CERIDIAN CORP /DE/
Form 10-Q
November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 ___X___ NO_______

The number of shares of registrant s Common Stock, par value $.01 per share, outstanding as of October 31, 2001, was 146,292,283.

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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 September 30, 2001, and results of operations for the three and nine month periods and cash flows for the nine month periods ended September 30, 2001 and 2000.

The results of operations for the nine month period ended September 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.

FORM 10-Q
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 September 30,			
	Three Months		Nine Months	
	2001	2000	2001	2000
Revenue	$ 280.9	$ 279.3	$ 880.6	$ 872.0
Costs and Expenses				
Cost of revenue	141.0	135.4	428.9	424.8
Selling, general and administrative	92.2	84.3	302.3	267.9
Research and development	14.0	15.8	45.1	46.1
Other expense (income)	(1.9)	0.8	48.2	32.2
Total costs and expenses	245.3	236.3	824.5	771.0
Earnings before interest and taxes	35.6	43.0	56.1	101.0
Interest income	2.5	1.0	6.0	2.8
Interest expense	(3.5)	(10.4)	(16.5)	(29.9)
Earnings before income taxes	34.6	33.6	45.6	73.9
Income tax provision	14.0	13.3	18.9	28.7
Earnings from continuing operations	20.6	20.3	26.7	45.2
Discontinued operations		15.2	5.2	38.4
Net earnings	$ 20.6	$ 35.5	$ 31.9	$ 83.6
Basic earnings per share				
Continuing operations	$ 0.14	$ 0.14	$ 0.18	$ 0.31
Net earnings	$ 0.14	$ 0.24	$ 0.22	$ 0.58
Diluted earnings per share				
Continuing operations	$ 0.14	$ 0.14	$ 0.18	$ 0.31
Net earnings	$ 0.14	$ 0.24	$ 0.22	$ 0.57
Shares used in calculations (in 000 s)				
Weighted average shares (basic)	146,149	145,380	145,966	145,073
Dilutive securities	3,207	2,150	2,460	1,399
Weighted average shares (diluted)	149,356	147,530	148,426	146,472
Antidilutive shares excluded (in 000 s)	5,698	4,818	5,427	6,173

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CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in millions)

Ceridian Corporation and Subsidiaries

Assets	September 30, 2001	December 31, 2000
Cash and equivalents	$ 92.1	$ 118.5
Short-term investments	22.0	40.1
Trade receivables, less allowance of $16.9 and $17.4	450.6	438.3
Other receivables	21.8	22.6
Current portion of deferred income taxes	44.0	41.8
Net assets of discontinued operations		28.2
Other current assets	25.2	25.9
Total current assets	655.7	715.4
Property, plant and equipment, net	158.3	160.4
Goodwill, net	870.7	897.9
Other intangible assets, net	119.4	128.4
Software and development costs, net	85.8	57.0
Prepaid pension cost	133.1	128.1
Other noncurrent assets	37.8	0.8
Total assets before funds held for clients	2,060.8	2,088.0
Payroll and tax filing client funds	2,388.2	2,945.0
Total assets	$ 4,449.0	$ 5,033.0
Liabilities and Stockholders Equity		
Short-term debt and current portion of long-term obligations	$ 1.2	$ 0.3
Accounts payable	33.6	31.7
Drafts and customer funds payable	198.4	172.1
Customer advances	12.0	14.5
Deferred income	31.0	38.5
Accrued taxes	75.4	76.0
Employee compensation and benefits	51.4	65.8
Other accrued expenses	49.3	75.0
Total current liabilities	452.3	473.9
Long-term obligations, less current portion	260.3	500.3
Deferred income taxes	76.2	67.7
Employee benefit plans	75.5	75.7
Other noncurrent liabilities	34.4	34.2
Total liabilities before client fund obligations	898.7	1,151.8
Client fund obligations	2,388.2	2,945.0
Total liabilities	3,286.9	4,096.8
Stockholders equity	1,162.1	936.2
Total liabilities and stockholders equity	$ 4,449.0	$ 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 September 30, Nine Months 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 31.9	$ 83.6
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Earnings from discontinued operations	(5.2)	(38.4)
Deferred income tax provision	4.8	48.5
Depreciation and amortization	71.4	65.6
Gains on marketable and derivative securities	(18.2)	
Asset write-downs	6.1	18.3
Other	3.6	1.9
Net change in working capital items:		
Trade and other receivables	(15.4)	(41.6)
Accounts payable	8.3	(1.0)
Drafts and customer funds payable	19.6	52.3
Employee compensation and benefits	(14.3)	(7.4)
Accrued taxes	0.6	1.3
Other current assets and liabilities	(15.5)	(3.6)
Cash provided by operating activities of discontinued operations	(0.8)	34.3
Net cash provided by operating activities	76.9	213.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Expended for property, plant and equipment	(31.4)	(54.4)
Expended for software and development costs	(41.0)	(18.8)
Expended for investments in and advances to businesses, less cash acquired	(12.1)	(65.1)
Proceeds from sales of businesses and assets	17.9	15.1
Cash used for investing activities of discontinued operations	(1.2)	(1.8)
Net cash provided by (used for) investing activities	(67.8)	(125.0)
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving credit and overdrafts, net	189.9	(37.8)
Repayment of other debt	(456.6)	(20.5)
Repurchase of stock		(1.4)
Exercise of stock options and other	6.2	13.7
Cash provided by financing activities of discontinued operations	225.0	
Net cash provided by (used for) financing activities	(35.5)	(46.0)
NET CASH PROVIDED (USED)	(26.4)	42.8
Cash and equivalents at beginning of period	118.5	58.5
Cash and equivalents at end of period	$ 92.1	$ 101.3

See notes to consolidated financial statements.

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

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 nine 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 3.7% as of September 30, 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.

At September 30, 2001, advances of $255.0 and a letter of credit in the amount of $2.0 were outstanding under the January 2001 credit facility. The Company was in compliance with all covenants contained in the January 2001 credit facility at September 30, 2001. During third quarter 2001, the Company made a $30.0 payment on the January 2001 credit facility. In addition, the balance outstanding on the Company s Canadian revolving credit agreements was reduced from $19.1 to $3.9 by payments of $15.0 and translation adjustments of $0.2 during the first nine months 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 requires 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 also requires 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 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

FAS 144, issued in October 2001, supercedes FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, removing from its scope any reference to goodwill impairment and offering guidance on using cash flows to value long-lived assets. In addition, FAS 144 supercedes the accounting and reporting provisions for the disposal of a business presented in Accounting Principles Board Opinion No. 30, Reporting the Results of Unusual and Infrequently Occurring Events and Transactions, primarily by broadening the definition of a discontinued operation to include business components not considered business segments.

The Company is required to adopt the provisions of FAS 141 immediately and FAS 142 and FAS 144 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 will continue to be amortized in accordance with appropriate pre-FAS 142 and 144 literature until January 1, 2002.

FAS 141 requires, 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 requires 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 reflected 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 are subject to the transition provisions of FAS 141 and FAS 142. The pro forma effect of cessation of goodwill amortization prescribed by FAS 142 would increase earnings from continuing operations by $29.6 or $0.20 per diluted common share for the year 2000 and $22.8, or $0.15 per diluted common share, for the nine months ended September 30, 2001. Because of the extensive effort needed to comply with adopting FAS 141, FAS 142 and FAS 144, 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 September 30,			
	Three Months		Nine Months	
	2001	2000	2001	2000
Litigation costs	$	$	$ 53.7	$
Asset write-downs			6.1	18.3
Accrued exit costs (net of recoveries)			6.7	12.2
Foreign currency translation expense (income)			0.1	0.2
Gain on sale of marketable securities	(2.0)		(15.6)	
Gain on derivative securities			(2.6)	
Loss (gain) on sale of assets	0.1	0.9	(0.2)	1.0
Minority interest and equity in operations of affiliates				0.8
Other expense (income)		(0.1)		(0.3)
Total	$ (1.9)	$ 0.8	$ 48.2	$ 32.2

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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. During the first nine months of 2001, Ceridian recognized a gain of $15.6 from the sale 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. The first quarter 2001 recovery of first quarter 2000 estimated HRS severance costs of $3.2 was due primarily to a reduction in the scale of downsizing of the St. Louis, Mo. 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.