

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. 2)

(Mark One)

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

For the quarterly period ended March 31, 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)

**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**

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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 April 30, 2004, was 148,589,973.

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CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q/A

March 31, 2004

**EXPLANATORY NOTE**

The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (the Form 10-Q ) for Ceridian Corporation (the Company ) was initially filed with the Securities and Exchange Commission (the SEC ) on May 7, 2004 (the Original Filing Date ). On February 18, 2005, the Company filed Amendment No. 1 on Form 10-Q/A (the Form 10-Q/A-1 ) to the Form 10-Q with the SEC to reflect restatements of its consolidated financial statements contained in the Form 10-Q. As described in the Form 10-Q/A-1, 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 balance sheet as of March 31, 2004 and the Company's consolidated statements of cash flows and operations for the three-month periods ended March 31, 2004 and March 31, 2003 and the notes related thereto arising from the Prior Restatement are reflected in the Form 10-Q/A-1. For a more detailed description of the Prior Restatement, see the Form 10-Q/A-1 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. 2 on Form 10-Q/A (the Form 10-Q/A-2 ) to the Form 10-Q is being filed to reflect further restatements of the Company's consolidated balance sheet as of March 31, 2004 and the Company's consolidated statements of operations and cash flows for the three-month periods ended March 31, 2004 and March 31, 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

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Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A-2 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-2 sets forth the Form 10-Q/A-1 in its entirety. However, this Form 10-Q/A-2 only amends and restates Items 1, 2, and 4 of Part I of the Form 10-Q/A-1, in each case, solely as a result of, and to reflect, the Restatement, and no other information in the Form 10-Q/A-1 is amended hereby. Except for the Prior Restatement, 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-1 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-2 as Exhibits 31.01, 31.02, 32.01 and 32.02.

Except for the foregoing amended information, this Form 10-Q/A-2 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-2, the Company is filing (i) Amendment No. 1 on Form 10-Q/A to its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 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.

## INDEX

	<b>Page</b>
<u>Part I.</u>	
<u>Financial Information (Restated)</u>	<u>5</u>
<u>Item 1. Financial Statements</u>	<u>5</u>
<u>Consolidated Statements of Operations for the three month periods ended March 31, 2004 and 2003</u>	<u>5</u>
<u>Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the three month periods ended March 31, 2004 and 2003</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<p>In the opinion of Ceridian Corporation, the unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals, except as set forth in the notes to consolidated financial statements) necessary to present fairly our financial position as of March 31, 2004, and results of operations and cash flows for the three month periods ended March 31, 2004 and 2003.</p> <p>The results of operations for the three month period ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.</p> <p>The consolidated financial statements should be read in conjunction with the notes to consolidated financial statements.</p>	
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
<u>Part II.</u>	
<u>Other Information</u>	<u>45</u>
<u>Item 2. Changes in Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 6. Exhibits and Reports on Form 8-K</u>	<u>46</u>
<u>Signature</u>	<u>47</u>

FORM 10-Q/A

## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share data)

Ceridian Corporation  
and Subsidiaries

	For Periods Ended March 31, Three Months	
	2004 (restated)	2003 (restated)
Revenue	\$ 313.9	\$ 306.9
Costs and Expenses		
Cost of revenue	177.2	170.1
Selling, general and administrative	117.2	96.7
Research and development	4.6	3.0
(Gain) loss on derivative instruments	(13.7)	(6.3)
Other expense (income)	1.2	(0.4)
Interest income	(0.5)	(0.5)
Interest expense	1.1	1.2
Total costs and expenses	287.1	263.8
Earnings before income taxes	26.8	43.1
Income tax provision	9.5	15.0
Net earnings	\$ 17.3	\$ 28.1
Earnings per share		
Basic	\$ 0.12	\$ 0.19
Diluted	\$ 0.11	\$ 0.19
Shares used in calculations (in 000 s)		
Weighted average shares (basic)	149,250	148,451
Dilutive securities	2,422	275
Weighted average shares (diluted)	151,672	148,726
Antidilutive shares excluded (in 000 s)	6,398	18,567

See notes to consolidated financial statements.

FORM 10-Q/A  
 CONSOLIDATED BALANCE SHEETS (Unaudited)  
 (Dollars in millions)

Ceridian Corporation  
 and Subsidiaries

	March 31, 2004 (restated)	December 31, 2003 (restated)
<b>Assets</b>		
Cash and equivalents	\$ 135.3	\$ 124.2
Trade receivables, less allowance of \$18.6 and \$17.3	435.8	436.4
Other receivables	33.8	30.9
Current portion of deferred income taxes	36.4	28.5
Other current assets	64.0	56.0
Total current assets	705.3	676.0
Property, plant and equipment, net	143.7	148.0
Goodwill	926.1	918.6
Other intangible assets, net	77.9	90.2
Software and development costs, net	84.3	86.2
Prepaid pension cost	12.2	12.2
Deferred income taxes, less current portion	9.0	9.6
Investments	27.6	22.9
Derivative instruments	61.2	55.7
Other noncurrent assets	8.2	8.7
Total assets before customer funds	2,055.5	2,028.1
Customer funds	3,682.2	3,152.7
Total assets	\$ 5,737.7	\$ 5,180.8
<b>Liabilities and Stockholders' Equity</b>		
Short-term debt and current portion of long-term obligations	\$ 6.9	\$ 6.5
Accounts payable	35.9	39.1
Drafts and settlements payable	136.1	113.7
Customer advances	30.7	31.0
Deferred income	65.8	66.9
Accrued taxes	44.9	25.5
Employee compensation and benefits	45.4	55.3
Other accrued expenses	39.4	35.4
Total current liabilities	405.1	373.4
Long-term obligations, less current portion	155.8	157.0
Deferred income taxes	47.1	38.6
Employee benefit plans	201.0	196.0
Other noncurrent liabilities	18.2	17.9
Total liabilities before customer funds obligations	827.2	782.9
Customer funds obligations	3,682.2	3,152.7
Total liabilities	4,509.4	3,935.6
Stockholders' equity	1,228.3	1,245.2
Total liabilities and stockholders' equity	\$ 5,737.7	\$ 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 March 31, Three Months	
	2004 (restated)	2003 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 17.3	\$ 28.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income tax provision	0.1	2.2
Depreciation and amortization	30.7	19.7
Asset write-downs	2.3	
Unrealized (gain) loss on derivative instruments	(5.5)	1.1
Gain on sale of marketable securities	(0.5)	
Contribution to retirement plan trusts		(4.1)
Provision for doubtful accounts	2.6	3.8
Other	4.0	2.1
Decrease (Increase) in trade and other receivables	(2.5)	(60.2)
Increase (Decrease) in accounts payable	(3.2)	(2.8)
Increase (Decrease) in drafts and settlements payable	22.4	23.8
Increase (Decrease) in employee compensation and benefits	(10.6)	(14.6)
Increase (Decrease) in accrued taxes	21.1	1.8
Increase (Decrease) in other current assets and liabilities	(7.0)	(7.9)
Net cash provided by (used for) operating activities	71.2	(7.0)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expended for property, plant and equipment	(6.0)	(6.2)
Expended for software and development costs	(5.7)	(3.3)
Expended for investments in and advances to businesses, less cash acquired	(0.9)	(3.1)
Proceeds from sales of businesses and assets		0.5
Net cash provided by (used for) investing activities	(12.6)	(12.1)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Revolving credit and overdrafts, net	0.1	
Repayment of capital lease obligations	(1.0)	
Repurchase of common stock	(58.4)	(9.1)
Exercise of stock options and other	11.6	1.4
Net cash provided by (used for) financing activities	(47.7)	(7.7)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>0.2</b>	<b>1.3</b>
<b>NET CASH PROVIDED (USED)</b>	<b>11.1</b>	<b>(25.5)</b>
Cash and equivalents at beginning of period	124.2	134.3
Cash and equivalents at end of period	\$ 135.3	\$ 108.8

See notes to consolidated financial statements.

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q/A

March 31, 2004

Notes to Consolidated Financial Statements

(Dollars in millions, except per share data)

(Unaudited)

STOCKHOLDERS EQUITY

	<b>March 31, 2004 (restated)</b>	<b>December 31, 2003 (restated)</b>
Common Stock		
Par value - \$.01		
Shares authorized 500,000,000		
Shares issued 150,617,306 and 150,028,289	\$ 1.5	\$ 1.5
Shares outstanding 147,885,754 and 150,022,441		
Additional paid-in capital	932.5	925.2
Retained earnings	545.9	528.6
Treasury stock, at cost (2,731,552 and 5,848 common shares)	(52.9)	(0.1)
Accumulated other comprehensive income, net of deferred income taxes:		
Unrealized gain on marketable securities	7.1	3.9
Cumulative translation adjustment	29.3	21.2
Pension liability adjustment	(235.1)	(235.1)
Total stockholders equity	\$ 1,228.3	\$ 1,245.2

COMPREHENSIVE INCOME (LOSS)

	<b>For Periods Ended March 31, Three Months</b>	
	<b>2004 (restated)</b>	<b>2003 (restated)</b>
Net earnings	\$ 17.3	\$ 28.1
Items of other comprehensive income before income taxes:		
Change in foreign currency translation adjustment	8.1	13.2
Change in unrealized gain from marketable securities	5.4	(1.1)
Change in pension liability		
Less unrealized gain previously reported on marketable securities sold or settled in this period	(0.5)	
Other comprehensive income (loss) before income taxes	13.0	12.1
Income tax (provision) benefit	(1.7)	0.4
Other comprehensive income (loss) after income taxes	11.3	12.5
Comprehensive income	\$ 28.6	\$ 40.6



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/A-1 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/A-1 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 first quarter of 2004 by \$9.5 consisting of \$10.2 related to accelerated amortization of the CobraServ trademark and \$0.4 related to leases, partially offset by increases of \$0.2 related to international acquisition accounting and \$0.9 related to the accrual of costs and expenses. The Restatement increased our earnings before income taxes for the first quarter of 2003 by \$1.0 consisting of \$0.2 related to international acquisition accounting and \$1.2 related to the accrual of costs and expenses, partially offset by a decrease of \$0.4 related to leases. The impact of the Restatement on the consolidated statements of operations for these periods 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 March 31, 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 March 31, 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 March 31, 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/A-1. 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 quarters ended March 31, 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 \$0.4 for the first quarter 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 \$0.2 for the first quarter 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 \$0.9 for the first quarter 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 \$14.0 at March 31, 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 March 31, 2004 and December 31, 2003.



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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 Adjust- ments	As Restated
<b><u>Three months ended March 31,</u></b>							
<b><u>2004</u></b>							
Revenue	\$ 313.9	\$	\$	\$	\$	\$	\$ 313.9
Costs and expenses							
Cost of revenue	177.2						177.2
Selling, general and administrative	107.7	10.2	0.4	(0.2)	(0.9)	9.5	117.2
Research and development	4.6						4.6
(Gain) loss on derivative instruments	(13.7)						(13.7)
Other expense (income)	1.2						1.2
Interest income	(0.5)						(0.5)
Interest expense	1.1						1.1
Total costs and expenses	277.6	10.2	0.4	(0.2)	(0.9)	9.5	287.1
Earnings before income taxes	36.3	(10.2)	(0.4)	0.2	0.9	(9.5)	26.8
Income tax provision	12.8	(3.5)	(0.1)		0.3	(3.3)	9.5
Net earnings	\$ 23.5	\$ (6.7)	\$ (0.3)	\$ 0.2	\$ 0.6	\$ (6.2)	\$ 17.3
<b><u>Three months ended March 31,</u></b>							
<b><u>2003</u></b>							
Revenue	\$ 306.9	\$	\$	\$	\$	\$	\$ 306.9
Costs and expenses							
Cost of revenue	170.0		0.1			0.1	170.1
Selling, general and administrative	97.8		0.3	(0.2)	(1.2)	(1.1)	96.7
Research and development	3.0						3.0
(Gain) loss on derivative instruments	(6.3)						(6.3)
Other expense (income)	(0.4)						(0.4)
Interest income	(0.5)						(0.5)
Interest expense	1.2						1.2
Total costs and expenses	264.8		0.4	(0.2)	(1.2)	(1.0)	263.8
Earnings before income taxes	42.1		(0.4)	0.2	1.2	1.0	43.1
Income tax provision	14.8		(0.1)		0.3	0.2	15.0
Net earnings	\$ 27.3	\$	\$ (0.3)	\$ 0.2	\$ 0.9	\$ 0.8	\$ 28.1

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

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

	March 31, 2004			December 31, 2003		
	As Previously Reported (1)	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
<b>Assets</b>						
Cash and equivalents	\$ 135.3	\$	\$ 135.3	\$ 124.2	\$	\$ 124.2
Trade and other receivables, net	469.6		469.6	467.3		467.3
Current portion of deferred income taxes	36.2	0.2	36.4	28.5		28.5
Other current assets	64.0		64.0	56.0		56.0
Total current assets	705.1	0.2	705.3	676.0		676.0
Goodwill	907.4	18.7	926.1	904.8	13.8	918.6
Other intangible assets, net	98.8	(20.9)	77.9	101.1	(10.9)	90.2
Software and development costs, net	83.7	0.6	84.3	85.8	0.4	86.2
Deferred income taxes, less current portion	6.8	2.2	9.0	6.0	3.6	9.6
Investments	27.9	(0.3)	27.6	23.2	(0.3)	22.9
Other noncurrent assets	225.4	(0.1)	225.3	224.6		224.6
Total assets before customer funds	2,055.1	0.4	2,055.5	2,021.5	6.6	2,028.1
Customer funds	3,668.2	14.0	3,682.2	3,141.3	11.4	3,152.7
Total assets	\$ 5,723.3	\$ 14.4	\$ 5,737.7	\$ 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	\$ 6.9	\$	\$ 6.9	\$ 6.5	\$	\$ 6.5
Accounts payable	35.8	0.1	35.9	39.1		39.1
Drafts and settlements payable	136.1		136.1	113.7		113.7
Customer advances	30.7		30.7	31.0		31.0
Deferred income	65.8		65.8	66.9		66.9
Accrued taxes	45.7	(0.8)	44.9	26.4	(0.9)	25.5
Employee compensation and benefits	43.9	1.5	45.4	53.9	1.4	55.3
Other accrued expenses	41.0	(1.6)	39.4	35.2	0.2	35.4
Total current liabilities	405.9	(0.8)	405.1	372.7	0.7	373.4
Long-term obligations, less current portion	155.8		155.8	157.0		157.0
Deferred income taxes	50.2	(3.1)	47.1	37.8	0.8	38.6
Employee benefit plans	203.0	(2.0)	201.0	198.0	(2.0)	196.0
Other noncurrent liabilities	11.9	6.3	18.2	12.0	5.9	17.9
Total liabilities before customer funds obligations	826.8	0.4	827.2	777.5	5.4	782.9
Customer funds obligations	3,668.2	14.0	3,682.2	3,141.3	11.4	3,152.7
Total liabilities	4,495.0	14.4	4,509.4	3,918.8	16.8	3,935.6
Common stock and additional paid-in capital	881.2	(0.1)	881.1	926.5	0.1	926.6
Retained earnings	557.1	(11.2)	545.9	533.6	(5.0)	528.6
Accumulated other comprehensive income	(210.0)	11.3	(198.7)	(216.1)	6.1	(210.0)
Total stockholders equity	1,228.3		1,228.3	1,244.0	1.2	1,245.2
Total liabilities and stockholders equity	\$ 5,723.3	\$ 14.4	\$ 5,737.7	\$ 5,162.8	\$ 18.0	\$ 5,180.8

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(1) Amounts were previously restated in the Form 10-Q/A-1 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	March 31, 2004	December 31, 2003	
		Increase (decrease)	
<b>Summary by Restatement Group by Balance Sheet Account</b>			
<b>CobraServ trademark amortization:</b>			
Other intangible assets, net	\$	(10.2)	\$
<b>Lease accounting:</b>			
Other noncurrent liabilities increase	\$	6.3	\$ 5.9
<b>International acquisition accounting:</b>			
Goodwill		18.7	13.8
Other intangible assets, net		(10.7)	(10.9)
Software and development costs, net		0.6	0.4
Accumulated other comprehensive income (currency translation)		11.3	6.1
Net liability/equity increase	\$	2.7	\$ 2.8
<b>Accrual of costs and expenses:</b>			
Investments		(0.3)	(0.3)
Other noncurrent assets		(0.1)	
Accounts payable		0.1	
Employee compensation and benefits (short-term liability)		(0.5)	(0.6)
Other accrued expenses		(1.6)	0.2
Net liability decrease	\$	(1.6)	\$ (0.1)
<b>Income tax impact of adjustments:</b>			
Current portion of deferred income taxes		0.2	
Deferred income taxes (long-term asset)		2.2	3.6
Accrued taxes (current income taxes payable)		(0.8)	(0.9)
Deferred income taxes (long-term liability)		(3.1)	0.8
Net asset increase	\$	6.3	\$ 3.7
<b>Balance sheet reclassifications:</b>			
Customer funds (asset)		14.0	11.4
Customer funds obligations		14.0	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	March 31, 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	0.2	
Goodwill	18.7	13.8
Other intangible assets, net	(20.9)	(10.9)
Software and development costs, net	0.6	0.4
Deferred income taxes (long-term)	2.2	3.6
Investments	(0.3)	(0.3)
Other noncurrent assets	(0.1)	
Customer funds	14.0	11.4
Net increase in assets	\$ 14.4	\$ 18.0
<b><u>Liabilities</u></b>		
Accounts payable	0.1	
Accrued taxes	(0.8)	(0.9)
Employee compensation and benefits	1.5	1.4
Other accrued expenses	(1.6)	0.2
Deferred income taxes (long-term)	(3.1)	0.8
Employee benefit plans (long-term)	(2.0)	(2.0)
Other noncurrent liabilities	6.3	5.9
Customer funds obligations	14.0	11.4
Net increase in liabilities	\$ 14.4	\$ 16.8
Net increase in stockholders' equity	\$	\$ 1.2

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board ( FASB ) Interpretation No. ( FIN ) 46(R), Consolidation of Variable Interest Entities became effective for us for the period ended March 31, 2004. FIN 46(R) provides guidance on whether a beneficiary of a variable interest entity should include that entity in its consolidated financial statements. We have concluded that our payroll and tax filing trusts are variable interest entities. We have further concluded that the trusts should be included in our consolidated financial statements since we hold both contractual and pecuniary interests in the trusts, act as trustee, and have investment control over trust assets along with the related risk.

On March 31, 2004, the FASB issued an Exposure Draft of a Proposed Statement of Financial Accounting Standards on Share-Based Payment. The Exposure Draft proposed an amendment to Statement of Financial Accounting Standards ( FAS ) 123 and 95 that would eliminate use of Accounting Principles Board Opinion ( APB ) No. 25 and related interpretations for the purpose of accounting for stock-based compensation effective for us as of January 2005. The principal effect of the Exposure Draft, if issued as a standard, would be to require the inclusion in 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. We are presently studying the Exposure Draft 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.

## ACCRUED EXIT COSTS

	Severance	Other Costs	Total
<b>Additions:</b>			
First quarter 2002	\$ 6.3	\$ 2.7	\$ 9.0
Fourth quarter 2002	1.9	4.0	5.9
Total 2002 accrued exit costs	8.2	6.7	14.9
<b>Deductions:</b>			
2002 cash payments	(6.3)	(2.5)	(8.8)
2002 recoveries	(1.1)		(1.1)
2003 cash payments	(0.8)	(2.8)	(3.6)
2004 cash payments		(0.5)	(0.5)
Balance at March 31, 2004	\$	\$ 0.9	\$ 0.9

## OTHER EXPENSE (INCOME)

	For Periods Ended March 31, Three Months			
	2004		2003	
Foreign currency translation expense (income)	\$	(0.6)	\$	(0.3)
Gain on sale of marketable securities		(0.5)		
Gain on sale of assets				(0.2)
Asset write-downs		2.3		
Other expense (income)				0.1
Total	\$	1.2	\$	(0.4)

In January 2004, we committed to the internal development of a replacement for our HRS 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

*Retirement Plans*

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 March 31,			
	2004		2003	
Service cost	\$	0.9	\$	1.0
Interest cost		10.5		10.8
Expected return on plan assets		(11.7)		(11.4)
Net amortization and deferral		3.8		2.2
Net periodic pension cost	\$	3.5	\$	2.6

Net Periodic Postretirement Benefit Cost	For Periods Ended March 31,			
	2004		2003	
Service cost	\$		\$	
Interest cost		0.9		0.9
Actuarial loss (gain) amortization		0.1		
Net periodic postretirement benefit cost	\$	1.0	\$	0.9

*Stock Plans*

We account for our stock-based compensation plans under the intrinsic method of APB Opinion No. 25 and related interpretations. Under FAS 123 and FAS 148, we are required 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 on an interim basis. This disclosure is presented in the accompanying table. We employ the Black-Scholes option pricing model to determine the fair value of stock option grants and employee stock purchase plan purchases.

<b>Pro Forma Effect of Fair Value Accounting</b>	<b>For Periods Ended</b>	
	<b>2004</b>	<b>2003</b>
	<b>(restated)</b>	<b>(restated)</b>
Net earnings as reported	\$ 17.3	\$ 28.1
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(3.3)	(3.9)
Pro forma net earnings	\$ 14.0	\$ 24.2
Basic earning per share as reported	\$ 0.12	\$ 0.19
Pro forma basic earnings per share	\$ 0.09	\$ 0.16
Diluted earnings per share as reported	\$ 0.11	\$ 0.19
Pro forma diluted earnings per share	\$ 0.09	\$ 0.16
<b>Weighted-Average Assumptions</b>		
Expected lives in years	3.92	3.89
Expected volatility	38.8%	43.6%
Expected dividend rate		
Risk-free interest rate	2.6%	2.3%
Weighted-average fair value of stock options granted in the period	\$ 6.84	\$ 5.24

## 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 the derivative instruments is reported in the noncurrent asset section of the balance sheet. The fair market value increased from \$55.7 at December 31, 2003 to \$61.2 at March 31, 2004. This increase in value was primarily due to an increase in forward interest rates net of collections of cash payments from counterparties of \$8.1 during the first three 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 operation. Based upon future expected interest rates as determined from LIBOR futures prices in effect at the close of business on March 31, 2004, we expect to collect an additional \$29.1 during the next 12 months.

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 derivative instruments is reflected in (gain) loss on derivative instruments in our consolidated statements of operations. The carrying amount of these contracts at March 31, 2004 was less than \$0.1, representing the expected aggregate future payments from the counterparty over the term of the contracts.

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 Item 8, Financial Statements and Supplementary Data of the 2003 Form 10-K/A for a further discussion of the reclassification of realized gains and unrealized gains 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, which we acquired for \$3.0 in March 2003. In March 2004, we sold 50,000 shares of Ultimate for proceeds of \$0.7 and a net gain of \$0.5 reported in other expense (income). Our holdings of Ultimate as of March 31, 2004 represent an equity interest of approximately 3.4% of their outstanding shares. In addition, we held 782,069 common shares of U.S.I. Holdings Corporation ( USIH ) at December 31, 2003 and March 31, 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 comprehensive income. The carrying values of our holdings of Ultimate amounted to \$10.2 at March 31, 2004 and \$6.9 at December 31, 2003. The carrying values of our holdings of USIH

amounted to \$11.6 at March 31, 2004 and \$10.2 at December 31, 2003. At March 31, 2004, the net unrealized gain on marketable securities amounted to \$7.1, after reduction for deferred income taxes of \$4.1, 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.

## FINANCING

### *Debt Instruments*

At March 31, 2004 and December 31, 2003, we maintained two major credit facilities described below. Ceridian Centrefile also maintains an overdraft account with outstanding balances of \$3.0 at March 31, 2004 and \$2.7 at December 31, 2003. Our capital lease obligations for equipment amounted to \$19.7 at March 31, 2004 and \$20.8 at December 31, 2003.

In June 2002, Comdata entered into a \$150.0 receivables securitization facility with up to a three-year term that uses selected Comdata trade receivables as collateral for borrowings. The amount outstanding under this facility was \$140.0 at December 31, 2003 and March 31, 2004. The aggregate amount of receivables serving as collateral amounted to \$165.5 at March 31, 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.

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 March 31, 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, of which we have designated \$140.0 as backup to the receivables securitization facility.

We remain in compliance with covenants under our credit facilities at March 31, 2004.

### *Equity Instruments*

During the first quarter of 2004, we paid \$58.4 to repurchase 3,012,400 shares of our common stock on the open market at an average net price of \$19.42 per share. As of March 31, 2004, we may repurchase up to 7,350,500 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. In the Prior Restatement, we restated the amount of customer funds to include funds held by Comdata for its eCash customers, which amounted to \$9.8 at March 31, 2004 and \$9.2 at December 31, 2003 (at cost and market).

Investment income from invested customer funds constitutes a component of our compensation for providing services under agreements with our customers. The restated investment income from invested customer funds included in revenue amounted to \$17.8 and \$16.7 for the quarterly periods ended March 31, 2004 and 2003.

Customer funds and the offsetting obligations amounted to \$3,682.2 at March 31, 2004 and \$3,152.7 at December 31, 2003. The amount for invested customer funds varies significantly during the year and averaged \$2,785.3 and \$2,423.2, respectively, for the three-month periods ended March 31, 2004 and 2003. The following tables provide information on cost and market price for various classifications of customer fund investments and amounts by maturity date.

## Investments of Customer Funds

	March 31, 2004 (restated)		December 31, 2003 (restated)	
	Cost	Market	Cost	Market
Money market securities and other cash equivalents	\$ 2,578.4	\$ 2,578.5	\$ 2,202.0	\$ 2,202.0
Held-to-maturity investments:				
U.S. government and agency securities	435.4	442.1	311.1	317.4
Canadian and provincial government securities	249.5	261.4	201.0	208.1
Corporate debt securities	215.9	223.9	209.0	216.0
Asset-backed securities	142.4	144.9	159.5	163.0
Mortgage-backed and other securities	46.6	47.7	58.7	59.6
Total held-to-maturity investments	1,089.8	1,120.0	939.3	964.1
Invested customer funds	3,668.2	3,698.5	3,141.3	3,166.1
Trust receivables	14.0	14.0	11.4	11.4
Total Customer funds	\$ 3,682.2	\$ 3,712.5	\$ 3,152.7	\$ 3,177.5

## Investments of Customer Funds by Maturity Date

	March 31, 2004	
	Cost	Market
Due in one year or less	\$ 2,730.3	\$ 2,732.2
Due in one to three years	310.7	323.5
Due in three to five years	277.2	286.7
Due after five years	350.0	356.1
Total	\$ 3,668.2	\$ 3,698.5



## CAPITAL ASSETS

	March 31, 2004 (restated)	December 31, 2003 (restated)
<b>Property, Plant and Equipment</b>		
Land	\$ 10.4	\$ 10.4
Machinery and equipment	286.0	281.6
Buildings and improvements	97.6	96.7
Total property, plant and equipment	394.0	388.7
Accumulated depreciation	(250.3)	(240.7)
Property, plant and equipment, net	\$ 143.7	\$ 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
Translation and other adjustments (HRS)	7.5	21.5
At end of period (HRS \$809.1 and \$801.6, Comdata \$117.0 and \$117.0)	\$ 926.1	\$ 918.6
<b>Other Intangible Assets</b>		
Customer lists (accumulated amortization of \$29.5 and \$26.7)	\$ 52.5	\$ 49.4
Trademarks (accumulated amortization of \$45.4 and \$31.6)	78.0	74.7
Technology (accumulated amortization of \$33.9 and \$32.1)	52.1	52.2
Non-compete agreements (accumulated amortization of \$9.4 and \$8.6)	13.5	12.9
Total other intangible assets	196.1	189.2
Accumulated amortization	(118.2)	(99.0)
Other intangible assets, net	\$ 77.9	\$ 90.2
<b>Software and Development Costs</b>		
Purchased software	\$ 78.7	\$ 77.2
Other software development cost	88.8	86.1
Total software and development costs	167.5	163.3
Accumulated amortization	(83.2)	(77.1)
Software and development costs, net	\$ 84.3	\$ 86.2

	For Periods Ended March 31, (restated)	
	2004	2003
<b>Depreciation and Amortization</b>		
Depreciation and amortization of property, plant and equipment	\$ 10.8	\$ 10.8
Amortization of other intangible assets	14.0	3.8
Amortization of software and development costs	5.9	5.1
Total	\$ 30.7	\$ 19.7

Amortization for other intangible assets held at March 31, 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 March 31, Three Months	
	2004 (restated)	2003 (restated)
<b>HRS</b>		
Revenue	\$ 232.4	\$ 227.6
Earnings before interest and taxes	\$ 0.5	\$ 18.8
Total assets at March 31, 2004 and December 31, 2003 before customer funds	\$ 1,376.7	\$ 1,386.1
Customer funds	3,672.4	3,143.5
Total assets at March 31, 2004 and December 31, 2003	\$ 5,049.1	\$ 4,529.6
<b>Comdata</b>		
Revenue	\$ 81.5	\$ 79.3
Earnings before interest and taxes	\$ 26.9	\$ 25.0
Total assets at March 31, 2004 and December 31, 2003 before customer funds	\$ 608.5	\$ 586.1
Customer funds	9.8	9.2
Total assets at March 31, 2004 and December 31, 2003	\$ 618.3	\$ 595.3
<b>Other</b>		
Revenue	\$	\$
Earnings before interest and taxes	\$	\$
Total assets at March 31, 2004 and December 31, 2003	\$ 70.3	\$ 55.9
<b>Total Ceridian</b>		
Revenue	\$ 313.9	\$ 306.9
Earnings before interest and taxes	\$ 27.4	\$ 43.8
Interest income (expense), net	(0.6)	(0.7)
Earnings before income taxes	\$ 26.8	\$ 43.1
Total assets at March 31, 2004 and December 31, 2003 before customer funds	\$ 2,055.5	\$ 2,028.1
Customer funds	3,682.2	3,152.7
Total assets at March 31, 2004 and December 31, 2003	\$ 5,737.7	\$ 5,180.8

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q/A

March 31, 2004

**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, including those factors discussed in this Form 10-Q/A and discussed in the Form 10-K/A for the year ended December 31, 2003, which factors are also incorporated herein by reference. Such important factors include:*

*Our ability to attract and retain customers*

*The effect of changes in governmental regulations relating to employee benefits, taxes, funds transfer and other matters*

*Success in introducing and selling new or enhanced products and services*

*Economic factors such as trade, monetary and fiscal policies and political and economic conditions*

*Risks associated with litigation, governmental investigations and similar matters*

*Problems effecting system upgrades and conversions*

*Our ability to adapt to changing technology*

*Acquisition risks*

*Competitive conditions*

*International operations risks*

*Success of implementation of plans to improve performance of U.S. HRS business*

*Our ability to increase operating efficiencies and reduce costs*

*Liability as a portability and retirement plan administrator*

*Relationships with key vendors and suppliers*

*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 the notes to



such financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of the 2003 Form 10-K/A. 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/A-1 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/A-1 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

The Restatement reduced our earnings before income taxes for the first quarter of 2004 by \$9.5 million consisting of \$10.2 million related to accelerated amortization of the CobraServ trademark and \$0.4 related to leases, partially offset by increases of \$0.2 million related to international acquisition accounting and \$0.9 million related to the accrual of costs and expenses. The Restatement increased our earnings before income taxes for the first quarter of 2003 by \$1.0 million consisting of \$0.2 million related to international acquisition accounting and \$1.2 million related to the accrual of costs and expenses, partially offset by a decrease of \$0.4 million related to leases.

The primary impact of the above adjustments on the March 31, 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 March 31, 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 March 31, 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 earnings for the first quarter of 2004 amounted to \$17.3 million, or 11¢ per diluted share, compared to net earnings of \$28.1 million, or 19¢ per diluted share, in the same quarter of 2003.

Our revenue for the first quarter of 2004 amounted to \$313.9 million compared to \$306.9 million in the same quarter of 2003.

Management initiatives expected to affect operating results in 2004 include:

Maintain the customer retention rate and improve customer satisfaction

Improve installation performance for new HRS customers

Continue to grow HRS orders, particularly for Ceridian Canada and Ceridian Centrefile

Increase the number of Comdata cards in use and transaction volume

Improve operational efficiencies in all businesses



During the first quarter of 2004, internal measurements indicate improvement in HRS customer retention and satisfaction over levels of one year ago as well as high levels of customer retention and satisfaction for Comdata customers. Projects expected to improve HRS installation performance were nearly completed by the end of the first quarter and compensation incentives related to installation performance and customer satisfaction had been put in place. HRS internal installation performance measures indicated an improvement in the current quarter compared to the first quarter of 2003. Order levels improved over those of the fourth quarter and first quarter of 2003, and we added new customers for our human resource outsourcing services and Comdata's BusinessLink card. Near the end of the quarter, we also acquired a customer base for COBRA services from a major insurance company for our HRS benefits services business. Revenue from sales of Comdata stored value cards and related services increased by nearly 20% in the first quarter of 2004 over the first quarter of 2003. Additional operational efficiencies during the rest of 2004 from actions taken by Ceridian Canada and Ceridian Centrefile during the first quarter of 2004 are expected to recover related expenditures, primarily severance, incurred during first quarter that amounted to \$2.8 million.

Further information on consolidated results of operations as well as business segment results appear in the following sections of this discussion.

**Financial Condition and Cash Flows**

**Consolidated Statements of Cash Flows Highlights**

*(Dollars in millions)*

	Three Months Ended March 31,			Change
	2004	2003		
Operating activities	\$ 71.2	\$ (7.0)	\$ 78.2	
Investing activities	(12.6)	(12.1)	(0.5)	
Financing activities	(47.7)	(7.7)	(40.0)	
Effect of exchange rate changes on cash	0.2	1.3	(1.1)	
Net cash flows provided (used)	\$ 11.1	\$ (25.5)	\$ 36.6	
Cash and equivalents at 3/31/04 and 12/31/03	\$ 135.3	\$ 124.2	\$ 11.1	

Net cash inflows from operations during the first quarter of 2004 amounted to \$71.2 million compared to net cash outflows of \$7.0 million for the first quarter of 2003. The comparison benefited significantly from improved trade receivables collections performance since the first quarter of 2003. We also received a tax refund of \$16.5 million during the first quarter of 2004 related to our \$75.0 million contribution to our principal pension plan made during the fourth quarter of 2003.

Cash flows from investing activities showed little change in the quarterly comparison. The increase in cash outflows from financing activities reflected expenditures of \$58.4 million to repurchase 3,012,400 Ceridian shares under our stock repurchase program.

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 First Quarter Comparisons (Restated)

*(Dollars in millions, except per share data)*

	Amount		Inc (Dec)		% of Revenue	
	2004	2003	\$	%	2004	2003
Revenue	\$ 313.9	\$ 306.9	7.0	2.3	100.0	100.0
Cost of revenue	177.2	170.1	7.1	4.2	56.4	55.4
SG&A expense	117.2	96.7	20.5	21.3	37.4	31.6
R&D expense	4.6	3.0	1.6	53.5	1.5	0.9
(Gain) loss on derivative instruments	(13.7)	(6.3)	(7.4)	NM	(4.3)	(2.0)

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Other expense (income)	1.2	(0.4)	1.6	NM	0.4	(0.1)
Interest income	(0.5)	(0.5)			(0.2)	(0.2)
Interest expense	1.1	1.2	(0.1)	(9.3)	0.3	0.4
Total costs and expenses	287.1	263.8	23.3	8.8	91.5	86.0
Earnings before income taxes	26.8	43.1	(16.3)	(37.8)	8.5	14.0
Income taxes	9.5	15.0	(5.5)	(36.6)	3.0	4.9
Earnings from continuing operations	\$ 17.3	\$ 28.1	(10.8)	(38.4)	5.5	9.1
Diluted EPS from continuing operations	\$ 0.11	\$ 0.19	(0.08)	(42.1)		

The correction to the accounting for our interest rate derivative instruments contributed significantly to the variability of revenue and earnings during the reported periods. For a further discussion, see (i) the note entitled "Restatement of Financial Statements" to our consolidated financial statements contained in this Form 10-Q/A and (ii) 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 Item 8, "Financial Statements and Supplementary Data" of the 2003 Form 10-K/A.

Our consolidated revenue increased by \$7.0 million in the quarterly comparison with \$4.8 million of the increase coming from HRS and \$2.2 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

Benefit from the effect of currency fluctuations on our international revenue

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

Acceleration of W-2 revenue out of first quarter 2004 into fourth quarter 2003

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

Lower revenue from the sale of point-of-sale terminal equipment

Higher transportation card transaction volume

Our total costs and expenses increased by \$23.3 million in the quarterly comparison. Interest income and interest expense, which are not allocated to our business segments, both remained at the same level in the 2004 quarter as in the first quarter of 2003. Excluding unallocated net interest expense, HRS costs and expenses increased by \$23.1 million and Comdata costs and expenses increased by \$0.3 million. The principal factors affecting the comparison of total costs and expenses included:

Accelerated amortization of the CobraServ trademark

Increased expenses related to technology support

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



Higher HRS implementation expenses

Incremental costs related to productivity improvement efforts in international operations

Additional costs related to higher retail card sales and processing revenue

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

Our effective tax rate was 35.4% for the first quarter of 2004 and 34.8% for the first quarter of 2003.

**Business Segment Results****Segment First Quarter Comparisons (Restated)***(Dollars in millions)*

	Amount		Inc (Dec)		% of Revenue	
	2004	2003	\$	%	2004	2003
<b>Revenue</b>						
HRS	\$ 232.4	\$ 227.6	4.8	2.1	74.1	74.2
Comdata	81.5	79.3	2.2	2.7	25.9	25.8
Total	\$ 313.9	\$ 306.9	7.0	2.3	100.0	100.0
<b>EBIT*</b>						
HRS	\$ 0.5	\$ 18.8	(18.3)	(97.4)	0.2	8.3
Comdata	26.9	25.0	1.9	7.6	32.9	31.5
Total	\$ 27.4	\$ 43.8	(16.4)	(37.6)	8.7	14.3

\*We measure the business 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 in the first quarter of 2004 for our HRS business increased by \$4.8 million over the amount reported for the first quarter of 2003. 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 to \$17.8 million in the first quarter of 2004 from \$16.7 million in the first quarter of 2003 as a higher average balance of invested customer funds contributed \$2.6 million to the increase and falling interest rates reduced the result by \$1.5 million. In total, the average balance of invested customer funds rose by 14.9% from \$2,415.2 million for the first quarter of 2003 to \$2,774.6 million for the first quarter of 2004, which included a Canadian currency exchange benefit that represented about 290 basis points of the percentage increase. The higher average invested balance 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. This service provided an additional \$110.8 million to the increase in the quarterly comparison of average balances of our invested customer funds. The average yields on invested customer funds for the comparative 2004 and 2003 quarters were 2.59% and 2.82%.

Revenue from U.S. operations declined by \$1.1 million while Ceridian Canada revenue increased by \$5.3 million and Ceridian Centrefile revenue increased by \$0.6 million. U.S. operations revenue decreased from \$176.9 million in the first quarter of 2003 to \$175.8 million in the first quarter of 2004. As previously reported, the acceleration of W-2 information delivery to customers of U.S. operations first accomplished at the end of 2003 resulted in the recognition of \$9.2 million of revenue in December 2003 that otherwise would have been recognized in the first quarter of 2004. Without regard to the effect of the acceleration of W-2 revenue, U.S. payroll and tax filing revenue increased by \$3.8 million. Customer employment levels declined slightly from those of the first



quarter of 2003, which resulted in an additional revenue reduction of \$1.0 million in the quarterly comparison. Increased revenue from the SourceWeb product, call center operations and investment income were largely responsible for the remaining \$4.8 million increase in revenue from payroll and tax filing operations in the quarterly comparison.

Revenue from our LifeWorks employee assistance services increased by \$3.0 million and revenue from our benefits services operations increased by \$1.3 million in the first quarter of 2004 compared to the first quarter of 2003. 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. The increase in benefits services revenue related primarily to growth in flexible spending account services.

Revenue from Ceridian Canada operations increased by \$5.3 million from \$29.5 million for the first quarter of 2003 to \$34.8 million for the first quarter of 2004, due largely to currency rate changes. The revenue increase from the change in currency rates amounted to \$4.8 million and the additional \$0.5 million related to a modest increase in customer employee levels.

Revenue from Ceridian Centrefile operations increased by \$0.6 million from \$21.2 million for the first quarter of 2003 to \$21.8 million for the first quarter of 2004 as changes in currency exchange rates added \$2.9 million. The number of customer employees increased modestly in the quarterly comparison in the first quarter of 2004, but not enough to offset the effect of customer losses in early 2003 and low order performance later in 2003.

Total costs and expenses, excluding net interest, for our HRS business increased by \$23.1 million in the quarterly comparison. Total costs and expenses increased by \$14.9 million for U.S. operations, \$5.8 million for Ceridian Canada and \$2.4 million for Ceridian Centrefile. The U.S. operations increase included \$10.2 million of accelerated amortization on the CobraServ trademark. Total costs and expenses also included \$2.8 million of severance costs in the first quarter of 2004 related to productivity improvement efforts including \$1.8 million for Ceridian Canada and \$1.0 million for Ceridian Centrefile. For HRS, cost of revenue increased by \$6.3 million, SG&A expense increased by \$21.5 million, R&D expense increased by \$1.3 million, gains from interest rate derivative instruments increased by \$7.4 million and other expense (income) increased by \$1.5 million.

Cost of revenue for U.S. operations increased by \$2.4 million primarily due to \$1.2 million of increased costs in payroll and tax filing services from higher technology support costs and royalties, offset in part by the reassignment of certain personnel from production operations to selling operations. LifeWorks experienced increased cost of revenue of \$1.2 million related to the additional revenue from the new U.S. Armed Services contract referred to above. Benefits services operations cost of revenue was unchanged as an increase in software amortization offset cost savings of \$0.4 million due to the elimination of incremental costs associated with the completion of the transfer of certain California and Virginia operations to our Florida operation in early 2003. Currency rate changes contributed increases to cost of revenue of \$2.2 million for Ceridian Canada and \$1.3 million for Ceridian Centrefile. The additional increase of \$0.7 million in Ceridian

Canada cost of revenue primarily reflected \$1.5 million of the severance costs related to productivity improvement efforts offset in part by savings from cost reduction efforts in 2003, while the decrease of \$0.3 million in Ceridian Centrefile cost of revenue reflected the decrease in revenue.

SG&A expense for U.S. operations increased by \$16.2 million in the quarterly comparison including a \$13.4 million increase in general and administrative expense and a \$2.8 million increase in selling expense. The increase in selling expense reflected a higher staffing level in U.S. operations in the first quarter of 2004 compared to the first quarter of 2003 and higher compensation costs between those periods. The staffing level increase included the addition of sales positions during the course of 2003 and the reassignment of personnel formerly dedicated to production or administrative duties to commissioned sales duties. The increase of \$13.4 million in general and administrative expense in the quarterly comparison related primarily to \$10.2 million accelerated amortization on the CobraServ trademark and higher compensation expense.

SG&A expense for Ceridian Canada increased by \$3.7 million of which \$1.5 million represented the impact of currency rate changes. The additional increase of \$2.2 million reflected increased marketing efforts and \$0.3 million of severance costs incurred during the first quarter of 2004. SG&A expense for Ceridian Centrefile increased by \$1.6 million including \$1.1 million for the impact of currency rate changes and severance costs of \$1.0 million during the first quarter of 2004, which were offset in part by the benefits from cost reduction efforts during 2003.

R&D expense for HRS increased by \$1.3 million due to a higher level of software development efforts in U.S. operations.

The increase of \$7.4 million in the first quarter gain from 2003 to 2004 from interest rate derivative instruments included an increase in the realized gain from payments received of \$0.8 million and an increase of \$6.6 million in the unrealized gain expected from future payments. The payments received in the first quarter of 2004 amounted to \$8.1 million compared to \$7.3 million in the first quarter of 2003.

Included in other expense (income) in the first quarter of 2004 was a \$2.3 million write-down of a software asset, a gain of \$0.5 million for U.S. operations from the sale of 50,000 shares of the common stock of Ultimate and a foreign currency exchange gain of \$0.6 million.

### Comdata

Comdata revenue grew by \$2.2 million as revenue from retail card sales and processing increased by \$4.1 million in the quarterly comparison. 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 card sale revenue commences at the estimated time of first use based on historical experience (now 7 months after delivery to our customer), and recognition of the related services revenue commences when a transaction takes place. Revenue from both card sales and related services is substantially recognized within a 6-month period after activation of the card. Therefore, the increased revenue in the quarterly comparison largely

reflected sales of cards and related services in mid-2003. Billings for sales of cards and related services in the first quarter of 2004 added \$2.0 million more to deferred revenue than the amount added in the first quarter of 2003 reflecting the addition of new customers and increasing usage of retail cards. Revenue from sales of point-of-sale terminal equipment decreased by \$2.3 million in the quarterly comparison. Permitting services revenue increased by \$0.2 million compared to the first quarter of 2003 after a long period of quarterly declines. The remainder of the increase in the quarterly comparison of revenue related primarily to an increase in transportation card transaction volume, including the BusinessLink product.

Comdata's costs and expenses, excluding net interest, increased by \$0.3 million in the first quarter of 2004 compared to the first quarter of 2003. Bad debt expense in SG&A expense decreased by \$1.4 million in the quarterly comparison largely due to the provision for a particular doubtful account in the first quarter of 2003. The lower level of revenue from point-of-sale terminal equipment accounted for a reduction in the cost of revenue of \$0.8 million in the quarterly comparison. This reduction in cost of revenue was largely offset by a \$2.1 million increase in cost of revenue related to the higher level of retail cash card sales and processing revenue.

## FINANCIAL CONDITION

### Consolidated Statements of Cash Flows Highlights

(Dollars in millions)

	Three Months Ended March 31,		
	2004	2003	Change
Operating activities	\$ 71.2	\$ (7.0)	\$ 78.2
Investing activities	(12.6)	(12.1)	(0.5)
Financing activities	(47.7)	(7.7)	(40.0)
Effect of exchange rate changes on cash	0.2	1.3	(1.1)
Net cash flows provided (used)	\$ 11.1	\$ (25.5)	\$ 36.6
Cash and equivalents at 3/31/04 and 12/31/03	\$ 135.3	\$ 124.2	\$ 11.1

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

(Dollars in millions)

	Three Months Ended March 31,		
	2004	2003	Change
Earnings from continuing operations	\$ 17.3	\$ 28.1	\$ (10.8)
Provision for deferred income taxes	0.1	2.2	(2.1)
Depreciation and amortization	30.7	19.7	11.0
Contributions to retirement plan trusts		(4.1)	4.1
Asset write-downs	2.3		2.3
Unrealized (gain) loss on derivative instruments	(5.5)	1.1	(6.6)
Other reconciling items	6.1	5.9	0.2
From continuing operations earnings	51.0	52.9	(1.9)
From continuing operations working capital activities	20.2	(59.9)	80.1
Cash flows provided by operating activities	\$ 71.2	\$ (7.0)	\$ 78.2



## **Cash Flows**

### ***Cash Balances and Operations***

Our cash and equivalents increased by \$11.1 million to \$135.3 million during the first quarter of 2004. Net cash inflows from working capital activities significantly increased operating cash flows and exceeded the amount needed to fund investing activities and repurchases of our common stock. Our net operating cash outflow amounted to \$7.0 million for the first quarter of 2003 as cash outflows associated with an investment in net working capital of \$59.9 million exceeded operating cash inflows from earnings activities of \$52.9 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 \$80.1 million increase in operating cash flows related to working capital activities in the quarterly comparison is largely driven by a net reduction of receivables in the first quarter of 2004 compared to the first quarter of 2003, which contributed a net cash inflow of \$57.7 million to the comparison. The reduction in receivables largely represents improved collections performance at Comdata. The increase of \$19.3 million in accrued taxes, due largely to a \$16.5 million benefit provided by our contribution of \$75.0 million to our principal defined benefit pension plan in the fourth quarter of 2003, also contributed to the increase in operating cash flows in the quarterly comparison.

### ***Investing***

During the first quarter of 2004 we made capital expenditures of \$6.0 million for property and equipment and \$5.7 million for software and development costs. The respective amounts for 2003 were \$6.2 million and \$3.3 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. At the end of March 2004 we sold 50,000 shares of Ultimate common stock and recorded a gain of \$0.5. Proceeds from the sale of \$0.7 million were received in April 2004.

### ***Financing***

During the first quarter of 2004, we paid \$58.4 million to repurchase 3,012,400 shares of our common stock on the open market at an average net price of \$19.42 per share under an existing stock repurchase program. During the first quarter of 2003, we paid \$9.1 million to repurchase 675,800 shares of our common stock on the open market at an average net price of \$13.48 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 Changes in Securities and Use of Proceeds of this Form 10-Q/A.

Proceeds from exercises of stock options and employee stock plan purchases amounted to \$11.6 million during the first quarter of 2004 compared to \$1.4 million in the first quarter of 2003 due to higher market prices for Ceridian stock in 2004. During the first quarter of 2004, we paid down our capital lease obligations by \$1.0 million.





**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 revenue. We discussed these in a preceding section of this discussion entitled "Results of Operations" and in several of the cautionary factors described at the beginning 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 quarter of 2004, we repurchased 3,012,400 shares for a total of \$58.4 million. As of March 31, 2004, we were authorized to purchase up to 7,350,500 additional shares of our common stock under the authorization from our board of directors. Depending on market conditions regarding our stock and other investment opportunities, we may increase our allocation of free cash flow for stock repurchases during the rest of the year. 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 will pay a total of \$2.5 million to Ultimate during the second and third quarters of 2004.

As of March 31, 2004, we have unused borrowing capacity under the \$350.0 million revolving credit facility amounting to \$347.7 million of which we have designated \$140.0 million as backup to the Comdata receivables securitization facility. We are in compliance with all covenants related to these facilities.

**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 material changes to these policies during the first quarter of 2004.

**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 \$61.2 million at March 31, 2004 and \$55.7 million at December 31, 2003. The payments received from interest rate derivative contracts amounted to \$8.1 million in the first quarter of 2004 and \$7.3 million in the first quarter of 2003. There has been no material change in our interest rate market risk during the three-month period ended March 31, 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 will have 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 March 31, 2004 was less than \$0.1 million, representing the expected aggregate future payments from the counterparty over the term of the contracts.

We provide further information on interest rate and fuel price derivatives in accompanying notes entitled Restatement of Financial Statements and Investing Activity to the consolidated financial statements contained in Part I, Item 1 of this report.

For additional information on market risk, 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, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk contained in the 2003 Form 10-K/A.

#### **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 March 31, 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 March 31, 2004 that have materially affected, or are likely to materially affect, our internal control over financial reporting. However, as discussed above, since March 31, 2004, we have made significant changes to our internal control over financial reporting.

**Part II. Other Information****Item 2. Changes in 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 March 31, 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 (January 1, 2004-January 31, 2004)	133,303(2)	\$ 20.6174	120,000	10,242,900
Month #2 (February 1, 2004-February 29, 2004)	973,000	\$ 18.4600	973,000	9,269,900
Month #3 (March 1, 2004-March 31, 2004)	1,919,616(3)	\$ 19.8321	1,919,400	7,350,500
Total:	3,025,919(2)(3)	\$ 19.4255	3,012,400	7,350,500

(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 our Annual Report on Form 10-K for the year ended December 31, 2003. 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 7,350,500 shares as of April 1, 2004; the repurchase program has no set expiration or termination date.

(2) 13,303 shares were repurchased from employees in connection with the payment of withholding taxes due in connection with the vesting of restricted stock awards.

(3) 216 shares were repurchased from employees in connection with the payment of withholding taxes due in connection with the vesting of restricted stock awards.



**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits.

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.

(b) Reports on Form 8-K.

The following Reports on Form 8-K were filed or furnished during the first quarter of 2004 and through the date of the Original Filing. The contents of the following Forms 8-K that are furnished to the SEC are not incorporated by reference herein or deemed filed within the meaning of Section 18 or the Securities Act:

On January 22, 2004, we filed a Current Report on Form 8-K filing under Item 5 announcing that Ceridian is responding to a document request from the SEC and has been advised that the SEC has issued a formal order of investigation, and furnishing under Items 7 and 12 a press release reporting our fourth quarter and full year 2003 results.

On February 19, 2004, we filed a Current Report on Form 8-K filing under Items 5 and 7 a press release announcing a change in revenue recognition at our Stored Value Systems unit, the intention to restate our financial statements for the fiscal years ended December 31, 2003, 2002, 2001 and 2000 and revised guidance for 2004.

On March 15, 2004, we filed a Current Report on Form 8-K filing under Item 5 a press release announcing that we had filed our Annual Report on Form 10-K for the year ended December 31, 2003, Amendment No. 1 to its Annual Report on Form 10-K/A for the year ended December 31,

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2002 and Amendment No. 1 to its Quarterly Reports on Form 10-Q/A for the first, second and third quarters of 2003.

On April 15, 2004, we filed a Current Report on Form 8-K furnishing under Items 7 and 12 a press release reporting our first quarter 2004 earnings results.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 2 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the period ended March 31, 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)