

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-Q (Quarterly Report)

Filed 08/14/95 for the Period Ending 06/30/95

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

# LEVEL 3 COMMUNICATIONS INC

## FORM 10-Q (Quarterly Report)

Filed 8/14/1995 For Period Ending 6/30/1995

Address	1025 ELDORADO BOULEVARD BLDG 2000 BROOMFIELD, Colorado 80021
Telephone	720-888-1000
CIK	0000794323
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

# 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 AND EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended June 30, 1995

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES AND 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 ☒ No

The number of shares outstanding of each class of the issuer's common stock, as of August 1, 1995:

Class B Common Stock.....	884,400 shares
Class C Common Stock.....	13,943,665 shares
Class D Common Stock.....	21,288,468 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 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 Six months ended (dollars in millions, June 30, June 30, except per share data) 1995 1994 1995 1994

Revenue	\$ 697	\$ 656	\$ 1,260	\$ 1,194
Cost of Revenue	(591)	(555)	(1,079)	(1,022)
	<u>106</u>	<u>101</u>	<u>181</u>	<u>172</u>
General and Administrative Expenses	(53)	(60)	(108)	(115)
	<u></u>	<u></u>	<u></u>	<u></u>
Operating Income	53	41	73	57
Other Income (Expense):				
Gain on Subsidiary's Stock Transactions, net	-	3	3	28
Investment Income, net	14	11	30	25
Interest Expense, net	(6)	(8)	(24)	(17)
Other, net	164	8	171	11
	<u>172</u>	<u>14</u>	<u>180</u>	<u>47</u>
Equity in Loss of MFS	(43)	(21)	(85)	(34)
	<u></u>	<u></u>	<u></u>	<u></u>
Earnings Before Income Taxes and Minority Interest	182	34	168	70
Provision for Income Taxes	(79)	(10)	(89)	(25)
Minority Interest in Net Income of Subsidiaries	(6)	(2)	(8)	-
	<u></u>	<u></u>	<u></u>	<u></u>
Net Earnings	\$ 97	\$ 22	\$ 71	\$ 45
	=====	=====	=====	=====
Earnings Attributable to Class B & C Stock:				
Net Earnings	\$ 36	\$ 19	\$ 34	\$ 17
	=====	=====	=====	=====
Earnings per Common and Common Equivalent Share	\$ 2.59	\$ 1.24	\$ 2.44	\$ 1.10
	=====	=====	=====	=====
Earnings Attributable to Class D Stock:				
Net Earnings	\$ 61	\$ 3	\$ 37	\$ 28
	=====	=====	=====	=====
Earnings per Common and Common Equivalent Share	\$ 2.87	\$ .14	\$ 1.75	\$ 1.35
	=====	=====	=====	=====
Cash Dividends per Common Share:				
B & C Stock	\$ .45	\$ .45	\$ .45	\$ .45
	=====	=====	=====	=====
D Stock	\$ -	\$ -	\$ -	\$ -

=====

See accompanying notes to consolidated condensed financial  
statements.

**PETER KIEWIT SONS', INC.**

**Consolidated Condensed Balance Sheets**

(dollars in millions)	June 30, 1995 (unaudited)	December 31, 1994
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 434	\$ 400
Marketable securities	528	910
Receivables, less allowance of \$9 and \$9	311	414
Note receivable from sale of discontinued operations	-	29
Costs and earnings in excess of billings on uncompleted contracts	130	126
Investment in construction joint ventures	62	69
Deferred income taxes	65	74
Other	55	93
Total Current Assets	1,585	2,115
Property, Plant and Equipment, less accumulated depreciation and amortization of \$665 and \$731	630	1,244
Investments	450	314
Intangible Assets, net	401	749
Net Assets of MFS	447	-
Other Assets	72	82
	<u>\$3,585</u> =====	<u>\$4,504</u> =====

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, 1995 (unaudited)	December 31, 1994
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 211	\$ 344
Current portion of long-term debt:		
Telecommunications	9	26
Other	5	7
Accrued costs and billings in excess of revenue on uncompleted contracts	133	143
Accrued insurance costs	74	75
Other	151	218
Total Current Liabilities	583	813
Long-Term Debt, less current portion:		
Telecommunications	290	827

Other	89	81
Deferred Income Taxes	314	302
Retirement Benefits	48	67
Accrued Reclamation Costs	103	103
Other Liabilities	123	127
Minority Interest	193	448
Stockholders' Equity:		
Preferred stock, no par value,		
Authorized 250,000 shares: no shares		
outstanding	-	-
Common stock, \$.0625 par value,		
\$1.7 billion aggregate redemption		
value:		
Class B, authorized 8,000,000 shares:		
884,400 outstanding in 1995 and		
1,000,400 in 1994	-	-
Class C, authorized 125,000,000 shares:		
13,944,365 outstanding in 1995 and		
15,087,028 in 1994	1	1
Class D, authorized 50,000,000 shares:		
21,288,468 outstanding in 1995 and		
20,391,568 in 1994	1	1
Additional paid-in capital	207	182
Foreign currency adjustment	(4)	(7)
Net unrealized holding gains (losses)	8	(8)
Retained earnings	1,629	1,567
Total Stockholders' Equity	1,842	1,736
	<u>\$3,585</u>	<u>\$4,504</u>
	=====	=====

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)	1995	1994
Cash flows from operations:		
Net cash provided by continuing operations	\$ 208	\$ 60
Cash flows from investing activities:		
Proceeds from sales and maturities of		
marketable securities and investments	261	856
Purchases of marketable securities	(203)	(909)
Proceeds from sales of property, plant		
and equipment,	9	9
Capital expenditures	(83)	(170)
Acquisitions, excluding cash acquired	(143)	(236)
Investment in CECI	(29)	(12)
Deferred development costs and other	(21)	(37)
Net cash used in investing activities	(209)	(499)
Cash flows from financing activities:		
Issuances of subsidiary's stock	-	3
Proceeds from long-term debt borrowings	31	659
Payments on long-term debt, including		
current portion	(11)	(184)
Repurchases of common stock	(6)	(30)
Issuances of common stock	26	19
Dividends paid	(13)	(13)
Net cash provided by financing activities	27	454
Cash flows from proceeds due to sales		
of discontinued packaging operations	29	7
Cash and cash equivalents of MFS at		
beginning of period	(22)	-
Effect of exchange rates on cash	1	(3)

Net change in cash and cash equivalents	34	19
Cash and cash equivalents at beginning of period	400	296
Cash and cash equivalents at end of period	<u>\$ 434</u>	<u>\$ 315</u>
	=====	=====
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 31, 1994 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 31, 1994.

The PKS Board of Directors preliminarily approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS") to the Class D stockholders at a special meeting on June 9, 1995 (See Note 5). The operating results of MFS have been classified as a single line item on the statements of earnings for the three and six month periods ended June 30, 1995 and 1994. The Company's proportionate share of the net assets of MFS at June 30, 1995 of \$447 million have been reported separately in the consolidated balance sheet.

Operating results of MFS are summarized as follows (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Revenue	\$140	\$ 61	\$258	\$96
Loss from operations	(59)	(27)	(115)	(46)
Net loss	(65)	(32)	(129)	(50)
PKS equity in net loss	(43)	(21)	(85)	(34)

At June 30, 1995 the net assets of MFS were as follows:

Assets:	
Current	\$ 522
Networks and equipment, net	902
Other assets, net	403
Total	<u>1,827</u>
Liabilities:	
Current	235
Long-term debt	597
Other noncurrent	32
Total	<u>864</u>
Net Assets	<u>\$ 963</u>
	=====
PKS Equity in Net Assets of MFS	<u>\$ 447</u>
	=====

Included in the net assets of MFS are \$307 million of proceeds from the offering of convertible preferred stock of which the Company has no ownership interest.

The Company has approximately \$93 million of deferred tax liabilities recorded on gains from MFS stock transactions that would no longer be payable if the distribution is consummated.

Marketable securities at June 30, 1995 and December 31, 1994 include approximately \$57 million and \$61 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at June 30, 1995 and December 31, 1994 include approximately \$56 million and \$48 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.

## PETER KIEWIT SONS', INC

### Notes to Consolidated 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. 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,	
	1995	1994	1995	1994
Class B&C	13,998,740	15,232,250	13,954,135	15,306,347
Class D	21,257,541	20,446,882	21,261,632	20,497,789

#### 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 operations and certain mining services. The Diversified Group contains coal mining properties, telecommunications subsidiaries, a data management services company, a minority interest in California Energy Company, Inc. ("CECI") 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 31, 1994 was derived from the audited financial statements of the respective groups which were exhibits to the 1994 Annual Report. All other summary information was derived from the unaudited financial statements of the respective groups which are exhibits to this Form 10-Q. All significant intercompany accounts and transactions, except those directly between the Construction & Mining Group and the Diversified Group, have been eliminated.

#### Construction & Mining Group:

(In millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Results of Operations:				
Revenue	\$ 562	\$ 528	\$ 988	\$ 939
Net earnings	\$ 36	\$ 19	\$ 34	\$ 17
Earnings per share	\$2.59	\$1.24	\$2.44	\$1.10
	June 30,		December 31,	
	1995		1994	
Financial Position:				
Working capital	\$ 290		\$ 333	
Total assets	967		967	
Long-term debt, less current portion	7		9	
Stockholders' equity	503		505	

## PETER KIEWIT SONS', INC

### Notes to Consolidated Condensed Financial Statements



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

Included within earnings before income taxes is mine service income from the Diversified Group of \$7 million and \$8 million for the three months ended June 30, 1995 and 1994 and \$15 million for each of the six months ended June 30, 1995 and 1994.

Diversified Group: (In millions, except per share data)				
	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Results of Operations:				
Revenue	\$ 135	\$ 128	\$ 274	\$ 255
Net earnings	\$ 61	\$ 3	\$ 37	\$ 28
Earnings per share	\$2.87	\$ .14	\$1.75	\$1.35
	June 30, 1995		December 31, 1994	
Financial Position:				
Working capital	\$ 712		\$ 969	
Total assets	2,633		3,549	
Long-term debt, less current portion	372		899	
Stockholders' equity	1,339		1,231	

Included within earnings before income taxes is mine management fees paid to the Construction & Mining Group of \$7 million and \$8 million for the three months ended June 30, 1995 and 1994 and \$15 million for each of the six months ended June 30, 1995 and 1994.

### 4. Acquisitions:

In February 1995, CECI, an equity method investee, completed the purchase of Magma Power Company. The cash transaction, valued at \$950 million was partially financed by the sale of 17 million shares of common stock at \$17 per share. As part of this offering, the Company purchased 1.5 million shares. In addition, during the second quarter of 1995, the Company purchased an additional 200,000 common shares of CECI. The Company owns 22% of CECI's outstanding common stock. Following these transactions, the Company's cumulative investment in CECI common stock totals \$146 million, \$38 million in excess of the Company's proportionate share of CECI's equity.

C-TEC Corporation ("C-TEC"), completed the first step of an acquisition of Twin County Trans Video, Inc. ("Twin County") in May 1995. Twin County provides cable television service to 74,000 subscribers in eastern Pennsylvania. In consideration for 40% of the capital stock of Twin County, C-TEC paid \$26 million in cash and issued a \$4 million note of its subsidiary, C-TEC Cable Systems, Inc. In addition, C-TEC paid \$11 million in consideration of a noncompete agreement. The acquisition of the remaining shares is expected to be completed by year end.

In January 1995, C-TEC entered into an agreement to purchase Buffalo Valley Telephone Company. The aggregate consideration for the purchase (\$55 million) will be a combination of cash and convertible preferred stock in the Telephone Group of C-TEC. The transaction is expected to close during 1995. Buffalo Valley Telephone Company provides local telephone service to 17,300 access lines in central Pennsylvania.

Also in January, 1995, C-TEC purchased, for \$84 million in cash, a 40% equity position in Megacable, S.A. De C.V., Mexico's second largest cable television operator with 174,000 subscribers in twelve cities. The purchase price is subject to adjustments based on fourth quarter 1995 exchange rates.

### 5. Other Matters:

#### MFS Spin-off

PKS' management asked the Internal Revenue Service ("IRS") to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off"). In June 1995, PKS received the Ruling from the IRS confirming that the Spin-off will be tax-free to the holders of Class D Stock for United States federal income tax purposes. The PKS Board of Directors preliminarily approved the plan to implement the Spin-off (the "Plan") at a special meeting on June 9, 1995.

In order to satisfy certain requirements of applicable tax law relating to the Spin-off that are addressed by the Ruling, PKS and Kiewit Diversified Group Inc., a wholly owned first-tier subsidiary of PKS ("KDG") have agreed with MFS to effect a recapitalization of MFS pursuant to which KDG would exchange 2,900,000 of the 42,962,658 shares of MFS Common Stock currently held by KDG for 15,000,000 shares of high-vote convertible preferred stock (the "MFS Recapitalization").

The MFS Recapitalization has been approved by the MFS Board of Directors, and by a special committee of the MFS Board of Directors comprised solely of independent directors of MFS. Consummation of the MFS Recapitalization is subject to approval by the holders of MFS Common Stock at the MFS 1995 annual stockholders meeting, to be held on August 24, 1995. In connection with obtaining approval of the

holders of MFS Common Stock, PKS has agreed to vote all of the shares of MFS Common Stock owned or controlled by it in the same manner as the majority of the non-PKS holders of MFS Common Stock present in person or by proxy at the meeting vote. Thus, the MFS Recapitalization will be approved only if supported by a majority of such non-PKS stockholders of MFS. If the MFS Recapitalization is not approved by the holders of MFS Common Stock, the MFS Preferred Stock will not be issued and the Spin-off will not occur. If the MFS Recapitalization is approved, it would be consummated immediately prior to the Spin-off and PKS would distribute to Class D stockholders both the MFS preferred stock and all of the common stock of MFS then held by PKS.

The Plan provides for an exchange offer (the "Exchange Offer") by PKS for Class D Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class B Stock and Class C Stock ("Class B&C Stock") on terms similar to those upon which Class B&C Stock can be converted into Class D Stock during the annual conversion period provided in the Company's Certificate of Incorporation. It is presently expected that once the registration statement presently on file with the Securities and Exchange Commission is declared effective, the Exchange Offer will be open for approximately four weeks, (the "Expiration Date") unless the Exchange Offer is extended, abandoned, or modified.

The Company currently expects that, if the holders of a majority of the MFS Common Stock present in person or by proxy and voting at the 1995 MFS annual stockholders meeting, approve the MFS Recapitalization, the Spin-off dividend will be declared as of, and paid to holders of Class D Stock of record as of, the day after the Expiration Date. If such favorable vote is not received, the Exchange Offer will be abandoned, and the Spin-off will not occur. Further, PKS reserves the right to abandon the Exchange Offer, or both the Exchange Offer and the Spin-off, if the PKS Board of Directors determines at any time that such abandonment would be in the best interest of PKS and its stockholders, and PKS will abandon the Exchange Offer if it abandons the Spin-off.

PKS also reserves the right to extend the Exchange Offer or to modify in any manner the terms and conditions of the Exchange Offer or the Spin-off or to defer the consummation of the Exchange Offer or the Spin-off if the PKS Board of Directors determines at any time that such action would be in the best interest of PKS and its stockholders. Modification of the terms and conditions of the Exchange Offer may include imposition by PKS of a limit on the number of shares of Class B&C Stock that will be accepted by PKS in the Exchange Offer.

### **Kinross Transaction**

On June 26, 1995, the Company exchanged its interest in a wholly-owned subsidiary involved in gold mining activities for 4 million common shares of Kinross Gold Corporation ("Kinross"), a publicly traded corporation. The Company recognized a \$21 million pre-tax gain on the exchange based on the difference between the book value of the subsidiary and the fair market value of the Kinross stock on the date of the transaction.

### **MFS Litigation**

In 1994, several former stockholders 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. 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. Defendants expect that a trial will be held in the fall of 1995. 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 judgement or settlement payments would be treated as an adjustment of the original purchase price and recorded as additional goodwill. If the Spin-off is approved by the Company's Board of Directors and is consummated, KDG would remain obligated to satisfy these liabilities.

### **Whitney Litigation:**

In 1974, a subsidiary of the Company ("Kiewit"), entered into a lease with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney was the owner, and Kiewit was 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 (the "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 the 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. 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. In May 1994, the Claims Court entered an order denying both motions. In February 1994, the Claims Court issued an opinion which provided that the \$60 million judgment would bear interest compounded annually from 1977 until payment. The government appealed the February 1994 and May 1994 orders. A hearing on the appeals was held in February 1995.

On May 5, 1995, the government and the plaintiffs entered into a settlement agreement. In settlement of all claims, the government agreed to pay plaintiffs \$200 million and plaintiffs agreed to deed the coal underlying the real property to the government. Kiewit and Whitney agreed in 1992 that Kiewit would receive 67.5 percent of any award and Whitney would receive the remainder. Peter Kiewit Sons' Co., a subsidiary of KDG, received approximately \$135 million on June 2, 1995.

## Other Litigation

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

## 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 1995 vs. Second Quarter 1994

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

	1995	1994
Construction	\$ 547	\$ 517
Mining	62	62
Telecommunications	79	73
Other	9	4
	<u>\$ 697</u>	<u>\$ 656</u>
	=====	=====

#### Construction:

Construction revenue rose 6% in the second quarter of 1995 compared to the second quarter of 1994. The increase is due to the performance of additional work on joint ventures during this period. Contract backlog at June 30, 1995 was \$2.5 billion, of which 13% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 38% of the total backlog which includes San Joaquin Toll Road backlog of \$260 million. San Joaquin is scheduled for completion in 1997. Of the total backlog, \$1.5 billion is not expected to be completed during 1995. Backlog at June 1994, was \$2.2 billion.

Gross margin on construction contracts increased to 8.2% from 7.4% during the same period in 1994 primarily as a result of a claim settlement on a completed joint venture contract.

#### Mining:

Mining revenue, primarily coal sales, remained flat between periods. A decrease in coal spot sale revenue was offset by an increase in alternate source coal sales. The increased margin from alternate source coal sales was offset by an increase in lower- margin gold sales, an increase in coal sales to a large customer at contract prices less than those of other primary customers and renegotiated coal sales contract prices with certain customers. Coal spot sales and their margins declined in 1995 as compared to 1994. The overall mining margin was 45% in 1995 and 49% in 1994 and is expected to continue to decline during the remainder of 1995 due to the factors mentioned above.

#### Telecommunications:

C-TEC's revenues increased from \$73 million in 1994 to \$79 million in 1995. C-TEC's 1994 revenue includes \$8 million from its cellular business which was sold during the third quarter of 1994. The increase is primarily attributable to C-TEC's Cable and Long Distance Groups which had increased revenues of \$7 million and \$5 million, respectively. Increased Cable Group revenues are primarily due to the addition of 15,000 subscribers over the 1994 period and a revenue increase of approximately \$4 million resulting from the acquisition of Twin County in May 1995. The Long Distance Group's sales increased due primarily to the resale of tariff services to another long distance seller. The Group's arrangement for sales of this product is expected to terminate later in 1995.

Increased Cable Group revenues were partially offset by increased operating expenses associated with the addition of Twin County subscribers and to higher basic programming costs resulting from additional subscribers, rate increases and new channels, however, operating income of this group improved in 1995. The operating income of the Long Distance Group also improved in 1995 as the increased revenues described above were only partially offset by increased operating costs.

C-TEC's Telephone Group revenues and operating income were relatively flat between the 1995 and 1994 periods.

#### General and Administrative Expenses:

General and administrative costs declined 12% during the 2nd quarter of 1995 as compared to the 2nd quarter of 1994. The sale of C-TEC's mobile services group and an overall reduction in the overhead costs attributable to C-TEC's current operating units were primarily responsible for the decline. Partially offsetting these declines were higher professional service fees associated with the MFS spin-off.

#### **Investment Income, net:**

Investment income increased 27% for the three months ended June 30, 1995 compared to the same period in 1994. Proceeds from C-TEC's rights offering, the sale of C-TEC's mobile services group and the settlement of the Whitney litigation resulted in a higher average portfolio balance and an increase in investment income.

#### **Interest Expense, net:**

Interest expense decreased by \$2 million in 1995 primarily due to a decline in interest expense incurred by C-TEC from the repayment of debt in the fourth quarter of 1994.

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

The settlement of the Whitney litigation for \$135 million and the gain from the Kinross transaction of \$21 million comprise the majority of other income in 1995. The remaining income is comprised of gains and losses from the sale of operating assets and other miscellaneous activities.

#### **MFS Operations:**

The telecommunications services revenue of MFS increased from \$47 million in 1994 to \$117 million in 1995. The increase partially relates to the acquisition of Centex, which was acquired in May 1994, and to the acquisitions of RealCom and Cylix, which were acquired in the fourth quarter of 1994. The remaining increase resulted primarily from increased market penetration of all other telecommunication services of MFS. Telecommunication services operating expenses of MFS increased to \$149 million in 1995 from \$59 million in 1994. The primary reasons for the increase in these costs are the acquisitions of Centex, RealCom and Cylix in 1994, the expansion activities of MFS Intelenet, MFS Datanet and MFS International and costs associated with new and expanded networks. MFS expects to incur additional significant expenses expanding its integrated, single-source telecommunications services, high speed data communications and international services throughout 1995.

Third-party revenue from services offered by MFS' network integration services segment increased to \$27 million from \$15 million in 1994. The increase relates primarily to two projects. Network systems integration services operating expenses increased at approximately the same rate as revenues creating a small loss from operations in both periods.

#### **Income Taxes:**

The effective income tax rate for the quarter ended June 30, 1995 differs from the expected statutory rate of 35% due primarily to net operating loss limitations on losses generated by MFS.

#### **Results of Operations - Six Months 1995 vs. Six Months 1994:**

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

	1995	1994
Construction	\$ 966	\$ 922
Mining	127	119
Telecommunications	152	145
Other	15	8
	<u>\$1,260</u>	<u>\$1,194</u>
	=====	=====

#### **Construction:**

Construction revenues increased by 5% during the first six months of 1995 compared to the same period in 1994. The increase relates to additional joint venture activity and the inclusion of an additional two months of materials revenue generated by the APAC-Arizona companies which were acquired on February 28, 1994.

Gross margins on construction contracts were 5.5% in 1995 and 1994.

#### **Mining:**

Mining revenues, primarily coal sales, increased 7% in 1995. The increase in revenue is primarily attributable to additional alternate source coal sales. The increased margins from alternate source coal sales were offset by an increase in lower-margin gold sales, an increase in coal sales to a large customer at contract prices less than those of other primary customers and renegotiated coal sales contract prices with certain customers. Coal spot sales and their margins declined in 1995 as compared to 1994. The overall mining margin was 47% in 1995 and 48% in 1994 and is expected to continue to decline during the remainder of 1995 due to the factors mentioned above.

#### **Telecommunications:**

C-TEC's revenue increased from \$145 million in 1994 to \$152 million in 1995. C-TEC's 1994 revenue includes \$15 million from its cellular business which was sold during the third quarter of 1994. The increase is primarily attributable to C-TEC's Cable and Long Distance Groups which had increased revenues of \$7 million and \$11 million, respectively. Increased Cable Group revenues are primarily due to an increase in the number of subscribers and a revenue increase of approximately \$4 million resulting from the acquisition of Twin County in May 1995. The Long Distance Group's sales increased due primarily to the resale of tariff services to another long distance seller. The Group's arrangement for sales of this product is expected to terminate later in 1995.

Increased Cable Group revenues were partially offset by increased operating expenses associated with the addition of Twin County subscribers and to higher basic programming costs resulting from additional subscribers, rate increases and new channels, however, operating income of this group improved in 1995. The operating income of the Long Distance Group also improved in 1995 as the increased revenue described above was only partially offset by increased operating costs.

C-TEC's Telephone Group revenues and operating income were relatively flat between the 1995 and 1994 periods.

#### **General and Administrative Expenses:**

General and administrative costs declined 6% during the six months of 1995 as compared to the same period of 1994. The sale of C-TEC's mobile services group and an overall reduction in the overhead costs attributable to C-TEC's current operating units were primarily responsible for the decline. Partially offsetting these declines were higher professional service fees associated with the MFS spin-off.

#### **Gain on Subsidiary's Stock Transactions, net:**

The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Company in 1995. In 1994 the Company settled a contingent purchase price adjustment 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 market prices, as payment of the obligation. This transaction along with the issuances of stock for acquisitions and employee stock options, resulted in a \$28 million net gain before taxes. The Company had recognized gains and losses from sales and issuances of stock by MFS on the consolidated statement of earnings, but the Company is now contemplating a spin-off (See Note 5). Current accounting principles require recognition of the above transactions as capital transactions when a spin-off is contemplated. If the spin-off of MFS is completed, these types of gains will no longer be recognized for MFS transactions.

#### **Investment Income, net:**

Investment income increased 20% for the six months ended June 30, 1995 compared to the same period in 1994. Proceeds from C-TEC's rights offering, the sale of C-TEC's mobile services group and the settlement of the Whitney litigation resulted in a higher average portfolio balance and an increase in interest and dividend income. Partially offsetting this increase were higher losses on the disposition of marketable securities in 1995.

#### **Interest Expense, net:**

Interest expense increased by \$7 million in 1995. Tax deficiency interest expense of \$11 million incurred in 1995 was partially offset by a decline in interest expense incurred by C-TEC due to the repayment of debt in the fourth quarter of 1994.

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

The settlement of the Whitney litigation for \$135 million and the gain from the Kinross transaction of \$21 million comprise the majority of other income in 1995. The remaining income is comprised of gains and losses from the sale of operating assets and other miscellaneous activities.

#### **MFS Operations:**

MFS' telecommunications services revenue increased to \$221 million from \$69 million in 1994. The increase primarily relates to the acquisitions of Centex, RealCom and Cylix in 1994. The remaining increase resulted primarily from increased market penetration of all other telecommunication services of the Company. MFS telecommunications services operating expenses increased to \$284 million from \$88 million in 1994. The increase relates in part to the acquisitions of Centex, RealCom and Cylix in 1994. In addition, operating expenses increased due to

expansion activities of MFS Intelenet, MFS Datanet and MFS International and costs associated with new and expanded networks. MFS expects to incur additional significant expenses expanding its integrated, single- source telecommunications services, high-speed data communications and international services throughout 1995.

Third-party revenue from services offered by MFS' network integration services segment, increased to \$38 million from \$27 million in 1994. The increase relates primarily to two projects. Network systems integration services operating expenses increased at approximately the same rate as revenues producing a small loss from operations in both periods.

#### **Income Taxes:**

The effective income tax rate for the first six months of 1995 differs from the expected statutory rate of 35% due primarily to net operating loss limitations on losses generated by MFS.

#### **Financial Condition - June 30, 1995 vs. December 31, 1994**

The Company's working capital, exclusive of MFS, decreased \$17 million or 2% during the first six months of 1995. The decrease was mainly due to cash flows from operations, including the Whitney settlement of \$135 million, being offset by significant investing activities of \$209 million.

Investing activities include \$83 million of capital expenditures and \$172 million of investments. The investments include C-TEC's \$84 million outlay for 40% of Megacable and \$38 million outlay for Twin County, KDG's \$29 million purchase of CECI's stock, \$8 million outlay for a 19% interest in a healthcare software development company and an additional \$6 million investment in a Philippine power project.

Financing sources for the six months include \$14 million of borrowings for the construction financing of a privately owned toll road, \$17 million of C-TEC borrowings on the Cable Group's revolving credit agreement and \$26 million from the sale of the Company's common stock. Financing uses consisted of \$5 million of payments on stockholders' notes, \$6 million for stock repurchases, and \$13 million of Construction & Mining Group stock dividends.

In 1995, the Company received the final payment (\$29 million) for the sale of certain discontinued packaging operations.

In addition to the C-TEC activities described below, the Company anticipates investing between \$45 and \$85 million annually in its construction and mining businesses, making significant (over \$50 million in 1995) investments in its energy businesses - including its joint venture agreement with CECI 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 the repurchase of stock. The Company's current financial condition and borrowing capacity should be sufficient for future operating activities and investing activities, however, in the event of an MFS spin-off, the Construction & Mining Group may incur debt in order to fund stock conversions.

C-TEC intends to utilize its available cash and revolving credit balances to fund operating activities, finance the pending acquisition of Buffalo Valley, and to develop full service networks.

See the "Other Matters" note to the consolidated condensed financial statements with respect to the MFS spin-off.

### **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 was the owner, and Kiewit was 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 (the "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 the 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. 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. In May 1994, the Claims Court entered an order denying both motions. In February 1994, the Claims Court issued an opinion which provided that the \$60 million judgment would bear interest compounded annually from 1977 until payment. The government appealed the February 1994 and May 1994 orders. A hearing on the appeals was held in February 1995.

On May 5, 1995, the government and the plaintiffs entered into a settlement agreement. In settlement of all claims, the government agreed to

pay plaintiffs \$200 million and plaintiffs agreed to deed the coal underlying the real property to the government. Kiewit and Whitney agreed in 1992 that Kiewit would receive 67.5 percent of any award and Whitney would receive the remainder. Peter Kiewit Sons' Co., a subsidiary of Kiewit Diversified Group Inc., received approximately \$135 million on June 2, 1995.

#### **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 1995.

#### **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, 1995*

*/s/ R.E. Julian  
Robert E. Julian  
Executive Vice President  
Chief Financial Officer*

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

#### **INDEX TO EXHIBITS**

Exhibit  
No.

27 Financial Data Schedule (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.

#### **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, 1995 and 1994 and the six months ended June 30, 1995 and 1994  
Condensed Balance Sheets as of June 30, 1995 and December 31, 1994

Condensed Statements of Cash Flows for the six months ended June 30, 1995 and 1994 Notes to Condensed Financial Statements

## KIEWIT CONSTRUCTION & MINING GROUP

### Condensed Statements of Earnings (unaudited)

(dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Revenue	\$ 562	\$ 528	\$ 988	\$ 939
Cost of Revenue	(516)	(485)	(925)	(878)
	<u>46</u>	<u>43</u>	<u>63</u>	<u>61</u>
General and Administrative Expenses	(29)	(29)	(61)	(62)
	<u>17</u>	<u>14</u>	<u>2</u>	<u>(1)</u>
Operating Income (Loss)				
Other Income (Expense):				
Investment Income, net	3	4	6	6
Interest Expense	-	(1)	(1)	(1)
Other, net	35	12	46	22
	<u>38</u>	<u>15</u>	<u>51</u>	<u>27</u>
Earnings Before Income Taxes	55	29	53	26
Provision for Income Taxes	(19)	(10)	(19)	(9)
	<u>36</u>	<u>19</u>	<u>34</u>	<u>17</u>
Net Earnings	\$ 36 =====	\$ 19 =====	\$ 34 =====	\$ 17 =====

See accompanying notes to condensed financial statements.

## KIEWIT CONSTRUCTION & MINING GROUP

### Condensed Balance Sheets

(dollars in millions)	June 30, 1995	December 31, 1994
	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 84	\$ 70
Marketable securities	100	156
Receivables, less allowance of \$7 and \$7	244	260
Costs and earnings in excess of billings on uncompleted construction contracts	130	101
Investment in construction joint ventures	62	69
Deferred income taxes	54	59
Other	21	23
Total Current Assets	<u>695</u>	<u>738</u>
Property, Plant and Equipment, less accumulated depreciation and amortization of \$404 and \$395	161	140
Deferred Income Taxes	-	4
Other Assets	111	85
	<u>\$ 967</u> =====	<u>\$ 967</u> =====
Liabilities and Stockholders' Equity		



Current Liabilities:		
Accounts payable, including retainage of \$42 and \$41	\$ 169	\$ 179
Current portion of long-term debt	2	3
Accrued construction costs and billings in excess of revenue on uncompleted contracts	119	106
Accrued insurance costs	74	73
Other	41	44
Total Current Liabilities	405	405
Long-Term Debt, less current portion	7	9
Deferred Income Taxes	5	-
Other Liabilities	47	48
Stockholders' Equity (Redeemable Common Stock, \$372 million aggregate redemption value)		
Common equity	508	513
Net unrealized holding losses	-	(1)
Foreign currency adjustment	(5)	(7)
Total Stockholders' Equity	503	505
	\$ 967	\$ 967
	=====	=====

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,	
	1995	1994
Cash flows from operations:		
Net cash provided by operations	\$ 47	\$ 42
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	147	138
Purchases of marketable securities	(89)	(97)
Proceeds from sales of property, plant and equipment	9	6
Capital expenditures	(47)	(41)
Acquisition of APAC-Arizona, Inc.	-	(47)
Other	(4)	(7)
Net cash provided by (used in) investing activities	16	(48)
Cash flows from financing activities:		
Payments on long-term debt, including current portion	(2)	(4)
Issuances of common stock	24	19
Repurchases of common stock	(4)	(9)
Dividends paid	(13)	(13)
Exchange of Class B&C Stock for Class D Stock, net	(54)	(42)
Net cash used in financing activities	(49)	(49)
Effect of exchange rates on cash	-	(2)
Net change in cash and cash equivalents	14	(57)
Cash and cash equivalents at beginning of period	70	99
Cash and cash equivalents at end of period	\$ 84	\$ 42
	=====	=====

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 31, 1994 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 31, 1994.

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, 1995 and December 31, 1994 include approximately \$57 million and \$61 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at June 30, 1995 and December 31, 1994 include approximately \$56 million and \$48 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. 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):

	June 30, 1995	December 31, 1994
Cash and cash equivalents	\$ -	\$ 25
Marketable securities	2	15
Property, plant and equipment, net	5	5
Other assets	5	16
Total Assets	<u>\$ 12</u> =====	<u>\$ 61</u> =====
Accounts payable	\$ 24	\$ 30
Convertible debentures	1	1
Notes to former stockholders	3	6
Other liabilities	3	2
Total Liabilities	<u>\$ 31</u> =====	<u>\$ 39</u> =====
	Three months ended June 30, 1995	Six months ended June 30, 1994
Investment income, net of interest expense	\$ -	\$ 1
Other costs, net	(1)	(2)

Corporate general and administrative costs have been allocated to the Group. These allocations were \$1 million and \$7 million for the three months ended June 30, 1995 and 1994, and \$1 million and \$13 million for the six months ended June 30, 1995 and 1994. Due to a realignment of the corporate overhead departments significantly all of the administrative functions and personnel previously allocated to the Group are now located at the Group.

Mining service income from the Group's mine service agreement with the Diversified Group was \$7 million and \$8 million for the three

months ended June 30, 1995 and 1994, and \$15 million for each of the six months ended June 30, 1995 and 1994.

### 3. Other Matters:

#### **Kinross Transaction**

On June 26, 1995, the Group exchanged its interest in a wholly-owned subsidiary involved in gold mining activities for 4 million common shares of Kinross Gold Corporation, ("Kinross"), a publicly traded corporation. The Group recognized a \$21 million pre-tax gain on the exchange based on the difference between the book value of the subsidiary and the fair market value of the Kinross stock on the date of the transaction.

#### **MFS Spin-off**

PKS' management asked the Internal Revenue Service ("IRS") to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off"). In June 1995, PKS received the Ruling from the IRS confirming that the Spin-off will be tax-free to the holders of Class D Stock for United States federal income tax purposes. The PKS Board of Directors preliminarily approved the plan to implement the Spin-off (the "Plan") at a special meeting on June 9, 1995.

In order to satisfy certain requirements of applicable tax law relating to the Spin-off that are addressed by the Ruling, PKS and Kiewit Diversified Group Inc., a wholly owned first-tier subsidiary of PKS ("KDG") have agreed with MFS to effect a recapitalization of MFS pursuant to which KDG would exchange 2,900,000 of the 42,962,658 shares of MFS Common Stock currently held by KDG for 15,000,000 shares of high-vote convertible preferred stock (the "MFS Recapitalization").

The MFS Recapitalization has been approved by the MFS Board of Directors, and by a special committee of the MFS Board of Directors comprised solely of independent directors of MFS. Consummation of the MFS Recapitalization is subject to approval by the holders of MFS Common Stock at the MFS 1995 annual stockholders meeting, to be held on August 24, 1995. In connection with obtaining approval of the holders of MFS Common Stock, PKS has agreed to vote all of the shares of MFS Common Stock owned or controlled by it in the same manner as the majority of the non-PKS holders of MFS Common Stock present in person or by proxy at the meeting vote. Thus, the MFS Recapitalization will be approved only if supported by a majority of such non-PKS stockholders of MFS. If the MFS Recapitalization is not approved by the holders of MFS Common Stock, the MFS Preferred Stock will not be issued and the Spin-off will not occur. If the MFS Recapitalization is approved, it would be consummated immediately prior to the Spin-off and PKS would distribute to Class D stockholders both the MFS preferred stock and all of the common stock of MFS then held by PKS.

The Plan provides for an exchange offer (the "Exchange Offer") by PKS for Class D Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class B Stock and Class C Stock ("B&C Stock") on terms similar to those upon which Class B&C Stock can be converted into Class D Stock during the annual conversion period provided in the PKS Certificate of Incorporation. It is presently expected that once the registration statement presently on file with the Securities and Exchange Commission is declared effective, the Exchange Offer will be open for approximately four weeks (the "Expiration Date") unless the Exchange Offer is extended, abandoned, or modified.

PKS currently expects that, if the holders of a majority of the MFS Common Stock present in person or by proxy and voting at the 1995 MFS annual stockholders meeting, approve the MFS Recapitalization, the Spin-off dividend will be declared as of, and paid to holders of Class D Stock of record as of, the day after the Expiration Date. If such favorable vote is not received, the Exchange Offer will be abandoned, and the Spin-off will not occur. Further, PKS reserves the right to abandon the Exchange Offer, or both the Exchange Offer and the Spin-off, if the PKS Board of Directors determines at any time that such abandonment would be in the best interest of PKS and its stockholders, and PKS will abandon the Exchange Offer if it abandons the Spin-off.

PKS also reserves the right to extend the Exchange Offer or to modify in any manner the terms and conditions of the Exchange Offer or the Spin-off or to defer the consummation of the Exchange Offer or the Spin-off if the PKS Board of Directors determines at any time that such action would be in the best interest of PKS and its stockholders. Modification of the terms and conditions of the Exchange Offer may include imposition by PKS of a limit on the number of shares of Class B&C Stock that will be accepted by PKS in the Exchange Offer.

#### **Litigation**

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

#### **KIEWIT CONSTRUCTION & MINING GROUP**

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

#### **Results of Operations - Second Quarter 1995 vs. Second Quarter 1994**

## **Construction**

Construction revenue rose 6% in the second quarter of 1995 compared to the second quarter of 1994. The increase is due to the performance of additional work on joint ventures during this period. Contract backlog at June 30, 1995 was \$2.5 billion, of which 13% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 38% of the total backlog which includes San Joaquin Toll Road backlog of \$260 million. San Joaquin is scheduled for completion in 1997. Of the total backlog, \$1.5 billion is not expected to be completed during 1995. Backlog at June 1994, was \$2.2 billion.

Gross margin on construction contracts increased to 8.2% from 7.4% during the same period in 1994 primarily as a result of a claim settlement on a completed joint venture contract.

### **Other, net**

In 1995 the Kinross transaction resulted in a \$21 million gain to the Group. Also contributing to the increased earnings was \$2 million of additional gains recognized on the sale of operating assets.

## **Results of Operations - Six Months 1995 vs. Six Months 1994**

### **Construction**

Construction revenues increased by 5% during the first six months of 1995 compared to the same period in 1994. The increase relates to additional joint venture activity and the inclusion of an additional two months of materials revenue generated by the APAC-Arizona companies which were acquired on February 28, 1994.

Gross margins on construction contracts were 5.5% in 1995 and 1994.

### **Other, net**

The Kinross transaction resulted in a \$21 million gain to the Group in 1995. Also contributing to earnings in 1995 and 1994 were mine service fees from the Diversified Group of \$15 million and gains on the disposition of operating assets of \$7 and \$5 million, respectively.

## **Financial Condition - June 30, 1995 vs. December 31, 1994**

The Group's working capital decreased \$43 million or 13% during the first six months of 1995. A significant portion of the decline was due to the conversion and repurchase of 2.1 million shares of Class B&C Stock totaling \$58 million and dividend payments of \$13 million. Cash flows from operations of \$47 million, and cash flows from investing activities, primarily the net proceeds from sales of marketable securities of \$58 million, partially offset by capital expenditures of \$47 million, resulted in a net \$14 million increase in cash for the period.

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, 1995, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities, however, in the event of a MFS spin-off, the Group may incur additional debt to fund the stock conversions.

See the "Other Matters" note to the condensed financial statements with respect to the MFS spin-off.

### **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, 1995 and 1994 and the six months ended June 30, 1995 and 1994

Condensed Balance Sheets as of June 30, 1995 and December 31, 1994

Condensed Statements of Cash Flows for the six months ended June 30, 1995 and 1994 Notes to Condensed Financial Statements

### **Management's Discussion and Analysis of**

**KIEWIT DIVERSIFIED GROUP****Condensed Statements of Earnings**  
(unaudited)

(dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Revenue	\$ 135	\$ 128	\$ 274	\$ 255
Cost of Revenue	(75)	(70)	(156)	(144)
	<u>60</u>	<u>58</u>	<u>118</u>	<u>111</u>
General and Administrative Expenses	(31)	(39)	(62)	(68)
	<u>29</u>	<u>19</u>	<u>56</u>	<u>43</u>
Operating Income				
Other Income (Expense):				
Gain on Subsidiary's Stock				
Transactions, net	-	3	3	28
Investment Income, net	11	7	24	19
Interest Expense, net	(6)	(7)	(23)	(16)
Other, net	136	4	140	4
	<u>141</u>	<u>7</u>	<u>144</u>	<u>35</u>
Equity in Loss of MFS	(43)	(21)	(85)	(34)
Earnings Before Income Taxes and Minority Interest in Net Income of Subsidiaries	127	5	115	44
Provision for Income Taxes	(60)	-	(70)	(16)
Minority Interest in Net Income of Subsidiaries	(6)	(2)	(8)	-
	<u>61</u>	<u>3</u>	<u>37</u>	<u>28</u>
Net Earnings	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

**KIEWIT DIVERSIFIED GROUP****Condensed Balance Sheets**

(dollars in millions)	June 30, 1995	December 31, 1994
	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 350	\$ 330
Marketable securities	428	754
Receivables, less allowance of \$2 and \$2	77	157
Note receivable from sales of discontinued operations	-	29
Deferred income taxes	11	15
Other	34	95
Total Current Assets	<u>900</u>	<u>1,380</u>

Property, Plant and Equipment, less accumulated depreciation and amortization of \$261 and \$336	469	1,104
Intangible Assets, net	385	733
Investments	370	259
Net Assets of MFS	447	-
Other Assets	62	73
	<u>\$2,633</u>	<u>\$3,549</u>
	=====	=====

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable	\$ 42	\$ 165
Current portion of long-term debt:		
Telecommunications	9	26
Other	3	4
Accrued costs and billings in excess of revenue on uncompleted contracts	14	37
Accrued reclamation and other mining costs	17	20
Other	103	159
Total Current Liabilities	<u>188</u>	<u>411</u>

Long-Term Debt, less current portion:

Telecommunications	290	827
Other	82	72
Deferred Income Taxes	309	306
Retirement Benefits	47	67
Accrued Reclamation Costs	102	102
Other Liabilities	83	85
Minority Interest	193	448

Stockholders' Equity (Redeemable

Common Stock, \$1.3 billion aggregate redemption value)		
Common equity	1,330	1,238
Foreign currency adjustment	1	-
Net unrealized holding gains (losses)	8	(7)
Total Stockholders' Equity	<u>1,339</u>	<u>1,231</u>
	<u>\$2,633</u>	<u>\$3,549</u>
	=====	=====

See accompanying notes to condensed financial statements.

**KIEWIT DIVERSIFIED GROUP**  
**Condensed Statements of Cash Flows**  
(unaudited)

	Six months ended June 30,	
(dollars in millions)	1995	1994
Cash flows from operations:		
Net cash provided by continuing operations	\$ 161	\$ 19
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities and investments	114	718
Purchases of marketable securities	(114)	(812)
Acquisitions, excluding cash acquired	(139)	(189)
Investment in CECI	(29)	(12)
Capital expenditures	(36)	(129)
Deferred development costs and other	(21)	(29)
Net cash used in investing activities	<u>(225)</u>	<u>(453)</u>
Cash flows from financing activities:		
Issuances of subsidiary's stock	-	3
Proceeds from long-term debt borrowings	31	659
Payments on long-term debt, including current portion	(9)	(180)
Issuances of common stock	2	-
Repurchases of common stock	(2)	(20)
Exchange of Class B&C Stock for Class		

D Stock, net	54	42
Net cash provided by financing activities	76	504
Cash flows from proceeds due to sales of discontinued packaging operations	29	7
Cash and cash equivalents of MFS at beginning of period	(22)	-
Effect of exchange rates on cash	1	(1)
Net change in cash and cash equivalents	20	76
Cash and cash equivalents at beginning of period	330	197
Cash and cash equivalents at end of period	\$ 350	\$ 273
	=====	=====
Noncash investing activities:		
Issuance of MFS stock for the purchase of telecommunications companies and minority interest	\$ -	\$ 23
MFS stock transaction to settle contingent purchase price 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 31, 1994 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 31, 1994.

The PKS Board of Directors preliminarily approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS") to the Class D stockholders at a special meeting on June 9, 1995 (See Note 4). The operating results of MFS have been classified as a single line item on the statements of earnings for the three and six month periods ended June 30, 1995 and 1994. The Group's proportionate share of the net assets of MFS at June 30, 1995 of \$447 million have been reported separately in the condensed balance sheet.

Operating results of MFS are summarized as follows (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Revenue	\$140	\$ 61	\$258	\$96
Loss from operations	(59)	(27)	(115)	(46)
Net loss	(65)	(32)	(129)	(50)
Group's Equity in Net Loss	(43)	(21)	(85)	(34)

At June 30, 1995 the net assets of MFS were as follows:

Assets:	
Current	\$ 522
Networks and equipment, net	902
Other assets, net	403
Total	1,827
Liabilities:	
Current	235
Long-term debt	597

Other noncurrent	32
Total	<u>864</u>
Net Assets	\$ 963
	=====
Group Equity in Net Assets of MFS	\$ 447
	=====

Included in the net assets of MFS are \$307 million of proceeds from the offering of convertible preferred stock of which the Group has no ownership interest.

The Group has approximately \$93 million of deferred tax liabilities recorded on gains from MFS stock transactions that would no longer be payable if the distribution is consummated.

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.

## KIEWIT DIVERSIFIED GROUP

### Notes to Condensed Financial Statements

#### 2. 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):

	June 30, 1995	December 31, 1994		
Cash and cash equivalents	\$ -	\$ 25		
Marketable securities	2	15		
Property, plant and equipment, net	5	5		
Other assets	5	16		
Total Assets	<u>\$ 12</u>	<u>\$ 61</u>		
	=====	=====		
Accounts payable	\$ 24	\$ 30		
Convertible debentures	1	1		
Notes to former stockholders	3	6		
Other liabilities	3	2		
Total Liabilities	<u>\$ 31</u>	<u>\$ 39</u>		
	=====	=====		
	Three months ended June 30,	Six months ended June 30,		
	1995	1994	1995	1994
Investment income, net	\$ -	\$ 1	\$ -	\$ 1
Other costs, net	(1)	(1)	(2)	(2)

Corporate general and administrative costs have been allocated to the Group. These allocations were \$1 million for each of the three months ended June 30, 1995 and 1994, and \$2 million and \$4 million for the six months ended June 30, 1995 and 1994. Due to a realignment of the corporate overhead departments, substantially all of the administrative functions and personnel previously allocated to the Group are now located at the Group.

Mining service expense from the Group's mine service agreement with the Construction & Mining Group was \$7 million and \$8 million for the three months ended June 30, 1995 and 1994, and \$15 million for each of the six months ended June 30, 1995 and 1994.

#### 3. Acquisitions:



In February 1995, California Energy Company, Inc. ("CECI"), an equity method investee, completed the purchase of Magma Power Company. The cash transaction valued at \$950 million was partially financed by the sale of 17 million shares of common stock at \$17 per share. As part of the offering, the Group purchased 1.5 million shares. In addition, during the second quarter of 1995, the Company purchased an additional 200,000 common shares of CECI. Following these transactions, the Group's cumulative investment in CECI common stock totals \$146 million, \$38 million in excess of the Group's proportionate share of CECI's equity.

C-TEC Corporation ("C-TEC") completed the first step of an acquisition of Twin County Trans Video, Inc. ("Twin County") in May 1995. Twin County provides cable television service to 74,000 subscribers in eastern Pennsylvania. In consideration for 40% of the capital stock of Twin County, C-TEC paid \$26 million in cash and issued a \$4 million note of its subsidiary, C-TEC Cable Systems, Inc. In addition, C-TEC paid \$11 million in consideration of a noncompete agreement. The acquisition of the remaining shares is expected to be completed by year end.

In January 1995, C-TEC entered into an agreement to purchase Buffalo Valley Telephone Company. The aggregate consideration for the purchase (\$55 million) will be a combination of cash and convertible preferred stock in the Telephone Group of C-TEC. The transaction is expected to close during 1995. Buffalo Valley Telephone Company provides local telephone service to 17,300 access lines in central Pennsylvania.

Also in January 1995, C-TEC purchased, for \$84 million in cash, a 40% equity position in Megacable, S.A. De C.V., Mexico's second largest cable television operator with 174,000 subscribers in twelve cities. The purchase price is subject to adjustment based on fourth quarter 1995 exchange rates.

#### 4. Other Matters:

##### **MFS Spin-off**

PKS' management asked the Internal Revenue Service ("IRS") to issue a ruling (the "Ruling") that would permit PKS to make a tax-free distribution of its entire ownership interest in MFS to the Class D stockholders (the "Spin-off"). In June 1995, PKS received the Ruling from the IRS confirming that the Spin-off will be tax-free to the holders of Class D Stock for United States federal income tax purposes. The PKS Board of Directors preliminarily approved the plan to implement the Spin-off (the "Plan") at a special meeting on June 9, 1995.

In order to satisfy certain requirements of applicable tax law relating to the Spin-off that are addressed by the Ruling, PKS and Kiewit Diversified Group Inc., a wholly owned first-tier subsidiary of PKS ("KDG") have agreed with MFS to effect a recapitalization of MFS pursuant to which KDG would exchange 2,900,000 of the 42,962,658 shares of MFS Common Stock currently held by KDG for 15,000,000 shares of high-vote convertible preferred stock (the "MFS Recapitalization").

The MFS Recapitalization has been approved by the MFS Board of Directors, and by a special committee of the MFS Board of Directors comprised solely of independent directors of MFS. Consummation of the MFS Recapitalization is subject to approval by the holders of MFS Common Stock at the MFS 1995 annual stockholders meeting, to be held on August 24, 1995. In connection with obtaining approval of the holders of MFS Common Stock, PKS has agreed to vote all of the shares of MFS Common Stock owned or controlled by it in the same manner as the majority of the non-PKS holders of MFS Common Stock present in person or by proxy at the meeting vote. Thus, the MFS Recapitalization will be approved only if supported by a majority of such non-PKS stockholders of MFS. If the MFS Recapitalization is not approved by the holders of MFS Common Stock, the MFS Preferred Stock will not be issued and the Spin-off will not occur. If the MFS Recapitalization is approved, it would be consummated immediately prior to the Spin-off and PKS would distribute to Class D stockholders both the MFS preferred stock and all of the common stock of MFS then held by PKS.

The Plan provides for an exchange offer (the "Exchange Offer") by PKS for Class D Stock, to be completed before the Spin-off. Under an Exchange Offer, PKS would offer to exchange Class D Stock for some or all of its outstanding Class B Stock and Class C Stock ("Class B&C Stock") on terms similar to those upon which Class B&C Stock can be converted into Class D Stock during the annual conversion period provided in the PKS Certificate of Incorporation. It is presently expected that once the registration statement presently on file with the Securities and Exchange Commission is declared effective, the Exchange Offer will be open for approximately four weeks (the "Expiration Date") unless the Exchange Offer is extended, abandoned, or modified.

PKS currently expects that, if the holders of a majority of the MFS Common Stock present in person or by proxy and voting at the 1995 MFS annual stockholders meeting, approve the MFS Recapitalization, the Spin-off dividend will be declared as of, and paid to holders of Class D Stock of record as of, the day after the Expiration Date. If such favorable vote is not received, the Exchange Offer will be abandoned, and the Spin-off will not occur. Further, PKS reserves the right to abandon the Exchange Offer, or both the Exchange Offer and the Spin-off, if the PKS Board of Directors determines at any time that such abandonment would be in the best interest of PKS and its stockholders, and PKS will abandon the Exchange Offer if it abandons the Spin-off.

PKS also reserves the right to extend the Exchange Offer or to modify in any manner the terms and conditions of the Exchange Offer or the Spin-off or to defer the consummation of the Exchange Offer or the Spin-off if the PKS Board of Directors determines at any time that such action would be in the best interest of PKS and its stockholders. Modification of the terms and conditions of the Exchange Offer may include imposition by PKS of a limit on the number of shares of Class B&C Stock that will be accepted by PKS in the Exchange Offer.

##### **MFS Litigation**

In 1994, several former stockholders of an 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. 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. Defendants expect that a trial will be held in the fall of 1995. 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 judgement or settlement payments would be treated as an adjustment of the original purchase price and recorded as additional goodwill. If the Spin-off is approved by the PKS Board of Directors and is consummated, KDG would remain obligated to satisfy these liabilities.

### **Whitney Litigation**

In 1974, a subsidiary of the Group ("Kiewit"), entered into a lease with Whitney Benefits, Inc., a Wyoming charitable corporation ("Whitney"). Whitney was the owner, and Kiewit was 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. 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. In May 1994, the Claims Court entered an order denying both motions. In February 1994, the Claims Court issued an opinion which provided that the \$60 million judgment would bear interest compounded annually from 1977 until payment. The government appealed the February 1994 and May 1994 orders. A hearing on the appeals was held in February 1995.

On May 5, 1995, the government and the plaintiffs entered into a settlement agreement. In settlement of all claims, the government agreed to pay plaintiffs \$200 million and plaintiffs agreed to deed the coal underlying the real property to the government. Kiewit and Whitney agreed in 1992 that Kiewit would receive 67.5 percent of any award and Whitney would receive the remainder. Peter Kiewit Sons', Co. a subsidiary of KDG, received approximately \$135 million on June 2, 1995.

### **Other Litigation**

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

## **KIEWIT DIVERSIFIED GROUP**

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

#### **Results of Operations - Second Quarter 1995 vs. Second Quarter 1994**

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

	1995	1994
Mining	\$ 47	\$ 53
Telecommunications	79	73
Other	9	2
	<hr/> \$ 135	<hr/> \$128
	=====	=====
Mining		

Mining revenues, primarily coal sales, decreased 11% in 1995. The decrease in revenue is primarily attributable to a reduction in coal spot sales partially offset by additional alternate source coal sales. The increase in alternate source coal sales was primarily responsible for margins as a percentage of revenue increasing 2% from 1994 to 1995. The higher margins from alternate source coal sales were offset by an increase in coal sales to a large customer at contract prices less than those of other primary customers, renegotiated coal sales contract prices with certain customers and reduced coal spot sale margins. The Group expects margins to decline during the remainder of 1995 due to the factors mentioned above.

### **Telecommunications**

C-TEC's revenues increased from \$73 million in 1994 to \$79 million in 1995. C-TEC's 1994 revenue included \$8 million from its cellular

business which was sold during the third quarter of 1994. The increase is primarily attributable to C-TEC's Cable and Long Distance Groups which had increased revenues of \$7 million and \$5 million, respectively. Increased Cable Group revenues are primarily due to the addition of 15,000 subscribers over the 1994 period and a revenue increase of approximately \$4 million resulting from the acquisition of Twin County in May 1995. The Long Distance Group's sales increased due primarily to the resale of tariff services to another long distance seller. The Group's arrangement for sales of this product is expected to terminate later in 1995.

Increased Cable Group revenues were partially offset by increased operating expenses associated with the addition of Twin County subscribers and to higher basic programming costs resulting from additional subscribers, rate increases and new channels, however, operating income of this group improved in 1995 as compared to 1994. The operating income of the Long Distance Group also improved in 1995 as the increased revenues described above were only partially offset by increased operating costs.

C-TEC's Telephone Group revenues and operating income were relatively flat between the 1995 and 1994 periods.

### **General and Administrative Expenses**

General and administrative costs declined 20% during the second quarter of 1995 as compared to the second quarter of 1994. The sale of C-TEC's mobile services group and an overall reduction in the overhead costs attributable to C-TEC's current operating units and other diversified businesses were primarily responsible for the decline. Partially offsetting these declines were higher professional service fees associated with the MFS spin-off.

### **Investment Income, net**

Investment income increased 27% for the three months ended June 30, 1995 compared to the same period in 1994. Proceeds from C-TEC's rights offering, the sale of C-TEC's mobile services group and the settlement of the Whitney litigation resulted in a higher average portfolio balance and an increase in investment income.

### **Interest Expense, net**

Interest expense decreased by \$1 million in 1995 primarily due to a decline in interest expense incurred by C-TEC from the repayment of debt in the fourth quarter of 1994.

### **Other, net**

The 1995 settlement of the Whitney litigation and the subsequent payment by the government resulted in \$135 million of other income to the Group.

### **MFS Operations**

The telecommunications services revenue of MFS increased from \$47 million in 1994 to \$117 million in 1995. The increase partially relates to the acquisition of Centex, which was acquired in May 1994, and to the acquisitions of RealCom and Cylix, which were acquired in the fourth quarter of 1994. The remaining increase resulted primarily from increased market penetration of all other telecommunication services of MFS. Telecommunication services operating expenses of MFS increased to \$149 million in 1995 from \$59 million in 1994. The primary reasons for the increase in these costs are the acquisitions of Centex, RealCom and Cylix in 1994, the expansion activities of MFS Intelenet, MFS Datanet and MFS International and costs associated with new and expanded networks. MFS expects to incur additional significant expenses expanding its integrated, single-source telecommunications services, high speed data communications and international services throughout 1995.

Third-party revenue from services offered by MFS' network integration services segment increased to \$27 million from \$15 million in 1994. The increase relates primarily to two projects. Network systems integration services operating expenses increased at approximately the same rate as revenues creating a small loss from operations in both periods.

### **Income Taxes**

The effective income tax rate for the quarter ended June 30, 1995 differs from the statutory rate of 35% due primarily to net operating loss limitation on losses generated by MFS.

### **Results of Operations - Six Months 1995 vs. Six Months 1994**

Revenue from the Group's segments for the first six months of 1995 and 1994 were (in millions):

	1995	1994
Mining	\$107	\$106
Telecommunications	152	145

Other	15	4
	<u>\$274</u>	<u>\$255</u>
	====	====
Mining		

Mining revenues primarily coal sales, increased 1% in 1995. The increase in revenue is primarily attributable to additional alternate source coal sales offset partially by reduced coal spot sales. The increase in alternate source coal sales was primarily responsible for margins as a percentage of revenue increasing 8% from 1994 to 1995. The higher margins from alternate source coal sales were offset by an increase in coal sales to a large customer at contract prices less than those of other primary customers, renegotiated coal sale contract prices with certain customers and reduced coal spot sales margins. The Group expects margins to decline during the remainder of 1995 due to the factors mentioned above.

## Telecommunications

C-TEC's revenue increased from \$145 million in 1994 to \$152 million in 1995. C-TEC's 1994 revenue included \$15 million from its cellular business which was sold during the third quarter of 1994. The increase is primarily attributable to C-TEC's Cable and Long Distance Groups which had increased revenues of \$7 million and \$11 million, respectively. Increased Cable Group revenues are primarily due to an increase in the number of subscribers and a revenue increase of approximately \$4 million resulting from the acquisition of Twin County in May 1995. The Long Distance Group's sales increased due primarily to the resale of tariff services to another long distance seller. The Group's arrangement for sales of this product is expected to terminate later in 1995.

Increased Cable Group revenues were partially offset by increased operating expenses associated with the addition of Twin County subscribers and to higher basic programming costs resulting from additional subscribers, rate increases and new channels, however, operating income of this group improved in 1995 as compared to 1994. The operating income of the Long Distance Group also improved in 1995 as the increased revenues described above were only partially offset by increased operating costs.

C-TEC's Telephone Group revenues and operating income were relatively flat between the 1995 and 1994 periods.

## General and Administrative Expenses

General and administrative costs declined 9% during the first six months of 1995 as compared to the same period of 1994. The sale of C-TEC's mobile services group and an overall reduction in the overhead costs attributable to C-TEC's current operating units and other diversified businesses were primarily responsible for the decline. Partially offsetting these declines were higher professional service fees associated with the MFS spin-off.

## Gain on Subsidiary's Stock Transactions, net

The issuance of MFS stock for acquisitions by MFS and the exercise of MFS employee stock options resulted in a \$3 million net gain to the Group in 1995. In 1994 the Group settled a contingent purchase price obligation 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 market prices, as payment of the obligation. This transaction along with the issuances of stock for acquisitions and employee stock options, resulted in a \$28 million net gain before taxes. The Group had recognized gains and losses from sales and issuances of stock by MFS on the condensed statement of earnings, but the Group is now contemplating a spin-off (See Note 4). Current accounting principles require recognition of the above transactions as capital transactions when a spin-off is contemplated. If the spin-off is completed, these types of gains will no longer be recognized for MFS transactions.

## Investment Income, net

Investment income increased 26% for the six months ended June 30, 1995 compared to the same period in 1994. Proceeds from C-TEC's rights offering, the sale of C-TEC's mobile services group and the settlement of the Whitney Benefits litigation resulted in a higher average portfolio balance and an increase in interest and dividend income. Partially offsetting this increase were higher losses on the disposition of marketable securities.

## Interest Expense, net

Interest expense increased by \$7 million in 1995. Tax deficiency interest expense of \$11 million incurred in 1995 was partially offset by a decline in interest expense incurred by C-TEC due to the repayment of debt in the fourth quarter of 1994.

## Other, net

The resolution of the Whitney Benefits litigation and the subsequent payment by the government in 1995 resulted in \$135 million of other income for the Group.

## **MFS Operations**

MFS' telecommunications services revenue increased to \$221 million from \$69 million in 1994. The increase primarily relates to the acquisitions of Centex, RealCom and Cylix in 1994. The remaining increase resulted primarily from increased market penetration of all other telecommunication services of MFS. MFS' telecommunications services operating expenses increased to \$284 million from \$88 million in 1994. The increase relates in part to the acquisitions of Centex, RealCom and Cylix in 1994. In addition, operating expenses increased due to expansion activities of MFS Intelenet, MFS Datanet and MFS International and costs associated with new and expanded networks. MFS expects to incur additional significant expense expanding its integrated, single- source telecommunications services, high-speed data communications and international services throughout 1995.

Third-party revenue from services offered by MFS' network integration services segment, increased to \$38 million from \$27 million in 1994. The increase relates primarily to two projects. Network systems integration services operating expenses increased at approximately the same rate as revenues producing a small loss from operations in both periods.

## **Income Taxes**

The effective income tax rate for the quarter ended June 30, 1995 differs from the statutory rate of 35% due primarily to net operating loss limitations on losses generated by MFS.

## **Financial Condition - June 30, 1995 vs. December 31, 1994**

The Group's working capital, exclusive of MFS, increased \$26 million or 4% during the first six months of 1995. The increase was mainly due to cash flows from operations, including the receipt of the Whitney settlement of \$135 million, and cash provided by financing activities being partially offset by cash used in investing activities.

Investing activities include \$36 million of capital expenditures and \$168 million of investments. The investments include C-TEC's \$84 million outlay for 40% of Megacable, and \$38 million outlay for Twin County, KDG's \$29 million purchase of CECI's stock, \$8 million outlay for a 19% interest in a healthcare software development company and an additional \$6 million investment in a Philippine power project.

Financing sources for the six months include \$56 million of stock conversions and sales, \$14 million of borrowings for the construction financing of a privately owned toll road and \$17 million of C-TEC borrowings on the Cable Group's revolving credit agreement. Financing uses consisted of C-TEC's \$6 million outlay for the payment of long-term debt, \$3 million of payments on stockholders' notes and \$2 million for stock repurchases.

In 1995, the Group received the final payment (\$29 million) for the sale of certain discontinued packaging operations.

In addition to the C-TEC activities described below, the Group anticipates making significant (over \$50 million in 1995) investments in its energy businesses - including its joint venture agreement with CECI 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 repurchasing the Group's stock. The Group's current financial condition and borrowing capacity should be sufficient for future operating and investing activities. In the event of an MFS spin, the Group may receive additional funds related to stock conversions from the C Group.

C-TEC intends to utilize its available cash and revolving credit balances to fund operating activities, finance the pending acquisition of Buffalo Valley, and to develop full service networks.

See the "Other Matters" note to the condensed financial statements with respect to the MFS spin-off.

## ARTICLE 5

This schedule contains summary financial information extracted from the Form 10-Q for the period ending June 30, 1995 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 30 1995
PERIOD END	JUN 30 1995
CASH	434
SECURITIES	528
RECEIVABLES	320
ALLOWANCES	9
INVENTORY	0
CURRENT ASSETS	1,565
PP&E	1,295
DEPRECIATION	665
TOTAL ASSETS	3,585
CURRENT LIABILITIES	583
BONDS	379
COMMON	2
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	1,840
TOTAL LIABILITY AND EQUITY	3,585
SALES	1,094
TOTAL REVENUES	1,260
CGS	976
TOTAL COSTS	1,079
OTHER EXPENSES	108
LOSS PROVISION	0
INTEREST EXPENSE	24
INCOME PRETAX	168
INCOME TAX	89
INCOME CONTINUING	71
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	71
EPS PRIMARY	\$2.44 <sup>1</sup>
EPS DILUTED	\$2.44 <sup>1</sup>

<sup>1</sup> \$2.44 represents Class C Stock earnings per share, Class D Stock earnings per share; \$1.75

---

**End of Filing**

Powered By **EDGAR**  
Online

© 2005 | EDGAR Online, Inc.