

CERIDIAN CORP /DE/
Form 10-Q
August 13, 2001
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from _____ to _____

Commission file number: 1-15168

CERIDIAN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-1981625
(IRS Employer
Identification No.)

3311 East Old Shakopee Road, Minneapolis, Minnesota
(Address of principal executive offices)

55425
(Zip Code)

Registrant's telephone number, including area code: (952) 853-8100

Former name, former address and former fiscal year if changed from last report: Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

The number of shares of registrant's Common Stock, par value \$.01 per share, outstanding as of July 31, 2001, was 146,058,016.

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In the opinion of Ceridian Corporation (Ceridian or the Company), the unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals, except as set forth in the notes to consolidated financial statements) necessary to present fairly the Company s financial position as of June 30, 2001, and results of operations for the three and six month periods and cash flows for the six month periods ended June 30, 2001 and 2000.

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The results of operations for the six month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements should be read in conjunction with the notes to consolidated financial statements.

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 PART I. FINANCIAL INFORMATION
 ITEM I. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)
 (Dollars in millions, except per share data)

Ceridian Corporation
 and Subsidiaries

	For Periods Ended June 30,			
	Three Months		Six Months	
	2001	2000	2001	2000
	\$	\$	\$	\$
Revenue	290.1	283.1	599.7	592.7
Costs and Expenses				
Cost of revenue		142.2	141.1	287.9
Selling, general and administrative		288.3	210.1	183.6
Research and development		15.2	15.2	31.3
Other expense (income)		52.5	350.1	131.4
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<hr/>				
Total costs and expenses		307.1	244.9	253.7
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Earnings (loss) before interest and taxes	
	(17.0)38.220.558.0
Interest income	
	1.70.83.51.8
Interest expense	
	(4.0)(9.6)(13.0)(19.5)
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Earnings (loss) before income taxes	
	(19.3)29.411.040.3
Income tax provision (benefit)	
	(7.5)11.04.915.4
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Earnings (loss) from continuing operations	
	(11.8)18.46.124.9
Discontinued operations	
	8.85.223.2
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Net earnings (loss)	
	\$(11.8)\$27.2\$11.3\$48.1
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Basic earnings (loss) per share	
Continuing operations	
	\$(0.08)\$0.13\$0.04\$0.17
Net earnings (loss)	
	\$(0.08)\$0.19\$0.08\$0.33
Diluted earnings (loss) per share	
Continuing operations	
	\$(0.08)\$0.13\$0.04\$0.17
Net earnings (loss)	
	\$(0.08)\$0.19\$0.08\$0.33
Shares used in calculations (in 000 s)	
Weighted average shares (basic)	
	145,950145,051145,875144,919
Dilutive securities	
	1,7042,1701,022
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Weighted average shares (diluted)	
	145,950146,755148,045145,941

Antidilutive shares excluded (in 000 s)
8,7165,5305,1228,444

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CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in millions)

Ceridian Corporation
and Subsidiaries

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Assets		
Cash and equivalents	\$100.4	\$118.5
Short-term investments	23.440.1	
Trade receivables, less allowance of \$17.1 and \$17.4	448.7438.3	
Other receivables	23.022.6	
Current portion of deferred income taxes	49.241.8	
Net assets of discontinued operations	28.2	
Other current assets	26.925.9	
Total current assets	671.6715.4	
Property, plant and equipment, net	158.5160.4	
Goodwill, net	877.3897.9	
Other intangible assets, net	122.7128.4	
Software and development costs, net	81.157.0	
Prepaid pension cost	130.7128.1	

Other noncurrent assets
18,90.8

Total assets before funds
held for clients
2,060,82,088.0

Payroll and tax filing client
funds
2,743.12,945.0

Total assets
\$4,803.9\$5,033.0

Liabilities and
Stockholders' Equity
Short-term debt and
current portion of
long-term obligations
\$0.2\$0.3

Accounts payable
30,331.7

Drafts and customer funds
payable
199,6172.1

Customer advances
13,614.5

Deferred income
35,638.5

Accrued taxes
71,576.0

Employee compensation
and benefits
58,365.8

Other accrued expenses
46,575.0

Total current liabilities
455,6473.9

Long-term obligations, less
current portion
295,9500.3

Deferred income taxes
72,367.7

Employee benefit plans
76,175.7

Other noncurrent liabilities
34,734.2

Total liabilities before
client fund obligations
934,61,151.8

Client fund obligations
2,743.12,945.0

Total liabilities
3,677.74,096.8
Stockholders' equity
1,126.2936.2

Total liabilities and
stockholders' equity
\$4,803.9\$5,033.0

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Ceridian Corporation
and Subsidiaries

(Unaudited)
(Dollars in millions)

**For Periods Ended June 30,
Six Months**

2001	2000
------	------

CASH FLOWS FROM OPERATING ACTIVITIES

Net earnings\$11.3\$48.1
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:
Earnings from discontinued operations(5.2)(23.2)
Deferred income tax provision2.828.5
Depreciation and amortization47.142.5
Gains on marketable and derivative securities(16.2) Asset write-downs6.118.3
Other(2.3)(3.3)
Net change in working capital items:
Trade and other receivables(11.4)(29.7)
Accounts payable7.9(2.2)
Drafts and customer funds payable17.940.4
Employee compensation and benefits(7.7)(5.6)
Accrued taxes(4.2)6.7
Other

current assets and
liabilities(8.5)0.8Cash
provided by operating
activities of
discontinued
operations(0.8)10.9

Net cash provided by
operating
activities36.8132.2

**CASH FLOWS FROM
INVESTING**

ACTIVITIESExpended
for property, plant and
equipment(20.9)(39.0)Expended
for software and
development
costs(32.8)(10.7)Expended
for investments in and
advances to businesses,
less cash
acquired(11.9)(65.1)Proceeds
from sales of businesses
and assets15.12.1Cash
used for investing
activities of
discontinued
operations(1.2)(1.3)

Net cash provided by
(used for) investing
activities(51.7)(114.0)

**CASH FLOWS FROM
FINANCING**

ACTIVITIESRevolving
credit and overdrafts,
net224.9(7.5)Repayment
of other
debt(456.6)(20.1)Exercise
of stock options and
other3.57.0Cash
provided by financing
activities of
discontinued
operations225.0

Net cash provided by
(used for) financing
activities(3.2)(20.6)

NET CASH
 PROVIDED
 (USED)(18.1)(2.4)Cash
 and equivalents at
 beginning of
 period118.558.5

Cash and equivalents at
 end of
 period\$100.4\$56.1

See notes to consolidated financial statements.

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REVERSE SPIN-OFF TRANSACTION

On March 30, 2001, all of the outstanding shares of common stock of New Ceridian Corporation were distributed to the stockholders of the entity formerly known as Ceridian Corporation (Old Ceridian) in a tax-free reverse spin-off transaction (the spin-off). New Ceridian Corporation comprises the human resource services division and subsidiaries (HRS) and Comdata subsidiaries of Old Ceridian and is treated as the accounting successor and the Arbitron media information business of Old Ceridian is treated as the spun-off discontinued operation in the financial statements of Ceridian. As used in this report, references to Ceridian or the Company mean Ceridian Corporation, formerly known as New Ceridian Corporation, together with its consolidated subsidiaries, and include its post-spin financial results as well as the historical financial results of the businesses that constituted Old Ceridian prior to the spin-off.

The spin-off required new financing arrangements for the Company. Under the terms of agreements related to the spin-off, Arbitron furnished \$225.0 from its own borrowings toward the retirement of Old Ceridian s debt outstanding immediately prior to the spin-off. The \$225.0 payment liability, combined with other assets and liabilities of Arbitron, resulted in net liabilities of discontinued operations of \$182.9 at the time of the spin-off, which increased the Company s retained earnings in that amount when the spin-off took place. Additionally, the par value of the Company s common stock was established as \$.01 per share, compared to a par value of \$.50 per share for Old Ceridian common stock, and no treasury common stock was distributed to the Company, resulting in a reduction of additional paid-in capital of \$262.2. Further details on financing transactions are presented in the note to the consolidated financial statements entitled Financing.

Earnings from discontinued operations of \$5.2 reported for 2001 represent a reduction of the \$6.9 loss from disposition of Arbitron that was reported in the fourth quarter 2000. Earnings from discontinued operations for the three and six month periods of 2000 represent the results of operations for Arbitron, which was determined to be a discontinued operation as of July 18, 2000.

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FINANCING

Under an agreement with a syndicate of commercial banks dated January 31, 2001, Ceridian entered into a \$350.0 domestic revolving credit facility, of which \$50.0 may be used for letters of credit, that expires in March 2006. This January 2001 credit facility also permits the Company to request that the bank syndicate use its best efforts to provide additional commitments so long as the total commitment does not exceed \$500.0. The January 2001 credit facility is unsecured and its pricing for both loans and letters of credit is based on Ceridian's senior unsecured debt ratings and LIBOR. The interest rate on borrowings under this facility was 4.8% as of July 31, 2001. Under the terms of the January 2001 credit facility, Ceridian's consolidated debt must not exceed its stockholders' equity as of the end of any fiscal quarter, and the ratio of Ceridian's earnings before interest and taxes to interest expense on a rolling four quarter basis must be at least 2.75 to 1. This facility also limits among other things liens, subsidiary debt, contingent obligations, operating leases, minority equity investments and divestitures.

At the time of the spin-off, advances of \$235.0 from the January 2001 credit facility, the \$225.0 Arbitron payment and existing cash balances funded the required early retirement of the \$430.0 of senior notes outstanding and payment of the \$50.0 balance outstanding under the \$250.0 domestic revolving credit facility dated July 1997 at the time of the spin-off. The redemption of senior notes required a payment of \$456.5, which included \$26.5 under a make-whole provision of the senior notes agreement, based on the relationship of the nominal interest rate of the senior notes to a certain market rate. The establishment of the January 2001 credit facility also resulted in the payment of \$1.0 for origination costs that will be amortized over its term.

During second quarter 2001, the Company borrowed an additional \$50.0 under the January 2001 credit facility in connection with the settlement of litigation. At June 30, 2001, advances of \$285.0 and letters of credit totaling \$2.0 remained outstanding, and the Company was in compliance with all covenants contained in the January 2001 credit facility. In addition, the balance outstanding on the Company's Canadian revolving credit agreements was reduced from \$19.1 to \$9.6 by payments of \$9.1 and translation adjustments of \$0.4 during the first half of 2001.

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NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Financial Accounting Standard No. (FAS) 141, Business Combinations, and FAS 142, Goodwill and Other Intangible Assets. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. FAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. FAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of FAS 142. FAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of FAS 141 immediately and FAS 142 effective January 1, 2002. Furthermore, all goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-FAS 142 accounting literature until FAS 142 is adopted. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001

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will continue to be amortized in accordance with appropriate pre-FAS 142 literature until January 1, 2002.

FAS 141 will require, as of January 1, 2002, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in FAS 141 for recognition apart from goodwill. As of the same date, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of FAS 142 within the first interim period. Any impairment loss will be measured as of January 1, 2002 and recognized as the cumulative effect of a change in accounting principle in the first interim period.

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NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In connection with the transitional goodwill impairment evaluation, FAS 142 will require the Company to perform an assessment by June 30, 2002 to determine whether goodwill was impaired as of the date of adoption. Any transitional impairment loss will be measured as of January 1, 2002 and reported as a first quarter 2002 cumulative effect of a change in accounting principle in the Company's statement of earnings as soon as practicable but not later than December 31, 2002.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of \$860.0 and unamortized identifiable intangible assets in the amount of \$115.0 both of which will be subject to the transition provisions of FAS 141 and FAS 142. Application of FAS 142 would increase earnings from continuing operations by \$29.6 or \$0.20 per diluted common share for the year 2000 and \$15.2, or \$0.10 per diluted common share, for the six months ended June 30, 2001. Because of the extensive effort needed to comply with adopting FAS 141 and FAS 142, it is not practicable to reasonably estimate the impact of their adoption on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

OTHER EXPENSE (INCOME)

	For Periods Ended June 30,			
	Three Months		Six Months	
	2001	2000	2001	2000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Litigation costs	\$ 53.7	\$	\$ 53.7	\$
Asset write-downs				
		6.118.3		
Accrued exit costs (net of recoveries)				6.712.2
Foreign currency translation expense (income)			0.10.20.10.2	
Gain on sale of marketable securities			(1.3)	(13.6)
Gain on derivative securities				(2.6)
Loss (gain) on sale of assets			(0.3)	0.1
Minority interest and equity in operations of affiliates			0.1	0.8

Other expense (income) (0.2)

Total
\$52.5\$0.3\$50.1\$31.4

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OTHER EXPENSE (INCOME) (Continued)

Unusual Losses (Gains)

During the second quarter 2001, the Company incurred litigation costs of \$53.7 of which \$52.4 related to the Comdata Flying J litigation further described in Part II, Item 1 of this report. Also during first half of 2001, Ceridian recognized a gain of \$13.6 from the sale of a significant portion of its holdings of HotJobs.com, Ltd. common stock, as further described in an accompanying note entitled Investing Activity. In addition, during first quarter 2001, the Company recorded accrued exit costs of \$6.7, net of recoveries from first quarter 2000 charges of \$3.2, and impairment losses from asset write-offs of \$6.1. The first quarter 2001 accrued exit costs include a \$6.6 charge for the termination by Comdata of an outsourced transaction processing contract as well as severance costs of \$2.3, representing 250 employees terminated by June 30, 2001, and excess facility costs of \$1.0, related to a planned small business disposition and the consolidation of certain HRS operations in Boston, Mass. into operations in Philadelphia, Penn. First quarter 2001 accrued exit costs were reduced by the recovery of first quarter 2000 estimated HRS severance costs of \$3.2 due primarily to a reduction in the scale of downsizing of the St. Louis, Missouri customer service operations. The HRS impairment losses involve the write-off of surplus furniture and equipment, a reduction of excess costs on a software development project and the write-off of goodwill related to a small business that Ceridian plans to sell. The accompanying table provides details on the initial charges and their disposition.

	<u>Asset</u>	<u>Accrued Exit Costs</u>			
	<u>Write-downs</u>	<u>Severance</u>	<u>Occupancy</u>	<u>Other</u>	<u>Total</u>
2000					
Total initial charges					
\$18.3\$16.4\$8.7\$1.3\$44.7					
Less asset write-downs					
(18.3) (18.3)					
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Total accrued charges
 \$ 16.48.71.326.4

2000 payments
 (9.2)(5.1)(1.3)(15.6)

2001 payments
 (2.3)(1.0) (3.3)

2001 recoveries
 (3.2) (3.2)

Balance at June 30, 2001
 \$1.7\$2.6\$ \$4.3

2001
 Total initial charges
 \$6.1\$2.3\$1.0\$6.6\$16.0

Less asset write-downs
 (6.1) (6.1)

Total accrued charges
 \$ 2.31.06.69.9

2001 payments
 (1.9)(0.4)(6.6)(8.9)

Balance at June 30, 2001
 \$0.4\$0.6\$ \$1.0

Total at June 30, 2001
 \$2.1\$3.2\$ \$5.3

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 (Unaudited)

SHORT-TERM INVESTMENTS

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Available For Sale		
Federal Home Loan		
Bank Notes at amortized cost		
\$22.0		
(which approximates fair value)		
Common stock of HotJobs.com, Ltd. at estimated market value		
1.4		
Total short-term investments		
\$23.4		

During the first quarter of 2001, Ceridian sold 1,020,000 shares of HotJobs.com, Ltd. common stock for aggregate proceeds of \$12.3. During second quarter 2001, Ceridian sold 400,564 shares of HotJobs.com, Ltd. common stock for aggregate proceeds of \$1.3. As of June 30, 2001, Ceridian held a balance of 159,459 registered shares of the common stock of HotJobs.com, Ltd. The fair value for this investment of \$9.00 per share (based on quoted market prices) as of June 30, 2001 has been recorded in short-term investments with a corresponding credit, net of deferred income taxes, to unrealized gain on marketable securities within accumulated other comprehensive income in stockholders' equity. Gain or loss on these securities will be recognized as the securities are sold.

INVESTING ACTIVITY

In March 2001, Ceridian entered into an agreement with Ultimate Software Group, Inc. (Ultimate) in which Ceridian is granted a non-exclusive license to use Ultimate's UltiPro software as part of a Web-enabled integrated ASP offering to middle market Ceridian customers. Ceridian made an up-front payment to Ultimate of \$10.0, half of which is subject to the successful transfer of technology to Ceridian. The refundable portion is reported in other noncurrent assets and the non-refundable portion is reported in purchased software. Following the technology transfer, Ceridian will pay a monthly fee based on the number of employees paid using the Ultimate software. Under the Agreement, Ceridian may not acquire an equity interest in greater than 14.99% through purchases in the open market or from third parties.

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 (Unaudited)

DERIVATIVE SECURITIES

Ceridian's risk management policy is to hedge a substantial portion of its interest rate exposure from its investment of client funds, as further described in the note to the consolidated financial statements entitled "Payroll and Tax Filing Client Funds," viewed within the context of management's expectation of the future economic environment. Due to liquidity requirements for client fund obligations, a large percentage of client funds are held in overnight-maturing investments that are subject to interest rate variability. This variability can be offset by purchases of longer-term instruments and by offsetting the variable rate income with floating rates on the Company's debt obligations. The remaining interest rate risk may be managed with derivative securities.

It is the policy of the Company to hold derivative securities only for the purpose of hedging interest rate risk and not for speculative activity. The Company is currently hedging its interest rate exposure over a period not greater than 35 months by the use of interest rate collars that function as cash flow hedges of the designated item.

FAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended became effective for Ceridian on January 1, 2001. Therefore, at that date, the Company's interest rate collars were recorded on its balance sheet at fair value, resulting in recognition of a liability of \$0.4 along with a credit to accumulated other comprehensive income of \$0.2, an addition to deferred tax asset of \$0.1 and a pre-tax charge to earnings of \$0.5. As a result of an interpretation of this accounting standard, effective for Ceridian in second quarter 2001, the interest rate collars are now considered a fully effective hedge and no further gain or loss will be reported as other income (expense) in addition to the \$2.6 gain recognized in first quarter 2001.

As of June 30, 2001, the interest rate collars were revalued resulting in a noncurrent asset of \$8.5 with offsetting credits of \$5.5 in accumulated other comprehensive income and \$3.0 in deferred tax liability. The credit to accumulated other comprehensive income will be reclassified to earnings as cash is received or paid on collar settlements. As of June 30, 2001, the Company expects to reclassify \$7.0 of this amount to revenue during the next 12 months as settlements occur.

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 CERIDIAN CORPORATION AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 June 30, 2001
 (Dollars in millions, except per share data)
 (Unaudited)

STOCKHOLDERS' EQUITY

	June 30, 2001	December 31, 2000
	<u> </u>	<u> </u>
Common Stock		
Par value \$.01 and \$.50		
Shares authorized		
500,000,000		
Shares issued		
146,036,220 and		

161,685,596
\$1.5\$80.8
Shares outstanding
146,036,220 and
145,754,381
Additional paid-in capital
863.21,122.7
Retained earnings
276.081.8
Treasury stock, at cost (none and 15,931,215 common shares)
(342.9)
Accumulated other comprehensive income, net of deferred income taxes:
Unrealized gain on derivative securities
3.8
Unrealized gain on marketable securities
1.311.7
Cumulative translation adjustment
(10.3)(8.7)
Pension liability adjustment
(9.3)(9.2)
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Total stockholders equity
\$1,126.2\$936.2
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Changes in stockholders equity are discussed in the note entitled Reverse Spin-Off Transaction.

COMPREHENSIVE INCOME (LOSS)

	For Periods Ended June 30,			
	Three Months		Six Months	
	2001	2000	2001	2000
	<hr/>	<hr/>	<hr/>	<hr/>
Net earnings (loss)	\$ (11.8)	\$ 27.2	\$ 11.3	\$ 48.1
Items of other comprehensive income before income taxes:				
Change in foreign currency translation adjustment	(2.7)(6.1)(1.6)(3.1)			
Change in unrealized gain from derivative securities	0.6(0.2)7.0(0.2)			
Change in unrealized gain from marketable securities	0.4 (2.5)			

Change in pension liability (0.1)

Less unrealized gain previously reported on derivative and marketable securities settled or sold in this period (2.5)0.2(14.7)0.2

Total other comprehensive income (loss) before income taxes (4.2)(6.1)(11.9)(3.1)
Income tax effect 0.5 3.6

Total other comprehensive income (loss) after income taxes (3.7)(6.1)(8.3)(3.1)

Comprehensive income (loss) \$(15.5)\$21.1\$3.0\$45.0

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FORM 10-Q
CERIDIAN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2001
(Dollars in millions, except per share data)
(Unaudited)

PAYROLL AND TAX FILING CLIENT FUNDS

In connection with its HRS payroll and tax filing services in the U.S. and Canada, Ceridian derives revenue from income it receives from the investment of client funds pending their remittance to settle client obligations. Ceridian invests a portion of the client funds in money market and other short-term investments to provide liquidity to meet client fund obligations and high-grade marketable securities to produce increased investment income through higher yields to maturity.

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Due to the positive intent and ability of the Company to hold the marketable securities until maturity and supporting historical experience, these securities are classified as held-to-maturity and are measured by amortized cost. Disposition of these securities before maturity is expected to be limited to unusual circumstances such as significant deterioration of the issuer's creditworthiness or a major business combination or disposition.

As identified on the consolidated balance sheet, payroll and tax filing client funds and the offsetting obligations amounted to \$2,743.1 at June 30, 2001 and \$2,945.0 at December 31, 2000. This amount varies significantly during the year and averaged \$2,097.8 and \$2,098.4, respectively, for the six-month periods ended June 30, 2001 and 2000. The following tables provide cost and market price information for various classifications of client fund investments and amounts by maturity date.

Investments of Payroll and Tax Filing Client Funds

	June 30, 2001		December 31, 2000	
	Cost	Market	Cost	Market
Money market securities and other cash equivalents	\$ 2,082.1	\$ 2,082.1	\$ 2,154.3	\$ 2,154.3
Held-to-maturity investments:				
U.S. government and agency securities		106.5108.7211.9212.3		
Canadian and provincial government securities		114.9115.5118.9119.5		
Corporate debt securities		154.5155.6141.6141.5		
Asset-backed securities		200.6205.2226.8230.2		
Mortgage-backed and other securities		84.585.291.591.9		
<hr/>				
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Total held-to-maturity investments		661.0670.2790.7795.4		
<hr/>				
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Payroll and tax filing client funds				
\$2,743.1	\$2,752.3	\$2,945.0	\$2,949.7	
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Investments of Client Funds by Maturity Date

	June 30, 2001	
	Cost	Market
Due in one year or less	\$ 2,248.1	\$ 2,249.6
Due in one to three years		
330.0334.6		

Due in three to five
years
165.0168.1

Total
\$2,743.1\$2,752.3

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CERIDIAN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2001
(Dollars in millions, except per share data)
(Unaudited)

CAPITAL ASSETS

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Property, Plant and Equipment		
Land		
\$12.4\$12.1		
Machinery and equipment	247.6235.0	
Buildings and improvements	82.280.7	
	342.2327.8	
Accumulated depreciation	(183.7)(167.4)	
Property, plant and equipment, net		
\$158.5\$160.4		
Goodwill		
Goodwill		
\$980.8\$988.1		
Accumulated amortization	(103.5)(90.2)	
Goodwill, net		
\$877.3\$897.9		

Other Intangible Assets	
Customer lists	
\$36.8\$36.1	
Trademarks	49,349.2
Technology	43,443.7
Other	36,435.1

Total other intangible assets	165,916.1
Accumulated amortization	(43.2)(35.7)

Other intangible assets, net
\$122.7\$128.4

Software and Development Costs	
Purchased software	
\$42.0\$29.8	
Other software development cost	77,160.0

Accumulated amortization	119,189.8
	(38.0)(32.8)

Software and development costs, net
\$81.1\$57.0

Depreciation and Amortization

Depreciation and amortization of property, plant and equipment	\$21.1\$19.2
Amortization of goodwill	17,616.6
Amortization of other intangible assets	7,67.1

**For Periods Ended
June 30,
Six Months**

2001 2000

Amortization of software and
development costs 5.64.4
Pension credit (4.8)(4.8)

Total
\$47.1\$42.5

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CERIDIAN CORPORATION AND SUBSIDIARIES
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June 30, 2001
(Dollars in millions, except per share data)
(Unaudited)

SEGMENT DATA

**For Periods Ended
June 30,
Six Months**

Human Resource Services

	<u>2001</u>	<u>2000</u>
Revenue	\$446.1	\$442.0
EBIT before unusual charges and gains	\$31.5	\$54.3
Unusual (charges) gains		(3.6)(37.0)

EBIT

\$27.9	\$17.3
Total assets at June 30, 2001 and December 31, 2000 before client funds	
\$1,282.3	\$1,264.7
Payroll and tax filing client funds	
	2,743.12,945.0

Total assets at June 30, 2001 and December 31, 2000

\$4,025.4	\$4,209.7
Comdata	
Revenue	
\$153.6	\$150.7
EBIT before unusual charges and gains	
\$39.3	\$34.2
Unusual (charges) gains	
	(59.0)(2.6)

EBIT	
\$(19.7)\$31.6	
Total assets at June 30, 2001 and December 31, 2000	
\$579.8\$572.6	
Other	
Revenue	
\$ \$	
EBIT before unusual charges and gains	
\$ \$	
Unusual (charges) gains	12.39.1

EBIT	
\$12.3\$9.1	
Total assets at June 30, 2001 and December 31, 2000	
\$198.7\$250.7	
Total Ceridian	
Revenue	
\$599.7\$592.7	
EBIT before unusual charges and gains	
\$70.8\$88.5	
Unusual (charges) gains	(50.3)(30.5)

EBIT	
\$20.5\$58.0	
Total assets at June 30, 2001 and December 31, 2000 before client funds	
\$2,060.8\$2,088.0	
Payroll and tax filing client funds	2,743.12,945.0

Total assets at June 30, 2001 and December 31, 2000	
\$4,803.9\$5,033.0	

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CERIDIAN CORPORATION AND SUBSIDIARIES
FORM 10-Q
June 30, 2001

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

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Ceridian Corporation contained in this report that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, anticipates, estimates, believes or plans, or comparable terminology, are forward-looking statements based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Important factors known to Ceridian that could cause such material differences are identified and discussed from time to time in Ceridian's filings with the Securities and Exchange Commission, including those factors discussed in this quarterly report on Form 10-Q and discussed in and incorporated by reference into Ceridian's Annual Report on Form 10-K for the year ended December 31, 2000, which factors are also incorporated herein by reference. Such

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important factors include implementation and success of plans to improve performance of U.S. payroll business, government regulation changes on timing of remittance and interest rate changes and investment income from customer deposits, changes in tax withholding rules, ability to increase revenue from cross-selling efforts and new products, ability to improve operating margins in Human Resource Services, customer retention, effecting system upgrades and conversions, ability to adapt to changing technology, acquisition risks, competitive conditions, liability as a portability administrator, changes in government regulations, Comdata's relationships with key vendors and suppliers, risks associated with the Arbitron reverse spin-off, risks associated with litigation and similar matters, and other factors such as trade, monetary and fiscal policies and political and economic conditions. Ceridian undertakes no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosure Ceridian makes on related subjects in future reports to the SEC.

RESULTS OF OPERATIONS

Consolidated Results

For the second quarter of 2001, Ceridian reported a loss of \$11.8 million, or \$.08 per diluted share of common stock, on revenue of \$290.1 million. For the second quarter of 2000, Ceridian reported net earnings of \$27.2 million, or \$.19 per diluted share of common stock, and earnings from continuing operations of \$18.4 million, or \$.13 per diluted share of common stock, on revenue of \$283.1 million. For the first half of 2001, Ceridian reported net earnings of \$11.3 million, or \$.08 per diluted share of common stock, and earnings from continuing operations of \$6.1 million, or \$.04 per diluted share of common stock, on revenue of \$599.7 million. For the first half of 2000, Ceridian reported net earnings of \$48.1 million, or \$.33 per diluted share of common stock, and earnings from continuing operations of \$24.9 million, or \$.17 per diluted share of common stock, on revenue of \$592.7 million. Net earnings for the first half of 2001 included a \$5.2 million reduction of the previously reported loss from the Arbitron reverse spin-off and for the first half of 2000 included \$23.2 million of earnings from the discontinued operations of Arbitron. Results for the comparative periods also included unusual items that are described in the section of this discussion entitled Unusual Items.

In the following tables, the amount of goodwill amortization for the period is presented separately from other selling, general and administrative expense (SG&A), R&D expense represents research and development costs, EBIT represents earnings (loss) before interest and taxes and percentage relationships that are not meaningful are represented by NM. The references to the results of HRS relate to the human resource services division and subsidiaries of Ceridian, of Comdata relate to the Ceridian's transportation and card services subsidiaries, and of Other relate to the corporate center operations of Ceridian not allocated to the business segments.

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CERIDIAN CORPORATION AND SUBSIDIARIES
FORM 10-Q
June 30, 2001

Statements of Operations Second Quarter Comparisons

(Dollars in millions, except per share data)

	Amount		Inc (Dec)		% of Revenue	
	2001	2000	\$	%	2001	2000
Revenue	\$ 290.1	\$ 283.1	7.0	2.5	100.0	100.0
Cost of revenue	142.2	141.1				
Goodwill amortization	11.1	10.8				
SG&A expense other	4.8	4.0				
R&D expense	3.0	3.0				
Other expense (income)	88.5	79.9				
	611.1	611.1				
	130.5	128.2				
	15.2	15.0				
	(0.4)	5.2				
	5.2	5.4				
	52.5	50.3				
	52.2	18.1				

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Total costs and expenses	307.1244.962.225.5105.986.5
EBIT	(17.0)38.2(55.2)(144.6)(5.9)13.5
Interest income	1.70.80.9NM0.60.3
Interest expense	(4.0)(9.6)5.6(58.8)(1.4)(3.4)
Earnings (loss) before income taxes	(19.3)29.4(48.7)(165.5)(6.6)10.4
Income tax provision (benefit)	(7.5)11.0(18.5)(168.9)(2.6)3.9
Earnings (loss) from continuing operations	\$(11.8)\$18.4(30.2)(163.4)(4.0)6.5
Diluted earnings (loss) per share	\$(0.08)\$0.13(0.21)(161.5)

In the second quarter of 2001, consolidated revenue increased by 2.5% compared to the second quarter of 2000 with each business segment experiencing approximately the same revenue growth. The key factors limiting revenue growth in the quarterly comparison for HRS were a lower number of customer employees, the weakness of the Canadian dollar and pound sterling against the U.S. dollar, and falling yields on invested payroll and tax filing client funds. The key factors limiting revenue growth for Comdata were the impact of the general economic slowdown on the transportation industry and the July 2000 sale of the phone resale business. Key factors offsetting these limiting factors were the benefits of a higher level of orders in HRS, increased revenue from stored value cards in Comdata, and improved customer retention and satisfaction in both business segments.

Total costs and expenses increased by \$62.2 million in the quarterly comparison, due principally to Flying J litigation costs of \$52.4 million further described in the section below entitled Unusual Items. HRS costs and expenses increased by \$11.2 million, primarily due to increased selling expense. Comdata's costs and expenses, not including the Flying J litigation costs, decreased by \$1.3 million, primarily due to the elimination of costs related to the phone resale business sold in July 2000 and cost savings from the termination of an outsourced transaction processing contract in the first quarter of 2001. Comparative costs and expenses are further discussed in the following section entitled Business Segments.

Interest income increased by \$0.9 million in the quarterly comparison due to a higher average invested cash balance. Interest expense decreased by \$5.6 million due primarily to the refinancing of the Company's debt in connection with the Arbitron reverse spin-off transaction, which is further described in the note to the consolidated financial statements entitled Financing, and lower interest rates. The income tax provision in the second quarter of 2000 became an income tax benefit in the second quarter of 2001 primarily due to the decrease in pre-tax earnings resulting from the Flying J litigation cost. The effective tax rate for the second quarter of 2001 was 39.3% compared to 37.3% for the second quarter of 2000.

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CERIDIAN CORPORATION AND SUBSIDIARIES
FORM 10-Q
June 30, 2001

Statements of Operations First Half Comparisons
(Dollars in millions, except per share data)

	Amount		Inc (Dec)		% of Revenue	
	2001	2000	\$	%	2001	2000
Revenue	\$ 599.7	\$ 592.7	7.0	1.2	100.0	100.0
Cost of revenue	287.9289.4	(1.5)(0.5)48.048.8				

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Goodwill amortization	17.6	16.5	16.6	62.9	2.8
SG&A expense other	192.5	167.1	25.4	15.3	332.1
R&D expense	31.1	30.3	0.8	2.6	25.1
Other expense (income)	50.1	131.4	18.7	59.3	8.4
Total costs and expenses	579.2	534.7	44.5	396.6	90.2
EBIT	20.5	58.0	(37.5)	(64.6)	3.4
Interest income	3.5	1.8	1.7	0.6	0.3
Interest expense	(13.0)	(19.5)	6.5	(33.4)	(2.2)
Earnings before income taxes	11.0	40.3	(29.3)	(72.6)	1.8
Income taxes	4.9	15.4	(10.5)	(68.4)	0.8
Earnings from continuing operations	\$6.1	\$24.9	(18.8)	(75.2)	1.0
Diluted earnings per share	\$0.04	\$0.17	(0.13)	(76.5)	

In the first half of 2001, consolidated revenue increased by \$7.0 million compared to the first half of 2000 with each business segment experiencing modest revenue growth. The key factors affecting revenue growth in the first half comparison were the same as in the quarterly comparison.

Total costs and expenses increased by \$44.5 million in the first half comparison, due principally to the second quarter 2001 Flying J litigation costs of \$52.4 million further described in the section below entitled Unusual Items. HRS costs and expenses decreased by \$6.5 million including unusual costs of \$3.6 million in the first half of 2001 and \$37.0 million in the first half of 2000. Comdata's costs and expenses, including the unusual Flying J litigation and first quarter contract termination costs of \$59.0 million in the first half of 2001 and \$2.6 million in the first half of 2000, increased by \$54.2 million. A year-to-date net decrease of \$3.2 million in Other costs and expenses resulted from a \$12.3 million unusual gain in the first quarter of 2001 and a \$9.1 million unusual gain recorded in the first quarter of 2000. These unusual costs and gains are further described in the sections below entitled Other and Unusual Items. Without regard to the unusual items, HRS costs and expenses were \$414.6 million in the first half of 2001, compared to \$387.7 million for the first half of 2000. This increase of \$26.9 million in HRS costs and expenses is due principally to higher selling expense arising from a significant expansion of the U.S. sales force. Without regard to unusual items, Comdata costs and expenses were \$114.3 million for the first half of 2001, compared to \$116.5 million for the first half of 2000. This reduction of \$2.2 million in costs and expenses is primarily due to the elimination of costs related to the phone resale business sold in July 2000 and cost savings from the termination of an outsourced transaction processing contract in the first quarter of 2001. Comparative costs and expenses are further discussed in the following section entitled Business Segments.

Interest income increased by \$1.7 million in the first half comparison due to a higher average invested cash balance related to an accumulation of cash during the first quarter of 2001 in preparation for the Arbitron reverse spin-off. Interest expense decreased by \$6.5 million due primarily to reductions in the average outstanding U.S. and Canadian revolving credit balances in the comparative quarters. Income taxes decreased by \$10.5 million primarily due to the decrease in pre-tax earnings. The effective tax rate for the first half of 2001 was 44.0% compared to 38.2% for the first half of 2000.

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CERIDIAN CORPORATION AND SUBSIDIARIES
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Business Segment Results

Segment Second Quarter Comparisons

	Amount		Inc (Dec)		<i>(Dollars in millions)</i> % of Revenue	
	2001	2000	\$	%	2001	2000
	Revenue					
HRS	\$213.0	\$208.2	4.8	2.3	73.5	73.5
Comdata		77.1	77.1	174.9	23.0	26.6
Total	\$290.1	\$283.1	7.0	2.5	100.0	100.0
EBIT						
HRS	\$12.5	\$18.9	(6.4)	(33.9)	5.9	9.1
Comdata		(29.5)	19.3	(48.8)	NM	(38.3)
Other						25.8
						NM
Total	\$(17.0)	\$38.2	(55.2)	(144.6)	(5.9)	13.5

Segment First Half Comparisons

	Amount		Inc (Dec)		<i>(Dollars in millions)</i> % of Revenue	
	2001	2000	\$	%	2001	2000
	Revenue					
HRS	\$446.1	\$442.0	4.1	10.9	74.4	74.6
Comdata		153.6	153.6	150.7	92.0	25.6