$ 566	\$ 547
Other	4	11
	-----	-----
	\$ 570	\$ 558

Construction. Construction revenue rose 3% in the second quarter of 1996 compared to the same period in 1995. The increase is primarily due to new work in the form of joint ventures as well as increased materials sales. Contract backlog at June 30, 1996 was \$2 billion, of which 7% is attributable to foreign operations, principally, Canada, the Philippines and Indonesia. Projects on the west coast account for 36% of the total backlog which includes San Joaquin Toll Road backlog of \$58 million.

Gross margin on construction contracts increased to 9% from 8% during the same period in 1995. Increased operational efficiencies, primarily on joint venture projects, as well as claim settlements favorably affected construction margins. In addition, the growing materials business continued to have a positive impact on margins.

General and Administrative Expenses. General and administrative expenses in 1996 were consistent with those in 1995. A decline in travel expenses was offset by an increase in compensation expense.

Investment Income, net. The increase in investment income is primarily attributable to the improved results of the Group's equity method investee, ME Holding, Inc.

Other, net. Other income includes gains and losses on the disposition of property, plant and equipment and other assets and mine management income from the Diversified Group. Gains on the sale of construction equipment and mine management income were fairly stable in 1996 as compared to 1995. The decline in other income is directly attributable to the \$21 million gain recognized on the Kinross transaction in 1995.

Income Taxes. The effective income tax rate for the Group was 39% and 35% for the second quarter of 1996 and 1995. In 1996, the effective rate is higher than the expected statutory rate primarily due to state income taxes.

Results of Operations - Six Months 1996 vs. Six Months 1995

Revenue from each of the Group's business segments for the six months ended June 30, was (in millions):

	Six Months Ended June 30,	
	1996	1995
Construction	\$1,065	\$968

Other	7	16
	-----	-----
	\$1,072	\$984

Construction. Construction and materials revenues increased by \$97 million or 10% during the first six months of 1996 compared to the same period in 1995. Materials sales increased by 18% due to more favorable weather and market conditions. Also contributing to the increase was a 33% increase in joint venture revenues primarily from new work and the San Joaquin Toll Road project.

Gross margins on construction and materials projects increased to 7% for the first six months of 1996 compared to 6% for the same period in 1995. Increased operational efficiencies, primarily on joint venture projects, as well as claim settlements favorably affected construction margins. In addition, the growing materials business continued to have a positive impact on margins.

General and Administrative Expenses. General and administrative expenses declined 3% in the six months ended June 30, 1996 compared to the same period in 1995. An overall decline in administrative expenses, particularly computer operating expenses, was partially offset by an increase in compensation expense.

Investment Income, net. The increase in investment income is primarily attributable to the improved results of the Group's equity method investee, ME Holding, Inc., and the absence of losses on the sale of securities incurred in 1995 of \$1 million being partially offset by a \$1 million decline in interest income.

Other, net. Other income is primarily comprised of \$15 million of mine management fees and \$12 million of gains on the sale and disposition of construction equipment in 1996. In 1995 mine management fees were also \$15 million, gains on equipment disposals were \$7 million and the gain on the Kinross transaction was \$21 million.

Income Taxes. The effective income tax rate for the Group was 39% and 35% for the first six months of 1996 and 1995. In 1996, the effective rate is higher than the expected statutory rate primarily due to state income taxes.

Financial Condition - June 30, 1996 vs. December 30, 1995

The Group's working capital increased \$39 million or 16% during the first six months of 1996. The increase was primarily due to the issuance of common stock totaling \$27 million, net proceeds from the sale of marketable securities of \$10 million, proceeds from the sale of property, plant and equipment and other assets of \$16 million and \$72 million of cash provided by operations. Partially offsetting these sources were capital expenditures of \$36 million, the repayment of \$45 million on short-term borrowings, the exchange for Class D Stock and repurchase of Class B & C stock totaling \$23 million and dividend payments of \$12 million.

The Group anticipates investing between \$40 and \$75 million annually in its construction business, including opportunities to acquire additional businesses and may purchase additional shares of the electrical contractor, ME Holding, Inc. Other long term liquidity uses include the payment of income taxes, repurchases and conversions of common stock and the payment of dividends. The Group's current financial condition and borrowing capacity together with anticipated cash flows from operations should be sufficient for immediate cash requirements and future investing activities.

Exhibit 99.B**KIEWIT DIVERSIFIED GROUP**

Index to Financial Statements and

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

Financial Statements:

Condensed Statements of Earnings for
the three months ended June 30, 1996 and 1995 and the six months ended June 30, 1996 and 1995 Condensed Balance Sheets as of June 30,
1996 and December 30, 1995

Condensed Statements of Cash Flows for the six months ended June 30, 1996 and 1995 Notes to Condensed Financial Statements

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

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)	1996	1995	1996	1995
Revenue	\$ 162	\$ 139	\$ 317	\$ 278
Cost of Revenue	(98)	(79)	(197)	(162)
	-----	-----	-----	-----
	64	60	120	116
General and Administrative Expenses	(45)	(31)	(81)	(60)
	-----	-----	-----	-----
Operating Earnings	19	29	39	56
Other Income (Expense):				
Investment Income, net	16	11	32	24
Interest Expense, net	(6)	(6)	(13)	(12)
Other, net	2	136	1	143
	-----	-----	-----	-----
	12	141	20	155
Equity Loss in MFS	-	(43)	-	(85)
	-----	-----	-----	-----
Earnings Before Income Taxes and Minority Interest	31	127	59	126
Provision for Income Taxes	(13)	(60)	(23)	(81)
Minority Interest in Net Income of Subsidiaries	(1)	(6)	(1)	(8)
	-----	-----	-----	-----
Net Earnings	\$ 17	\$ 61	\$ 35	\$ 37
	=====	=====	=====	=====
Earnings Per Common & Common Equivalent Share	\$.77	\$2.87	\$1.54	\$1.75
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

	June 30, 1996	December 30, 1995
(dollars in millions)	(unaudited)	
Assets		

Current Assets:		
Cash and cash equivalents	\$ 327	\$ 363
Marketable securities	448	484
Receivables, less allowance of \$2 and \$2	90	81
Deferred income taxes	10	5
Other	37	36
	-----	-----
Total Current Assets	912	969
Property, Plant and Equipment,		
less accumulated depreciation and		
amortization of \$322 and \$289	638	621
Investments	520	459
Intangible Assets, net	348	347
Other Assets	79	94
	-----	-----
	\$ 2,497	\$ 2,490
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 56	\$ 61
Current portion of long-term debt:		
Telecommunications	30	36
Other	2	4
Accrued costs and billings in excess		
of revenue on uncompleted contracts	12	10
Accrued reclamation and other mining costs	21	18
Other	73	88
	-----	-----
Total Current Liabilities	194	217
Long-Term Debt, less current portion:		
Telecommunications	260	264
Other	105	97
Deferred Income Taxes	235	235
Retirement Benefits	52	54
Accrued Reclamation Costs	96	99
Other Liabilities	152	170
Minority Interest	221	214
Stockholders' Equity (Redeemable common stock		
\$1,148 million aggregate redemption value):		
Common equity	1,168	1,125
Foreign currency adjustment	(1)	(1)
Net unrealized holding gain	15	16
	-----	-----
Total Stockholders' Equity	1,182	1,140
	-----	-----
	\$ 2,497	\$ 2,490
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Statements of Cash Flows (unaudited)

(dollars in millions)	Six Months Ended	
	June 30,	
	1996	1995
Cash flows from operations:		
Net cash provided by continuing operations	\$ 77	\$ 161
Cash flows from investing activities:		
Proceeds from sales and maturities of		
marketable securities and investments	129	114
Purchases of marketable securities	(99)	(114)
Capital expenditures	(44)	(56)
Acquisitions and investment in affiliates	(96)	(168)
Proceeds from sale of assets and other	6	(1)
	-----	-----
Net cash used in investing activities	(104)	(225)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	11	31
Payments on long-term debt, including		
current portion	(15)	(9)

Issuance of common stock	-	2
Repurchases of common stock	(11)	(2)
Exchange of Class B&C Stock for Class D Stock, net	19	54
Payments of dividends	(13)	-
	-----	-----
Net cash provided by (used in) financing activities	(9)	76
Cash flows from proceeds due to sales of discontinued packaging operations	-	29
Cash and cash equivalents of MFS at beginning of period	-	(22)
Effect of exchange rates on cash	-	1
	-----	-----
Net change in cash and cash equivalents	(36)	20
Cash and cash equivalents at beginning of period	363	330
	-----	-----
Cash and cash equivalents at end of period	\$ 327	\$ 350
	=====	=====

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 30, 1995 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 30, 1995.

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. Fully diluted earnings per share have not been presented because they are not materially different from primary earnings per share. The number of shares used in computing earnings per share was 23,205,830 and 21,257,541 for the three months ended June 30, 1996 and 1995 and 23,221,026 and 21,261,632 for the six months ended June 30, 1996 and 1995.

Pursuant to the Restated Certificate of Incorporation of PKS, the stock price calculation is computed annually using the number of shares outstanding at the end of the fiscal year.

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, and specifically attributable items are as follows:

(dollars in millions)		
	June 30, 1996	December 30, 1995
Cash and cash equivalents	\$ -	\$ -
Marketable securities	5	10
Property, plant and equipment, net	5	5
Other assets	5	3
	-----	-----

Total Assets	\$ 15	\$ 18
	=====	=====
Accounts payable	\$ 12	\$ 23
Long-term debt, including current portion	2	3
Other liabilities	2	-
	-----	-----
Total Liabilities	\$ 16	\$ 26
	=====	=====
	Three Months Ended	Six Months Ended
	June 30,	June 30,

1996 1995 1996 1995

Other income (expense), net \$ - \$ - \$ (1) \$ 1

Corporate general and administrative costs have been allocated to the Group. These allocations were \$2 million and \$1 million for the three months ended June 30, 1996 and 1995 and \$3 million and \$2 million for the six months ended June 30, 1996 and 1995.

Mine management fees paid to the Construction & Mining Group were \$8 million and \$7 million for the three months ended June 30, 1996 and 1995 and \$15 million for the six months ended June 30, 1996 and 1995.

4. Acquisitions:

On March 6, 1996, RCN Corporation ("RCN") a subsidiary of KDG, closed an asset purchase agreement, along with other ancillary agreements, with Liberty Cable Company, Inc. ("Liberty") to purchase an indirect 80% interest in certain private cable systems in New York City and New Jersey. The cable systems provide subscription television services using microwave frequencies. RCN paid sellers \$27 million on the closing date and has a contingent payment obligation of \$15 million that it expects to pay in full. Payment of the obligation is contingent upon Liberty attaining specific levels of subscribers. The transaction was accounted for as a purchase and Liberty's operating results have been consolidated since the acquisition date. Intangible assets recognized to date are approximately \$18 million, which are being amortized over periods of 5 to 15 years. Payments of the contingent obligation will also be included in intangible assets. Liberty's 1995 and 1996 operating results prior to the acquisition were not significant relative to the Group's results.

On April 1, 1996, RCN purchased Residential Communications Network from C-TEC at its book value of \$17.5 million. Residential Communications Network is a start-up joint effort with RCN which plans to provide telecommunications services to the residential market. The transaction was accounted for as a purchase.

On August 8, 1996 C-TEC announced a plan to rescind the sale of Residential Communications Network to RCN and acquire the assets of Liberty Cable from RCN and merge those operations with C-TEC. This action coincides with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC has also agreed in principle to exercise its option to unwind the agreement to sell to RCN its other non-core assets: the long distance group ("CLD") and C-TEC International which holds the 40% interest in Megacable S.A. de C.V. and a \$13 million note payable by Mazon Corporativo, S.A. de C.V., collateralized by additional stock of Megacable ("C-TEC International"). The agreement provides for the assets to be purchased under the same terms and conditions under which they were sold.

5. Investments:

In February 1996, the Group exercised 1.5 million CE options at a price of \$9 per share. The transaction increased the Group's ownership interest in CE to 24%. In addition, the Group has 4.3 million options to purchase additional CE stock at prices of \$11.625 to \$12 per share. Of these, 3.3 million options at \$12 per share may be exercised if CE's common stock trades at or above \$24 per share for 180 consecutive days.

6. Other Matters:

In June 1996, PKS' stockholders approved the 1995 Class D Stock plan. Under the plan, PKS may not grant benefits with respect to more than 1 million shares of Class D Common Stock ("Shares") during the 10 year term of the plan. PKS may not grant benefits with respect to more than 500,000 Shares in any two year period and may not grant benefits to any one participant with respect to more than 200,000 Shares. Stock options must have an exercise price that is not less than the fair market value of the Shares on the grant date and become exercisable at a rate of 20% per year over a five year period. On June 30, 1996, 268,000 options, at an exercisable price of \$40.40 have been granted and remain outstanding. The Group has included the disclosure required in Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" which establishes a fair value of accounting for stock options and other equity instruments. The compensation cost for PKS' 1995 Class D Stock plan using the Black-Scholes model and assuming no dividends, 0% volatility, risk-free interest rate of 6.84% and a 10 year life of the option, would not have a material effect on the Group's financial statements.

In 1994, several former shareholders of a MFS subsidiary filed a lawsuit against MFS, KDG and the chief executive officer of MFS, in the United States District Court for the Northern District of Illinois, Case No. 94C-1381. Plaintiffs allege that MFS fraudulently concealed material information about its plans from them, causing them to sell their shares of the subsidiary to MFS at an inadequate price. The MFS lawsuit was

settled in July 1996. KDG had previously agreed to indemnify MFS against any liabilities arising from the lawsuit. The settlement, net of reserves established, will not materially affect the Group's financial position or results of operations.

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, future results of operations or future cash flows.

Results of Operations - Second Quarter 1996 vs. Second Quarter 1995

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

	1996	1995
Mining	\$ 58	\$ 50
Telecommunications	93	79
Other	11	10
	-----	-----
	\$ 162	\$139
	=====	=====

Mining. Mining revenue for the second quarter of 1996 was \$8 million greater than the second quarter of 1995. Higher alternate coal sales and greater coal shipments were responsible for the increase. The greater coal shipments were a combination of additional spot and contract coal sales compared to the second quarter of 1995.

Operating margins increased 1% over the same period in 1995. Contributing to the increase in margins were increases in high margin alternate source coal and contract coal sales which were partially offset by increases in lower margin spot coal sales.

Telecommunications. Revenue for C-TEC's telephone group increased \$3 million or 8% for the second quarter 1996 compared to the same period in 1995. The increase is primarily due to higher local network revenue, intrastate access revenue, business sales and internet access service revenue. Cable revenue increased \$10 million or 32% in 1996. The acquisition of Twin County Trans Video, Inc. ("Twin County") in May 1995 and the consolidation of Mercom, Inc. ("Mercom") in August 1995 and the effects of a rate increase in February 1996, were primarily responsible for the improved revenue figures.

The cost of revenue, excluding depreciation and amortization, for the telephone group increased 21% in 1996. Higher compensation expense, material costs associated with the business sales and internet services, and consulting expenses for a variety of regulatory and operational matters contributed to the increase. The cable group's costs increased primarily due to the expenses associated with the additional Twin County and Mercom subscribers and higher programming fees. Additional depreciation and amortization expense resulting from the Twin County and Mercom acquisitions also contributed to a decline in earnings.

General and Administrative Expenses. General and administrative expenses increased 45% in 1996. The acquisition of Twin County, the consolidation of Mercom, the costs associated with the C-TEC restructuring and higher compensation expenses all contributed to the increase in expenses.

Investment Income, net. A 45% increase in investment income is primarily attributable to improved results on the sale of marketable securities. The Company realized gains of \$2 million on the sale of equity securities in 1996 as compared to a \$3 million loss on the disposition of certain securities in 1995.

Other, net. The decline of other income in 1996 is directly attributable to the 1995 settlement of the Whitney litigation for \$135 million.

Equity Loss in MFS. MFS is a leading provider of communications services to business. PKS spun-off its investment in MFS to Class D stockholders on September 30, 1995. Prior to the spin-off, the Group included its proportionate share of MFS' losses in the statement of earnings. The significant initial development and roll out expenses associated with the expansion activities announced in 1993 and 1995 adversely affected MFS' results.

Provision for Income Taxes. The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. In 1995 the net operating loss limitations of MFS and the settlement of prior period issues, resulted in the higher effective rate.

Results of Operations - Six Months 1996 vs. Six Months 1995

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

	1996	1995
Mining	\$ 111	\$ 111
Telecommunications	183	152

Other	23	15
	-----	-----
\$ 317		\$ 278
=====		=====

Mining. Mining revenue was flat in the first half of 1996 compared to the first half of 1995. Lower spot market sales, primarily due to competition within the coal industry and greater hydro-electric power generation in the western United States was offset by an increase in alternate source coal sales.

Operating margins increased 2% in the first half of 1996 compared to the first half of 1995. The increase is directly attributable to the additional higher margin alternate source coal sales in 1996.

Telecommunications. For the six months ended June 30, 1996, revenue of C-TEC's telephone group increased \$5 million or 8% compared to the same period in 1995. This increase is primarily due to increases in local network service, network access revenues, business sales and internet access service revenue. Cable revenue increased \$24 million or 44% in 1996. The acquisition of Twin County and the consolidation of Mercom and the effects of rate increases in April 1995 and February 1996, were primarily responsible for the increase in revenue.

The cost of revenue, excluding depreciation and amortization, for the telephone group increased 6% in 1996. The increase is primarily due to higher payroll expense and higher consulting fees for regulatory and operational matters. The cable group's costs increased primarily due to higher program fees, channel additions and subscriber growth associated with the Twin County and Mercom acquisitions. Also contributing to the decline in earnings was additional depreciation and amortization expense resulting from the Twin County and Mercom transactions.

General and Administrative Expenses. General and administrative expenses increased 35% in 1996. The acquisition of Twin County, the consolidation of Mercom, the costs associated with the C-TEC restructuring and higher compensation expenses all contributed to the increase in expenses.

Investment Income, net. A 33% increase in investment income is attributable to improved results on the sale of marketable securities and higher equity earnings. The Company realized gains of \$2 million on the sale of equity securities in 1996 as compared to a \$4 million loss on the disposition of certain securities in 1995. Improvements in the net earnings of equity method investees, primarily CE and Megacable S.A. de C.V. contributed to the improved results.

Other, net. The decline of other income in 1996 is directly attributable to the 1995 settlement of the Whitney litigation for \$135 million.

Provision for Income Taxes. The effective income tax rate in 1996 differs from the expected statutory rate of 35% primarily due to state income taxes. In 1995 the net operating loss limitations of MFS and the settlement of prior period issues, resulted in the higher effective rate.

Financial Condition - June 30, 1996 vs. December 30, 1995

Due to the significant investing activities described below, the Group's working capital decreased \$34 million or 5% in the first six months of 1996.

Investing activities include \$96 million of investments and \$44 million of capital expenditures, including \$8 million for the construction of a privately owned toll road. The investments primarily include C-TEC's \$13 million outlay for a note from Kiewit Construction and Mining Group, which is receivable from Mazon Corporativo, S.A. de C.V., KDG's \$27 million indirect investment in Liberty, the exercise of CE options to purchase CE stock for \$14 million, \$4 million investment in a Philippine power project and \$30 million investment in three Indonesian power projects. These capital outlays were partially offset by net proceeds from the sale of marketable securities of \$30 million and \$4 million of proceeds from the sale of property, plant and equipment and other assets.

Financing sources include \$19 million for the exchange of Class B&C Stock for Class D Stock and \$11 million for the construction financing of a privately owned toll road. Financing uses consist of \$13 million for the payment of dividends, \$11 million for stock repurchases and \$1 million of payments on stockholder notes and C-TEC's \$12 million outlay for the payment of long-term debt.

The Group anticipates making significant investments in its infrastructure, telecommunications and energy businesses - including its joint venture agreement with CE covering international power project development activities - and searching for opportunities to acquire businesses which provide for long-term growth. The Group may also exercise 3.3 million CE options at \$12 per share if CE's common stock continues to trade at or above \$24 per share for 180 consecutive days. Other long-term liquidity uses include payment of income taxes and repurchasing the Group's stock. The Group's current financial condition and borrowing capacity should be sufficient for immediate operating and investing activities.

On November 8, 1995, C-TEC announced that it would evaluate strategic options for its various business units with a view toward enhancing shareholder value. Specifically, C-TEC evaluated the advisability and feasibility of separating or restructuring its local telephone business, its cable television business, and its various other communications businesses. C-TEC engaged the investment banking firm Merrill Lynch & Co. to assist with the process.

In March 1996, under the terms of an agreement, RCN agreed to pay C-TEC approximately \$123 million for certain of C-TEC's assets, including CLD, C-TEC International and Residential Communications Network. RCN purchased Residential Communications Network for cash in a transaction that closed on April 1, 1996.

On August 8, C-TEC announced a plan to rescind the sale of Residential Communications Network to RCN and acquire the assets of Liberty Cable from RCN and merge those operations with C-TEC. This action coincides with C-TEC's decision to close discussions concerning the sale of its cable television unit. C-TEC has also agreed in principle to exercise its option to unwind the agreement to sell to RCN its other non-core assets, CLD and C-TEC International. The agreement provides for the assets to be purchased under the same terms and conditions under which they were sold. C-TEC will continue to explore ways to increase its profitability and value which could include a restructuring transaction.

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