

LEVEL 3 COMMUNICATIONS INC

FORM 10-Q (Quarterly Report)

Filed 11/14/95 for the Period Ending 09/30/95

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

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 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 X No

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

Class B Common Stock.....	263,468 shares
Class C Common Stock.....	10,617,442 shares
Class D Common Stock.....	23,024,974 shares

PETER KIEWIT SONS', INC.

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PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Earnings
(unaudited)

(dollars in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
Revenue	\$ 839	\$ 824	\$ 2,099	\$ 2,018
Cost of Revenue	(701)	(693)	(1,781)	\$(1,715)
	<u>138</u>	<u>131</u>	<u>318</u>	<u>303</u>
General and Administrative Expenses	(54)	(53)	(161)	(168)
Operating Income	<u>84</u>	<u>78</u>	<u>157</u>	<u>135</u>
Other Income (Expense):				
Gain on Subsidiary's Stock Transactions, net	-	-	3	28
Investment Income, net	26	4	56	29
Interest Expense, net	(7)	(6)	(31)	(23)
Other, net	(2)	10	169	21
	<u>17</u>	<u>8</u>	<u>197</u>	<u>55</u>
Loss in MFS	(66)	(29)	(151)	(63)
Earnings Before Income Taxes and Minority Interest	<u>35</u>	<u>57</u>	<u>203</u>	<u>127</u>
Benefit (Provision) for Income Taxes	58	(25)	(31)	(50)
Minority Interest in Net Income of Subsidiaries	(3)	(3)	(11)	(3)
Net Earnings	<u>\$ 90</u> =====	<u>\$ 29</u> =====	<u>\$ 161</u> =====	<u>\$ 74</u> =====
Earnings Attributable to Class B & C Stock:				
Net Earnings	\$ 39	\$ 41	\$ 73	\$ 58
Earnings per Common and Common Equivalent Share	\$2.69	\$2.67	\$ 5.18	\$ 3.77
Earnings Attributable to Class D Stock:				
Net Earnings (Loss)	\$ 51	\$ (12)	\$ 88	\$ 16
Earnings (Loss) per Common and Common Equivalent Share	\$2.38	\$(.58)	\$ 4.13	\$.77
Cash Dividends per Common Share:				
B & C Stock	\$ -	\$ -	\$.45	\$.45
D Stock	\$ -	\$ -	\$ -	\$ -

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Balance Sheets

in millions)	September 30, 1995	December 31, 1994	(dollars
Assets	(unaudited))
Current Assets:			
Cash and cash equivalents	\$ 446	\$ 400	
Marketable securities	541	910	
Receivables, less allowance of \$8 and \$9	355	414	
Note receivable from sale of discontinued operations	-	29	
Costs and earnings in excess of billings on uncompleted contracts	142	126	
Investment in construction joint ventures	55	69	
Recoverable income taxes	88	74	
Other	56	93	
Total Current Assets	<u>1,683</u>	<u>2,115</u>	
Property, Plant and Equipment, less accumulated depreciation and amortization of \$697 and \$731	676	1,244	
Investments	465	314	
Intangible Assets, net	494	749	
Other Assets	75	82	
	<u>\$3,393</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)	September 30, 1995	December 31, 1994
Liabilities and Stockholders' Equity	(unaudited)	
Current Liabilities:		
Accounts payable	\$ 277	\$ 344
Current portion of long-term debt:		
Telecommunications	9	26
Other	5	7
Accrued costs and billings in excess of revenue on uncompleted contracts	162	143
Accrued insurance costs	75	75
Other	113	218
Total Current Liabilities	<u>641</u>	<u>813</u>
Long-Term Debt, less current portion:		
Telecommunications	301	827
Other	98	81
Deferred Income Taxes	289	302
Retirement Benefits	49	67
Accrued Reclamation Costs	102	103
Other Liabilities	165	127
Minority Interest	209	448
Stockholders' Equity:		
Preferred stock, no par value, Authorized 250,000 shares: no shares outstanding	-	-
Common stock, \$.0625 par value, \$1.2 billion aggregate redemption value:		
Class B, authorized 8,000,000 shares: 263,468 outstanding in 1995 and 1,000,400 in 1994	-	-
Class C, authorized 125,000,000 shares: 10,617,442 outstanding in 1995 and		

15,087,028 in 1994	1	1
Class D, authorized 50,000,000 shares:		
23,024,974 outstanding in 1995 and		
20,391,568 in 1994	1	1
Additional paid-in capital	210	182
Foreign currency adjustment	(6)	(7)
Net unrealized holding gains (losses)	13	(8)
Retained earnings	1,320	1,567
Total Stockholders' Equity	<u>1,539</u>	<u>1,736</u>
	<u>\$3,393</u>	<u>\$4,504</u>
	=====	=====

See accompanying notes to consolidated condensed financial statements.

PETER KIEWIT SONS', INC.

Consolidated Condensed Statements of Cash Flows (unaudited)

(dollars in millions)	Nine months ended September 30,	
	1995	1994
Cash flows from operations:		
Net cash provided by continuing operations	\$ 291	\$ 146
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities and investments	369	1,503
Purchases of marketable securities	(325)	(1,522)
Proceeds from sales of property, plant and equipment	11	14
Capital expenditures	(114)	(313)
Acquisitions, excluding cash acquired	(167)	(272)
Proceeds from sale of cellular properties	-	182
Deferred development costs and other	(32)	(66)
Net cash used in investing activities	<u>(258)</u>	<u>(474)</u>
Cash flows from financing activities:		
Issuances of subsidiary's stock	-	5
Proceeds from long-term debt borrowings	23	677
Payments on long-term debt, including current portion	(26)	(189)
Repurchases of common stock	(7)	(31)
Issuances of common stock	27	19
Dividends paid	(13)	(13)
Net cash provided by financing activities	<u>4</u>	<u>468</u>
Cash flows from proceeds due to sales of discontinued packaging operations	29	6
Cash and cash equivalents of MFS at beginning of period:	(22)	-
Effect of exchange rates on cash	2	1
Net change in cash and cash equivalents	<u>46</u>	<u>147</u>
Cash and cash equivalents at beginning of period	400	296
Cash and cash equivalents at end of period	<u>\$ 446</u>	<u>\$ 443</u>
	=====	=====
Noncash investing activities:		
Issuance of MFS stock for purchase of telecommunications companies	\$ -	\$ 23
MFS stock transactions to settle contingent purchase price liability	-	25
Dividend of investment in MFS	399	-
Issuance of C-TEC Redeemable Preferred Stock for acquisition	44	-

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.

Marketable securities at September 30, 1995 and December 31, 1994 include approximately \$58 million and \$61 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at September 30, 1995 and December 31, 1994 include approximately \$60 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.

2. Earnings Per Share:

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

	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
Class B&C	14,740,972	16,104,794	14,219,168	15,316,445
Class D	21,326,218	20,375,280	21,283,397	20,457,392

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, a telecommunications subsidiary, 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.

PETER KIEWIT SONS', INC

Notes to Consolidated Condensed Financial Statements

3. Summarized Financial Information (continued):

Construction & Mining Group: (in millions, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
Results of Operations:				
Revenue	\$ 689	\$ 680	\$1,677	\$1,619
Net earnings	\$ 39	\$ 41	\$ 73	\$ 58
Earnings per share	\$2.69	\$2.67	\$ 5.18	\$ 3.77

	September 30, 1995	December 31, 1994
Financial Position:		
Working capital	\$ 227	\$ 333
Total assets	971	963
Long-term debt, less current portion	6	9
Stockholders' equity	445	505

Included within earnings before income taxes is mine service income from the Diversified Group of \$8 million and \$7 million for the three months ended September 30, 1995 and 1994 and \$23 million and \$22 million for the nine months ended September 30, 1995 and 1994.

Diversified Group:
(in millions, except per share data)

	Three months ended September 30, 1995		Nine months ended September 30, 1995	
Results of Operations:				
Revenue	\$ 152	\$ 144	\$ 429	\$ 399
Net earnings (loss)	\$ 51	\$ (12)	\$ 88	\$ 16
Earnings (loss) per share	\$2.38	\$(.58)	\$4.13	\$.77
	September 30, 1995		December 31, 1994	
Financial Position:				
Working capital	\$ 815		\$ 969	
Total assets	2,437		3,549	
Long-term debt, less current portion	393		899	
Stockholders' equity	1,094		1,231	

Included within earnings before income taxes is mine management fees paid to the Construction & Mining Group of \$8 million and \$7 million for the three months ended September 30, 1995 and 1994 and \$23 million and \$22 million for the nine months ended September 30, 1995 and 1994.

4. MFS Spin-off:

The PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS"), effective September 30, 1995, to the Class D stockholders (the "Spin-off") at a special meeting on September 25, 1995.

PETER KIEWIT SONS', INC

Notes to Consolidated Condensed Financial Statements

4. MFS Spin-off (continued):

The Spin-off was completed after PKS and Kiewit Diversified Group Inc., a wholly owned first tier subsidiary of PKS ("KDG") agreed with MFS to effect a recapitalization of MFS pursuant to which KDG exchanged a portion of the MFS Common Stock held by KDG for certain high-vote convertible preferred stock. In addition, prior to completing the Spin-off, PKS purchased additional shares of MFS Common Stock which were distributed to the Class D stockholders.

PKS completed an exchange offer prior to the Spin-off whereby 1,666,384 shares of Class D Stock were exchanged for 4,000,000 shares of Class B Stock and Class C Stock (Class B&C Stock") tendered 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. The conversion ratio used in the exchange was calculated using 1994 stock prices adjusted for 1995 dividends.

After the recapitalization of MFS and the exchange offer discussed above, shares were distributed on the basis of approximately 1.741 shares of MFS Common Stock and approximately .651 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

The net assets of MFS distributed on September 30, 1995 were approximately \$399 million.

The operating results of MFS have been classified as a single line item on the statements of earnings for the three and nine month periods ended September 30, 1995 and 1994.

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

	Three months ended September 30, 1995		Nine months ended September 30, 1995	
Revenue	\$ 154	\$ 89	\$ 412	\$ 185
Loss from operations	(61)	(37)	(176)	(83)
Net loss	(67)	(42)	(196)	(92)
PKS' loss in MFS	(66)	(29)	(151)	(63)

PKS' loss in MFS for the three and nine months ended September 30, 1995, includes \$20 million for transaction costs associated with the Spin-off.

Included in Benefit (Provision) for Income Taxes on the consolidated condensed statements of earnings for the three and nine months ended September 30, 1995, are \$93 million of tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that are no longer payable and \$4 million of estimated U.S. income taxes attributable to the corporate built-in gain on the stock of MFS distributed to certain non-U.S. Class D stockholders.

5. 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 CECI 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. At September 30, 1995, the Company's cumulative investment in CECI common stock totals \$151 million, \$37 million in excess of the Company's proportionate share of CECI's equity.

PETER KIEWIT SONS', INC

Notes to Consolidated Condensed Financial Statements

5. Acquisitions (continued):

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 remaining outstanding common stock of Twin County was acquired in September 1995 in exchange for \$52 million stated value redeemable preferred stock of C-TEC Corporation. The preferred stock has a stated dividend rate of 5%, beginning January 1, 1996. The estimated fair value of the preferred stock is \$44.5 million, subject to final determination.

In May, 1995, the C-TEC signed a definitive agreement for the acquisition of all the outstanding shares of common stock of Buffalo Valley Telephone Company for \$61 per share, payable either in cash or C-TEC convertible preferred stock. In October 1995, Buffalo Valley Telephone Company terminated its merger agreement with C-TEC and entered into a definitive agreement with Conestoga Enterprises, Inc.

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.

6. Other Matters:

Kinross Transaction

In June 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 not be held until mid to late 1996. 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. KDG remains obligated to satisfy these liabilities, if any, after the spin-off of MFS.

Whitney Settlement

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.

PETER KIEWIT SONS', INC

Notes to Consolidated Condensed Financial Statements

6. Other Matters (continued):

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.

In May 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 in June 1995.

Other Litigation:

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

PETER KIEWIT SONS', INC.

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

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

Results of Operations - Third Quarter 1995 vs. Third Quarter 1994

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

	1995	1994
Construction	\$ 686	\$ 672
Mining	59	68
Telecommunications	85	75
Other	9	9
	<u>\$ 839</u>	<u>\$ 824</u>
	=====	=====

Construction:

Construction revenue rose 2% in the third quarter of 1995 compared to the third quarter of 1994. The increase is primarily due to revenues from joint ventures during the period. Contract backlog at September 30, 1995 was \$2.2 billion, of which 11% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 39% of the total backlog which includes San Joaquin Toll Road of \$188 million. San Joaquin is scheduled for completion in 1997.

There was no change in gross margin on construction contracts between third quarter 1995 and 1994.

Mining:

Mining revenue decreased in 1995 by \$9 million when compared to 1994. The decrease is the result of lower coal spot sales, fewer contract sales and lower prices on a renegotiated contract. Margins increased as a result of additional alternate source coal sales. This increase in margins was partially offset by a lower margin on precious metal sales, lower prices on renegotiated coal contracts, and lower sales in the quarter from a high margin contract.

Telecommunications:

C-TEC's revenues increased from \$75 million to \$85 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 in revenue is primarily attributable to C-TEC's Cable Group which had increased revenues of \$12 million. The increase in Cable Group revenues is due to the acquisition of Twin County on May 1, 1995, which contributed \$7 million of revenues for the quarter and Mercom, Inc. which contributed \$2 million from August 1995 when its results were consolidated with C-TEC's operations. Twin County serves approximately 74,000 subscribers in the Allentown/Bethlehem area of Pennsylvania. C-TEC acquired majority control of the voting stock of Mercom, Inc. which provides cable television service in Michigan and Port St. Lucie, Florida, through a rights offering. C-TEC previously owned 43.63% of the voting stock of Mercom, Inc. and accounted for its investment using the equity method. Additionally, Cable Group revenues increased \$3 million due to an increase of approximately 15,000 subscribers and rate increases effective in April 1995.

PETER KIEWIT SONS', INC.

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

Telecommunications (continued):

Revenues for C-TEC's Telephone, Long Distance and other groups were comparable with the third quarter 1994 balances.

An increase in the operating expenses of the Cable Group partially offset the increased revenues as operating income of the Cable Group improved in 1995. The increase in expense is primarily due to the acquisition of Twin County and consolidation of Mercom, Inc. and to increased programming costs resulting from increased subscribers, new channels and programming rate increases.

C-TEC's equity in the earnings of Megacable, S.A. de C.V., ("Megacable"), Mexico's second largest cable operator in which C-TEC holds a 40 percent interest, was not significant to C-TEC's operations but declined slightly from the second quarter of 1995 as a result of the recession in Mexico. The interest in Megacable was acquired in January 1995.

The operating income of C-TEC's Telephone, Long Distance and other groups were comparable with the third quarter 1994 amounts.

General and Administrative Expenses:

General and administrative expenses increased 2% in 1995. Expenses incurred by C-TEC to explore and evaluate strategic alternatives to increase shareholder value were partially offset by the elimination of expenses for the PKS stock appreciation rights program which expired in 1994.

Investment Income, net:

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. In addition to increases in interest income, the Group realized gains from the sale of marketable securities of \$2 million in 1995 compared to \$11 million of realized losses in 1994. Increases in equity earnings, primarily from California Energy Company, Inc. were offset by developmental expenses associated with international energy projects.

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:

Other income in 1995 declined by \$12 million from 1994. A \$5 million decrease in the gains recognized from the sale of operating assets, a reduction of \$3 million in third party management fees and the lack of one time real estate gains were the primary factors contributing to the

reduction in other income.

Loss in MFS:

MFS is a leading provider of communication services to business. Through its operating subsidiaries, MFS provides a wide range of high quality voice, data, network system integration and other enhanced services. The Company's losses associated with MFS continued to increase, primarily because of the accelerated expansion activities announced in 1993 and 1995. These expansion activities require significant initial development and roll out expenses in advance of anticipated revenues and continue to negatively effect the operating results of MFS. After September 30, 1995, the date of the Spin-off, the Company will no longer include MFS' results of operations in its financial statements.

PETER KIEWIT SONS', INC.

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

Loss in MFS (continued):

PKS' loss in MFS for the three and nine months ended September 30, 1995, includes \$20 million for transaction costs associated with the Spin-off.

Provision for Income Taxes:

The effective income tax rate for the three months ended September 30, 1995 differs from the statutory rate of 35% due primarily to the net operating loss limitations on losses generated by MFS, \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that are no longer payable due to the tax-free spin-off of MFS and \$4 million of estimated U.S. income taxes attributable to the distribution of MFS stock to certain non-U.S. Class D stockholders.

Results of Operations - Nine Months 1995 vs. Nine Months 1994:

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

	1995	1994
Construction	\$1,652	\$1,594
Mining	186	187
Telecommunications	237	220
Other	24	17
	<u>\$2,099</u>	<u>\$2,018</u>
	=====	=====

Construction:

Construction revenue increased by \$58 million or 4% during the first nine months of 1995 compared to the same period in 1994. The increase relates to 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.

There was no change in gross margin on construction contracts from the same time period in 1994.

Mining:

Mining revenues for 1995 were about the same when compared to 1994. A decrease in coal spot sales was offset by higher sales of precious metals and additional alternate source coal sales. Margins increased slightly in 1995 as a result of the additional alternate source coal sales. Lower margin precious metal sales and renegotiated coal contracts partially offset margin increases resulting from the additional alternate source coal sales.

Telecommunications:

C-TEC's revenues increased from \$220 million to \$237 million in 1995. C-TEC's 1994 revenue included \$22 million from its cellular business which was sold during the third quarter of 1994. Cable and Long Distance Groups contributed \$19 million and \$12 million, respectively, to the increase. The Cable Group revenues increased due to the acquisition of Twin County, the consolidation of Mercom, Inc. and an increase in subscribers and rate increases effective in April, 1995. Long Distance Group revenues increased primarily due to increased sales of tariff services to another long distance reseller which terminated during the second quarter of 1995. Increased switched business sales and 800-service sales also contributed to the increase in revenues.

Revenues for C-TEC's Telephone and other groups were comparable with the 1994 amounts.

PETER KIEWIT SONS', INC.

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

Telecommunications (continued):

Increased Cable Group revenues were partially offset by increased operating expenses associated with the acquisition of Twin County, consolidation of Mercom, Inc. and higher basic programming costs resulting from additional subscribers, rate increases and new channels, however, operating income of the Cable Group improved in 1995.

C-TEC's equity in the earnings of Megacable were not significant to C-TEC's operations for the first nine months of 1995. The interest in Megacable was acquired in January 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. The operating income of C-TEC's Telephone and other groups were comparable with 1994 balances.

General and Administrative Expenses:

General and administrative expenses declined 4% for the nine months ended September 30, 1995 as compared to the same period in 1994. Overall declines in overhead costs attributable to C-TEC's operating units, the sale of C-TEC's mobile services group and the elimination of expenses associated with the PKS stock appreciation rights program, which expired in 1994, were factors in the decrease in general and administrative expenses.

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 Optic 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 has recognized gains and losses from sales and issuances of stock by MFS on the condensed statement of earnings. With the Spin-off of MFS (See note 4), these types of gains will no longer be recognized for MFS transactions.

Investment Income, net:

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. In addition to increases in interest income, the Company's realized losses on the sale of marketable securities declined by \$11 million in 1995. Increases in equity earnings, primarily from California Energy Company, Inc. were offset by developmental expenses associated with international energy projects.

Interest Expense, net:

Interest expense increased 35% 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 1994.

Other Income, net:

The resolution of the Whitney litigation and the subsequent payment by the government of \$135 million and the gain of \$21 million from the Kinross transaction 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.

PETER KIEWIT SONS', INC.

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

Provision for Income Taxes:

The effective income tax rate for the nine months ended September 30, 1995 differs from the statutory rate of 35% due primarily to the net operating loss limitations on losses generated by MFS, \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that are no longer payable due to the tax-free spin-off of MFS and \$4 million of estimated U.S. income taxes attributable to the distribution of MFS stock to certain non-U.S. Class D stockholders.

Financial Condition - September 30, 1995 vs. December 31, 1994

The Company's working capital, exclusive of MFS, increased \$23 million or 2% during the first nine months of 1995. The increase was mainly due to cash flows from operations, including the Whitney settlement of \$135 million, being partially offset by significant investing activities of \$258 million.

Investing activities include \$114 million of capital expenditures and \$167 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 and \$8 million for a 19% interest in a healthcare software development company. Other activities include investments of \$12 million in a Philippine power project and \$26 million for the construction of a privately owned toll road offset by \$9 million of proceeds from the sale of C-TEC businesses.

Financing sources for the nine months include \$23 million of borrowings for the construction financing of a privately owned toll road and \$27 million from the sale of the Company's common stock. Financing uses consisted of \$17 million in net payments on C-TEC debt, \$5 million of payments on stockholders' notes, \$7 million for stock repurchases and \$13 million of Class C 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 \$25 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 and investing activities.

In October 1995, the PKS Board of Directors declared dividends of \$.60 and \$.50 per share for Class B&C and Class D Stock, respectively, payable in January, 1996.

On November 8, 1995, C-TEC announced that it is evaluating strategic options for its various business units with a view toward enhancing shareholder value. Specifically, C-TEC will evaluate the advisability and feasibility of separating or restructuring its local telephone business, its cable television business, and its various other communications businesses. C-TEC has engaged the investment banking firm Merrill Lynch & Co. to assist with the process. No assurances can be given that any transactions will be consummated.

See the notes 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 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 not be held until mid to late 1996. 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. KDG remains obligated to satisfy these liabilities, if any, after the spin-off of MFS.

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 third 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: November 14, 1995

*/s/ Eric J. Mortensen
Eric J. Mortensen
Principal Accounting 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.

ARTICLE 5

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

MULTIPLIER: 1,000,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 30 1995
PERIOD END	SEP 30 1995
CASH	446
SECURITIES	541
RECEIVABLES	363
ALLOWANCES	8
INVENTORY	0
CURRENT ASSETS	1,683
PP&E	1,373
DEPRECIATION	697
TOTAL ASSETS	3,393
CURRENT LIABILITIES	641
BONDS	399
COMMON	2
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	1,537
TOTAL LIABILITY AND EQUITY	3,393
SALES	1,840
TOTAL REVENUES	2,099
CGS	1,619
TOTAL COSTS	1,781
OTHER EXPENSES	161
LOSS PROVISION	0
INTEREST EXPENSE	31
INCOME PRETAX	203
INCOME TAX	31
INCOME CONTINUING	161
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	161
EPS PRIMARY	\$5.18 ¹
EPS DILUTED	\$5.18 ¹

¹ \$5.18 represents Class C Stock earnings per share, Class D Stock earnings per share; \$4.13

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Earnings (unaudited)

(dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
Revenue	\$ 689	\$ 680	\$ 1,677	\$1,619
Cost of Revenue	(615)	(607)	(1,541)	(1,485)
	<u>74</u>	<u>73</u>	<u>136</u>	<u>134</u>
General and Administrative Expenses	(26)	(30)	(86)	(92)
Operating Income	<u>48</u>	<u>43</u>	<u>50</u>	<u>42</u>
Other Income (Expense):				
Investment Income, net	4	3	10	9
Interest Expense	(1)	-	(2)	(1)
Other, net	8	16	54	38
	<u>11</u>	<u>19</u>	<u>62</u>	<u>46</u>
Earnings Before Income Taxes	<u>59</u>	<u>62</u>	<u>112</u>	<u>88</u>
Provision for Income Taxes	(20)	(21)	(39)	(30)
Net Earnings	<u>\$ 39</u> =====	<u>\$ 41</u> =====	<u>\$ 73</u> =====	<u>\$ 58</u> =====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Balance Sheets

(dollars in millions)	September 30, 1995	December 31, 1994
	(unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ -	\$ 70
Marketable securities	117	156
Receivables, less allowance of \$6 and \$7	285	260
Costs and earnings in excess of billings on uncompleted construction contracts	142	101
Investment in construction joint ventures	55	69
Recoverable income taxes	79	59
Other	18	23
Total Current Assets	<u>696</u>	<u>738</u>
Property, Plant and Equipment, less accumulated depreciation and amortization of \$412 and \$395	160	140
Investments	84	55
Other Assets	31	30
	<u>\$ 971</u> =====	<u>\$ 963</u> =====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, including retainage		

of \$42 and \$41	\$ 207	\$ 179
Current portion of long-term debt	2	3
Accrued construction costs and billings in excess of revenue on uncompleted contracts	151	106
Accrued insurance costs	75	73
Other	34	44
Total Current Liabilities	<u>469</u>	<u>405</u>
Long-Term Debt, less current portion	6	9
Other Liabilities	51	44
Stockholders' Equity (Redeemable Common Stock, \$273 million aggregate redemption value)		
Common equity	447	513
Net unrealized holding gains (losses)	3	(1)
Foreign currency adjustment	(5)	(7)
Total Stockholders' Equity	<u>445</u>	<u>505</u>
	<u>\$ 971</u>	<u>\$ 963</u>
	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT CONSTRUCTION & MINING GROUP

Condensed Statements of Cash Flows (unaudited)

(dollars in millions)	Nine months ended September 30,	
	1995	1994
Cash flows from operations:		
Net cash provided by operations	\$ 91	\$ 73
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	177	258
Purchases of marketable securities	(137)	(235)
Proceeds from sales of property, plant and equipment	11	14
Capital expenditures	(60)	(53)
Acquisition of APAC-Arizona, Inc.	-	(47)
Other	(2)	(4)
Net cash used in investing activities	<u>(11)</u>	<u>(67)</u>
Cash flows from financing activities:		
Payments on long-term debt, including current portion	(4)	(4)
Issuances of common stock	24	19
Repurchases of common stock	(4)	(10)
Dividends paid	(13)	(13)
Exchange of Class B&C Stock for Class D Stock, net	(154)	(42)
Net cash used in financing activities	<u>(151)</u>	<u>(50)</u>
Effect of exchange rates on cash	<u>1</u>	<u>1</u>
Net change in cash and cash equivalents	(70)	(43)
Cash and cash equivalents at beginning of period	<u>70</u>	<u>99</u>
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 56</u>
	=====	=====

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 balancesheet 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 September 30, 1995 and December 31, 1994 include approximately \$58 million and \$61 million, respectively, of investments which are being held by the owners of various construction projects in lieu of retainage. Receivables at September 30, 1995 and December 31, 1994 include approximately \$60 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):

	September 30, 1995	December 31, 1994
Cash and cash equivalents	\$ -	\$ 25
Marketable securities	10	15
Property, plant and equipment, net	5	5
Other assets	-	16
Total Assets	<u>\$ 15</u> =====	<u>\$ 61</u> =====
Accounts payable	\$ 32	\$ 30
Convertible debentures	-	1
Notes to former stockholders	1	6
Other liabilities	-	2
Total Liabilities	<u>\$ 33</u> =====	<u>\$ 39</u> =====
	Three months ended September 30, 1995	Nine months ended September 30, 1995
	1994	1994
Investment income, net of interest expense	\$ -	\$ -
Other income, net	2	-
	\$ -	\$ 1
	2	-

KIEWIT CONSTRUCTION & MINING GROUP

Notes to Condensed Financial Statements

2. Summarized Financial Information (continued):

Corporate general and administrative costs have been allocated to the Group. These allocations were \$- million and \$7 million for the three months ended September 30, 1995 and 1994, and \$1 million and \$20 million for the nine months ended September 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 that the Group recognized from the Group's mine service agreement with the Diversified Group was \$8 million and \$7

million for the three months ended September 30, 1995 and 1994 and \$23 million and \$22 million for the nine months ended September 30, 1995 and 1994.

3. Other Matters:

Kinross Transaction

In June 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

The PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS"), effective September 30, 1995, to the Class D stockholders (the "Spin-off") at a special meeting on September 25, 1995.

The Spin-off was completed after PKS and Kiewit Diversified Group Inc., a wholly owned first tier subsidiary of PKS ("KDG") agreed with MFS to effect a recapitalization of MFS pursuant to which KDG exchanged a portion of the MFS Common Stock held by KDG for certain high-vote convertible preferred stock. In addition, prior to completing the Spin-off, PKS purchased additional shares of MFS Common Stock which were distributed to the D stockholders.

PKS completed an exchange offer prior to the Spin-off whereby 1,666,384 shares of Class D Stock were exchanged for 4,000,000 shares of Class B Stock and Class C Stock (Class B&C Stock") tendered 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 PKS' Certificate of Incorporation. The conversion ratio used in the exchange was calculated using 1994 stock prices adjusted for 1995 dividends.

After the recapitalization of MFS and the exchange offer discussed above, shares were distributed on the basis of approximately 1.741 shares of MFS Common Stock and approximately .651 shares of MFS Preferred Stock for each share of outstanding Class D Stock.

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 - Third Quarter 1995 vs. Third Quarter 1994

Construction

Construction revenue rose 2% in the third quarter of 1995 compared to the third quarter of 1994. The increase is primarily due to revenues from joint ventures during the period. Contract backlog at September 30, 1995 was \$2.2 billion, of which 11% is attributable to foreign operations, principally, Canada and the Philippines. Projects on the west coast account for 39% of the total backlog which includes San Joaquin Toll Road of \$188 million. San Joaquin is scheduled for completion in 1997.

There was no change in gross margin on construction contracts between third quarter 1995 and 1994.

General and Administrative Expenses

General and administrative expenses declined 13% in 1995 vs 1994. The reduction was primarily attributable to a reduction in the corporate management allocation, reduced data management expenses and the elimination of the expenses associated with the PKS stock appreciation rights program which expired in 1994.

Other, net

Other income in 1995 declined to \$8 million from \$16 million in 1994. A \$4 million decrease in the gains recognized from the sale of operating assets, a reduction of \$3 million in third party management fees and the lack of one time real estate gains were the primary factors contributing to the change.

Results of Operations - Nine Months 1995 vs. Nine Months 1994

Construction

Construction revenue increased by \$60 million or 4% during the first nine months of 1995 compared to the same period in 1994. The increase relates to 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.

There was no change in gross margin on construction contracts from the same time period in 1994.

General and Administrative Expenses

General and administrative expenses declined 7% for the nine months ended September 30, 1995 vs. the same period in 1994. Reduction in corporate management, data services and other administrative support expenses, as well as the elimination of expenses associated with the PKS stock appreciation rights program, which expired in 1994, all contributed to the decline.

Investment Income, net

Investment income increased \$3 million or 33% in 1995. A slight decline in losses on the sale of securities was the primary reason for the improvement.

Other, Net

In 1995 Other income is primarily comprised of \$23 million of mine management fees, \$21 million of gains from the Kinross transaction and \$9 million of gains from the sale of operating assets. In 1994 mine management fees were \$22 million and gains from the sale of assets were \$11 million. The remaining income resulted from management services provided to outside parties and real estate gains.

KIEWIT CONSTRUCTION & MINING GROUP

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

Financial Condition - September 30, 1995 vs. December 31, 1994

The Group's working capital decreased \$106 million or 32% during the nine months ended September 30, 1995. The decline was primarily due to the conversion and repurchase of 6.2 million shares of Class B&C stock totalling \$158 million and dividend payments of \$13 million. These financing activities were partially offset by \$24 million in proceeds from the sale of stock. In addition to the cash used in financing activities, the Group had capital expenditures, net of sales proceeds, of \$49 million, \$9 million in excess of the net proceeds on the sale and maturity of marketable securities. Partially funding these outflows was \$91 million of cash provided by operations.

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 in 1997. Other long term liquidity uses include the payment of income taxes and repurchases and conversions of common stock.

In October 1995, the PKS Board of Directors declared a \$.60 per share dividend on Class B & C Stock payable in January, 1996.

The Group's working capital position at September 30, 1995, together with anticipated cash flows from operations and existing borrowing capacity, should be sufficient for immediate cash requirements and future investing activities. The Group expects to incur additional debt to fund the stock conversions resulting from 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

Page

Financial Statements:

Condensed Statements of Earnings for the three months ended September 30, 1995 and 1994 and the nine months ended September 30, 1995 and 1994

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

Management's Discussion and Analysis of
Financial Condition and Results of Operations**KIEWIT DIVERSIFIED GROUP****Condensed Statements of Earnings**
(unaudited)

(dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
Revenue	\$ 152	\$ 144	\$ 429	\$ 399
Cost of Revenue	(88)	(86)	(247)	(230)
	<u>64</u>	<u>58</u>	<u>182</u>	<u>169</u>
General and Administrative Expenses	(36)	(30)	(98)	(98)
	<u>28</u>	<u>28</u>	<u>84</u>	<u>71</u>
Operating Income				
Other Income (Expense):				
Gain on Subsidiary's Stock Transactions, net	-	-	3	28
Investment Income, net	22	1	46	20
Interest Expense, net	(6)	(6)	(29)	(22)
Other, net	(2)	1	138	5
	<u>14</u>	<u>(4)</u>	<u>158</u>	<u>31</u>
Loss in MFS	(66)	(29)	(151)	(63)
	<u></u>	<u></u>	<u></u>	<u></u>
Earnings (Loss) Before Income Taxes and Minority Interest in Net Income of Subsidiaries	(24)	(5)	91	39
Benefit (Provision) for Income Taxes	78	(4)	8	(20)
Minority Interest in Net Income of Subsidiaries	(3)	(3)	(11)	(3)
	<u></u>	<u></u>	<u></u>	<u></u>
Net Earnings (Loss)	\$ 51	\$ (12)	\$ 88	\$ 16
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Balance Sheets

(dollars in millions)	September 30, 1995 (unaudited)	December 31, 1994
Assets		
Current Assets:		
Cash and cash equivalents	\$ 446	\$ 330
Marketable securities	424	754
Receivables, less allowance of \$2 and \$2	80	157
Note receivable from sales of discontinued operations	-	29
Recoverable income taxes	9	15
Other	38	95
	<u>997</u>	<u>1,380</u>
Total Current Assets		
Property, Plant and Equipment,		

less accumulated depreciation and amortization of \$285 and \$336	516	1,104
Intangible Assets, net	478	733
Investments	381	259
Other Assets	65	73
	<u>\$2,437</u>	<u>\$3,549</u>
	=====	=====

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable	\$ 70	\$ 165
Current portion of long-term debt:		
Telecommunications	9	26
Other	3	4
Accrued costs and billings in excess of revenue on uncompleted contracts	11	37
Accrued reclamation and other mining costs	17	20
Other	72	159
Total Current Liabilities	<u>182</u>	<u>411</u>

Long-Term Debt, less current portion:

Telecommunications	301	827
Other	92	72
Deferred Income Taxes	282	306
Retirement Benefits	48	67
Accrued Reclamation Costs	101	102
Other Liabilities	128	85
Minority Interest	209	448

Stockholders' Equity (Redeemable

Common Stock, \$930 million aggregate redemption value)		
Common equity	1,085	1,238
Foreign currency adjustment	(1)	-
Net unrealized holding gains (losses)	10	(7)
Total Stockholders' Equity	<u>1,094</u>	<u>1,231</u>

\$2,437 \$3,549
=====

See accompanying notes to condensed financial statements.

KIEWIT DIVERSIFIED GROUP

Condensed Statements of Cash Flows (unaudited)

	Nine Months Ended September 30,	
(dollars in millions)	1995	1994
Cash flows from operations:		
Net cash provided by continuing operations	\$ 200	\$ 75
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities and investments	192	1,245
Purchases of marketable securities	(188)	(1,287)
Acquisitions, excluding cash acquired	(167)	(225)
Capital expenditures	(54)	(260)
Proceeds from sale of cellular properties	-	182
Deferred development costs and other	(30)	(62)
Net cash used in investing activities	<u>(247)</u>	<u>(407)</u>
Cash flows from financing activities:		
Issuances of subsidiary's stock	-	5
Proceeds from long-term debt borrowings	23	677
Payments on long-term debt, including current portion	(22)	(185)
Issuances of common stock	3	-
Repurchases of common stock	(3)	(21)
Exchange of Class B&C Stock for Class D Stock, net	154	42

Other	-	(2)
Net cash provided by financing activities	155	516
Cash flows from proceeds due to sales of discontinued packaging operations	29	6
Cash and cash equivalents of MFS at beginning of period	(22)	-
Effect of exchange rates on cash	1	-
Net change in cash and cash equivalents	116	190
Cash and cash equivalents at beginning of period	330	197
Cash and cash equivalents at end of period	\$ 446 =====	\$ 387 =====
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
Dividend of investment in MFS	399	-
Issuance of C-TEC Redeemable Preferred Stock for acquisition	44	-

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.

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

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

2. 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):

	September 30, 1995	December 31, 1994
Cash and cash equivalents	\$ -	\$ 25
Marketable securities	10	15
Property, plant and equipment, net	5	5
Other assets	-	16
Total Assets	\$ 15 =====	\$ 61 =====
Accounts payable	\$ 32	\$ 30
Convertible debentures	-	1
Notes to former stockholders	1	6
Other liabilities	-	2

Total Liabilities		\$ 33		\$ 39
		====		=====
	Three months ended September 30,		Nine Months ended September 30,	
	1995	1994	1995	1994
Investment income, net	\$ -	\$ -	\$ -	\$ 1
Other income, net	2	2	-	-

Corporate general and administrative costs have been allocated to the Group. These allocations were \$2 million and \$5 million for the three months ended September 30, 1995 and 1994, and \$4 million and \$9 million for the nine months ended September 30, 1995 and 1994. Due to a realignment of the corporate overhead departments, certain 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 \$8 million and \$7 million for the three months ended September 30, 1995 and 1994, and \$23 million and \$22 million for the nine months ended September 30, 1995 and 1994.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

3. MFS Spin-off:

The PKS Board of Directors approved a plan to make a tax-free distribution of its entire ownership interest in MFS Communications Company, Inc. ("MFS"), effective September 30, 1995, to the Class D stockholders (the "Spin-off") at a special meeting on September 25, 1995.

The Spin-off was completed after PKS and Kiewit Diversified Group Inc., a wholly owned first tier subsidiary of PKS ("KDG") agreed with MFS to effect a recapitalization of MFS pursuant to which KDG exchanged a portion of the MFS Common Stock held by KDG for certain high-vote convertible preferred stock. In addition, prior to completing the Spin-off, PKS purchased additional shares of MFS Common Stock which were distributed to the Class D stockholders.

PKS completed an exchange offer prior to the Spin-off whereby 1,666,384 shares of Class D Stock were exchanged for 4,000,000 shares of Class B Stock and Class C Stock (Class B&C Stock") tendered 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 PKS' Certificate of Incorporation. The conversion ratio used in the exchange was calculated using 1994 stock prices adjusted for 1995 dividends.

After the recapitalization of MFS and the exchange offer discussed above, shares were distributed on the basis of approximately 1.741 shares of MFS Common Stock and approximately .651 shares of MFS Preferred Stock for each outstanding share of Class D Stock.

The net assets of MFS distributed on September 30, 1995 were approximately \$399 million.

The operating results of MFS have been classified as a single line item on the statements of earnings for the three and nine month periods ended September 30, 1995 and 1994.

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

	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
Revenue	\$ 154	\$ 89	\$ 412	\$ 185
Loss from operations	(61)	(37)	(176)	(83)
Net loss	(67)	(42)	(196)	(92)
D Group's loss in MFS	(66)	(29)	(151)	(63)

D Group's loss in MFS for the three and nine months ended September 30, 1995, includes \$20 million for transaction costs associated with the Spin-off.

Included in Benefit (Provision) for Income Taxes on the condensed statements of earnings for the three and nine months ended September 30, 1995 are \$93 million of tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that are no longer payable and \$4 million of estimated U.S. income taxes attributable to the corporate built-in gain on the stock of MFS distributed to certain non-U.S. Class D stockholders.

4. 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 CECI common stock at \$17 per share. As part of this offering, the Group purchased 1.5 million shares. In addition, during the second quarter of 1995, the Group purchased an additional 200,000 common shares of CECI. The Group owns 22% of CECI's outstanding common stock. At September 30, 1995, the Group's cumulative investment in CECI common stock totals \$151 million, \$37 million in excess of the Group's proportionate share of CECI's equity.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

4. Acquisitions (continued):

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 remaining outstanding common stock of Twin County was acquired in September 1995 in exchange for \$52 million stated value redeemable preferred stock of C-TEC Corporation. The preferred stock has a stated dividend rate of 5%, beginning January 1, 1996. The estimated fair value of the preferred stock is \$44.5 million, subject to final determination.

In May 1995, the C-TEC signed a definitive agreement for the acquisition of all the outstanding shares of common stock of Buffalo Valley Telephone Company for \$61 per share, payable either in cash or C-TEC convertible preferred stock. In October 1995, Buffalo Valley Telephone Company terminated its merger agreement with C-TEC and entered into a definitive agreement with Conestoga Enterprises, Inc.

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 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 not be held until mid to late 1996. 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. KDG remains obligated to satisfy these liabilities, if any, after the spin-off of MFS.

Whitney Settlement

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 (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.

KIEWIT DIVERSIFIED GROUP

Notes to Condensed Financial Statements

5. Other Matters (continued):

In May 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 the Group, received approximately \$135 million in June 1995.

Other Litigation:

The Group is involved in various other lawsuits, claims and regulatory proceedings incidental to its business. Management believes that any resulting liability for legal proceedings beyond that provided should not materially affect the 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 - Third Quarter 1995 vs. Third Quarter 1994

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

	1995	1994
Mining	\$ 56	\$ 62
Telecommunications	85	75
Other	11	7
	<u>\$ 152</u>	<u>\$ 144</u>
	=====	=====

Mining

Mining revenue decreased in 1995 by \$6 million when compared to 1994. The decrease is the result of lower coal spot sales, fewer contract sales and lower prices on a renegotiated contract. Margins increased as a result of additional alternate source coal sales. This increase in margins was partially offset by lower prices on renegotiated coal contracts and lower sales in the quarter from a high margin contract.

Telecommunications

C-TEC's revenues increased from \$75 million to \$85 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 in revenue is primarily attributable to C-TEC's Cable Group which had increased revenues of \$12 million. The increase in Cable Group revenues is due to the acquisition of Twin County on May 1, 1995, which contributed \$7 million of revenues for the quarter and Mercom, Inc. which contributed \$2 million from August 1995 when its results were consolidated with C-TEC's operations. Twin County serves approximately 74,000 subscribers in the Allentown/Bethlehem area of Pennsylvania. C-TEC acquired majority control of the voting stock of Mercom, Inc. which provides cable television service in Michigan and Port St. Lucie, Florida, through a rights offering. C-TEC previously owned 43.63% of the voting stock of Mercom, Inc. and accounted for its investment using the equity method. Additionally, Cable Group revenues increased \$3 million due to an increase of approximately 15,000 subscribers and rate increases effective in April 1995.

Revenues for C-TEC's Telephone, Long Distance and other groups were comparable with the third quarter 1994 balances.

An increase in the operating expenses of the Cable Group partially offset the increased revenues as operating income of the Cable Group improved in 1995. The increase in expense is primarily due to the acquisition of Twin County, the consolidation of Mercom, Inc. and to increased programming costs resulting from increased subscribers, new channels and programming rate increases.

C-TEC's equity in the earnings of Megacable, S.A. de C.V., ("Megacable"), Mexico's second largest cable operator in which C-TEC holds a 40 percent interest, was not significant to C-TEC's operations but declined slightly from the second quarter of 1995 as a result of the recession in Mexico. The interest in Megacable was acquired in January 1995.

The operating income of C-TEC's Telephone, Long Distance and other groups were comparable with the third quarter 1994 amounts.

General and Administrative Expenses

General and administrative expenses increased 20% in 1995. Higher mine management fees, corporate overhead and expenses incurred by C-TEC, primarily for exploring and evaluating strategic alternatives to increase shareholder value all contributed to the increase in general and administrative expenses.

KIEWIT DIVERSIFIED GROUP

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

Results of Operations - Third Quarter 1995 vs. Third Quarter 1994 (continued):

Investment Income, net

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. In addition to increases in interest income, the Group realized gains from the sale of marketable securities of \$2 million in 1995 compared to \$10 million of realized losses in 1994. Increases in equity earnings, primarily from California Energy Company, Inc. were offset by developmental expenses associated with international energy projects.

Loss in MFS

MFS is a leading provider of communication services to business. Through its operating subsidiaries, MFS provides a wide range of high quality voice, data, network system integration and other enhanced services. The Group's losses associated with MFS continued to increase, primarily because of the accelerated expansion activities announced in 1993 and 1995. These expansion activities require significant initial development and roll out expenses in advance of anticipated revenues and continue to negatively effect the operating results of MFS. After September 30, 1995, the date of the spin-off, the Group will no longer include MFS' results of operations in its financial statements.

D Group's loss in MFS for the three and nine months ended September 30, 1995, includes \$20 million for transaction costs associated with the Spin-off.

Provision for Income Taxes

The effective income tax rate for the three months ended September 30, 1995 differs from the statutory rate of 35% due primarily to the net operating loss limitations on losses generated by MFS, \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that are no longer payable due to the tax-free spin-off of MFS and \$4 million of estimated U.S. income taxes attributable to the distribution of MFS stock to certain non-U.S. Class D stockholders.

Results of Operations - Nine Months 1995 vs. Nine Months 1994

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

	1995	1994
Mining	\$ 163	\$ 168
Telecommunications	237	220
Other	29	11
	<u>\$ 429</u>	<u>\$ 399</u>
	=====	=====
Mining		

Mining revenues declined 3% for the nine months ending September 30, 1995 as compared to 1994. The decrease is the result of lower coal spot sales, fewer contract sales and lower prices on a renegotiated contract. Margins increased as a result of additional alternate source coal sales. This increase in margins was partially offset by lower prices on renegotiated coal contracts and lower sales in the quarter from a high margin contract.

Telecommunications

C-TEC's revenues increased from \$220 million to \$237 million in 1995. C-TEC's 1994 revenue included \$22 million from its cellular business which was sold during the third quarter of 1994. Cable and Long Distance Groups contributed \$19 million and \$12 million, respectively, to the increase. The Cable Group revenues increased due to the acquisition of Twin County, the consolidation of Mercom, Inc. and an increase in subscribers and rate increases effective in April, 1995.

Long Distance Group revenues increased primarily due to increased sales of tariff services to another long distance reseller which terminated during the second quarter of 1995. Increased switched business sales and 800-service sales also contributed to the increase in revenues.

KIEWIT DIVERSIFIED GROUP

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

Results of Operations - Nine Months 1995 vs. Nine Months 1994 (continued):

Revenues for C-TEC's Telephone and other groups were comparable with the 1994 amounts.

Increased Cable Group revenues were partially offset by increased operating expenses associated with the acquisition of Twin County, consolidation of Mercom, Inc. and higher basic programming costs resulting from additional subscribers, rate increases and new channels, however, operating income of the Cable 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. The operating income of C-TEC's Telephone and other groups were comparable with 1994 balances.

C-TEC's equity in the earnings of Megacable was not significant to C-TEC's operations for the first nine months of 1995. The interest in Megacable was acquired in January 1995.

General and Administrative Expenses

General and administrative expenses were unchanged for the nine months ended September 30, 1995 as compared to the same period in 1994. Overall declines in overhead costs attributable to C-TEC's operating units and the sale of C-TEC's mobile services group were offset by increases in professional fees for environmental issues, corporate overhead and mine management fees.

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 Optic 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 has recognized gains and losses from sales and issuances of stock by MFS on the condensed statement of earnings. With the Spin-off of MFS (See note 3), these types of gains will no longer be recognized for MFS transactions.

Investment Income, net

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. In addition to increases in interest income, the Group's realized losses on the sale of marketable securities declined by \$10 million in 1995. Increases in equity earnings, primarily from California Energy Company, Inc. were offset by developmental expenses associated with international energy projects.

Interest Expense, net

Interest expense increased 36% 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 1994.

Other, net

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

KIEWIT DIVERSIFIED GROUP

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

Results of Operations - Nine Months 1995 vs. Nine Months 1994 (continued):

Provision for Income Taxes

The effective income tax rate for the nine months ended September 30, 1995 differs from the statutory rate of 35% due primarily to the net operating loss limitations on losses generated by MFS, \$93 million of income tax benefits from the reversal of certain deferred tax liabilities recognized on gains from previous MFS stock transactions that are no longer payable due to the tax-free spin-off of MFS and \$4 million of estimated U.S. income taxes attributable to the distribution of MFS stock to certain non-U.S. Class D stockholders.

Financial Condition - September 30, 1995 vs. December 31, 1994

The Group's working capital, exclusive of MFS, increased \$129 million or 19% during the first nine 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 \$54 million of capital expenditures and \$167 million of investments. The majority of the investments include C-TEC's \$84 million outlay for 40% of Megacable, \$38 million outlay for Twin County and \$7 million outlay to obtain a majority interest in Mercom, Inc., KDG's \$29 million purchase of CECI's stock and \$8 million outlay for a 19% interest in a healthcare software development company. Other activities include investments of \$26 million of deferred construction costs on a privately owned toll road and \$12 million on a Philippine power project offset by \$9 million of proceeds from the sale of C-TEC businesses.

Financing sources for the nine months include \$157 million of stock conversions and sales and \$23 million for the construction financing of a privately owned toll road. Financing uses consisted of C-TEC's \$19 million outlay for the net payment of long-term debt, \$3 million of payments on stockholders' notes and \$3 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 \$25 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 October, 1995 the PKS Board of Directors declared a special \$.50 per share dividend payable to the Class D shareholders in January, 1996.

On November 8, 1995, C-TEC announced that it is evaluating strategic options for its various business units with a view toward enhancing shareholder value. Specifically, C-TEC will evaluate the advisability and feasibility of separating or restructuring its local telephone business, its cable television business, and its various other communications businesses. C-TEC has engaged the investment banking firm Merrill Lynch & Co. to assist with the process. No assurances can be given that any transactions will be consummated.

See the notes to the condensed financial statements with respect to the MFS spin-off.

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