CERIDIAN CORP /DE/
Form 10-Q
May 15, 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 March 31, 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 Registrant has not been subject to filing requirements for 90 days.

The number of shares of registrant s Common Stock, par value $.01 per share, outstanding as of April 30, 2001, was 145,859,266.

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Part I. Financial Information

Ceridian Corporation (Ceridian or the Company) was formed as a result of the spin-off of the human resource services division and human resource services and Comdata subsidiaries of a predecessor entity. On March 30, 2001, Ceridian became an independent public company when its predecessor distributed all of Ceridian s outstanding common stock to the predecessor s stockholders in a tax free spin-off transaction (the spin-off). Despite the legal form of the spin-off, because of the significance of the human resource services and Comdata business to its predecessor, Ceridian is considered the divesting entity in the spin-off and is treated as the accounting successor to the predecessor entity (now called Arbitron Inc.) and will report financial information about its continuing operations as well as the financial history of the Arbitron media information business prior to the reverse spin-off as discontinued operations. For further information, see the note to the consolidated financial statements entitled Reverse Spin-Off Transaction.

In the opinion of 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 March 31, 2001, and results of operations and cash flows for the three month periods ended March 31, 2001 and 2000.

The results of operations for the three month period ended March 31, 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***

CERIDIAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For Periods Ended March 31, Three Months 2001	2000
	(Dollars in millions, except per share data)	
Revenue	$309.6	$309.6
Costs and Expenses		
Cost of revenue	145.7	148.3
Selling, general and administrative	112.9	95.3
Research and development	15.9	15.1
Other expense (income)	(2.4)	31.1
Total costs and expenses	272.1	289.8
Earnings before interest and taxes	37.5	19.8
Interest income	1.8	1.0
Interest expense	(9.0)	(9.9)
Earnings before income taxes	30.3	10.9
Income tax provision	12.4	4.4

Earnings from continuing operations	17.9	6.5
Discontinued operations		
Reduction of loss from disposition	5.2	
Earnings from operations		14.4
Net earnings	$23.1	$20.9
Basic earnings per share		
Continuing operations	$0.12	$0.04
Net earnings	$0.16	$0.14
Diluted earnings per share		
Continuing operations	$0.12	$0.04
Net earnings	$0.16	$0.14
Shares used in calculations (in 000 s)		
Weighted average shares (basic)	145,790	144,787
Dilutive securities	766	738
Weighted average shares (diluted)	146,556	145,525

See notes to consolidated financial statements.

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CERIDIAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2001	December 31, 2000
	(Dollars in millions)	
ASSETS		
Cash and equivalents	$73.2	$118.5
Short-term investments	24.8	40.1
Trade receivables, less allowance of $17.6 and $17.4	423.5	438.3
Other receivables	25.4	22.6
Current portion of deferred income taxes	38.4	41.8
Net assets of discontinued operations		28.2
Other current assets	28.6	25.9
Total current assets	613.9	715.4
Property, plant and equipment, net	163.3	160.4
Goodwill, net	888.3	897.9
Other intangible assets, net	125.1	128.4
Software and development costs, net	75.1	57.0
Prepaid pension cost	128.3	128.1
Other noncurrent assets	15.8	0.8
Total assets before funds held for clients	2,009.8	2,088.0
Payroll and tax filing client funds	3,513.5	2,945.0

Total assets	$5,523.3	$5,033.0
LIABILITIES AND STOCKHOLDERS EQUITY		
Short-term debt and current portion of long-term obligations	$0.3	$0.3
Accounts payable	27.7	31.7
Drafts and customer funds payable	186.0	172.1
Customer advances	13.8	14.5
Deferred income	37.6	38.5
Accrued taxes	73.8	76.0
Employee compensation and benefits	45.3	65.8
Other accrued expenses	54.0	46.7
Total current liabilities	438.5	445.6
Long-term obligations, less current portion	251.4	500.3
Deferred income taxes	70.4	67.7
Employee benefit plans	76.1	75.7
Other noncurrent liabilities	34.7	62.5
Total liabilities before client fund obligations	871.1	1,151.8
Client fund obligations	3,513.5	2,945.0
Total liabilities	4,384.6	4,096.8

Stockholders equity	1,138.7	936.2
Total liabilities and stockholders equity	$5,523.3	$5,033.0

See notes to consolidated financial statements.

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CERIDIAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For Periods Ended March 31, Three Months	
	2001	**2000**
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$23.1	$20.9
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Earnings from discontinued operations	(5.2)	(14.4)
Deferred income tax provision	10.8	9.8
Depreciation and amortization	22.2	21.0
Gains on marketable and derivative securities	(14.9)	
Asset write-downs		

	6.1	18.3
Other	3.3	0.8
Net change in working capital items:		
Trade and other receivables	11.4	(22.5)
Accounts payable	0.2	2.9
Drafts and customer funds payable	9.7	28.2
Employee compensation and benefits	(20.6)	(16.5)
Accrued taxes	(2.3)	(3.1)
Other current assets and liabilities	(8.8)	4.2
Cash provided by operating activities of discontinued operations	(0.8)	21.2
Net cash provided by operating activities	34.2	70.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Expended for property, plant and equipment	(12.0)	(18.9)
Expended for software and development costs	(23.6)	(5.1)
Expended for investments in and advances to businesses, less cash acquired	(5.5)	
Proceeds from sales of businesses and assets	13.5	1.9
Cash used for investing activities of discontinued operations	(1.2)	(0.7)

Net cash provided by (used for) investing activities	(28.8)	(22.8)
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving credit and overdrafts, net	180.0	(2.1)
Repayment of other debt	(456.6)	(20.0)
Exercise of stock options and other	0.9	1.7
Cash provided by financing activities of discontinued operations	225.0	
Net cash provided by (used for) financing activities	(50.7)	(20.4)
NET CASH PROVIDED (USED)	(45.3)	27.6
Cash and equivalents at beginning of period	118.5	58.5
Cash and equivalents at end of period	$73.2	$86.1

See notes to consolidated financial statements.

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CERIDIAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 called 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. As part of the spin-off, Old Ceridian was renamed Arbitron Inc., and New Ceridian Corporation was renamed Ceridian Corporation. Despite the legal form of the spin-off, because of the relative significance of HRS and Comdata to Old Ceridian prior to the spin-off, Ceridian is treated as the accounting successor and Arbitron media information business 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 Arbitron payment, borrowings of $235.0 under the Company s January 2001 domestic revolving credit facility and existing cash balances were used to retire the $430.0 of Old Ceridian s senior notes and the $50.0 balance under Old Ceridian s U.S. revolving credit facility and pay $26.5 under a make-whole provision of the senior notes agreement that relates to early retirement of the notes and $1.0 in deferred origination fees in connection with the January 2001 revolving credit facility. 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 and equity transactions are presented in the note to the consolidated financial statements entitled Financing.

Earnings from discontinued operations of Arbitron after July 18, 2000 and until the date of the spin-off are first applied to the reduction of the spin-off charges of $39.4, net of income taxes. At December 31, 2000, the net amount of spin-off charges was reduced to a loss of $6.9 by applying an estimated $32.5 expected to be earned by the discontinued operations prior to the spin-off. The actual earnings of discontinued operations after July 18, 2000 exceeded the December 31, 2000 estimate by $5.2, which reduced the loss from disposition from $6.9 to $1.7.

Payroll and Tax Filing Client Funds

In connection with its HRS payroll and tax filing services in the U.S. and Canada, Ceridian collects funds from clients for payment of employee compensation and taxes due, holds such funds in trust until payment is due, and remits the funds to the appropriate party. For such services, Ceridian derives revenue from fees charged and from income it receives from the investment of client funds pending their remittance to settle client obligations.

It is the Company s policy to hold U.S. and Canadian client fund investments separately in short-term portfolios to provide liquidity to meet client fund obligations and long-term portfolios to produce increased investment income through higher yields to maturity. The short-term portfolios contain money market securities and other cash equivalents that mature within 90 days after purchase and whose acquisition cost

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CERIDIAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

does not differ materially from fair value. The long-term portfolios contain U.S. or Canadian government securities, mortgage- and asset-backed securities rated AAA, and corporate debt securities rated A3/A- or better. Due to the positive intent and ability of the Company to hold these securities until maturity and supporting historical experience, the long-term portfolios 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 $3,513.5 at March 31, 2001 and $2,945.0 at December 31, 2000. This amount varies significantly during the year and averaged $2,227.4 and $2,170.3, respectively, for the three-month periods ended March 31, 2001 and 2000. The following table provides cost and market price information for various classifications of client fund investments.

Investments of Payroll and Tax Filing Client Funds

	March 31, 2001		December 31, 2000	
	Cost	Market	Cost	Market
Money market securities and other cash equivalents	$2,815.5	$2,815.5	$2,154.3	$2,154.3
Held-to-maturity investments:				
U.S. government and agency securities	126.8	129.2	211.9	212.3
Canadian and provincial government securities	119.2	120.6	118.9	119.5
Corporate debt securities	149.6	151.4	141.6	141.5
Asset-backed securities	214.6	220.6	226.8	230.2
Mortgage-backed and other securities	87.8	89.0	91.5	91.9

Total held-to-maturity investments	698.0	710.8	790.7	795.4
Payroll and tax filing client funds	$3,513.5	$3,526.3	$2,945.0	$2,949.7

Investments of Client Funds by Maturity Date

	March 31, 2001	
	Cost	Market
Due in one year or less	$2,974.6	$2,975.7
Due in one to three years	399.1	405.7
Due in three to five years	134.0	139.0
Due after five years	5.8	5.9
Total	$3,513.5	$3,526.3

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. The 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 5.5% as of April 30, 2001. Under the terms of the 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. The credit facility also limits liens, subsidiary debt, contingent obligations, operating leases, minority equity investments and

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CERIDIAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

divestitures. At March 31, 2001, the initial borrowing of $235.0 and letters of credit totaling $2.0 remained outstanding, and the Company was in compliance with all covenants contained in the credit facility.

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 2001 revolving credit facility resulted in the payment of $1.0 for origination costs that will be amortized over the term of the facility. In addition, the balance outstanding on the Canadian revolving credit agreements was reduced from $19.1 to $15.1 by payments of $4.0 during first quarter 2001.

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. Ceridian s hedging activities may include the use of interest rate swaps, collars, caps and floors, primarily with respect to investment of client funds or its debt obligations. These derivative securities typically function as cash flow hedges of the designated item.

At January 1, 2001, Ceridian maintained interest rate collars for the purpose of hedging interest rate risk on invested client funds. The counterparties to these arrangements are commercial banks with debt ratings of A or better. These arrangements, which do not require collateral, require the banks to pay Ceridian the amount by which a certain index of short-term interest rates falls below a specified floor strike level. Alternatively, when that index exceeds a specified cap strike level, Ceridian is required to pay out the excess above the cap strike level. The Company is currently hedging its interest rate exposure over a period not greater than 38 months.

Financial Accounting Standard 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, 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 of

March 31, 2001, the interest rate collars were revalued resulting in a noncurrent asset of $9.1, a credit in accumulated other comprehensive income of $4.2 and a deferred tax liability of $2.3. The impact on pre-tax earnings for first quarter 2001, including the amount recognized at adoption, amounted to a credit of $2.6, which is reported in other expense (income). The credit to accumulated other comprehensive income represents the effective portion of the collar hedges. This amount will be reclassified to earnings as cash is received or paid on collar settlements. During the next 12 months, the Company expects to reclassify $2.5 of this amount to earnings as settlements occur.

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CERIDIAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Short-Term Investments

	March 31, 2001	December 31, 2000
Available For Sale		
Federal Home Loan Bank Notes at amortized cost (which approximates fair value)	$22.0	$22.0
Common stock of HotJobs.com, Ltd. at estimated market value	2.8	18.1
Total short-term investments	$24.8	$40.1

During first quarter 2001, Ceridian sold 1,020,000 shares of HotJobs.com, Ltd. Common stock for aggregate proceeds of $12.3. As of March 31, 2001, Ceridian held a balance of 560,023 registered shares of the common stock of HotJobs.com, Ltd. (159,459 of which remain in escrow until May 2001) that were received in exchange for preferred stock received in connection with the sale of Resumix, Inc. in 1998. The fair value for this investment of $5.06 per share (based on quoted market prices) as of March 31, 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

During the first three months of 2001, net investing inflows amounted to $13.3, which consisted of $12.3 from the sale of 1,020,000 shares of HotJobs.com, Ltd. stock and $1.0 from the July 2000 installment sale of a phone resale business for which the funds were received in January 2001.

In March 2001, Ceridian entered into an agreement with Ultimate Software Group, Inc. 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. Ceridian may acquire an equity interest in Ultimate through purchases in the open market or from third parties, subject to a contractual limitation of 14.99% of Ultimate s common stock.

Also during the first three months of 2001, capital expenditures of $35.6 included $7.4 for transaction processing software and hardware as a result of a decision by Comdata to bring this activity in-house and terminate an outsourcing contract.

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CERIDIAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stockholders Equity

	March 31, 2001	December 31, 2000