



The Turnaround Tactician

Vol.1 No.1 —

Editor's note: The sample issue is for promotional purposes to show the type of content and style you can expect in the upcoming **Turnaround Tactician**. The price data is identified with the date it was captured.

No Boys of Summer

These California players score all year long

- Big Investors cozy up to Payroll King Ceridian
- Can Relational relive its Tyco, NSM, Waste Mgmt successes?
- TT checks out Investors: Providence Capital, Lawndale Capital Mgmt, Highfields

ASBURY PARK, N.J. (TT) -- The boys of San Diego are at it again. Relational Investors is building up a presence in Ceridian, which also seems of great interest to AIM Investments, Capital Research & Management, Janus, FMR Corp. (Fidelity's parent) and Harris Assoc.

Since Relational did so nicely in teaching corporate governance to Waste Management (WMI), which just offered a dividend, and Tyco -- while watching Tyco's shares grow from the low teens, to a recent close of \$31.93 on April 21 --these fellas themselves are worth watching.

We're not the only ones who think so. The nation's largest public pension, California Public Employees' Retirement System (CalPERS), with assets of \$167 billion, upped the monies it entrusts to Relational to \$1 billion last year. In March of last year, CalPERS nominated two people to the Board

of Directors of the New York Stock Exchange: former SEC Chairman, Arthur Levitt, and Relational's cofounder Ralph Whitworth. The following June, the California State Teachers' Retirement System (CalSTRS) gave Relational \$700 million of its \$116 billion in assets.

Waste Management (WMI)

Shares Out: 568.05M

Market Cap: 16.45B

Price at Entry: 5/20/2003 24.00

Current Price: 5/13/2005 28.96

Avg Volume: 1,623,000

Organizations like these are impressed because Relational usually improves the way public companies operate by applying corporate governance activist techniques, which can result in better share value. Example: by the end of last year Relational had a position in National Semiconductor ([TICKER:NSM](#)) of about 8.9%.

These turnarounds don't happen overnight. They usually take years and start with relatively modest acquisitions, while the investors sniff around. This style of investing is not for the impatient, or those who'd rather rack up trading fees than stick with a long-term growth strategy.

Relational started accumulating shares of NSM over five years ago. What's nice about following these corporate governance-motivated investors is that you can watch from the sidelines as they spend their money and decide whether or when to jump in. These guys do all the research, proxy filings, litigation and lobbying of fellow shareholders, while other shareholders get to go along for the ride.

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Past triumph: National Semiconductor

In 2003, Relational asked National Semiconductor's management for changes in its business strategy, specifically to stop draining its successful analog chip business to support less profitable areas. To punch it up a bit, Relational told the SEC in February of 2003 it was ready to run its own people for the NSM board of directors. Apparently not seeing the kind of action he'd expected, Whitworth started auditioning with shareholders for the role of chairman of the board. On June 19, 2003 Relational announced plans to nominate Whitworth and another major turnaround specialist at Relational, David H. Batchelder, for election to the board of directors, at NSM's 2003 annual meeting. This was no hollow threat. Whitworth did assume the role of chairman to stem a governance crisis at Waste Management.

But a month later, on July 21, 2003, Relational withdrew the nominations to NSM's board (the proxy materials had not been filed yet with the SEC), because management had agreed to regular meetings with Relational. So Whitworth and his partners pulled their horns in, while retaining the right to send those election materials out with the annual meeting documents and kept on buying stock to expand their voting power.

It will be interesting to see what advice Relational brings to the table. Will Whitworth decide Ceridian's services to the transportation industry are too far removed from the core payroll business?

Low and behold, NSM's top brass saw the light. By fall 2004, it began shedding its unprofitable initiatives --cellular baseband and information appliance lines -- in favor of the analog computer chip business Relational saw as the company's main strength. In December, 2004, Relational started reaping its rewards by selling some of its stake at \$17.04 and riding it down to \$15.94 by late January.

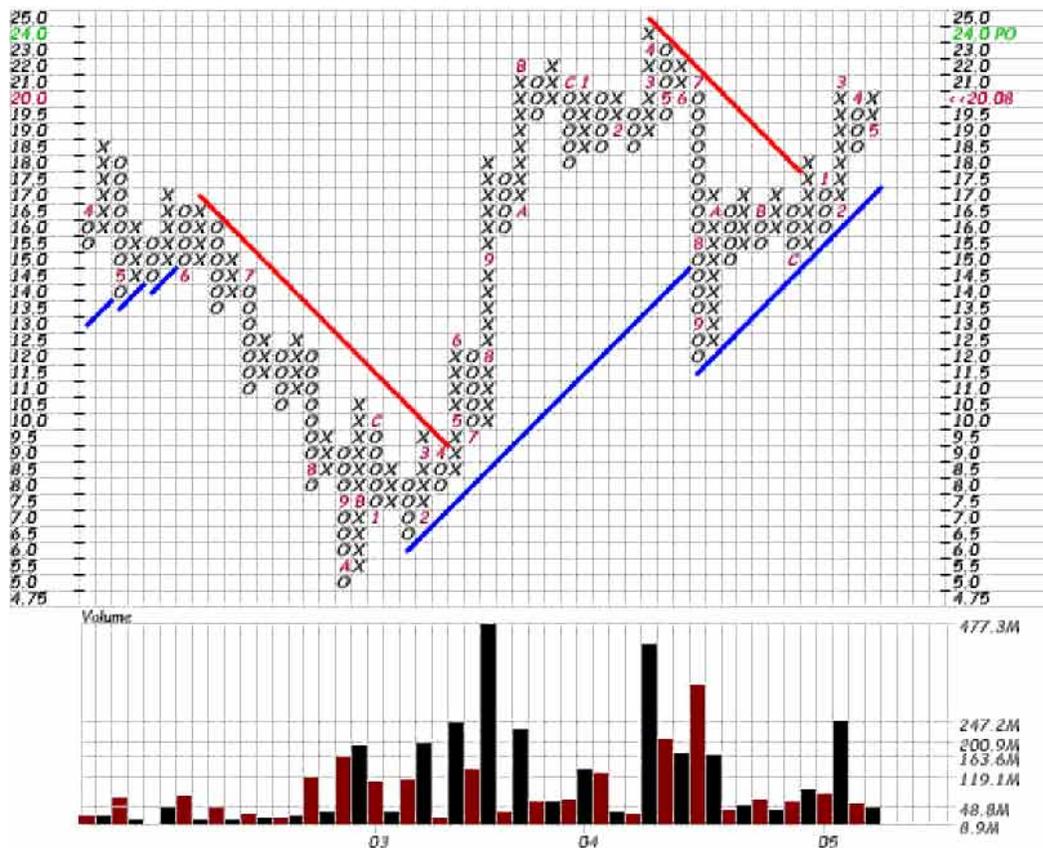
National Semiconductor Co. (NSM) NYSE

23-May-2005, 13:40 ET, daily, O: 19.99, H: 20.24, L: 19.84, C: 20.08, V: 2412600, Chg: +0.11 (0.55%)

No New P&F Pattern

Traditional, 3 box reversal chart

Bullish Price Obj. (Rev.): 24.5



Charts Courtesy of <http://stockcharts.com>

What does that do for the rest of us?

Let's see. If I'd bought NSM in that first half of 2003, when Relational was getting specific about what it wanted changed, I might have grabbed some shares for as low as \$6 per. If I waited to sell with Relational at year end 2004, I could've sold at a modest -\$16 to \$18. Or, I might've read the tea leaves back in June, when the sparks first flew or even in July, when Relational pulled in its horns, either way the share price was reaching its high for the 52-week period, from \$20 -\$23 a share, during those months. Judging by its government filings, Relational's buys of NSM averaged about \$11 a share including commissions.

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Enough of the past, what about Ceridian?

Why has Ceridian ([TICKER:CEN](#)) come up on Relational's radar screen and what corporate governance improvements -- if any -- are they expecting in return for their dime?

Ceridian, formerly mainframe computer manufacturer Control Data, known affectionately as the "payroll factory," has changed dramatically over the years. As an information services company today, Ceridian specializes in running corporate payrolls, taxes, benefits and other HR outsourcing services for more than 20 million employees worldwide. Its Comdata division processes payments for most of the large trucking firms in the United States, and provides gift cards for major retailers such as The Gap, Lowes, J.C. Penney, and Barnes & Noble.

**Ceridian
(CEN) 17.14
4/27/2005**

**Shares Out:
149.73M**

**Market Cap:
2.57B**

**52wk High:
6/9/2004 23.41**

**52wk Low:
4/5/2005 16.22**

**Avg Volume:
916,700**

Last July, Ceridian shares traded in the neighborhood of \$22, but fell into a trough right after that with lows around \$16.50. Then, on April 12, in reporting its fourth quarter earnings of \$11 million, or 7 cents a share, the company announced it would have to restate its earnings from 2000 through 2003, due to "lease accounting issues," resulting in an after-tax expense of about \$5 million. According to Ceridian's head of investor relations, the restatement resulted from a review of the long term rental leases for the buildings it occupies, and represents a small portion of the company's revenues of \$13 billion.

Ceridian's earnings forecast is still in line with Wall Street's, which expects revenue to rise to between \$1.44 billion and \$1.48 billion and earnings to gain 78 cents per share.

Ceridian Corp. (CEN) NYSE

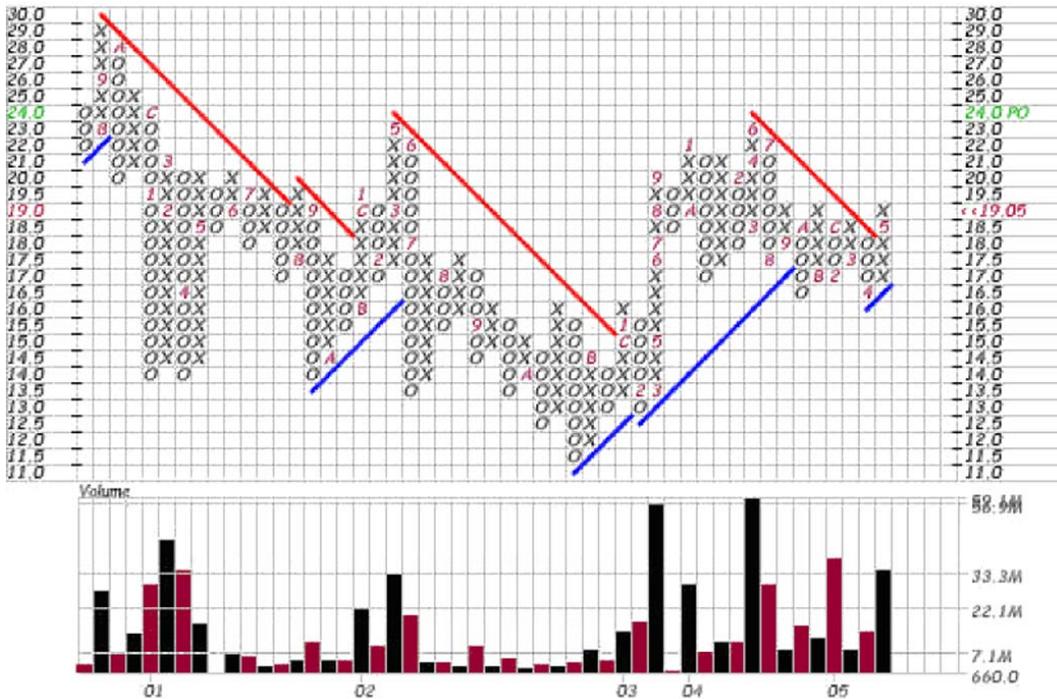
23-May-2005, 13:32 ET, daily, O: 19.06, H: 19.19, L: 18.99, C: 19.05, V: 358100, Chg: +0.01 (-0.05%)

P&F Pattern Double Top Breakout on 17-May-2005

Traditional, 3 box reversal chart

Bullish Price Obj. (Rev.): 24.5

@StockCharts.com



Charts Courtesy of <http://stockcharts.com>

According to SEC reports, Relational accumulated nearly 3 million shares, a roughly 2% position in Ceridian, between Nov. 15, 2004 and Dec. 31, 2004. The stock traded during that time at between \$16.50 and \$19, making Ceridian pricier for Relational than the \$11 it averaged with NSM. That could indicate that Whitworth and his partners have high hopes for this one.

It will be interesting to see what advice Relational brings to the table. Will Whitworth decide Ceridian's services to the transportation industry are too far removed from the core payroll business? Whatever their conclusions, they won't be formed overnight.

Relational -- and the other corporate governance turnaround guys -- take nibbles first. They buy enough stock to give them access to the target company; a visit with the president, CEO or chairman of the board, a tour of the facilities, maybe even a close look at the books.

When they make their recommendations for change, they're actually based on their on-the-scene research, not some one-size-fits-all model for success. However, this also means that Relational could, based on that research, pull out again. Until they've filed a 13-D with the SEC, reporting a position of 5% or more of the company's outstanding shares, they're probably still just testing the water.

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Relational Investors holdings as Feb. 11, 2005

ISSUER	VALUE	SHARES	% SHARES
ConAgra (TICKER:CAG)	\$316.3 mln	10.7 mln	2
Prudential Financial (TICKER:PRU)	\$588.4 mln	10.7 mln	2
National Semiconductor (TICKER:NSM)	\$478.1 mln	26.6 mln	8
Mellon Financial (TICKER:MEL)	\$330.3 mln	10.6 mln	2.5
Baxter International (TICKER:BAX)	\$382.9 mln	11.1 mln	2
CNF Inc. (TICKER:CNF)	\$250.5 mln	5 mln	9.7
SPX Corp. (TICKER:SPW)	\$170.5 mln	4.3 mln	5.7
Computer Assoc. Int'l. (TICKER:CA)	\$465.4 mln	14 mln	2.5
Sovereign Bancorp (TICKER:SOV)	\$201.2 mln	8.9 mln	2.6
Ceridian (TICKER:CEN)	\$51.4 mln	2.8 mln	1.9
SPDR Trust (TICKER:SPY)	\$431.9 mln	3.6 mln	

Editors note: Institutional investment managers with \$100 million or more equity assets under management must report file their holdings quarterly with the Securities & Exchange Commission (SEC).

Next Issue

What's new with Warren G. Lichtenstein's Steel Partners? A look back at Eddie Lampert (ESL), the turnaround guru who put Sears and K-Mart together.

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The Turnaround Tactician Watch List

1. Burt Denton of Providence Capital forced many corporate governance changes on parent ICN. Interesting product line.
2. Highfields proposed finding a merger partner for Circuit City and was turned down.
3. Andrew Shapiro, of Lawndale Capital Management, has been actively involved in the corporate governance improvements at Arlington for at least three years.

COMPANY	ACTIVIST	STAKE	*TT	CURRENT
Ceridian (TICKER: CEN)	Relational Investors	1.9%	4/27/05 - \$17.14	\$17.17
Baxter (TICKER: BAX)	Relational Investors	2%	4/27/05 - \$37.01	\$37.04
¹ Valeant (TICKER: VRX)	Capital Research	3%	4/27/05 - \$20.92	\$20.91
² Circuit City (TICKER: CC)	Highfields Capital	5.5%	4/27/05 - \$15.64	\$15.89
³ Arlington Hospitality (TICKER: HOST)	Lawndale Capital	9.9%	4/27/05 - \$2.10	\$2.10

***TT Alert/Shares uses the date a company was first mentioned in this newsletter and the closing share price on that day. We strive for accuracy in all data presented in the Turnaround Tactician, but cannot warrant or guarantee accuracy.**