

CERIDIAN CORP /DE/  
Form 10-Q/A  
May 04, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q/A**

(Amendment No. 1)

(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, 2004

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)

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

**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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

The number of shares of registrant's Common Stock, par value \$.01 per share, outstanding as of July 31, 2004, was 149,047,195.

---

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q/A

June 30, 2004

EXPLANATORY NOTE

The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 (the "Form 10-Q") for Ceridian Corporation (the "Company") was initially filed with the Securities and Exchange Commission (the "SEC") on February 18, 2005 (the "Original Filing Date"). As described in the Form 10-Q, the Company restated its consolidated financial statements for the years 1999 through 2003 and for the first quarter of 2004 (the "Prior Restatement") to make the following classes of adjustments:

adjustments concerning the capitalization and expensing of software development costs

adjustments to the accrual of certain other costs and expenses

adjustments to revenue and related costs for timing of recognition and transactions involving third party vendors

changes in accounting for interest rate and fuel price derivative instruments

reduction of the number of dilutive shares for calculation of earnings per share

reclassifications between cost and expense categories

reclassification of Comdata assets and liabilities

transfer of excess pre-1999 restructuring liabilities directly to retained earnings

The restatements of the Company's consolidated statements of operations for the three-month and six-month periods ended June 30, 2003, the consolidated statement of cash flows for the six-month period ended June 30, 2003, and the notes related thereto arising from the Prior Restatement are reflected in the Form 10-Q. For a more detailed description of the Prior Restatement, see the Form 10-Q and Amendment No. 1 on Form 10-K/A to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 Form 10-K/A"), filed with the SEC on February 18, 2005.

This Amendment No. 1 on Form 10-Q/A (the "Form 10-Q/A") to the Form 10-Q is being filed to reflect recent restatements of the Company's consolidated balance sheet as of June 30, 2004, the consolidated statements of cash flows for the six-month periods ended June 30, 2004 and 2003, and the consolidated statements of operations for the three-month and six-month periods ended June 30, 2004 and 2003 and the notes related thereto. As previously disclosed, after errors were discovered in March and April 2005, the Company restated its consolidated financial statements for the years 2000 through 2003 and for the first nine months of 2004 (the "Restatement") to make the following adjustments:

record accelerated amortization of the CobraServ trademark

correct the accounting for certain leases

correct errors in the accounting for international acquisitions

correct other accounting errors related to the accrual of costs and expenses

reduce income tax reserves

correct balance sheet amounts for customer funds and employee benefits

For a more detailed description of the Restatement, see the note entitled "Restatement of Financial Statements" to the accompanying consolidated financial statements and the section entitled "Restatement" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this

## Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

Form 10-Q/A and the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the 2004 Form 10-K), filed with the SEC on April 21, 2005.

For the convenience of the reader, this Form 10-Q/A sets forth the Form 10-Q in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2, and 4 of Part I of the Form 10-Q, in each case, solely as a result of, and to reflect, the Restatement, and no other information in the Form 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing Date or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Form 10-Q/A has been amended to contain currently-dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.01, 31.02, 32.01 and 32.02.

Except for the foregoing amended information, this Form 10-Q/A continues to speak as of the Original Filing Date, and the Company has not updated the disclosure contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Form 10-Q or other disclosures necessary to reflect subsequent events have been addressed in the 2004 Form 10-K or will be addressed in any reports filed with the SEC subsequent to the date of this filing.

Concurrently with the filing of this Form 10-Q/A, the Company is filing (i) Amendment No. 2 on Form 10-Q/A to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 and (ii) Amendment No. 1 on Form 10-Q/A to its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004. The Company has not amended and does not intend to amend the 2003 Form 10-K/A or its previously-filed Annual Reports on Form 10-K or its Quarterly Reports on Form 10-Q for the periods affected by the Restatement that ended prior to December 31, 2003. For this reason, the consolidated financial statements, auditors' reports and related financial information for the affected periods contained in the 2003 Form 10-K/A and in such reports should no longer be relied upon.

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q/A

June 30, 2004

INDEX

	<b>Page</b>
<u>Part I.</u>	
<u>Financial Information</u>	<u>5</u>
<u>Item 1. Financial Statements</u>	<u>5</u>
<u>Consolidated Statements of Operations for the three and six month periods ended June 30, 2004 and 2003</u>	<u>5</u>
<u>Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the six month periods ended June 30, 2004 and 2003</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
The consolidated financial statements should be read in conjunction with the notes to consolidated financial statements.	
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
<u>Item 4. Controls and Procedures</u>	<u>55</u>
<u>Part II.</u>	
<u>Other Information</u>	<u>62</u>
<u>Item 1. Legal Proceedings</u>	<u>62</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>64</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>65</u>
<u>Item 6. Exhibits</u>	<u>66</u>
<u>Signature</u>	<u>67</u>

FORM 10-Q/A

## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF OPERATIONS

Ceridian Corporation  
and Subsidiaries

(Unaudited)

(Dollars in millions, except per share data)

	For Periods Ended June 30,			
	Three Months		Six Months	
	2004 (restated)	2003 (restated)	2004 (restated)	2003 (restated)
Revenue	\$ 316.5	\$ 291.1	\$ 630.4	\$ 598.0
Costs and Expenses				
Cost of revenue	178.0	173.8	355.2	343.9
Selling, general and administrative	117.1	85.6	234.3	182.3
Research and development	8.3	5.3	12.9	8.3
(Gain) loss on derivative instruments	19.0	(12.9)	5.3	(19.2)
Other expense (income)	(2.9)	0.2	(1.7)	(0.2)
Interest income	(0.5)	(0.5)	(1.0)	(1.0)
Interest expense	0.9	1.1	2.0	2.3
Total costs and expenses	319.9	252.6	607.0	516.4
Earnings (loss) before income taxes	(3.4)	38.5	23.4	81.6
Income tax provision (benefit)	(1.1)	13.5	8.4	28.5
Net earnings (loss)	\$ (2.3)	\$ 25.0	\$ 15.0	\$ 53.1
Earnings (loss) per share				
Basic	\$ (0.02)	\$ 0.17	\$ 0.10	\$ 0.36
Diluted	\$ (0.02)	\$ 0.17	\$ 0.10	\$ 0.36
Shares used in calculations (in 000 s)				
Weighted average shares (basic)	148,607	147,970	148,928	148,210
Dilutive securities		866	2,737	511
Weighted average shares (diluted)	148,607	148,836	151,665	148,721
Antidilutive shares excluded (in 000 s)	753	10,777	927	11,631

See notes to consolidated financial statements.

FORM 10-Q/A

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in millions)

Ceridian Corporation  
and Subsidiaries

	June 30, 2004 (restated)	December 31, 2003 (restated)
<b>Assets</b>		
Cash and equivalents	\$ 166.6	\$ 124.2
Trade receivables, less allowance of \$16.6 and \$17.3	452.6	436.4
Other receivables	43.6	30.9
Current portion of deferred income taxes	35.9	28.5
Other current assets	58.1	56.0
Total current assets	756.8	676.0
Property, plant and equipment, net	141.0	148.0
Goodwill	930.7	918.6
Other intangible assets, net	66.0	90.2
Software and development costs, net	87.3	86.2
Prepaid pension cost	12.3	12.2
Deferred income taxes, less current portion	8.8	9.6
Investments	18.9	22.9
Derivative instruments	35.0	55.7
Other noncurrent assets	8.8	8.7
Total assets before customer funds	2,065.6	2,028.1
Customer funds	3,007.5	3,152.7
Total assets	\$ 5,073.1	\$ 5,180.8
<b>Liabilities and Stockholders' Equity</b>		
Short-term debt and current portion of long-term obligations	\$ 14.2	\$ 6.5
Accounts payable	37.6	39.1
Drafts and settlements payable	161.8	113.7
Customer advances	30.6	31.0
Deferred income	59.1	66.9
Accrued taxes	28.8	25.5
Employee compensation and benefits	55.6	55.3
Other accrued expenses	40.7	35.4
Total current liabilities	428.4	373.4
Long-term obligations, less current portion	144.8	157.0
Deferred income taxes	36.9	38.6
Employee benefit plans	202.4	196.0
Other noncurrent liabilities	20.4	17.9
Total liabilities before customer funds obligations	832.9	782.9
Customer funds obligations	3,002.2	3,152.7
Total liabilities	3,835.1	3,935.6
<b>Stockholders' equity</b>		
Total liabilities and stockholders' equity	\$ 5,073.1	\$ 5,180.8

See notes to consolidated financial statements.



FORM 10-Q/A  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Dollars in millions)

Ceridian Corporation  
and Subsidiaries

	For Periods Ended June 30, Six Months	
	2004 (restated)	2003 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 15.0	\$ 53.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income tax benefit	(8.9)	(2.8)
Depreciation and amortization	61.4	39.7
Provision for doubtful accounts	5.2	6.2
Asset write-downs	2.5	
Unrealized (gain) loss on derivative instruments	21.6	(4.2)
Gain on sale of marketable securities	(3.5)	
Contribution to retirement plan trusts		(16.9)
Other	7.2	4.0
Decrease (Increase) in trade and other receivables	(25.4)	(50.2)
Increase (Decrease) in accounts payable	(1.7)	1.5
Increase (Decrease) in drafts and settlements payable	48.1	37.4
Increase (Decrease) in employee compensation and benefits		(9.0)
Increase (Decrease) in accrued taxes	11.4	(1.0)
Increase (Decrease) in other current assets and liabilities	(8.9)	(4.9)
Net cash provided by (used for) operating activities	124.0	52.9
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expended for property, plant and equipment	(13.9)	(12.5)
Expended for software and development costs	(15.4)	(14.3)
Expended for acquisition of investments and businesses, less cash acquired	(11.9)	(3.1)
Proceeds from sales of businesses and assets	0.9	11.5
Net cash provided by (used for) investing activities	(40.3)	(18.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Revolving credit facilities and overdrafts, net	(2.6)	0.8
Repayment of other debt	(2.0)	
Repurchase of common stock	(80.3)	(19.0)
Proceeds from stock option exercises and stock sales	44.5	6.8
Net cash provided by (used for) financing activities	(40.4)	(11.4)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(0.9)</b>	<b>3.2</b>
<b>NET CASH FLOWS PROVIDED (USED)</b>	<b>42.4</b>	<b>26.3</b>
Cash and equivalents at beginning of period	124.2	134.3
Cash and equivalents at end of period	\$ 166.6	\$ 160.6

See notes to consolidated financial statements.

## CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q/A

June 30, 2004

Notes to Consolidated Financial Statements

(Dollars in millions, except per share data)

(Unaudited)

## STOCKHOLDERS EQUITY

	June 30, 2004 (restated)	December 31, 2003 (restated)
<b>Common Stock</b>		
Par value - \$.01, shares authorized 500,000,000		
Shares issued 151,028,038 and 150,028,289	\$ 1.5	\$ 1.5
Shares outstanding 148,998,501 and 150,022,441		
Additional paid-in capital	936.3	925.2
Retained earnings	543.6	528.6
Treasury stock, at cost (2,029,537 and 5,848 common shares)	(41.0)	(0.1)
Accumulated other comprehensive income, net of deferred income taxes:		
Unrealized gain on marketable securities	4.1	3.9
Unrealized gain on customer fund securities	3.4	
Cumulative translation adjustment	25.1	21.2
Pension liability adjustment	(235.0)	(235.1)
<b>Total stockholders equity</b>	<b>\$ 1,238.0</b>	<b>\$ 1,245.2</b>

## COMPREHENSIVE INCOME (LOSS)

	For Periods Ended June 30,			
	2004 (restated)	Three Months 2003 (restated)	2004 (restated)	Six Months 2003 (restated)
Net earnings (loss)	\$ (2.3)	\$ 25.0	\$ 15.0	\$ 53.1
Items of other comprehensive income before income taxes:				
Change in foreign currency translation adjustment	(4.2)	9.0	3.9	22.2
Change in unrealized gain (loss) from marketable securities	(1.7)	3.0	3.7	1.9
Change in unrealized gain (loss) from customer funds securities	5.3		5.3	
Change in pension liability	0.1		0.1	
Less unrealized gain previously reported on:				
Marketable securities sold or settled in this period	(3.0)		(3.5)	
Customer funds securities sold or settled in this period	(0.1)		(0.1)	

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

Other comprehensive income (loss) before income taxes	(3.6)	12.0	9.4	24.1
Income tax (provision) benefit	(0.1)	(1.2)	(1.8)	(0.8)
Other comprehensive income (loss) after income taxes	(3.7)	10.8	7.6	23.3
Comprehensive income (loss)	\$ (6.0)	\$ 35.8	\$ 22.6	\$ 76.4

## INTRODUCTION

In the opinion of Ceridian Corporation, the unaudited consolidated financial statements contained herein reflect all adjustments (consisting only of normal recurring adjustments, except as set forth in the notes to consolidated financial statements) necessary to present fairly our financial position as of June 30, 2004, and results of operations for the three and six month periods and cash flows for the six month periods ended June 30, 2004 and 2003. These consolidated financial statements have been restated as described in the accompanying note entitled Restatement of Financial Statements. The results of operations for the six month period ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.

## RESTATEMENT OF FINANCIAL STATEMENTS

This Note should be read in conjunction with Note B, Restatement of Financial Statements in the notes to our consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of the 2004 Form 10-K, which we filed with the SEC on April 21, 2005 and which provides further information on the nature and impact of the Restatement.

As described in Explanatory Note in the forepart of this report, in the 2003 Form 10-K/A, in the Form 10-Q and in the 2004 Form 10-K, we (i) previously restated our consolidated financial statements for the years 1999 through 2003 and for the first quarter of 2004 and (ii) have restated our consolidated financial statements for the years 2000 through 2003 and for the first nine months of 2004.

The Prior Restatement included the following classes of adjustments:

- adjustments concerning the capitalization and expensing of software development costs

- adjustments to the accrual of certain other costs and expenses

- adjustments to revenue and related costs for timing of recognition and transactions involving third party vendors

- changes in accounting for interest rate and fuel price derivative instruments

- reduction of the number of dilutive shares for calculation of earnings per share

- reclassifications between cost and expense categories

- reclassification of Comdata assets and liabilities

- transfer of excess pre-1999 restructuring liabilities directly to retained earnings

## Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

A more detailed description of the Prior Restatement is contained in the Form 10-Q and in the 2003 Form 10-K/A.

In addition to the Prior Restatement, we have also restated our consolidated financial statements for the years 2000 through 2003 and for the first nine months of 2004. The determination to restate these financial statements was made after errors were discovered in March and April 2005. In the Restatement, we have:

- recorded accelerated amortization of the CobraServ trademark
- corrected the accounting for certain leases
- corrected errors in the accounting for international acquisitions
- corrected other accounting errors related to the accrual of costs and expenses
- reduced income tax reserves
- corrected balance sheet amounts for customer funds and employee benefits

In addition, certain disclosures in other notes to our consolidated financial statements have been restated to reflect the Restatement adjustments.

The Restatement reduced our earnings before income taxes for the three months ended June 30, 2004 by \$10.9 consisting of \$10.2 related to accelerated amortization of the CobraServ trademark, \$0.6 related to leases and \$0.3 related to the accrual of costs and expenses, partially offset by an increase of \$0.2 related to international acquisition accounting. The Restatement had no net impact on our earnings before income taxes for the three months ended June 30, 2003 since increases in earnings of \$0.2 related to international acquisition accounting and \$0.2 related to the accrual of costs and expenses were entirely offset by a decrease of \$0.4 related to leases.

The Restatement reduced our earnings before income taxes for the first six months of 2004 by \$20.4 consisting of \$20.4 related to accelerated amortization of the CobraServ trademark and \$1.0 related to leases, partially offset by increases of \$0.4 related to international acquisition accounting and \$0.6 related to the accrual of costs and expenses. The Restatement increased our earnings before income taxes for the first six months of 2003 by \$1.0 consisting of \$0.4 related to international acquisition accounting and \$1.4 related to the accrual of costs and expenses, partially offset by a decrease of \$0.8 related to leases.

The impact of the Restatement on the consolidated statements of operations for the three and six-month periods ended June 30, 2004 and 2003 is shown in an accompanying table.

The Restatement decreased retained earnings at December 31, 2003 from \$533.6 as previously reported to \$528.6 as restated, which is presented on a table entitled *Stockholders' Equity* at the beginning of these notes to consolidated financial statements. This \$5.0 decrease, net of \$3.8 tax, consisted of \$4.0 for leases and \$2.0 for international acquisition accounting, partially offset by increases of \$0.9 related to income tax reserves and \$0.1 related to accruals of costs and expenses.

The primary impact of the above adjustments on the June 30, 2004 and December 31, 2003 consolidated balance sheets was to intangible assets due to international acquisition adjustments, customer funds related to trust receivables, and other noncurrent liabilities due to lease adjustments. The June 30, 2004 balance sheet was also impacted by the accelerated amortization of the CobraServ trademark. The impact of the Restatement on our consolidated balance sheets at June 30, 2004 and December 31, 2003 is shown in an accompanying table. The *As Previously Reported* consolidated balance sheet information at December 31, 2003 as presented in an accompanying table is as reported in the Form 10-Q. The 2004 Form 10-K also



contains information related to the impact of the Restatement on the December 31, 2003 consolidated balance sheet.

The Restatement had no impact on historical cash balances or total cash flows from operating, investing or financing activities for the six months ended June 30, 2004 and 2003. The only impact on the consolidated statements of cash flows was to reclassify certain amounts within operating cash flows.

The following is a more detailed description of the six classes of Restatement adjustments:

*CobraServ trademark amortization*

In March 2005, we discovered that as a result of the determination to rename the CobraServ product offering, the CobraServ trademark capitalized as part of a 1999 acquisition of our benefits services division was no longer being used. It was determined that the decision to abandon the trademark was made in January 2004 and to stop use of the CobraServ trademark in December 2004. As part of this abandonment, we began phasing out use of this trademark over the course of 2004, and the scheduled amortization expense for 2005 and future years of \$40.9 was accelerated and amortized to selling, general and administrative expense in equal amounts of \$10.2 over the four quarters of 2004. This treatment was applied as a change in accounting estimate under Accounting Principles Board Opinion No. 20, Accounting Changes. The impact on our consolidated balance sheets was a \$10.2 reduction of other intangible assets in each of the four quarters in 2004.

*Lease accounting*

In April 2005, we discovered errors in our accounting for certain operating leases. Rent obligations were not being expensed on a straight-line basis in accordance with Financial Accounting Standards Board Technical Bulletin 85-3, Accounting for Operating Leases with Scheduled Rent Increases. The correction to a straight-line basis increased costs and expenses by \$1.0 for the first six months of 2004. The pretax impact for periods prior to 2004 was an expense of \$6.0, which reduced retained earnings at December 31, 2003 by \$4.0, net of tax.

*International acquisition accounting*

As part of a March 2005 review of international purchase accounting entries for acquisitions in the United Kingdom and Canada in 1995 and 1998, errors were discovered in the initial entries as well as the ongoing accounting treatment. The net impact of these adjustments was a decrease in selling, general and administrative expense of \$0.4 for the first six months of 2004. The pretax impact for periods prior to 2004 was an expense of \$2.9, which reduced retained earnings at December 31, 2003 by \$2.0, net of tax. We also made errors in the application of certain foreign currency translation impacts for the international operations which impacted the balance sheet accounts for goodwill, other intangible assets, capitalized software and accumulated other comprehensive income foreign currency translation.



*Accrual of costs and expenses*

As part of the ongoing review of our financial statements, we discovered certain other errors related to the accuracy and timeliness of the accrual of costs and expenses. These errors generally related to the timing of expense recognition and offset each other within annual reporting periods; however, the expense recognition timing between quarters had a larger impact. These adjustments decreased selling, general and administrative expense by \$0.6 for the first six months of 2004. The pretax impact for periods prior to 2004 was a reduction in expense of \$0.1, which increased retained earnings at December 31, 2003 by \$0.1, net of tax. The accrual of costs and expenses adjustments consisted of:

Casualty loss reserves

Accrual of commissions and incentives

Prepayment of expenses originally recorded as an investment

Payroll taxes on third party contractors in the United Kingdom

*Income tax reserves*

It was determined that as a result of an error in the recording of a reduction in our income tax reserves, our liability was overstated by \$0.9 as of December 31, 2003. Accordingly, a tax benefit was recorded in the fourth quarter of 2003 as part of the Restatement which increased retained earnings at December 31, 2003 by \$0.9. This adjustment is in addition to the tax impact of the corrections to pretax earnings listed above.

*Balance sheet corrections for customer funds and employee benefits*

In reviewing our customer funds assets and liabilities we discovered that corrections needed to be made related to amounts due from customers and taxing authorities. These corrections increased customer funds assets and liabilities by \$17.9 at June 30, 2004 and \$11.4 at December 31, 2003. We also determined that a \$2.0 employee benefits accrual should have been recorded as a current liability rather than long-term and reclassified it at June 30, 2004 and December 31, 2003.

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

The following table presents the effect of the Restatement on the consolidated statements of operations:

	As Previously Reported (1)	CobraServ Trademark	Leases	International Acquisitions	Accrual of Costs & Expenses	Total Adjustments	As Restated
<b>Three months ended</b>							
<b>June 30, 2004</b>							
Revenue	\$ 316.5	\$	\$	\$	\$	\$	\$ 316.5
Costs and expenses							
Cost of revenue	177.7		0.3			0.3	178.0
Selling, general and administrative	106.5	10.2	0.3	(0.2)	0.3	10.6	117.1
Research and development	8.3						8.3
(Gain) loss on derivative instruments	19.0						19.0
Other expense (income)	(2.9)						(2.9)
Interest income	(0.5)						(0.5)
Interest expense	0.9						0.9
Total costs and expenses	309.0	10.2	0.6	(0.2)	0.3	10.9	319.9
Earnings (loss) before income taxes	7.5	(10.2)	(0.6)	0.2	(0.3)	(10.9)	(3.4)
Income tax provision (benefit)	2.6	(3.5)	(0.2)	0.1	(0.1)	(3.7)	(1.1)
Net earnings (loss)	\$ 4.9	\$ (6.7)	\$ (0.4)	\$ 0.1	\$ (0.2)	\$ (7.2)	\$ (2.3)
<b>Three months ended</b>							
<b>June 30, 2003</b>							
Revenue	\$ 291.1	\$	\$	\$	\$	\$	\$ 291.1
Costs and expenses							
Cost of revenue	173.8						173.8
Selling, general and administrative	85.6		0.4	(0.2)	(0.2)		85.6
Research and development	5.3						5.3
(Gain) loss on derivative instruments	(12.9)						(12.9)
Other expense (income)	0.2						0.2
Interest income	(0.5)						(0.5)
Interest expense	1.1						1.1
Total costs and expenses	252.6		0.4	(0.2)	(0.2)		252.6
Earnings before income taxes	38.5		(0.4)	0.2	0.2		38.5
Income tax provision	13.5		(0.2)	0.1	0.1		13.5
Net earnings	\$ 25.0	\$	\$ (0.2)	\$ 0.1	\$ 0.1	\$	\$ 25.0

(1) Amounts for the three months ended June 30, 2003 were previously restated in the Form 10-Q in connection with the Prior Restatement, as described in the preceding text of this note.

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

The following table presents the effect of the Restatement on the consolidated statements of operations:

	As Previously Reported (1)	CobraServ Trademark	Leases	International Acquisitions	Accrual of Costs & Expenses	Total Adjustments	As Restated
<b>Six months ended June 30, 2004</b>							
Revenue	\$ 630.4	\$	\$	\$	\$	\$	\$ 630.4
Costs and expenses							
Cost of revenue	354.9		0.3			0.3	355.2
Selling, general and administrative	214.2	20.4	0.7	(0.4)	(0.6)	20.1	234.3
Research and development	12.9						12.9
(Gain) loss on derivative instruments	5.3						5.3
Other expense (income)	(1.7)						(1.7)
Interest income	(1.0)						(1.0)
Interest expense	2.0						2.0
Total costs and expenses	586.6	20.4	1.0	(0.4)	(0.6)	20.4	607.0
Earnings before income taxes	43.8	(20.4)	(1.0)	0.4	0.6	(20.4)	23.4
Income tax provision	15.4	(7.0)	(0.3)	0.1	0.2	(7.0)	8.4
Net earnings	\$ 28.4	\$ (13.4)	\$ (0.7)	\$ 0.3	\$ 0.4	\$ (13.4)	\$ 15.0
<b>Six months ended June 30, 2003</b>							
Revenue	\$ 598.0	\$	\$	\$	\$	\$	\$ 598.0
Costs and expenses							
Cost of revenue	343.8		0.1			0.1	343.9
Selling, general and administrative	183.4		0.7	(0.4)	(1.4)	(1.1)	182.3
Research and development	8.3						8.3
(Gain) loss on derivative instruments	(19.2)						(19.2)
Other expense (income)	(0.2)						(0.2)
Interest income	(1.0)						(1.0)
Interest expense	2.3						2.3
Total costs and expenses	517.4		0.8	(0.4)	(1.4)	(1.0)	516.4
Earnings before income taxes	80.6		(0.8)	0.4	1.4	1.0	81.6
Income tax provision	28.3		(0.3)	0.1	0.4	0.2	28.5
Net earnings	\$ 52.3	\$	\$ (0.5)	\$ 0.3	\$ 1.0	\$ 0.8	\$ 53.1

(1) Amounts for the six months ended June 30, 2003 were previously restated in the Form 10-Q in connection with the Prior Restatement, as described in the preceding text of this note.

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

The following table presents the effect of the Restatement on the consolidated balance sheets:

	June 30, 2004			December 31, 2003		
	As Previously Reported	Adjustments	As Restated	As Previously Reported (1)	Adjustments	As Restated
<b>Assets</b>						
Cash and equivalents	\$ 166.6	\$	\$ 166.6	\$ 124.2	\$	\$ 124.2
Trade and other receivables, net	496.2		496.2	467.3		467.3
Current portion of deferred income taxes	35.6	0.3	35.9	28.5		28.5
Other current assets	58.3	(0.2)	58.1	56.0		56.0
Total current assets	756.7	0.1	756.8	676.0		676.0
Goodwill	912.0	18.7	930.7	904.8	13.8	918.6
Other intangible assets, net	96.9	(30.9)	66.0	101.1	(10.9)	90.2
Software and development costs, net	86.8	0.5	87.3	85.8	0.4	86.2
Deferred income taxes, less current portion	6.9	1.9	8.8	6.0	3.6	9.6
Investments	19.2	(0.3)	18.9	23.2	(0.3)	22.9
Other noncurrent assets	197.0	0.1	197.1	224.6		224.6
Total assets before customer funds	2,075.5	(9.9)	2,065.6	2,021.5	6.6	2,028.1
Customer funds	2,989.6	17.9	3,007.5	3,141.3	11.4	3,152.7
Total assets	\$ 5,065.1	\$ 8.0	\$ 5,073.1	\$ 5,162.8	\$ 18.0	\$ 5,180.8
<b>Liabilities and Stockholders</b>						
<b>Equity</b>						
Short-term debt and current portion of long-term obligations	\$ 14.2	\$	\$ 14.2	\$ 6.5	\$	\$ 6.5
Accounts payable	37.4	0.2	37.6	39.1		39.1
Drafts and settlements payable	161.8		161.8	113.7		113.7
Customer advances	30.6		30.6	31.0		31.0
Deferred income	59.1		59.1	66.9		66.9
Accrued taxes	29.5	(0.7)	28.8	26.4	(0.9)	25.5
Employee compensation and benefits	54.0	1.6	55.6	53.9	1.4	55.3
Other accrued expenses	42.4	(1.7)	40.7	35.2	0.2	35.4
Total current liabilities	429.0	(0.6)	428.4	372.7	0.7	373.4
Long-term obligations, less current portion	144.8		144.8	157.0		157.0
Deferred income taxes	43.9	(7.0)	36.9	37.8	0.8	38.6
Employee benefit plans	204.4	(2.0)	202.4	198.0	(2.0)	196.0
Other noncurrent liabilities	13.6	6.8	20.4	12.0	5.9	17.9
Total liabilities before customer funds obligations	835.7	(2.8)	832.9	777.5	5.4	782.9
Customer funds obligations	2,984.3	17.9	3,002.2	3,141.3	11.4	3,152.7
Total liabilities	3,820.0	15.1	3,835.1	3,918.8	16.8	3,935.6
Common stock and additional paid-in capital	896.8		896.8	926.5	0.1	926.6
Retained earnings	562.0	(18.4)	543.6	533.6	(5.0)	528.6
Accumulated other comprehensive income	(213.7)	11.3	(202.4)	(216.1)	6.1	(210.0)

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

Total stockholders equity	1,245.1	(7.1)	1,238.0	1,244.0	1.2	1,245.2
Total liabilities and stockholders equity	\$ 5,065.1	\$ 8.0	\$ 5,073.1	\$ 5,162.8	\$ 18.0	\$ 5,180.8

---

(1) Amounts were previously restated in the 2003 Form 10-K/A in connection with the Prior Restatement, as described in the preceding text of this note.

The following table presents the Restatement effects by reason on the consolidated balance sheets:

Balance sheet account	June 30, 2004	Increase (decrease)		December 31, 2003
<b>Summary by Restatement Group by Balance Sheet Account</b>				
<b>CobraServ trademark amortization:</b>				
Other intangible assets, net	\$	(20.4)	\$	
<b>Lease accounting:</b>				
Other noncurrent liabilities increase	\$	6.8	\$	5.9
<b>International acquisition accounting:</b>				
Goodwill		18.7		13.8
Other intangible assets, net		(10.5)		(10.9)
Software and development costs, net		0.5		0.4
Accumulated other comprehensive income (currency translation)		11.3		6.1
Net liability/equity increase	\$	2.6	\$	2.8
<b>Accrual of costs and expenses:</b>				
Other current assets		(0.2)		
Investments		(0.3)		(0.3)
Other noncurrent assets		0.1		
Accounts payable		0.2		
Employee compensation and benefits (short-term liability)		(0.4)		(0.6)
Other accrued expenses		(1.7)		0.2
Net liability decrease	\$	(1.5)	\$	(0.1)
<b>Income tax impact of adjustments:</b>				
Current portion of deferred income taxes		0.3		
Deferred income taxes (long-term asset)		1.9		3.6
Accrued taxes (current income taxes payable)		(0.7)		(0.9)
Deferred income taxes (long-term liability)		(7.0)		0.8
Net asset increase	\$	9.9	\$	3.7
<b>Balance sheet reclassifications:</b>				
Customer funds (asset)		17.9		11.4
Customer funds obligations		17.9		11.4
Employee compensation and benefits (short-term liability)		2.0		2.0
Employee benefit plans (long-term liability)		(2.0)		(2.0)
Net balance sheet impact	\$		\$	

The following table presents the Restatement effects by line item on the consolidated balance sheets:

Balance sheet account	June 30, 2004	December 31, 2003
<b><u>Line item summary of above adjustments and reclassifications:</u></b>		
<b><u>Assets</u></b>		
Current portion of deferred income taxes	0.3	
Other current assets	(0.2)	
Goodwill	18.7	13.8
Other intangible assets, net	(30.9)	(10.9)
Software and development costs, net	0.5	0.4
Deferred income taxes (long-term)	1.9	3.6
Investments	(0.3)	(0.3)
Other noncurrent assets	0.1	
Customer funds	17.9	11.4
Net increase in assets	\$ 8.0	\$ 18.0
<b><u>Liabilities</u></b>		
Accounts payable	0.2	
Accrued taxes	(0.7)	(0.9)
Employee compensation and benefits	1.6	1.4
Other accrued expenses	(1.7)	0.2
Deferred income taxes (long-term)	(7.0)	0.8
Employee benefit plans (long-term)	(2.0)	(2.0)
Other noncurrent liabilities	6.8	5.9
Customer funds obligations	17.9	11.4
Net increase in liabilities	\$ 15.1	\$ 16.8
Net increase (decrease) in stockholders' equity	\$ (7.1)	\$ 1.2

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ( FASB ) issued a Statement of Financial Accounting Standards entitled Share-Based Payment, an amendment of FASB Statements No. 123 and 95 ( FAS 123R ). The principal effect of FAS 123R will be to require the inclusion in our earnings of a compensation expense for stock option grants and employee stock plan purchases that previously was only reported as a disclosure in a note to our consolidated financial statements. FAS 123R will become effective for our quarterly report for the period ended September 30, 2005. We are presently studying FAS 123R and believe that the compensation expense that would be determined as a result of adoption of its provisions would not differ materially from the amounts previously presented in the notes to our consolidated financial statements.

## OTHER EXPENSE (INCOME)

	2004	For Periods Ended June 30,			
		Three Months		Six Months	
		2003	2004	2003	2004
Gain on sale of marketable securities	\$	(3.0)	\$	(3.5)	\$
Foreign currency translation expense (income)		(0.2)	0.2	(0.8)	(0.1)
Gain on sale of assets		(0.1)		(0.1)	(0.2)
Asset write-downs		0.2		2.5	
Other expense (income)		0.2		0.2	0.1
Total	\$	(2.9)	\$	(1.7)	\$

In January 2004, we committed to the internal development of a replacement for our Human Resource Solutions LifeWorks customer management system as a result of the failure of an external contractor to meet our requirements for such a project. In connection with our restatement of software development costs described in an accompanying note, we recorded an asset write-down of \$2.3 in the first quarter of 2004 representing the carrying value of the capitalized software related to work performed by the external contractor that was abandoned and determined to have no future value to us.

## EMPLOYEE PLANS

*Stock Plans*

We account for our stock-based compensation plans under the intrinsic method of Accounting Principles Board Opinion No. 25 and related Interpretations. We are also required on an interim basis to disclose the pro forma effects on reported net earnings and earnings per share that would have resulted if we elected to use the fair value method of accounting for stock-based compensation. This disclosure is presented in the accompanying table. We employ the Black-Scholes-Merton option pricing model to determine the fair value of stock option grants and employee stock purchase plan purchases.



Pro Forma Effect of Fair Value Accounting

	For Periods Ended June 30,			
	Three Months		Six Months	
	2004 (restated)	2003 (restated)	2004 (restated)	2003 (restated)
Net earnings (loss) as reported	\$ (2.3)	\$ 25.0	\$ 15.0	\$ 53.1
Add: Stock-based compensation expense included in reported net income, net of related tax effects	0.4	0.2	0.8	0.4
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(4.0)	(3.8)	(7.8)	(7.9)
Pro forma net earnings (loss)	\$ (5.9)	\$ 21.4	\$ 8.0	\$ 45.6
Basic earnings (loss) per share as reported	\$ (0.02)	\$ 0.17	\$ 0.10	\$ 0.36
Pro forma basic earnings (loss) per share	\$ (0.04)	\$ 0.14	\$ 0.05	\$ 0.31
Diluted earnings (loss) per share as reported	\$ (0.02)	\$ 0.17	\$ 0.10	\$ 0.36
Pro forma diluted earnings (loss) per share	\$ (0.04)	\$ 0.14	\$ 0.05	\$ 0.31
<i>Weighted-Average Assumptions</i>				
Expected lives in years	3.77	3.81	3.92	3.89
Expected volatility	37.9%	42.4%	38.7%	43.6%
Expected dividend rate				
Risk-free interest rate	3.6%	2.2%	2.6%	2.3%
Weighted-average fair value of stock options granted in the period	\$ 7.28	\$ 5.50	\$ 6.85	\$ 5.25

*Retirement Plans*

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act ) was enacted, which introduced a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. On May 19, 2004, the FASB issued Financial Staff Position ( FSP ) No. 106-2,

Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 to discuss certain accounting and disclosure issues raised by the Medicare Act. FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement healthcare plans and disclosure requirements for such plans. Except for certain nonpublic entities, FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004 or upon earlier adoption if elected.

We have concluded that the prescription drug benefits provided under our postretirement plan are actuarially equivalent to the Medicare benefit as necessary to qualify for the subsidy and have elected to apply FSP 106-2 in the second quarter of 2004. The adoption of FSP 106-2 reduced our accumulated postretirement benefits

obligation by \$4.8, which will reduce our future postretirement liability and net periodic postretirement benefit cost by approximately \$0.6 on an annual basis. The amount of the reduction recorded in the second quarter of 2004 was \$0.2.

The components of net periodic pension cost for our defined benefit pension plans and for our postretirement benefit plans are included in the following tables.

Net Periodic Pension Cost

	For Periods Ended June 30,					
	Three months		Six months			
	2004	2003	2004	2003	2004	2003
Service cost	\$ 0.9	\$ 0.9	\$ 1.8	\$ 1.9		
Interest cost	10.4	10.7	20.9	21.5		
Expected return on plan assets	(11.6)	(11.5)	(23.3)	(22.9)		
Net amortization and deferral	3.8	2.3	7.6	4.5		
Net periodic pension cost	\$ 3.5	\$ 2.4	\$ 7.0	\$ 5.0		

Net Periodic Postretirement Benefit Cost

	For Periods Ended June 30,					
	Three months		Six months			
	2004	2003	2004	2003	2004	2003
Service cost	\$ 0.8	\$ 0.9	\$ 1.7	\$ 1.8		
Interest cost	0.1		0.2			
Actuarial loss amortization	0.1		0.2			
Net periodic postretirement benefit cost	\$ 0.9	\$ 0.9	\$ 1.9	\$ 1.8		

INVESTING ACTIVITY

*Derivative Instruments*

During the reported periods we maintained interest rate contracts to mitigate interest rate risk in our customer funds and corporate cash portfolios. These derivative instruments provide that if one-month LIBOR is below a floor, the counterparty makes a payment to us. Likewise, if one-month LIBOR is above a cap, we make a payment to the counterparty. These payments increase or decrease (gain) loss on derivative instruments in our consolidated statements of operations. Counterparties are all commercial banks with debt ratings of A or better.

The fair market value of these interest rate derivative instruments is reported in the noncurrent asset section of our consolidated balance sheets. The fair market value decreased from \$55.7 at December 31, 2003 to \$35.0 at June 30, 2004. This decrease in value was primarily due to collections of cash payments from counterparties of \$16.0 during the first six months of 2004. Unrealized gains and losses due to changes in the fair value of



derivative instruments are reflected in (gain) loss on derivative instruments in our consolidated statements of operations.

In March 2004, Comdata executed diesel fuel price derivative contracts to limit the effect on earnings related to the variability of Comdata revenue from customer contracts in which Comdata fees are determined as a percentage of pump fuel prices. These contracts, which have the effect of reducing the exposure to price variability of diesel fuel by approximately one half of the expected change in total Comdata revenue due to changes in diesel fuel prices, effectively establish an average fixed price of \$1.51 per gallon of diesel fuel for the effected transactions during the period from July 1 to December 31, 2004. The impact of both realized and unrealized gains and losses on the fuel price derivative instruments is reflected in (gain) loss on derivative instruments in our consolidated statements of operations. These contracts are recorded as a liability of \$0.9 at June 30, 2004.

See Note A, Accounting Policies Cash and Investments, including Derivatives and Note B, Restatement of Financial Statements in the notes to our consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of the 2003 Form 10-K/A for a further discussion of the reclassification of realized and unrealized gains and losses on derivative instruments as part of the Prior Restatement.

#### *Investments*

At December 31, 2003, we held 750,000 shares of The Ultimate Software Group, Inc. ( Ultimate ) common stock and a warrant to purchase an additional 75,000 Ultimate common shares at a price of \$4.00 per share. In March 2004, we sold 50,000 shares of Ultimate for \$0.7 and a net gain of \$0.5. In June 2004, we sold 106,600 shares of Ultimate for \$1.3 and a net gain of \$0.9. Our holdings of Ultimate as of June 30, 2004 included 593,400 shares and the warrant. In addition, we held 782,069 common shares of U.S.I. Holdings Corporation ( USIH ) at December 31, 2003 and 421,311 shares of USIH at June 30, 2004. In June 2004, we sold 360,758 shares of USIH for \$5.7 and a net gain of \$2.1. Gains and losses on sales of marketable securities are reported in other expense (income) in our consolidated statements of operations. Proceeds from the June 2004 sales of Ultimate and USIH shares were received in July 2004 and were carried as other receivables at June 30, 2004.

The Ultimate and USIH securities are treated as available for sale securities. The carrying value of these securities has been adjusted at each balance sheet date to reflect the market price reported by the stock exchange that lists those securities. The amount of this change is reported as unrealized gain or loss from marketable securities in accumulated other comprehensive income. The carrying values of our holdings of Ultimate amounted to \$6.5 at June 30, 2004 and \$6.9 at December 31, 2003. The carrying values of our holdings of USIH amounted to \$6.7 at June 30, 2004 and \$10.2 at December 31, 2003. At June 30, 2004, the net unrealized gain on marketable securities amounted to \$4.1, after reduction for deferred income taxes of \$2.4, and is reported in accumulated other comprehensive income. This compares to a net

unrealized gain on marketable securities of \$3.9, after reduction for deferred income taxes of \$2.4, at December 31, 2003.

During the first six months of 2004, net investing cash outflows included \$11.0 for the April acquisition of Recruiting Solutions International, Inc. ( RSI ), a provider of web-based recruiting products. The acquisition resulted in the recording of \$10.1 of goodwill and intangible assets. RSI s revenue for its most recent fiscal year was \$5.5. We also acquired a customer base for COBRA services from a major insurance company for \$0.9 near the end of the first quarter of 2004.

## FINANCING

### *Debt Instruments*

In June 2002, Comdata entered into a \$150.0 receivables securitization facility with a three-year term that uses selected Comdata trade receivables as collateral for borrowings. The interest rate on this facility is based on the lender s commercial paper rate plus program fees, which approximates LIBOR plus 0.5% per annum. The amount outstanding under this facility was \$140.0 at December 31, 2003, which we reduced to \$130.0 in June 2004. The aggregate amount of receivables serving as collateral amounted to \$180.3 at June 30, 2004 and \$187.0 at December 31, 2003. The amounts outstanding as long-term debt and the collateralized receivables remain on our consolidated balance sheet since the terms of the facility permit us to repurchase the receivables and are classified as noncurrent since we have the intent and the ability to maintain the amount outstanding beyond the next 12 months.

The domestic revolving credit facility that we initiated in January 2001 provides up to \$350.0 for a combination of advances and up to \$50.0 of letters of credit until March 2006 at an interest rate of 1% per annum over LIBOR. At June 30, 2004 and December 31, 2003, we had utilized \$2.3 of the facility for letters of credit and had unused borrowing capacity under the domestic revolving credit facility of \$347.7, which we have also designated as backup to the Comdata receivables securitization facility.

In May 2004, Ceridian Centrefile replaced its £3.0 million overdraft facility with a £6.5 million overdraft facility available through February 2005 at an interest rate of 1% per annum over the bank s base rate (5.25% per annum at June 30, 2004) and used drawings on this facility to retire an intercompany note due to Ceridian Canada. The amount outstanding under Ceridian Centrefile s borrowing arrangements amounted to \$10.1 at June 30, 2004 and \$2.7 at December 31, 2003.

Our capital lease obligations for equipment amounted to \$18.9 at June 30, 2004 and \$20.8 at December 31, 2003.

We were in compliance with covenants under our credit facilities at June 30, 2004. We amended our domestic

revolving credit facility and Comdata receivables securitization facility to allow additional time to deliver our quarterly reports on Form 10-Q for the second and third quarters of 2004 to our lenders without the delayed delivery constituting a default under these agreements.

#### *Equity Instruments*

During the first six months of 2004, we paid \$80.3 to repurchase 4,012,400 shares of our common stock on the open market at an average net price of \$20.01 per share. As of June 30, 2004, we may repurchase up to 6,350,500 additional shares of our common stock under an existing authorization from our board of directors. We generally use our treasury stock to address our obligations under our stock compensation and employee stock purchase plans.

#### CUSTOMER FUNDS

We have restated the total amount of customer funds to include amounts due from customers and taxing authorities (shown as Trust receivables in the table below). Invested customer funds were not impacted by the Restatement.

Customer funds are invested in high quality collateralized short-term investments or money market mutual funds as well as long-term debt securities issued by U.S. or Canadian governments and agencies, AAA-rated asset-backed securities and corporate securities rated A3/A- or better.

Effective May 1, 2004, we transferred our investments of customer funds from the held-to-maturity category to the available-for-sale category in order to provide additional flexibility in managing credit risks for this portfolio. As a result, investments of customer funds are reported at fair value rather than amortized cost at all dates subsequent to the change. The after tax impact of unrealized gains and losses resulting from periodic revaluation of these securities are reported as accumulated other comprehensive income in stockholders' equity.

At the date of the change in category, the fair value of investments of customer funds exceeded the related amortized cost by \$17.6. This change resulted in a net of tax unrealized gain of \$11.3 in accumulated other comprehensive income.

Investment income from investments of customer funds includes the yield on these securities as well as realized gains and losses upon disposition and constitutes a component of our compensation for providing services under agreements with our customers. Investment income from investment of customer funds included in revenue for the periods ended June 30, 2004 and 2003 amounted to \$17.8 and \$16.7 for the quarterly periods and \$35.7 and \$33.4 for the year-to-date periods. Sale of customer funds securities during the quarter ended June 30, 2004 resulted in a net realized gain of \$0.1 on a specific identification basis. The

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

average cost basis of invested customer funds amounted to \$2,540.2 and \$2,662.8 for the three and six month periods ended June 30, 2004 and \$2,265.3 and \$2,343.5 for the comparative periods of 2003.

The following tables provide information on amortized cost and fair value for selected classifications of investments of customer funds and amounts by maturity date. The value reported in the consolidated balance sheet is indicated by the asterisk. None of the securities that constituted the unrealized loss have been in an unrealized loss position continuously for twelve months or longer.

Investments of Customer Funds at June 30, 2004 (Restated)

*(Available-for-sale)*

	Cost	Market*	Gain	Gross Unrealized Loss
Money market securities and other cash equivalents	\$ 1,598.8	\$ 1,598.8	\$	\$
U.S. government and agency securities	773.4	769.6	1.5	(5.3)
Canadian and provincial government securities	251.3	254.6	5.1	(1.8)
Corporate debt securities	214.4	217.8	4.6	(1.2)
Asset-backed securities	106.1	108.0	2.2	(0.3)
Mortgage-backed and other debt securities	40.3	40.8	0.7	(0.2)
Invested customer funds	2,984.3	2,989.6	\$ 14.1	\$ (8.8)
Trust receivables	17.9	17.9		
Total customer funds	\$ 3,002.2	\$ 3,007.5		

(\*) As reported in the consolidated balance sheet

Investments of Customer Funds at December 31, 2003 (Restated)

*(Held-to-maturity)*

	Cost*	Market
Money market securities and other cash equivalents	\$ 2,202.0	\$ 2,202.0
U.S. government and agency securities	311.1	317.4
Canadian and provincial government securities	201.0	208.1
Corporate debt securities	209.0	216.0
Asset-backed securities	159.5	163.0
Mortgage-backed and other debt securities	58.7	59.6
Invested customer funds	3,141.3	3,166.1
Trust receivables	11.4	11.4
Total customer funds	\$ 3,152.7	\$ 3,177.5

(\*) As reported in the consolidated balance sheet





Investments of Customer Funds by Maturity Date

	<b>June 30, 2004</b>	
	<b>Cost</b>	<b>Market*</b>
Due in one year or less	\$ 1,683.3	\$ 1,684.3
Due in one to three years	317.5	326.8
Due in three to five years	410.5	410.4
Due after five years	573.0	568.1
<b>Total</b>	<b>\$ 2,984.3</b>	<b>\$ 2,989.6</b>

---

(\*) As reported in the consolidated balance sheet

## CAPITAL ASSETS

	June 30, 2004 (restated)	December 31, 2003 (restated)
<b>Property, Plant and Equipment</b>		
Land	\$ 10.4	\$ 10.4
Machinery and equipment	284.2	281.6
Buildings and improvements	97.3	96.7
Total property, plant and equipment	391.9	388.7
Accumulated depreciation	(250.9)	(240.7)
Property, plant and equipment, net	\$ 141.0	\$ 148.0
<b>Goodwill</b>		
At beginning of year (HRS \$801.6 and \$780.1, Comdata \$117.0 and \$117.0)	\$ 918.6	\$ 897.1
Acquisitions (HRS)	7.1	
Translation and other adjustments (HRS)	5.0	21.5
At end of period (HRS \$813.7 and \$801.6, Comdata \$117.0 and \$117.0)	\$ 930.7	\$ 918.6
<b>Other Intangible Assets</b>		
Customer lists (accumulated amortization of \$30.1 and \$26.7)	\$ 53.0	\$ 49.4
Trademarks (accumulated amortization of \$54.6 and \$31.6)	76.5	74.7
Technology (accumulated amortization of \$35.7 and \$32.1)	52.8	52.2
Non-compete agreements (accumulated amortization of \$9.6 and \$8.6)	13.7	12.9
Total other intangible assets	196.0	189.2
Accumulated amortization	(130.0)	(99.0)
Other intangible assets, net	\$ 66.0	\$ 90.2
<b>Software and Development Costs</b>		
Purchased software	\$ 79.8	\$ 77.2
Other software development cost	95.4	86.1
Total software and development costs	175.2	163.3
Accumulated amortization	(87.9)	(77.1)
Software and development costs, net	\$ 87.3	\$ 86.2

	For Periods Ended June 30, Six Months	
	2004 (restated)	2003 (restated)
<b>Depreciation and Amortization</b>		
Depreciation of property, plant and equipment	\$ 21.3	\$ 21.4
Amortization of other intangible assets	28.3	7.7
Amortization of software and development costs	11.8	10.6
Total	\$ 61.4	\$ 39.7

Amortization for other intangible assets held at June 30, 2004 is estimated to be \$56.9 for 2004, \$13.7 for 2005, \$11.3 for 2006, \$9.4 for 2007 and \$4.5 for 2008.

## SEGMENT DATA

	For Periods Ended June 30,			
	Three Months		Six Months	
	2004 (restated)	2003 (restated)	2004 (restated)	2003 (restated)
<b>HRS</b>				
Revenue	\$ 227.6	\$ 212.0	\$ 460.0	\$ 439.6
Earnings (loss) before interest and taxes	\$ (30.7)	\$ 12.7	\$ (30.2)	\$ 31.5
Total assets at June 30, 2004 and December 31, 2003 before customer funds			\$ 1,360.5	\$ 1,386.1
Customer funds			2,997.0	3,143.5
Total assets at June 30, 2004 and December 31, 2003			\$ 4,357.5	\$ 4,529.6
<b>Comdata</b>				
Revenue	\$ 88.9	\$ 79.1	\$ 170.4	\$ 158.4
Earnings before interest and taxes	\$ 27.7	\$ 26.4	\$ 54.6	\$ 51.4
Total assets at June 30, 2004 and December 31, 2003 before customer funds			\$ 624.4	\$ 586.1
Customer funds			10.5	9.2
Total assets at June 30, 2004 and December 31, 2003			\$ 634.9	\$ 595.3
<b>Other</b>				
Revenue	\$	\$	\$	\$
Earnings before interest and taxes	\$	\$	\$	\$
Total assets at June 30, 2004 and December 31, 2003			\$ 80.7	\$ 55.9
<b>Total Ceridian</b>				
Revenue	\$ 316.5	\$ 291.1	\$ 630.4	\$ 598.0
Earnings (loss) before interest and taxes	\$ (3.0)	\$ 39.1	\$ 24.4	\$ 82.9
Interest income (expense), net	(0.4)	(0.6)	(1.0)	(1.3)
Earnings (loss) before income taxes	\$ (3.4)	\$ 38.5	\$ 23.4	\$ 81.6
Total assets at June 30, 2004 and December 31, 2003 before customer funds			\$ 2,065.6	\$ 2,028.1
Customer funds			3,007.5	3,152.7
Total assets at June 30, 2004 and December 31, 2003			\$ 5,073.1	\$ 5,180.8

## SUBSEQUENT EVENTS

### *Disposal of SourceWeb Assets*

On December 31, 2004, we sold certain customer relationships and other assets associated with our SourceWeb payroll platform (the SourceWeb Assets ) to RSM McGladrey Employer Services, Inc. ( RSM ) for \$4.0 pursuant to the terms and conditions of an Asset Purchase Agreement. In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets we recorded a \$9.1 pre-tax impairment charge on assets associated with this platform representing the excess of net book value of the SourceWeb Assets over sale proceeds. The impaired assets primarily consist of a purchased software license from Ultimate and capitalized software development costs. In addition to this asset impairment, we also recorded a \$19.5 pre-tax loss on disposal which comprises the fair value of the future minimum royalty obligations to Ultimate of \$19.3 and \$0.2 of employee severance costs.

SourceWeb is a payroll platform within the small business division of our HRS business segment. Pursuant to the terms of the Asset Purchase Agreement, we will provide certain transitional and third party services to RSM for up to nine months.

### *Change in Measurement Date for U.S. Retirement Plans*

In December 2004, we determined that the measurement date for the two defined benefit pension plans and the postretirement health and life insurance plans for U.S. employees should be changed from September 30 to December 31. The later measurement date would permit the use of more current data and coincide with the end of our reporting year. An accounting change of this nature requires a letter of preferability from our independent registered public accounting firm, which we are pursuing. The change, if approved, would result in a reduction in 2004 net periodic pension cost of approximately \$3.9 and a 2004 cumulative gain from change in accounting principle of approximately \$0.9.

### *Disposition of Interest Rate Derivative Instruments*

On February 3, 2005, we disposed of our interest rate derivative instruments for cash proceeds of \$21.0 and recorded a loss of \$2.3 on the disposition.

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

*This Form 10-Q/A 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. Forward-looking statements are based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in these forward-looking statements. Important factors known to us that could cause such material differences are identified and discussed from time to time in our filings with the Securities and Exchange Commission and later in this Form 10-Q/A, under the heading *Cautionary Factors That Could Affect Future Results*.*

*You should carefully consider each cautionary factor and all of the other information in this report. We undertake 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 we make on related subjects in future reports to the SEC.*

**MANAGEMENT SUMMARY**

This discussion should be read in conjunction with (i) the accompanying consolidated financial statements and related notes to such financial statements included in Part I, Item 1, *Financial Statements* of this Form 10-Q/A and (ii) the consolidated financial statements and related notes to such financial statements included in Part II, Item 8, *Financial Statements and Supplementary Data* of the 2003 Form 10-K/A. We have restated our consolidated financial statements as described in the note to the consolidated financial statements entitled *Restatement of Financial Statements* contained in this report. All applicable disclosures in the following discussion have been modified to reflect the Restatement, as described below.

**Restatement**

As described in *Explanatory Note* in the forepart of this report, in the 2003 Form 10-K/A, in the Form 10-Q and in the 2004 Form 10-K, we (i) previously restated our consolidated financial statements for the years 1999 through 2003 and for the first quarter of 2004 and (ii) have restated our consolidated financial statements for the years 2000 through 2003 and for the first nine months of 2004.

The Prior Restatement included the following classes of adjustments:

- adjustments concerning the capitalization and expensing of software development costs
- adjustments to the accrual of certain other costs and expenses
- adjustments to revenue and related costs for timing of recognition and transactions involving third party vendors
- changes in accounting for interest rate and fuel price derivative instruments
- reduction of the number of dilutive shares for calculation of earnings per share
- reclassifications between cost and expense categories
- reclassification of Comdata assets and liabilities
- transfer of excess pre-1999 restructuring liabilities directly to retained earnings

A more detailed description of the Prior Restatement is contained in the Form 10-Q and in the 2003 Form 10-K/A.

In addition to the Prior Restatement, we have also restated our consolidated financial statements for the years 2000 through 2003 and for the first nine months of 2004. The determination to restate these financial statements was made after errors were discovered in March and April 2005. The Restatement is further described in the note entitled "Restatement of Financial Statements" in the notes to our consolidated financial statements included in this report. This note also includes various tables showing the impact of the Restatement on our consolidated statements of operations and balance sheets. In the Restatement, we have:

- recorded accelerated amortization of the CobraServ trademark
- corrected the accounting for certain leases
- corrected errors in the accounting for international acquisitions
- corrected other accounting errors related to the accrual of costs and expenses
- reduced income tax reserves
- corrected balance sheet amounts for customer funds and employee benefits

## Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

The Restatement reduced our earnings before income taxes for the three months ended June 30, 2004 by \$10.9 million consisting of \$10.2 million related to accelerated amortization of the CobraServ trademark, \$0.6 million related to leases and \$0.3 million related to the accrual of costs and expenses, partially offset by an increase of \$0.2 million related to international acquisition accounting. The Restatement had no net impact on our earnings before income taxes for the three months ended June 30, 2003 since increases in earnings of \$0.2 million related to international acquisition accounting and \$0.2 million related to the accrual of costs and expenses were entirely offset by a decrease of \$0.4 million related to leases.

The Restatement reduced our earnings before income taxes for the first six months of 2004 by \$20.4 million consisting of \$20.4 million related to accelerated amortization of the CobraServ trademark and \$1.0 million related to leases, partially offset by increases of \$0.4 million related to international acquisition accounting and \$0.6 million related to the accrual of costs and expenses.

The Restatement increased our earnings before income taxes for the first six months of 2003 by \$1.0 million consisting of \$0.4 million related to international acquisition accounting and \$1.4 million related to the accrual of costs and expenses, partially offset by a decrease of \$0.8 million related to leases.

The primary impact of the above adjustments on the June 30, 2004 and December 31, 2003 consolidated balance sheets was to intangible assets due to international acquisition adjustments, customer funds related to trust receivables, and other noncurrent liabilities due to lease adjustments. The June 30, 2004 balance sheet was also impacted by the accelerated amortization of the CobraServ trademark.

The Restatement had no impact on historical cash balances or total cash flows from operating, investing or financing activities for the quarters ended June 30, 2004 and 2003. The only impact on the consolidated statements of cash flows was to reclassify certain amounts within operating cash flows.

### **Operations**

Ceridian Corporation provides human resource solutions to employers through our HRS business segment operations located in the United States, Canada and the United Kingdom. We also provide transaction processing and related services primarily to the transportation and retail industries through our Comdata business segment operations located principally in the United States.

Our net loss for the second quarter of 2004 amounted to \$2.3 million, or 2¢ per diluted share, compared to net earnings of \$25.0 million, or 17¢ per diluted share, in the same quarter of 2003. Our revenue for the second quarter of 2004 amounted to \$316.5 million compared to \$291.1 million in the same quarter of 2003. For the year-to-date periods ended June 30, our net earnings in 2004 amounted to \$15.0 million, or 10¢ per diluted share, on revenue of \$630.4 million compared to net earnings of \$53.1 million, or 36¢ per diluted share, on revenue of \$598.0 million in 2003. The comparisons of net earnings between these reporting periods were significantly affected by the decrease in the carrying value of our interest rate derivative instruments, which are required to be marked-to-market on a current basis and the resulting gain or loss recognized on our consolidated statements of operations. During the first half of 2004, rising interest rates and the expectation of future rate increases resulted in a reduction of the carrying value of these instruments, which we reported as a loss on derivative instruments of \$5.3 million. The offsetting benefit of rising interest income due to rising interest rates is recognized in revenue in future periods if market expectations are realized. Market expectations for lower future interest rates during the first half of 2003 resulted in a gain on derivative instruments of \$19.2 million.

Further information on our consolidated financial condition and results of operations, including business segment operating results, appear in the following sections of this discussion.



**Financial Condition****Balance Sheet Comparisons (restated)**

(Dollars in millions, except per share data)	Amount		Inc (Dec)		% of Total	
	Jun 2004	Dec 2003	\$	%	Jun 2004	Dec 2003
Cash and equivalents	\$ 166.6	\$ 124.2	42.4	34.1	22.0	18.4
Receivables, net	496.2	467.3	28.9	6.2	65.6	69.1
Other current assets	94.0	84.5	9.5	11.2	12.4	12.5
Total current assets	\$ 756.8	\$ 676.0	80.8	12.0	100.0	100.0
Ratio of current assets to total operating assets					36.6	33.3
Current Ratio					1.77	1.81
Capital assets	\$ 1,225.0	\$ 1,243.0	(18.0)	(1.4)	93.6	91.9
Investments, including derivatives	53.9	78.6	(24.7)	(31.4)	4.1	5.8
Other noncurrent assets	29.9	30.5	(0.6)	(2.0)	2.3	2.3
Total noncurrent assets	\$ 1,308.8	\$ 1,352.1	(43.3)	(3.2)	100.0	100.0
Total operating assets	\$ 2,065.6	\$ 2,028.1	37.5	1.8	40.7	39.1
Customer funds	3,007.5	3,152.7	(145.2)	(4.6)	59.3	60.9
Total assets	\$ 5,073.1	\$ 5,180.8	(107.7)	(2.1)	100.0	100.0
Current debt	\$ 14.2	\$ 6.5	7.7	118.5	3.3	1.7
Drafts and settlements payable	161.8	113.7	48.1	42.3	37.8	30.5
Other current liabilities	252.4	253.2	(0.8)	(0.3)	58.9	67.8
Total current liabilities	\$ 428.4	\$ 373.4	55.0	14.7	100.0	100.0
Noncurrent debt	\$ 144.8	\$ 157.0	(12.2)	(7.8)	35.8	38.3
Employee benefit plans	202.4	196.0	6.4	3.3	50.0	47.9
Other noncurrent liabilities	57.3	56.5	0.8	1.4	14.2	13.8
Total noncurrent liabilities	\$ 404.5	\$ 409.5	(5.0)	(1.2)	100.0	100.0
Total operating liabilities	\$ 832.9	\$ 782.9	50.0	6.4	16.4	15.1
Customer funds obligations	3,002.2	3,152.7	(150.5)	(4.8)	59.2	60.9
Stockholders equity	1,238.0	1,245.2	(7.2)	(0.6)	24.4	24.0
Total liabilities and stockholders equity	\$ 5,073.1	\$ 5,180.8	(107.7)	(2.1)	100.0	100.0
Total Debt	\$ 159.0	\$ 163.5	(4.5)	(2.8)	11.4	11.6
Stockholders Equity	1,238.0	1,245.2	(7.2)	(0.6)	88.6	88.4
Total Capitalization	\$ 1,397.0	\$ 1,408.7	(11.7)	(0.8)	100.0	100.0

Our consolidated balance sheets reflect operating assets and liabilities as well as assets and liabilities related to customer funds. Customer funds assets arise from amounts that our customers have advanced to us to pay their employees, remit to taxing authorities, or pay for benefits services to other third parties. Customer funds obligations represent our liability to pay the amounts due to these third parties on behalf of our customers. Customer funds assets are held substantially in trust accounts, are invested in high quality short-term investments or highly-rated fixed income securities, and are not utilized in our operations except for earnings from these investments that are included in our revenue. Additional information on customer funds assets and liabilities can be found in the note to our consolidated financial statements entitled Customer Funds.

Our operating assets increased by \$37.5 million during the first half of 2004 as current assets increased by \$80.8 million and noncurrent assets decreased by \$43.3 million. Our current assets increase was due primarily to increases of \$42.4 million in cash and equivalents and \$28.9 million in receivables. We discuss changes in cash and equivalents in a following section of this discussion entitled Cash Flows. The increase in receivables included a \$34.1 million increase in Comdata trade receivables due largely to the seasonally lower level of transportation services activity at the end of the calendar year. Our noncurrent assets decreased by \$43.3 million as the carrying value of our investments (including derivatives) declined by \$24.7 million and other intangible assets declined by \$24.2 million due primarily to the accelerated trademark amortization. The decrease in the carrying value of investments reflected both the disposition of equity securities as well as settlements and revaluation of derivative instruments. Customer funds assets decreased by \$145.2 million over the first half of 2004 as growth in the customer deposits partially offset the reduction in customer funds caused by the seasonally high level of payments of customer funds obligations during the second quarter of each year. At June 30, 2004, customer funds assets were revalued at current market prices, which included \$5.3 million of net unrealized gains in their carrying value. For further information on customer funds, see the accompanying note to our consolidated financial statements entitled Customer Funds.

Current liabilities increased by \$55.0 million during the first half of 2004 as Comdata drafts and settlements payable increased by \$48.1 million and current debt increased by \$7.7 million. The higher level of drafts and settlements payable at June 30, 2004 compared to the amount payable at December 31, 2003 largely reflected the seasonally low level of the related Comdata transportation receivables at year-end. The increase in current debt largely represents drawings by Ceridian Centrefile on its bank overdraft facility. The decrease of \$5.0 million in noncurrent liabilities includes increases related to employee benefit plans as well as a reduction in borrowings under our Comdata receivables securitization facility of \$10.0 million. Customer funds obligations decreased by \$150.5 million in concert with the decrease in customer funds assets, without regard to unrealized gains added to the assets as a result of revaluing these securities at market prices on June 30, 2004. The decrease of \$7.2 million in stockholders' equity is largely comprised of net earnings of \$15.0 million increased by \$49.7 million related to exercises of stock options and sales of stock to employees and reduced by \$80.3 million representing the cost of reacquired Ceridian common shares held as treasury stock.

In the accompanying tables and text, we use certain abbreviations described below:

SG&A expense represents selling, general and administrative expense

R&D expense represents research and development costs

HRS relates to our human resource solutions division and subsidiaries

Comdata relates to the consolidated results of our transportation and stored value card subsidiary, Comdata Network, Inc., and its subsidiaries

Other relates to the results of our corporate center operations that were not allocated to our two business segments

NM represents percentage relationships in the tables that are not meaningful

## RESULTS OF OPERATIONS

### *Consolidated Results - Overview*

#### Statements of Operations Second Quarter Comparisons (restated)

(Dollars in millions, except per share data)	Amount		Inc (Dec)		% of Revenue	
	2004	2003	\$	%	2004	2003
Revenue	\$ 316.5	\$ 291.1	25.4	8.7	100.0	100.0
Cost of revenue	178.0	173.8	4.2	2.4	56.3	59.7
SG&A expense	117.1	85.6	31.5	36.5	37.0	29.4
R&D expense	8.3	5.3	3.0	57.9	2.6	1.8
(Gain) loss on derivative instruments	19.0	(12.9)	31.9	NM	6.0	(4.5)
Other expense (income)	(2.9)	0.2	(3.1)	NM	(0.9)	0.1
Interest income	(0.5)	(0.5)			(0.2)	(0.2)
Interest expense	0.9	1.1	(0.2)	(13.4)	0.3	0.4
Total costs and expenses	319.9	252.6	67.3	26.6	101.1	86.8
Earnings (loss) before income taxes	(3.4)	38.5	(41.9)	NM	(1.1)	13.2
Income taxes	(1.1)	13.5	(14.6)	NM	(0.3)	4.6
Earnings (loss) from continuing operations	\$ (2.3)	\$ 25.0	(27.3)	NM	(0.7)	8.6
Diluted EPS from continuing operations	\$ (0.02)	\$ 0.17	(0.19)	NM		

#### Statements of Operations Year-To-Date June 30 Comparisons (restated)

Amount

Inc (Dec)

% of Revenue

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

(Dollars in millions, except per share data)	2004	2003	\$	%	2004	2003
Revenue	\$ 630.4	\$ 598.0	32.4	5.4	100.0	100.0
Cost of revenue	355.2	343.9	11.3	3.3	56.3	57.5
SG&A expense	234.3	182.3	52.0	28.5	37.2	30.5
R&D expense	12.9	8.3	4.6	56.3	2.1	1.4
(Gain) loss on derivative instruments	5.3	(19.2)	24.5	NM	0.8	(3.2)
Other expense (income)	(1.7)	(0.2)	(1.5)	NM	(0.3)	
Interest income	(1.0)	(1.0)			(0.2)	(0.2)
Interest expense	2.0	2.3	(0.3)	(11.3)	0.3	0.4
Total costs and expenses	607.0	516.4	90.6	17.5	96.3	86.4
Earnings before income taxes	23.4	81.6	(58.2)	(71.4)	3.7	13.6
Income taxes	8.4	28.5	(20.1)	(70.6)	1.3	4.8
Earnings from continuing operations	\$ 15.0	\$ 53.1	(38.1)	(71.8)	2.4	8.9
Diluted EPS from continuing operations	\$ 0.10	\$ 0.36	(0.26)	(72.2)		

Our consolidated revenue increased by \$25.4 million in the quarterly comparison with \$15.6 million of the increase coming from HRS and \$9.8 million coming from Comdata. In the year-to-date comparison, our consolidated revenue increased by \$32.4 million with \$20.4 million of the increase coming from HRS and \$12.0 million coming from Comdata.

The following factors had the most significant impacts on our HRS revenue performance:

More revenue from LifeWorks and benefits services and new payroll services

Benefits from changes in currency exchange rates on our international revenue

Increased revenue due to higher levels of invested customer funds, net of lower yields

The recognition in December 2003 of \$9.2 million of W-2 revenue which previously would have been recognized in the first quarter of 2004

The following factors had the most significant impacts on our Comdata revenue performance:

Continued growth in Comdata's retail cards in use and transaction volume

Higher transportation card transaction volume and fuel prices

Interest income and interest expense, which are not allocated to our business segments, both remained essentially at the same level in the 2004 quarterly and year-to-date periods as in 2003.

Our total costs and expenses for our business segments, excluding net interest, increased by \$67.5 million in the quarterly comparison and \$90.9 million in the year-to-date comparison. HRS costs and expenses, excluding net interest, increased by \$59.1 million in the quarterly comparison and \$82.1 million in the year-to-date comparison. Comdata costs and expenses, excluding net interest, increased by \$8.4 million in the quarterly comparison and \$8.8 million in the year-to-date comparison. The principal factors affecting the comparison of total costs and expenses included:

Accelerated amortization of the CobraServ trademark

Changes in the carrying value of interest rate derivative instruments

Higher HRS technology support and implementation expenses

Higher HRS non-U.S. costs and expenses as a result of changes in currency exchange rates

Incremental costs from productivity improvement actions in HRS international operations

Additional costs related to higher Comdata retail card sales and processing revenue

Further information on revenue and costs and expenses appear in the following section entitled Business Segment Results.

Our effective tax rate for the second quarter 2004 was 32.1% and for the 2004 year-to-date period was 35.9%. For the comparative 2003 periods, our effective tax rate was 35.1% for the second quarter and 34.9% for first half of the year.

**Business Segment Results****Segment Second Quarter Comparisons (restated)***(Dollars in millions)*

	Amount		Inc (Dec)		% of Revenue	
	2004	2003	\$	%	2004	2003
<b>Revenue</b>						
HRS	\$ 227.6	\$ 212.0	15.6	7.3	71.9	72.8
Comdata	88.9	79.1	9.8	12.4	28.1	27.2
Total	\$ 316.5	\$ 291.1	25.4	8.7	100.0	100.0
<b>EBIT*</b>						
HRS	\$ (30.7)	\$ 12.7	(43.4)	NM	(13.5)	6.0
Comdata	27.7	26.4	1.3	5.0	31.2	33.4
Total	\$ (3.0)	\$ 39.1	(42.1)	NM	(0.9)	13.4

**Segment Year-To-Date June 30 Comparisons (restated)***(Dollars in millions)*

	Amount		Inc (Dec)		% of Revenue	
	2004	2003	\$	%	2004	2003
<b>Revenue</b>						
HRS	\$ 460.0	\$ 439.6	20.4	4.6	73.0	73.5
Comdata	170.4	158.4	12.0	7.6	27.0	26.5
Total	\$ 630.4	\$ 598.0	32.4	5.4	100.0	100.0
<b>EBIT*</b>						
HRS	\$ (30.2)	\$ 31.5	(61.7)	NM	(6.6)	7.2
Comdata	54.6	51.4	3.2	6.2	32.0	32.5
Total	\$ 24.4	\$ 82.9	(58.5)	(70.6)	3.9	13.9

\*We measure the financial performance of our business segments by reference to earnings before interest and taxes since consolidated interest income and interest expense are not allocated to those segments.

**HRS**

Revenue for our HRS business increased by \$15.6 million in the second quarter and \$20.4 million in the first half of 2004 over the amounts reported for the same periods of 2003. Revenue from U.S. operations increased by \$12.3 million in the quarterly comparison and \$11.2 million in the year-to-date comparison as growth in revenue from the LifeWorks contract with the U.S. Armed Services, growth in COBRA and flexible spending account services and new payroll services more than offset the effect of accelerating W-2 revenue from the first quarter of 2004 into 2003. As previously reported in the 2003 Form 10-K/A, the acceleration of W-2 information delivery to customers of U.S. payroll and tax filing operations, made possible by technological advances and





first accomplished at the end of 2003, resulted in the recognition of \$9.2 million of revenue in December 2003 that would otherwise not have been recognized until the first quarter of 2004.

Our HRS revenue includes investment income from invested customer funds that constitutes a component of our compensation for providing services to those customers. Investment income from invested customer funds increased by \$1.1 million in the quarterly comparison to \$17.8 million in 2004 from \$16.7 million in 2003 and by \$2.2 million in the year-to-date comparison to \$35.6 million in 2004 from \$33.4 million in 2003 as higher average balances of invested customer funds more than offset the effect of lower yields. In the quarterly comparison, higher average balances contributed \$2.0 million to the increase in investment income and lower interest rates reduced the result by \$0.9 million. The average balance of invested customer funds during the second quarter of 2004 rose by \$274.9 million or 12.1% to \$2,540.2 million from \$2,265.3 million for the second quarter of 2003. In the year-to-date comparison, higher average balances contributed \$4.6 million to the increase in investment income and lower interest rates reduced the result by \$2.4 million. The average balance of invested customer funds during the 2004 year-to-date period rose by \$319.3 million or 13.6% to \$2,662.8 million from \$2,343.5 million for the 2003 year-to-date period. The higher average invested balances largely reflected the continued success of our introduction of our Payment Solutions service where we make compensation payments to participating customers' employees from payroll deposits advanced to us by those customers.

Revenue from payroll and tax filing increased by \$7.6 million in the quarterly comparison and \$2.3 million in the year-to-date comparison as installation performance improved in the second quarter of 2004. Sales of additional services to customers and investment income were largely responsible for the increase in revenue in both comparisons. Payroll and tax filing customer employment levels declined slightly from the levels of the first half of 2003 but improved during the second quarter of 2004. While payroll and tax filing revenue for the first quarter of 2003 included revenue from the delivery of W-2 information, the delivery of a significant portion of customer W-2 information for 2003 in December 2003 resulted in the recognition of \$9.2 million of revenue in December 2003 that would otherwise not have been recognized until the first quarter of 2004. This reduced revenue for the first six months of 2004 by \$9.2 million.

Revenue from our LifeWorks employee assistance services increased by \$3.7 million in the quarterly comparison and \$6.6 million in the year-to-date comparison and revenue from our benefits services operations increased by \$1.0 million in the quarterly comparison and by \$2.3 million in the year-to-date comparison. The increase in LifeWorks revenue related largely to the implementation of a contract to provide employee assistance services to members of the U.S. Armed Services that commenced in the third quarter of 2003 and is currently scheduled to continue through May 8, 2005. The increase in benefits services revenue related primarily to growth in COBRA and flexible spending account services.

Ceridian Canada revenue increased by \$1.2 million to \$31.6 million from \$30.4 million in the quarterly comparison and by \$6.4 million to \$66.4 million from \$60.0 million in the year-to-date comparison due largely to currency rate changes of \$2.4 million for the quarterly comparison and \$7.2 million for the year-to-date comparison. Without regard to currency rate changes, revenue decreased by \$1.2 million in the quarterly comparison and \$0.8 million in the year-to-date comparison as lower yields on invested customer funds and reduced non-repetitive revenue offset increases in revenue from higher levels of invested customer funds.

Ceridian Centrefile revenue increased by \$2.1 million to \$23.4 million from \$21.3 million in the quarterly comparison and by \$2.8 million to \$45.2 million from \$42.4 million in the year-to-date comparison as changes in currency exchange rates added \$2.6 million to the quarterly comparison and \$5.5 million to the year-to-date comparison. Without regard to the currency rate changes, revenue decreased by \$0.5 million in the quarterly comparison and decreased by \$2.7 million in the year-to-date comparison due to customer losses and low order performance in 2003.

Total costs and expenses, excluding net interest, for our HRS business increased by \$59.1 million in the quarterly comparison and \$82.1 million in the year-to-date comparison due primarily to the accelerated amortization of the CobraServ trademark and changes in the carrying value of interest rate derivative instruments held for our U.S. operations, which are reported as (gain) loss on derivative instruments within costs and expenses. The additional CobraServ trademark amortization was \$10.2 million for the second quarter of 2004 and \$20.4 million for the first six months of 2004. During the second quarter of 2004, the loss from derivative instruments amounted to \$18.1 million compared to a gain of \$12.9 million during the second quarter of 2003, which increased HRS costs and expenses by \$31.0 million. In the year-to-date comparison, the 2004 period reported a \$4.4 million loss while the 2003 period reported a \$19.2 million gain, which increased HRS costs and expenses by \$23.6 million. The decrease in carrying value of these derivatives largely reflected a change in market expectations for future interest rates from falling in 2003 to rising in 2004. Without regard to the accelerated amortization of the CobraServ trademark and changes in (gain) loss from derivative instruments, HRS total costs and expenses increased by \$17.9 million in the quarterly comparison and increased by \$38.1 million in the year-to-date comparison as further described below.

For U.S. operations, total costs and expenses, excluding net interest, increased by \$57.0 million in the quarterly comparison of which \$31.0 million related to the change in (gain) loss on derivative instruments and \$10.2 million related to the accelerated amortization of the CobraServ trademark. Of the remaining quarterly increase of \$15.8 million, \$5.0 million related to selling expense and \$10.8 million related to general and administrative expense. In the year-to-date comparison, total costs and expenses increased by \$71.9 million of which \$23.6 million related to the change in (gain) loss on derivative instruments and \$20.4 million related to the accelerated amortization of the CobraServ trademark. Of the remaining year-to-date increase of \$27.9 million, \$7.8 million related to selling expense and \$13.9 million related to general and administrative expense. Cost of revenue increased by \$0.1 million in the quarterly comparison and increased by \$2.5 million in the year-to-date comparison while R&D expense increased by \$2.7 million in the quarterly comparison and \$4.2 million in the year-to-date comparison due to increased software development effort.

Other expense (income) included gains of \$3.0 million in the second quarter and \$3.5 million in the first half of 2004 from the sales of Ultimate and USIH common stock. Also included in other expense (income) for the first half of 2004 was a \$2.3 million asset write-down of capitalized software that was abandoned and determined to have no future value.

Cost of revenue for U.S. operations increased by \$0.1 million in the quarterly comparison and increased by \$2.5 million in the year-to-date comparison as payroll and tax filing costs decreased by \$0.2 million in the quarterly comparison and increased \$1.0 million in the year-to-date comparison. Both comparisons for payroll and tax filing included increased royalty costs and the quarterly comparison also reflected a higher level of installation efforts. These increases were offset in part by cost reductions of \$1.5 million in the quarterly comparison and \$3.0 million resulting from the reassignment of certain personnel from production operations to selling operations. LifeWorks experienced increased cost of revenue of \$0.4 million in the quarterly comparison and \$1.6 million in the year-to-date comparison related to the additional revenue from the U.S. Armed Services contract referred to above. Benefits services operations cost of revenue decreased by \$0.1 million in the quarterly comparison and \$0.1 million in the year-to-date comparison due to cost reductions associated with the consolidation of other operations with our Florida operation completed in 2003.

SG&A expense for U.S. operations increased by \$26.0 million in the quarterly comparison and \$42.2 million in the year-to-date comparison primarily due to \$10.2 million for the quarter and \$20.4 million for the year-to-date for accelerated amortization of the CobraServ trademark, as well as increases in headcount and in commissions related to a higher level of and an increased emphasis on implementation of new orders and higher levels of compensation and benefits. The increase in selling expense of \$5.0 million in the quarterly comparison and \$7.8 million in the year-to-date comparison reflected additional staffing, which added \$3.0 million to the quarterly comparison and \$6.4 million to the year-to-date comparison including the transfer of personnel from production positions to selling positions. Staff support costs were largely responsible for the remaining increase in selling expense in both comparisons. Excluding the impact of the accelerated amortization of the CobraServ trademark, general and administrative expense increased by \$10.8 million in the quarterly comparison and \$13.9 million in the year-to-date comparison as corporate allocations of pension costs contributed an additional \$1.5 million to the quarterly comparison and \$2.4 million to the year-to-date comparison. The remaining increase in both comparisons was primarily due to higher staff support costs including compensation and benefits.

Total costs and expenses for Ceridian Canada increased by \$1.6 million in the quarterly comparison and \$7.5 million in the year-to-date comparison as currency rate changes contributed \$1.9 million to the quarterly comparison and \$5.8 million to the year-to-date comparison. The year-to-date comparison reflected severance costs of \$1.8 million recorded in the first quarter of 2004, and this action provided some cost reduction benefit to the quarterly comparison that helped offset higher selling expense resulting from increased marketing efforts in 2004.

Total costs and expenses for Ceridian Centrefile increased by \$0.4 million in the quarterly comparison and \$2.9 million in the year-to-date comparison as currency rate changes contributed

\$2.3 million to the quarterly comparison and \$4.8 million to the year-to-date comparison. The year-to-date comparison reflected severance costs of \$1.0 million recorded in the first quarter of 2004. Cost reductions of \$1.9 million in the quarterly comparison and \$2.8 million in the year-to-date comparison resulted from cost savings related to the staff reductions in the first quarter of 2004 and outsourcing to Ceridian Centrefile's Mauritius operations.

**Comdata**

Comdata revenue grew by \$9.8 million in the quarterly comparison and \$12.0 million in the year-to-date comparison due primarily to increased revenue from retail card sales and processing. For arrangements that include retail card sales and related services, revenue from the card sale and the related services is deferred at the time of delivery of the cards or service. Recognition of the retail card sale revenue commences at the estimated time of first use based on historical experience (now seven months after delivery to our customer), and recognition of the related services revenue commences when a transaction takes place. Revenue from both retail card sales and related services is substantially recognized within a six-month period after activation of the card. Therefore, the increased revenue in the comparisons largely reflected sales of retail cards and related services in late 2003. Revenue from retail card sales and related services recognized during the comparative quarters increased by \$5.5 million while revenue recognized during the comparative year-to-date periods increased by \$9.6 million. Gross billable fees for card sales and related services increased deferred income by \$3.2 million in the quarterly comparison and \$4.9 million in the year-to-date comparison reflecting the addition of new customers and increasing usage of retail cards. Over-the-road transportation services revenue increased by \$3.5 million in the quarterly comparison and \$4.6 million in the year-to-date comparison as higher fuel prices in the second quarter of 2004 contributed \$1.9 million to both comparisons. The remainder of the increase in the quarterly and year-to-date comparisons of over-the-road revenue related primarily to an increase in transportation card transaction volume, including the BusinessLink product. Revenue from sales of point-of-sale terminal equipment increased by \$0.5 million in the quarterly comparison and decreased by \$1.8 million in the year-to-date comparison. Permitting services revenue increased by \$0.2 million in the quarterly comparison and \$0.4 million in the year-to-date comparison. Lower revenue from truck stop service fees and phone services resulted in a \$0.7 million decrease in the year-to-date comparison.

Comdata's costs and expenses, excluding net interest, increased by \$8.5 million in the quarterly comparison and \$8.8 million in the year-to-date comparison. Cost of revenue increased \$4.2 million in the quarterly comparison and \$5.1 million in the year-to-date comparison due primarily to increases of \$4.0 million in the quarterly comparison and \$6.1 million in the year-to-date comparison related to higher levels of retail card sales and processing revenue. SG&A expense increased by \$2.6 million in the quarterly comparison and \$1.7 million in the year-to-date comparison. Bad debt expense in SG&A expense increased by \$0.2 million in the quarterly comparison and decreased by \$1.2 million in the year-to-date comparison largely due to the provision for a particular doubtful account in the first quarter of 2003. Corporate allocations of pension costs included in general and administrative expense contributed \$0.5 million to the quarterly comparison and \$0.8 million to the year-to-date comparison. Other increases in SG&A expense related primarily to higher levels of compensation expense and contracted services. In the

second quarter of 2004, Comdata recorded a \$0.9 million loss on derivative instruments as a result of a decrease in carrying value of the diesel fuel derivative price contracts executed in March 2004.

## FINANCIAL CONDITION

### CASH FLOWS

#### Consolidated Statements of Cash Flows Highlights

(Dollars in millions)

	2004	Six Months Ended June 30, 2003	Change
Operating activities	\$ 124.0	\$ 52.9	\$ 71.1
Investing activities	(40.3)	(18.4)	(21.9)
Financing activities	(40.4)	(11.4)	(29.0)
Effect of exchange rate changes on cash	(0.9)	3.2	(4.1)
Net cash flows provided (used)	\$ 42.4	\$ 26.3	\$ 16.1
Cash and equivalents at 6/30/04 and 12/31/03	\$ 166.6	\$ 124.2	\$ 42.4

#### Reconciliation of Earnings to Cash Inflows (Outflows) from Operating Activities (restated)

(Dollars in millions)

	2004	Six Months Ended June 30, 2003	Change
Earnings from continuing operations	\$ 15.0	\$ 53.1	\$ (38.1)
Provision for deferred income taxes	(8.9)	(2.8)	(6.1)
Depreciation and amortization	61.4	39.7	21.7
Contributions to retirement plan trusts		(16.9)	16.9
Unrealized (gain) loss on derivative instruments	21.6	(4.2)	25.8
Other reconciling items	11.4	10.2	1.2
From continuing operations earnings	100.5	79.1	21.4
From continuing operations working capital activities	23.5	(26.2)	49.7
Cash flows provided by operating activities	\$ 124.0	\$ 52.9	\$ 71.1

#### Cash Balances

## Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

Our cash and equivalents increased by \$42.4 million to \$166.6 million during the first half of 2004. Our net cash flows provided by operating activities amounted to \$124.0 million as we used operating cash flows and cash balances to fund investing activities and repurchases of our common stock. Our cash flows provided by operating activities amounted to \$52.9 million for the first half of 2003 as cash inflows from continuing operations earnings of \$79.1 million exceeded cash outflows associated with an investment in net working capital of \$26.2 million.

### *Operating Activities*

Net cash inflows from operating activities grew by \$71.1 million to \$124.0 million during the first half of 2004 compared to \$52.9 million during the first half of 2003. Net cash inflows from continuing operations earnings contributed \$21.4 million to the increase while changes in working capital items contributed \$49.7 million. We discussed the factors that determined the operating cash inflows from earnings activities in the previous section of this discussion called Results of Operations. The increase in cash flows from working capital activities of \$49.7 million included increases of \$24.8 million from net collections of receivables and \$10.7 million from growth in Comdata drafts and settlements payable during the first half of 2004 compared to the same period in 2003. The remaining increase in cash flows from working capital activities in the first half of 2004 over 2003 largely resulted from higher levels of accrued employee compensation and benefits and taxes, including the effect of a tax refund of \$16.5 million received during the first quarter of 2004.

### *Investing Activities*

During the first half of 2004 we made capital expenditures of \$13.9 million for property and equipment and \$15.4 million for software and development costs. The respective amounts for 2003 were \$12.5 million and \$14.3 million. During March 2003, at the request of Ultimate, we paid \$3.0 million to Ultimate to acquire 750,000 unregistered shares of Ultimate common stock and a warrant to purchase an additional 75,000 unregistered common shares at a price of \$4.00 per share. In June 2003, we received cash of \$10.9 million for assets sold relative to two sale and leaseback transactions involving data storage equipment. During the first six months of 2004 we sold 156,600 shares of Ultimate common stock and recorded a gain of \$1.4 million. Proceeds from the sale of Ultimate stock amounted to \$2.0 million of which \$0.7 million was received in April 2004 and the remaining \$1.3 million was received in July 2004. During June 2004, we also sold 360,758 shares of USIH common stock and recorded a gain of \$2.1 million with proceeds amounting to \$5.7 million which was received in July 2004. Investing cash flows also included an expenditure of \$11.0 million in April 2004 for the acquisition of RSI. We also acquired a customer base for COBRA services from a major insurance company for \$0.9 million near the end of the first quarter of 2004. We describe these transactions further in the note to our consolidated financial statements entitled Investing Activity.

### *Financing Activities*

During the first half of 2004, we paid \$80.3 million to repurchase 4,012,400 shares of our common stock on the open market at an average net price of \$20.01 per share under an existing stock repurchase program. During the first half of 2003, we paid \$19.0 million to repurchase 1,314,700 shares of our common stock on the open market at an average net price of \$14.48 per share. We provide further information on our stock repurchase program in the following section entitled Liquidity and Capital Resources and in Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report. We provide further information on changes in debt financing in the note to our consolidated financial statements entitled Financing.

Proceeds from exercises of stock options and employee stock plan purchases amounted to \$44.5 million during the first half of 2004 compared to \$6.8 million in the first half of 2003 due to higher market prices for Ceridian stock in 2004. During the first half of 2004, we paid down our Comdata receivables securitization facility by \$10.0 million in June and capital lease obligations by \$2.0 million. During the second quarter of 2004, Ceridian Centrefile increased borrowings from its overdraft facility by \$7.4 million principally to fund the retirement of an intercompany note held by Ceridian Canada.

### **Liquidity and Capital Resources**

We expect to meet our liquidity needs from existing cash balances, cash flows from operations and borrowings under external credit facilities. Cash balances and cash flows are discussed under the section entitled "Cash Balances and Operations" above. Cash flows from operations are primarily influenced by the same factors that influence operating results. We discussed these in a preceding section of this discussion entitled "Results of Operations" and in several of the cautionary factors described at the end of this discussion. In addition to issues discussed in "Cash Balances and Operations" above, cautionary factors of particular relevance to our liquidity needs include those that refer to:

The effects of government regulations on such matters as the timing of tax payments, interest rates, employee benefits, and funds transfer activities

Our ability to attract new customers and retain our existing customers

General economic conditions

We have been opportunistically repurchasing Ceridian common stock under a program approved by our Board of Directors effective July 24, 2002 that authorized the repurchase of up to 12,500,000 Ceridian common shares. We previously reported that in 2004 we plan to utilize approximately half of our free cash flow (defined as operating cash flows minus capital expenditures) to continue this opportunistic repurchase program. We estimated that free cash flow for 2004 may be in the range of \$140 million to \$150 million. During the first half of 2004, we repurchased 4,012,400 shares for a total of \$80.3 million. As of June 30, 2004, we were authorized to purchase up to 6,350,500 additional shares of our common stock under the authorization from our Board of Directors. We generally use our treasury stock to address our obligations under our stock compensation and employee stock purchase plans.

In the first quarter of 2003, we entered into a services agreement with Ultimate for extended technical support for our SourceWeb product during 2003 that required quarterly payments totaling \$2.3 million during that year. We have amended the 2003 agreement to extend its term through September 2004 and also to include within its scope a number of project management functions and continuation development to provide enhanced scalability, security, automated installation deployment features and enhanced production efficiency. In connection with the amendment and extension, we committed to the payment of \$1.7 million to Ultimate during the second quarter and \$0.8 million during the third quarter of 2004.



At June 30, 2004, our committed credit arrangements included a domestic revolving credit facility that provides up to \$350.0 million for a combination of advances of which up to \$50.0 million can be used for letters of credit until March 2006. In addition at June 30, 2004, we had a \$150.0 million receivables securitization facility with a term ending in June 2005, which uses selected Comdata trade receivables as collateral for borrowing. In May 2004, Ceridian Centrefile replaced its £3.0 million overdraft facility with a £6.5 million overdraft facility available through February 2005.

As of June 30, 2004, we have unused borrowing capacity under the \$350.0 million revolving credit facility amounting to \$347.7 million of which we have designated \$130.0 million as backup to the Comdata receivables securitization facility. We are in compliance with all covenants related to these facilities. These covenants require that our consolidated debt must not exceed our stockholders' equity, as defined in the agreement, as of the end of any quarter, and the ratio of earnings before interest and taxes to interest expense on a rolling four quarter basis must be at least 2.75 to 1. These covenants also limit liens, subsidiary debt, contingent obligations, operating leases, minority equity investments and divestitures, among other things. We amended our domestic revolving credit facility and Comdata receivables securitization facility to allow additional time to deliver our quarterly reports on Form 10-Q for the second and third quarters of 2004 to our lenders without the delayed delivery constituting a default under these agreements.

As of June 30, 2004, there have been no material changes since December 31, 2003 to our off-balance-sheet financing or the Table of Contractual Commitments and Contingencies presented in the Liquidity and Capital Resources section of Management's Discussion of Financial Condition and Results of Operations included in Part II, Item 7 of the 2003 Form 10-K/A. Although we have changed our method of categorization for invested customer funds from held to maturity to available for sale as described in the accompanying note to our consolidated financial statements entitled Customer Funds, we do not expect to change our investment strategy with regard to these funds or that the change would affect our liquidity.

#### **Critical Accounting Policies**

Our critical accounting policies are described in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the 2003 Form 10-K/A. There have been no changes to these policies that materially affected this report.

#### **Cautionary Factors That Could Affect Future Results**

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we present the cautionary statements set forth below, identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements made by us. You should carefully consider each of the following risks and all of the other information in this report. The risks and uncertainties described below and contained in this report are not the only ones we will face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our businesses. If any of the

risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially affected. If that happens, the trading price of our common stock could decline significantly.

*Our revenue depends in large part on our ability to retain customers.*

Customer retention is an important factor in the amount and predictability of revenue and profits in each of our businesses. Our ability to retain our customers depends on a number of factors, including:

customer satisfaction;

product and service offerings by competitors;

customer service levels;

price; and

customer viability.

In providing some of our services, particularly services provided by our HRS business, we incur installation and conversion costs in connection with new customers that will need to be recovered before the contractual relationship will provide incremental profit. Longer customer relationships are likely to be more profitable.

*Changes in or the elimination of governmental regulations may negatively impact our revenue and earnings.*

Changes in or the elimination of governmental regulations may adversely affect our revenue and earnings and the way we conduct our businesses. Changes in governmental regulations are difficult to predict and could be significant. For example, the extent and type of benefits that employers are required to or may choose to provide employees and the amount and type of federal or state taxes employers and employees are required to pay will affect the associated new products or services that we may sell. As another example, Comdata is currently licensed on the state level by the banking or financial institutions departments of numerous states. Continued licensing by these states is subject to ongoing satisfaction of compliance requirements regarding safety and soundness, including, for example, posting of surety bonds to guarantee payment of funds in transit. Changes in this regulatory environment, including the implementation of new or varying measures by the U.S. federal government, may significantly affect or change the manner in which Comdata currently conducts some of the aspects of its business.

*Our future revenue growth will depend on our ability to continue selling our products and services to our existing customers, introducing new or enhanced products and services, attracting and retaining new customers and selling additional products and services to existing customers.*

We expect that a portion of our anticipated future revenue growth in each of our business segments will be derived from:

the continued selling of products and services to our existing customers;

the introduction of new or enhanced products and services in our businesses;

the selling of products and services to new customers; and

the selling of additional products and services to our existing customers.

How successful we will be in these efforts will depend on a variety of factors, including:

the quality and perceived value of our product and service offerings;

effective sales and marketing efforts;

our ability to attract new and retain new and existing customers;

the level of market acceptance and the avoidance of difficulties or delays in development or introduction of new products and services;

our ability to integrate technology and information systems into our products and services;

our successful implementation of products and services for new and existing customers;

the regulatory needs and requirements facing our customers; and

our ability to meet increased customer regulatory requirements, including our customers that are governmental agencies or entities.

There can be no assurance that we will achieve our revenue growth objectives from our cross-selling efforts and selling of new products and services. The inability to cross-sell our products and services, attract new and retain new and existing customers or successfully develop and implement new and enhanced products and services could harm our businesses.

***Economic factors may harm our business and operating results.***

Trade, monetary and fiscal policies, and political and economic conditions may substantially change, with corresponding impacts on the industries that we serve, particularly those more economically sensitive industries such as trucking and retail. Approximately 75 percent of Comdata's revenue for 2003 was attributable to its transportation business. Comdata's results of operations are, therefore, dependent on the level of activity in the transportation industry, which, in turn, is affected by general economic conditions. For example, a decrease in the number of truck drivers would decrease the number of Comchek transactions and could adversely affect Comdata's revenues. Similarly, since a significant portion of our fueling transactions are priced by reference to the amount spent on the transaction, our revenue can be significantly affected by changes in diesel fuel prices. Falling diesel fuel prices directly reduce the amounts of revenue and earnings related to these transactions. Rising

## Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

diesel fuel prices increase our revenue and earnings but also increase the working capital requirements of Comdata and subject Comdata to greater credit or bad debt risks with respect to its customers that purchase diesel fuel using a Comdata payment method.

Changes in trade, monetary and fiscal policies, and political and economic conditions could also affect employment levels, with a corresponding impact on our payroll processing and tax filing businesses. Decreased employment levels, as well as slowed economic conditions, could

negatively affect wage and bonus payments, orders and the timing of product installations, and negatively impact the operating results of our HRS business.

*Litigation and governmental investigations may harm our financial results.*

Our future operating results may be harmed by adverse judgments, settlements, unanticipated costs or other effects of legal and administrative proceedings now pending or that may be instituted in the future, or from investigations by the Securities and Exchange Commission and other administrative agencies.

We are currently responding to document requests from the SEC, and we have been advised that the SEC has issued a formal order of investigation. We are cooperating with the SEC in its investigation. We cannot predict the outcome of the SEC's investigation or when the investigation will be resolved. An adverse outcome of this investigation could have a material adverse effect on us and result in:

the institution of administrative or civil proceedings;

sanctions and the payment of fines and penalties;

the restatement of our financial results for the years under review;

changes in personnel;

stockholder lawsuits; and

increased review and scrutiny of us by our customers, regulatory authorities, the media and others.

In February 2004, we restated our financial results for the years ended December 31, 2002, 2001 and 2000 and the first, second and third quarters of 2003 to reflect a change in accounting relating to the revenue recognition policy of Comdata's Stored Value Systems unit.

In July 2004, we announced a postponement of our second quarter 2004 earnings release and the investigation being directed by the Audit Committee of our Board of Directors (the Audit Committee Investigation) focusing on the capitalization and expensing of certain costs in our HRS business.

In August 2004, a number of shareholder putative class actions and derivative suits were filed against the company. The judgment, settlement and costs of this litigation could have an adverse effect on our financial results.

In addition, we restated our financial results for the years 1999 through 2003 and for the quarterly period ended March 31, 2004 to correct errors in accounting relating principally to the capitalization of internally developed software, the commencement of amortization of capitalized

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-Q/A

software development costs, accounting for interest rate and fuel price derivative instruments and the accrual of costs and expenses. We refer you to the note entitled Restatement of Prior Period Financial Statements contained in Part I, Item 1, Financial Statements of the Form 10-Q for additional discussion of the Prior Restatement. The Prior Restatement could result in new litigation or expand

existing litigation. The judgments, settlement and costs of such litigation could have an adverse effect on our financial results.

***Any problems or delays we may experience in implementing system upgrades and conversions could harm our business.***

We expect to continue our efforts to transition to new or enhanced data processing systems and/or software in several of our business units, including systems that process customer data and internal management information systems which provide enhanced data and information services. The successful implementation of these new or enhanced systems will be critical to the effective delivery of products and services and the efficient operation of our businesses. Problems or delays with the installation or initial operation of the new or enhanced systems could disrupt or increase costs in connection with our delivery of services and with our operations planning, financial reporting and management. From time to time, we have experienced these types of problems or delays.

***Our ability to remain competitive depends on our ability to adapt to changing technology.***

As a provider of information management and data processing services, we will need to adapt and respond to the technological advances offered by our competitors and the technological requirements of our customers, including those related to the Internet, in order to maintain and improve upon our competitive position. For example, Comdata's credit, debit and cash cards could be replaced by a next-generation payment method. There can be no assurance that we will develop and release new products and services or product and service enhancements within the required time frames and within targeted costs. Significant delays, difficulties or added costs in introducing new products and services or enhancements, either through internal development, acquisitions or cooperative relationships with other companies, could adversely affect the market acceptance of our products and services and our operating results.

***Our strategy to make acquisitions of and investments in complementary businesses, products and technologies involves risks that could harm our business and operating results.***

One of our growth strategies is to make acquisitions of and investments in complementary businesses, products and technologies that will enable us to add products and services for our core customer base and for adjacent markets, and to expand each of our businesses geographically. Our ability to make these acquisitions and investments will depend on:

the availability of suitable acquisition candidates and investments at acceptable costs;

our ability to compete effectively for these acquisition candidates and investments; and

the availability of capital to complete these acquisitions and investments.

These risks could be heightened if we complete several acquisitions or investments within a relatively short period of time. The benefits of an acquisition or investment may often take





considerable time to develop, and we cannot guarantee that any acquisition or investment will in fact produce the revenue, earnings or business synergies that we anticipated.

In addition, implementation of this strategy entails a number of risks, including:

inaccurate assessment of undisclosed liabilities;

entry into markets in which we may have limited or no experience;

potential loss of key employees or customers of the acquired businesses;

difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies and cost savings;

reallocation of significant amounts of capital from operating initiatives to acquisitions; and

increase in our indebtedness and a limitation in our ability to access additional capital when needed.

In addition, some acquisitions and investments may require the consent of the lenders under our \$350 million revolving credit and our Comdata Receivables Securitization facilities, and we cannot predict whether approvals would be forthcoming or the terms on which the lenders would approve these transactions. Also, from an accounting perspective, acquisitions and investments may involve non-recurring charges and significant charges from periodic reassessments of the recoverable value of goodwill and other intangible assets arising from acquisitions that could harm our operating results.

*Our \$350 million revolving credit and Comdata Receivables Securitization facilities may restrict our operating flexibility.*

The governing documents for our \$350 million revolving credit and Comdata Receivables Securitization facilities contain a number of significant provisions that, among other things, restrict our ability to:

sell assets;

incur more indebtedness;

grant or incur liens on our assets;

make investments or acquisitions;

enter into leases or assume contingent obligations;

engage in mergers or consolidations; and

engage in transactions with our affiliates.

These restrictions could hurt our ability to finance our future operations or capital needs or make acquisitions that may be in our best interest. In addition, our credit facilities require that we satisfy several financial covenants. Our ability to comply with these financial requirements and other restrictions may be affected by events beyond our control, and our inability to comply with them could result in a default under a credit facility. If a default occurs under one of our credit facilities, the lenders under the other facility could elect to declare all of the outstanding borrowings, as well

as accrued interest and fees, to be due and payable and require us to apply all of our available cash to repay those borrowings. In addition, a default may result in higher rates of interest and the inability to obtain additional capital.

***The markets we serve may attract new competitors or cause current competitors to focus more on these markets, which could harm our business.***

New competitors could decide to enter the markets we serve or current competitors could decide to focus more on these markets, and thereby intensify the highly competitive conditions that already exist. These new entrants and existing competitors could offer or introduce new technologies or a different service model, or could treat the services to be provided by one of our businesses as one component of a larger product or service offering. These developments could enable these new and existing competitors to offer similar products or services at reduced prices. Any of these or similar developments could harm our business and results of operations.

***We will be subject to risks related to our international operations, which may harm our operating results.***

Approximately 23 percent of HRS revenue in 2003 was obtained from our international operations. Our Ceridian Centrefile subsidiary provides human resource services, payroll processing services and human resource information systems software in the United Kingdom. Ceridian Centrefile is expanding its payroll services into numerous countries in Europe by engaging a partner within a country to provide us with payroll administration and processing services for that country. Our Ceridian Canada operations handle and hold payroll as well as tax filing funds for our Canadian customers. Comdata also operates in Canada, and is expanding its business into Mexico and Europe. Apart from the risks described herein, international operations are subject to various additional risks which could adversely affect those operations or our business as a whole, including:

costs of customizing products and services for foreign customers;

difficulties in managing and staffing international operations;

difficulties with or inability to engage partners in Europe;

reduced protection for intellectual property rights in some countries;

longer sales and payment cycles;

the burdens of complying with a wide variety of foreign laws;

exposure to local economic conditions; and

unfavorable currency exchange rates.

***We expect to continue to invest in and improve the performance of our U.S. HRS business, and we cannot assure you that our efforts and the amount we invest in these plans will improve the financial performance of our U.S. HRS business.***

We have ongoing and continued initiatives to invest in and improve the performance of our U.S. HRS business. These initiatives include:

transitioning small and medium size business customers to our Internet payroll products;

improving our customer service model;

improving customer retention;

continuing product enhancements;

investing in our Six Sigma program, an effort that focuses on helping organizations design and produce products and services better, faster and cheaper;

consolidating and improving efficiencies at our payroll processing centers and benefits administration operations; and

increasing the effectiveness of our sales efforts.

We cannot assure you that our efforts and the amount we invest in this process will improve the financial performance of our U.S. HRS business, and if so, by how much. If these initiatives are less successful than planned, or the level of investment needs to be increased, our business could be harmed.

***Government regulation changes on timing or amount of remittances and changes in interest rates may reduce our investment income from customer deposits.***

Our HRS business in the United States and Canada has historically derived significant revenue and earnings from the investment of customer deposits, and this revenue and earnings are an integral part of our HRS business. Changes in governmental regulations on the timing and amount of remittances may reduce the period of time we are allowed to hold these remittances, as well as the amount of such remittances, and may decrease our revenue and earnings from this source. If governmental regulations change in this fashion, we would likely seek to require customers who permit us to retain earnings on their deposits to pay us additional fees in lieu of a portion of this lost investment income.

In addition, changes in interest rates will affect our revenue and earnings from this source. Interest rate changes are difficult to predict and could be significant.

***Our ability to improve operating margins in our HRS business will depend on the degree to which and the speed with which we will be able to increase operational efficiencies and reduce operating costs.***

Our ability to improve profit margins in our HRS business will depend on factors that include the degree to which and the speed with which we will be able to increase operational efficiencies and reduce operating costs. Delays or difficulties in implementing and consolidating process improvements, such as those designed to reduce printing, telecommunication and customer service costs, or quickly and effectively installing new customers or new products and services, and in consolidating various functions, including administrative functions, eliminating duplicate operations and consolidating facilities could adversely affect the timing or effectiveness of cost reduction and margin improvement efforts.



***The failure of our HRS business to comply with applicable laws could result in substantial taxes, penalties and liabilities that could harm our business.***

Our HRS customers transfer to our HRS division or its subsidiaries contributed employer and employee tax funds. Our HRS division or its subsidiaries process the data received from its customers and remit the funds along with a tax return to the appropriate taxing authorities when due. Retirement plan assets are remitted directly by our customers to investment vehicles selected by the plan administrator or plan sponsor. Tracking, processing and paying these tax liabilities and administering retirement plans is complex. Mistakes may occur in connection with this service. Our HRS division or its subsidiaries and its customers are subject to large cash penalties imposed by tax authorities for late filings or underpayment of taxes or required plan contributions.

As a result of the benefits services our benefit services subsidiary provides, it may be subject to potential legal liability as a provider of portability compliance services. As a provider of COBRA (Consolidated Omnibus Budget Reconciliation Act) compliance services, our benefit services subsidiary is subject to excise taxes for noncompliance with provisions of COBRA. In addition to the excise tax liability that may be imposed on our benefit services subsidiary, substantial excise taxes may be imposed under COBRA on our customers. In addition, as a provider of HIPAA (Health Insurance Portability and Accountability Act of 1996) compliance and administration services, our benefit services subsidiary may be subject to ERISA (Employee Retirement Income Security Act of 1974) penalties for noncompliance with various provisions of HIPAA.

Under various service agreements with its customers, our HRS division or its subsidiaries assume financial responsibility for the payment of the taxes, penalties and liabilities assessed against its customers arising out of the failure of our HRS division or its subsidiaries to fulfill its obligations under its agreements with these customers, unless these taxes, penalties or liabilities are attributable to the customer's failure to comply with the terms of the agreement the customer has with our HRS division or its subsidiaries. These taxes, penalties and liabilities could, in some cases, be substantial and could harm its business and operating results. Additionally, the failure of our HRS division or its subsidiaries to fulfill its obligations under its customer agreements could harm our reputation, its relationship with our customers and its ability to gain new customers.

***Our HRS business experiences generally higher revenues during first and fourth quarters which may cause our operating results to fluctuate significantly.***

Our HRS business experiences generally higher revenues during the first quarter as a result of higher payroll funds being processed due to year-end bonuses being paid and additional year-end services required during the fourth quarter as result of special reporting requirements. We expect this trend to continue, which could cause our quarterly operating results to fluctuate significantly.



***Our business and results of operations are dependent on several vendors and suppliers, the loss of whom could adversely affect our consolidated results of operations.***

Our business is dependent on several significant vendors and suppliers, the loss of whom could adversely affect our consolidated results of operations. In particular, Comdata's current business relies upon its relationships with third party suppliers, such as MasterCard, to effect and support transactions, including access to the Cirrus ATM network and the Maestro point-of-sale debit network. The ability of Comdata to continue to provide some of its services in the manner in which it currently delivers them may be affected by actions taken by third party suppliers, including MasterCard or other similar card associations. Comdata is considering alternatives to its existing third party relationships, and is in the process of forming a Utah industrial bank ( Comdata Bank ) which Comdata anticipates would likely become a direct participant in the MasterCard credit and debit networks. The Comdata Bank application is awaiting FDIC approval which is currently pending until the issues with the SEC Investigation are substantively resolved. Any adverse change in Comdata's relationship with these vendors or Comdata's inability to timely and effectively establish the Comdata Bank or find other timely and effective alternatives to these vendor relationships could likely adversely affect Comdata's business and results of operations and could harm our consolidated results of operations as well.

***We have found material weaknesses in our internal controls that require remediation and we expect to conclude, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, that our internal controls over financial reporting at December 31, 2004 are not effective.***

As we disclose in Part I, Item 4, Controls and Procedures of the Form 10-Q, we have discovered deficiencies, including material weaknesses, in our internal control over financial reporting. While we are taking immediate steps to correct our internal control weaknesses, the material weaknesses that have been discovered will not be considered remediated until the new and improved internal controls operate for a period of time, are tested and it is concluded that such new and improved internal controls are operating effectively. Pending the successful completion of such testing, we will perform mitigating procedures relating to our internal control weaknesses.

Due to the nature of and the time necessary to effectively remediate each of the material weaknesses identified to date, we expect to conclude that some of the material weaknesses identified to date will not have been effectively remediated by the filing date of our Annual Report on Form 10-K for the year ended December 31, 2004 (the 2004 Form 10-K ). As a result, we believe that KPMG LLP, our independent registered public accounting firm ( KPMG ), will not be able to issue a positive opinion on our internal control over financial reporting in the 2004 Form 10-K. However, we do expect that KPMG will issue an unqualified opinion on our consolidated financial statements contained in the 2004 Form 10-K. If we fail to remediate any material weaknesses, we could be unable to provide timely and reliable financial information, which could have a material adverse effect on our business, results of operations or financial condition. Furthermore, it is uncertain what impact an adverse opinion or a disclaimed opinion would have upon our stock price or business.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our market risk exposure is primarily due to the variability of interest income earned on the investment of customer funds in lieu of fees and reported as revenue. The fair value of our interest rate derivative instruments was \$35.0 million at June 30, 2004 and \$55.7 million at December 31, 2003. The June 30 year-to-date payments received from interest rate derivative contracts amounted to \$16.0 million in 2004 and \$15.0 million in 2003. There has been no material change in our interest rate market risk during the three-month period ended June 30, 2004.

We also face market risk exposure due to variability in the prices of diesel fuel. In providing services to certain of our trucking customers, Comdata calculates a portion of the fees it charges as a fixed percentage of the total cost of fuel purchased. As fuel prices rise and fall, Comdata's revenue rises and falls accordingly. In March 2004, Comdata entered into fuel price derivative contracts to swap the floating price of fuel for an average fixed price of \$1.51 per gallon. These contracts had the effect of reducing the exposure to price variability of diesel fuel noted above by approximately one half for the period July 1 to December 31, 2004. The carrying amount of the fuel price derivatives at June 30, 2004 was a liability of \$0.9 million, representing the expected aggregate future payments to the counterparty over the term of the contracts.

We provided further information on interest rate and fuel price derivatives in notes entitled "Restatement of Prior Period Financial Statements" and "Investing Activity" to the consolidated financial statements contained in Part I, Item 1 of the Form 10-Q.

For additional information on market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" contained in the 2003 Form 10-K/A including a discussion of certain changes in our market risk analysis as a result of the application of corrected hedge accounting principles under FAS 133.

#### **Item 4. Controls and Procedures**

##### **Disclosure Controls and Procedures**

As of the end of the period covered by the 2004 Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ( Exchange Act )). Based upon that evaluation, we have concluded that as of June 30, 2004, our disclosure controls and procedures were ineffective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. However, to address the material weaknesses described in the paragraphs below, we have significantly expanded our disclosure controls and procedures to include additional analysis and other post-closing procedures to ensure that our disclosure controls and procedures were effective over the preparation of the financial statements included in this report. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

##### **Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ), and that receipts and expenditures are being made only in accordance with authorizations from our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that

the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. This assessment identified deficiencies in our internal control over financial reporting, and management has determined that each of the following deficiencies individually constitutes a material weakness (as defined by the Public Company Accounting Oversight Board or PCAOB in its Auditing Standard No. 2, An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements ) in our internal control over financial reporting as of December 31, 2004:

1. *Inadequate company-level controls.* We did not maintain effective company-level controls as defined in the *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These deficiencies related to each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring), specifically:

We did not maintain sufficient documentation supporting the application of our accounting policies, practices and procedures;

We did not maintain adequately trained personnel in accounting and other functions critical to financial reporting;

We did not maintain adequate mechanisms for anticipating and identifying financial reporting risks and for reacting to changes in our operating environment that could have a material effect on financial reporting;

We did not maintain policies and procedures designed to ensure that we accounted for software capitalization, revenue recognition, and expense recognition in accordance with U.S. GAAP, and did not maintain effectively-designed preventive and detective controls to ensure proper application of U.S. GAAP in the financial reporting process;

We did not adequately communicate employees' duties and control responsibilities; and

Our periodic evaluations of internal controls and monitoring of remediation activities were not effective.

2. *Inadequate financial statement preparation and review procedures.* We did not maintain adequate policies, procedures and personnel to ensure that accurate, reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, we identified the following deficiencies:

Failure to document and approve journal entries at our corporate office and U.S. and U.K. payroll divisions;

Inadequate policies and procedures to identify errors in accounts payable and various accruals and to ensure timely recognition of costs and expenses;

Failure to appropriately segregate and define certain accounting duties relating to the identification, calculation and recording of liabilities;



Inadequate cost and expense classification processes and review controls to ensure compliance with U.S. GAAP;

Inadequate policies and procedures for the identification, calculation and recording of acquisition and consolidation entries for international subsidiaries;

Ineffective reconciliation of accounts; and

Lack of sufficient finance and accounting personnel with appropriate U.S. GAAP expertise.

As a result of this material weakness, we (i) failed to recognize costs and expenses on a timely basis and misclassified costs and expenses in our consolidated statements of operations; (ii) incorrectly calculated and recorded acquisition and consolidation entries associated with our subsidiaries, principally in the United Kingdom and Canada, and (iii) improperly accounted for free rent, concessions and escalation clauses in leases.

3. *Inadequate financial reporting processes and information systems in our United Kingdom subsidiary.* Our financial reporting processes and information systems at our subsidiary in the United Kingdom were not adequately designed or operating to effectively support our financial reporting requirements. This material weakness is the result of aggregate deficiencies in internal control activities, specifically:

Access and security control deficiencies surrounding the use of certain information technology applications;

Insufficient data validation controls in end-user computing applications;

Insufficient management oversight; and

Lack of adequately trained finance and accounting personnel.

These deficiencies result in more than a remote likelihood that improper accounting for transactions could occur, and not be detected on a timely basis, resulting in material misstatements in our consolidated financial information.

4. *Inadequate controls associated with the accounting for capitalized software costs and related amortization.* Our internally developed software capitalization guidelines were not consistent with U.S. GAAP; we lacked personnel with sufficient expertise in software capitalization rules pursuant to U.S. GAAP; we did not adequately train employees, including financial analysts and project managers who performed these accounting functions; we failed to maintain sufficient documentation for the historical capitalization of certain software development costs and for the commencement of amortization related to such costs; and we had insufficient preventive and detective controls related to the capitalization of internally developed software. As a result of this material weakness, corrections of errors in accounting were required to reduce assets and stockholders' equity in our consolidated balance sheets; increase costs and expenses and reduce net earnings in our consolidated statements of operations; and reclassify amounts between operating activities and investing activities in our consolidated statements of cash flows.





5. Inadequate controls over complex transactions and accounting matters. We lacked adequately trained finance and accounting personnel with appropriate U.S. GAAP accounting expertise. Accordingly, in certain circumstances, an effective secondary review of technical accounting matters could not be performed. As a result of these deficiencies, errors in accounting for certain complex transactions occurred in the following areas:

*Inadequate revenue recognition procedures and controls.* We did not have adequate policies and procedures in place related to revenue recognition; we lacked personnel with adequate expertise in revenue recognition rules under U.S. GAAP; and we failed to consistently include finance and accounting personnel in the analysis of the impact revenue arrangements would have on consolidated financial reporting. As a result, accounting errors were identified related to revenue recognition. These errors in accounting were corrected by increasing deferred income and deferred costs and reducing stockholders' equity in our consolidated balance sheets; and reducing revenue, cost of revenue and net earnings in our consolidated statements of operations in 2003 and 2004.

*Statement of Financial Accounting Standards (FAS) 133, Accounting for Derivative Instruments and Hedging Activities.* Our interest rate and fuel price derivative instruments did not satisfy the requirements of FAS 133 and, as such, did not qualify for hedge accounting treatment. The correction of this accounting error impacted revenue and (gain) loss on derivative instruments in our consolidated statements of operations for fiscal 2001 through 2004. The unrealized gains and losses on these derivative instruments that were originally accounted for in accumulated other comprehensive income within stockholders' equity in our consolidated balance sheets were restated and correctly reported in (gain) loss on derivative instruments in our consolidated statements of operations.

*Application of FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets.* Our processes were insufficient to ensure the timely identification of business events impacting the useful life of our long-lived assets. As a result, we failed to timely identify the need to shorten the estimated useful life of a trademark asset resulting from a strategic marketing decision made in January of 2004. This accounting error was corrected by increasing expenses and reducing net earnings in our consolidated statements of operations and reducing other intangible assets in our consolidated balance sheets.

As a result of the aforementioned material weaknesses in internal control over financial reporting, material misstatements of our current and previous consolidated financial statements occurred and were identified. To correct these errors in accounting, we restated our annual and interim consolidated financial statements for fiscal 1999 through fiscal 2003 and the fiscal quarters of 2004.

In making our assessment, management used the criteria set forth by COSO in *Internal Control Integrated Framework*. Because of the material weaknesses described above, management concluded that, as of December 31, 2004, our internal control over financial reporting was not effective based on those criteria.

#### **Remediation Steps to Address Material Weaknesses and Other Deficiencies in Internal Control over Financial Reporting**

In July 2004, we began performing periodic internal accounting reviews of HRS. These reviews are performed at least once per quarter and evaluate compliance with our policies and in accordance with U.S. GAAP related to the capitalization and amortization of internally developed software costs, and the month-end close and cost and expense accrual process. These reviews are performed by HRS personnel, as well as by our Internal Audit Department, and have been completed through the end of 2004.

In order to remediate the material weaknesses in internal control over financial reporting and ensure the integrity of our financial reporting processes, we implemented in 2004 or are in the process of implementing the following actions:

a comprehensive review of internal control over financial reporting through our ongoing review being carried out in connection with our efforts to comply with the Section 404 of the Sarbanes-Oxley Act of 2002 and the rules issued thereunder, including additional remediation as necessary;

additional training for finance, accounting and certain other personnel at HRS in (i) appropriate accounting for the capitalization and amortization of internally developed software, (ii) month-end expense cut-off and cost and expense accrual processes, (iii) revenue recognition, (iv) procedures for identifying unusual events or transactions and obtaining appropriate accounting guidance prior to recording such transactions, (v) the importance of a robust internal control environment and (vi) the application of technical accounting pronouncements;

implementation of detailed, new internally developed software capitalization and amortization policy and formal procedures that are consistent with U.S. GAAP;

implementation of detailed, new revenue recognition policies at HRS that are consistent with U.S. GAAP;

establishment of new documentation requirements and monitoring procedures for HRS finance and accounting employees to ensure, among other things, that (i) accounting conclusions involving the interpretation of complex accounting standards are thoroughly documented and identify the critical factors that support the basis for such conclusions, and (ii) the factors upon which such employees rely are validated and adequately evidenced;



implementation of detective controls in the form of (i) random internal audits by our Internal Audit Department of selected HRS software development projects for compliance with our new capitalization policy, (ii) monthly testing processes at HRS to analyze whether costs and expenses have been accrued properly, and (iii) quarterly monitoring procedures at HRS to analyze costs and expenses incurred during such period and determine whether such costs and expenses were classified correctly on our consolidated statement of operations;

modification of systems and procedures to (i) ensure that appropriate cut-off dates for the monthly accounts payable cycle are strictly observed, thereby preventing improper deferral of costs and expenses, (ii) ensure that purchases in an amount of over \$1,000 be evidenced by a written purchase order form and that appropriate purchase order reports are generated and analyzed monthly and (iii) establish appropriate deterrent controls, including clear and regular communication of operating policies and procedures by management to HRS employees emphasizing that noncompliance with such policies and procedures will result in corrective action, which may include termination;

creation of a new position, Director of Financial Accounting and Compliance, and retention of such person to review and coordinate the implementation of new revenue-related pronouncements and regulations under U.S. GAAP at Ceridian;

review of all new HRS contracts containing certain quantitative and qualitative characteristics in order to determine appropriate accounting treatment under U.S. GAAP;

creation of a revenue recognition steering committee comprised of financial and accounting personnel to discuss and review revenue recognition issues at HRS for policy amendments and interpretations;

periodic review of details supporting the consolidated statement of operations to determine whether significant costs and expenses are being classified appropriately on a historical and recurring basis and to reclassify where appropriate;

reconciliation of balance sheet accounts for HRS that were unreconciled for the third and fourth quarters of 2004. We have reviewed our account reconciliation process at HRS to ensure that, among other things, such accounts are being reconciled on a timely basis, the reconciliation is being independently reviewed, any reconciling items are cleared on a timely basis, and the accuracy of the underlying supporting detail, or subledger, has been substantiated and independently reviewed; and

establishment of a process to review long-lived assets on a quarterly basis.

In addition, in an effort to improve internal control over financial reporting, we continue to emphasize the importance of establishing the appropriate environment in relation to accounting, financial reporting and internal control over financial reporting and the importance of identifying areas of improvement and to create and implement new policies and procedures where material weaknesses or significant deficiencies exist. Furthermore, in an effort to improve internal control over financial reporting, we have hired additional accounting expertise, continued our use of external resources, taken certain disciplinary actions and terminated certain individuals. In addition, a new chief financial officer joined Ceridian in February 2005.

**Changes in Internal Controls**

We did not make any changes to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2004 that have materially affected, or are likely to materially affect, our internal control over financial reporting. However, as discussed above, since June 30, 2004, we have made significant changes to our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

Ceridian and its subsidiaries are involved in a number of judicial and administrative proceedings considered normal in the course of our current and past operations, including employment-related disputes, contract disputes, government proceedings, customer disputes, and tort claims. In some proceedings, the claimant seeks damages as well as other relief, which, if granted, would require substantial expenditures on our part.

Some of these matters raise difficult and complex factual and legal issues, and are subject to many uncertainties, including the facts and circumstances of each particular action, and the jurisdiction, forum and law under which each action is proceeding. Because of this complexity, final disposition of some of these proceedings may not occur for several years. As such, we are not always able to estimate the amount of our possible future liabilities. There can be no certainty that we may not ultimately incur charges in excess of presently or established future financial accruals or insurance coverage. Although occasional adverse decisions (or settlements) may occur, it is management's opinion that the final disposition of these proceedings will not, considering the merits of the claims and available reserves and insurance and based upon the facts and circumstances currently known, have a material adverse effect on our financial position or results of operations.

#### Securities Class Actions

Since August 6, 2004, six shareholder lawsuits have been filed against Ceridian Corporation and certain executive officers in United States District Court, District of Minnesota. *Edmund Biancarelli v. Ceridian Corp., et al.*, filed August 16, 2004; *Garco Investments v. Ceridian Corp., et al.*, filed September 2, 2004; *Ellen Lear v. Ceridian Corp., et al.*, filed August 26, 2004; *Bruce Valentine Mickan v. Ceridian Corp., et al.*, filed September 24, 2004; *Richard Shaller v. Ceridian Corp., et al.*, filed August 6, 2004; and *Sharon Zaks v. Ceridian Corp., et al.*, filed August 25, 2004. The complaints for these actions are virtually identical. These actions purport to be class actions filed on behalf of all persons who purchased or otherwise acquired common stock of the company between April 17, 2003 through and including July 19, 2004, and allege claims against the company and certain of its officers under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs challenge the accuracy of certain public disclosures made by Ceridian regarding its financial performance, and in particular Ceridian's accounting for revenue at its Stored Value Systems business unit and accounting for capitalization and expensing of certain costs in Ceridian's U.S. Human Resource Solutions business.

Ceridian believes these claims are without merit and intends to vigorously defend itself in all of these actions. We cannot estimate the possible loss or range of loss from these matters.

Derivative Actions

Since August 13, 2004, two shareholders have filed derivative suits on behalf of Ceridian against Ceridian, as nominal defendant, its directors and certain of its executive officers in United States District Court, District of Minnesota. *James Park, Derivatively On Behalf of Ceridian Corporation v. Ronald L. Turner, et al.*, and *Anthony Santiamo, Derivatively On Behalf of Ceridian Corporation v. Ronald L. Turner, et al.*, both served August 19, 2004. These complaints have been consolidated. The consolidated lawsuit alleges that the Ceridian Board of Directors and certain executive officers breached fiduciary duties, through abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. These complaints rely on the same factual allegations as the purported class action shareholder lawsuits described above.

Ceridian is awaiting the filing of an amended complaint. Ceridian intends to appropriately defend itself in the consolidated action. We cannot estimate the possible loss or range of loss from these matters.

SEC Investigation

On January 22, 2004, we filed a Current Report on Form 8-K, under Item 5, stating that we announced that we are responding to a document request from the Securities and Exchange Commission, and that we have been advised that the SEC has issued a formal order of investigation. In February 2004, we provided documents responsive to the SEC. In July 2004, we advised the SEC of the Audit Committee Investigation. We kept the SEC advised on a regular basis of the Audit Committee Investigation. On December 10, 2004, we received a further formal confidential document request from the SEC. The second request has broadened the areas of inquiry to include, among other things, Ceridian's restatements, revenue recognition, capitalization, expense recognition, how we respond to any internal ethics complaints, and Ceridian's accounting policies and procedures. The formal document requests state that the SEC investigation is a non-public, fact-finding inquiry, and that the investigation and document requests do not mean that the SEC has concluded that we have violated any securities laws. We are cooperating with the SEC and are in the process of responding to the SEC's additional document request.



**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth information with respect to our repurchases of our common stock during the three months ended June 30, 2004.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (April 1, 2004-April 30, 2004)	100,000	\$ 21.35	100,000	7,250,500
Month #2 (May 1, 2004-May 31, 2004)	900,000	\$ 21.97	900,000	6,350,500
Month #3 (June 1, 2004-June 30, 2004)	340(2)	\$ 22.60		6,350,500
Total:	1,000,340(2)	\$ 21.91	1,000,000	6,350,500

(1) On July 24, 2002, our Board of Directors approved a share repurchase program, pursuant to which up to 12,500,000 shares of our common stock may be repurchased. We disclosed this repurchase program in our periodic reports filed with the SEC, including the 2003 Form 10-K/A. The repurchase program is being effected from time to time, depending on market conditions and other factors, through open market purchases and privately negotiated transactions. The total remaining authorization under the repurchase program was 6,350,500 shares as of July 1, 2004; the repurchase program has no set expiration or termination date.

(2) 340 shares were repurchased from employees in connection with the payment of withholding taxes due in connection with the vesting of restricted stock awards.

**Item 4. Submission of Matters to a Vote of Security Holders**

Ceridian's annual meeting of stockholders was held on May 12, 2004.

The stockholders of Ceridian voted on three items at the annual meeting of stockholders:

1. The election of eight individuals to serve as directors of Ceridian;
2. The proposal to approve the Ceridian Corporation 2004 Long-Term Stock Incentive Plan; and
3. The proposal to approve the Ceridian Corporation Amended and Restated Employee Stock Purchase Plan.

Of the 148,488,335 shares of Ceridian common stock entitled to vote at the meeting, 136,853,767 shares were present at the meeting in person or by proxy.

The eight individuals designated by Ceridian's Board of Directors as nominees for director were elected, with voting as follows:

<b>Nominee</b>	<b>Total Votes For</b>	<b>Total Votes Withheld</b>
William J. Cadogan	134,878,316	1,975,451
Nicholas D. Chabraja	133,445,256	3,408,511
Robert H. Ewald	135,569,541	1,284,226
Ronald T. LeMay	132,962,513	3,891,254
George R. Lewis	133,239,386	3,614,381
Ronald L. Turner	135,097,969	1,755,798
Carole J. Uhrich	129,766,047	7,087,720
Alan F. White	133,472,854	3,380,913

The proposal to approve the Ceridian Corporation 2004 Long-Term Stock Incentive Plan passed with the following votes: 90,176,409 votes FOR, 38,368,822 votes AGAINST, 1,095,165 votes ABSTAINING, and 7,213,371 BROKER NON-VOTES.

The proposal to approve the Ceridian Corporation Amended and Restated Employee Stock Purchase Plan passed with the following votes: 127,150,681 votes FOR, 1,378,855 votes AGAINST, 1,110,860 votes ABSTAINING, and 7,213,371 BROKER NON-VOTES.

**Item 6. Exhibits**

(a) Exhibits.

- 10.01\* Ceridian Corporation 2004 Long-Term Stock Incentive Plan.
- 10.02\* Ceridian Corporation Amended and Restated Employee Stock Purchase Plan.
- 10.03\* Amendment No. 1 to Receivables Purchase Agreement entered into as of June 20, 2003 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and Bank One, NA.
- 10.04\* Amendment No. 2 to Receivables Purchase Agreement entered into as of June 17, 2004 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and Bank One, NA.
- 31.01\*\* Certification of our Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.02\*\* Certification of our Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01\*\* Certification of our Chief Executive Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.02\*\* Certification of our Chief Financial Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

\* Previously filed with the Form 10-Q

\*\* Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the period ended June 30, 2004, to be signed on its behalf by the undersigned thereunto duly authorized.

CERIDIAN CORPORATION  
Registrant

Date: May 4, 2005

/s/ Douglas C. Neve  
Douglas C. Neve  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)