

CERIDIAN CORP /DE/  
Form 10-K  
March 27, 2003

**Table of Contents**

---

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

---

**FORM 10-K**

---

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

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  
*(I.R.S. Employer Identification No.)*

3311 East Old Shakopee Road

Minneapolis, Minnesota 55425  
*(Address of principal executive offices)*

Telephone No.: (952) 853-8100

*(Registrant's telephone number, including area code)*

---

**Securities Registered Pursuant to Section 12(b) of the Act:**

*Title of each class:*

Common stock, par value \$.01 per share  
Rights to Purchase Class A Junior Participating  
Preferred Stock

*Name of each exchange on which registered:*

The New York Stock Exchange  
The New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required 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. [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). [X] Yes [ ] No

Edgar Filing: CERIDIAN CORP /DE/ - Form 10-K

The aggregate market value of the voting stock of Ceridian held by non-affiliates of Ceridian on June 28, 2002 was \$2,814,985,352, based on the closing sales price of Ceridian common stock as reported on The New York Stock Exchange on June 28, 2002.

The number of shares of Ceridian common stock outstanding as of March 20, 2003 was 148,150,587.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for Annual Meeting of Stockholders to be held on May 21, 2003: Part III

---

---

---

**TABLE OF CONTENTS**

**PART I**

Item 1A. Executive Officers of the Registrant

Item 2. Properties

Item 3. Legal Proceedings

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

**PART II**

Item 5. Market For Registrant's Common Equity and Related Stockholder Matters

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

**CERIDIAN CORPORATION AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS**

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

**PART III**

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stock Matters

Item 13. Certain Relationships and Related Transactions

Item 14. Controls and Procedures

**PART IV**

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

**SIGNATURES**

**CERIDIAN CORPORATION ANNUAL REPORT ON FORM 10-K**

EX-10.09 Amendment to Employment Agreement-Turner

EX-10.11 Amendment to Employment Agmt-Eickhoff

EX-10.13 Amendment to Employment Agreement-Krow

EX-10.15 Amendment to Employment Agreement-Nelson

EX-10.16 Employment Agreement-Thew

EX-10.38 2001 Savings-Related Share Option Plan

EX-10.39 UK Compensation Share Option Plan

EX-10.40 Amended Savings-Related Share Option Plan

EX-21.01 Subsidiaries

EX-23.01 Consent of KPMG LLP

EX-24.01 Power of Attorney

EX-99.01 Certification Pursuant to 18 USC Sec 1350

---

**Table of Contents**

**CERIDIAN CORPORATION**

**PART I**

*This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Ceridian Corporation and its subsidiaries 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 other similar terminology, are forward-looking statements based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Important factors known to us that could cause material differences are identified in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Cautionary Factors That Could Affect Future Results, included in Part II, Item 7 of this report. You should carefully consider each cautionary factor and all of the other information in this report. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the SEC.*

We own or have the rights to various trademarks, trade names or service marks, including the following: *BusinessLink*<sup>™</sup>, *Ceridian Corporation*® and logo, *Ceridian*®, *CobraServ*®, *Comchek*®, *Comchek eCash*®, *Comdata Corporation*® and logo, *Comdata*®, *HR/Comply*®, *LifeWorks*®, *Powerpay*®, *Signature*®, *SourceWeb*<sup>™</sup>, *Stored Value Systems*® and logo, and *Trendar*<sup>™</sup>. The trademarks *American Express*®, *Discover*®, *Maestro*®, *MasterCard*®, *Microsoft*®, *UltiPro*®, *Visa*® and *Windows*® referred to in this report are the registered trademarks of others.

**Item 1. Business**

**General**

Ceridian Corporation was formed on August 8, 2000 and is incorporated in Delaware. Our principal executive office is located at 3311 East Old Shakopee Road, Minneapolis, Minnesota 55425, and our telephone number is (952) 853-8100.

Ceridian Corporation was formed as a result of the spin-off of the human resource solutions division and human resource solutions and Comdata subsidiaries of Arbitron Inc., formerly known as Ceridian Corporation (which entity this report refers to as Old Ceridian or Ceridian's predecessor). On March 30, 2001, we became an independent public company when Old Ceridian distributed all of our outstanding common stock to its stockholders in a tax-free spin-off transaction (which transaction this report refers to as the spin-off). Despite the legal form of the spin-off, because of the relative significance of our businesses to Old Ceridian, we are considered the divesting entity and treated as the accounting successor to Old Ceridian for financial reporting purposes. As used in this report, references to Ceridian, the Company, we, our company, and our companies mean Ceridian Corporation, formerly known as New Ceridian Corporation, together with our consolidated subsidiaries, and include the historical operating results and activities of the businesses and operations that constituted Old Ceridian prior to the spin-off, as well as the continuing operations of the operations that were transferred to us by Old Ceridian in the spin-off, unless the context otherwise indicates.

We refer you to Part II, Item 7 and Item 7A of this report for additional descriptions of our business.

**Human Resource Solutions**

The businesses comprising our human resource solutions business (referred to in this report as HRS) offer a broad range of managed human resource solutions designed to help companies maximize the value of their people by more effectively managing their work forces and the information that is integral to human resource processes. Our human resource management products and services are provided

---

**Table of Contents**

principally in the United States, Canada and the United Kingdom. HRS revenue for the years 2002, 2001 and 2000 was as follows:

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 878.1 million	\$ 873.8 million	\$ 873.1 million

Payroll processing and tax filing services accounted for about 73 percent of the \$878.1 million of revenue in 2002, with about 70 percent of 2002 payroll processing and tax filing revenue derived from the United States.

Our HRS revenue includes investment income earned from customer deposits temporarily held in the United States and Canada pending remittance to taxing authorities, customer employees or other third parties. About 11 percent of the \$878.1 million of revenue in 2002 was attributable to this investment income, including income from interest rate derivative contracts. Due to the significance of this investment income, our quarterly revenue and profitability fluctuate as a result of changes in interest rates and in the amount of customer deposits held. We use derivative securities such as interest rate collars and swaps to manage interest rate risk on customer deposits on a global basis as further described in Part II, Item 7A of this report. Because the volume of payroll items processed increases in the first and fourth quarters of each year in connection with employers' year-end reporting requirements, and because the amount of tax filing deposits also tends to be greatest in the first quarter, our HRS revenue and profitability tend to be greater in those quarters.

***Market***

The market for human resource solutions covers a comprehensive range of information management, human resource administration and employee assistance services and software. These products and services include:

transaction-oriented administrative services and software products, primarily in areas such as payroll processing, tax filing and benefits enrollment and administration; and

management support software and services, primarily in areas such as human resource administration, regulatory compliance, work-life effectiveness and employee assistance programs.

We believe that the market for these solutions is expected to continue to grow as organizations seek to reduce costs, improve productivity and add services for employees by outsourcing administrative services and further automating internal processes. We also expect the demand for human resource solutions to increase as organizations acquire managed human resource services from third parties to obtain assistance in maintaining compliance with the increasing scope and complexity of laws and regulations governing businesses and increasingly complicated work-life issues faced by employers and employees.

**Table of Contents**

We generally classify customers in the human resource solutions market by employer size into three categories, each of which represents a distinct market opportunity for us:

<b>Type of Employer</b>	<b>Size of Employer</b>	<b>Typical Characteristics</b>
Small	Fewer than 350 employees	Tend to be relatively more price sensitive, to require less customization or flexibility in product and service offerings and to switch more readily from one provider to another
Medium	350 to 5,000 employees	Human resource management needs tend to be more complex, and therefore often require more customization and flexibility in products and services, greater integration among data processing systems and a greater variety of products and services
Large	Over 5,000 employees	Human resource management needs tend to be the most complex, and therefore often require the most customization and flexibility in products and services, the greatest integration among data processing systems and the greatest variety of products and services has the greatest reliance on their integral legacy systems which increase integration complexity and challenge outsourcing and migration decisions

We believe, however, that with regard to any size employer, a provider of a transaction-based service, such as payroll processing or tax filing services, is afforded attractive opportunities to complement that core service with additional products and services that are natural adjuncts to that core service, such as time and labor management, 401(k) retirement plan administration, COBRA notification, flexible spending account administration, employee self-service, benefits eligibility and enrollment, and employee assistance and work-life services. Our ability to wrap value-added services around a core service or product in an integrated manner will, we believe, lead to revenue growth and our ability to command higher margins.

***Products and Services***

Our human resource management solutions include:

payroll processing and integrated human resource information systems solutions;

tax filing services;

benefits administration, qualified retirement and other plan administration and regulatory compliance services; and

work-life effectiveness and employee assistance programs.

***Payroll Processing and Integrated Human Resource Information Systems Solutions.*** Our payroll processing for customers in the United States consists primarily of preparing and furnishing employee payroll checks, direct deposit advices and supporting journals and summaries. For certain business customers, we may handle the transmission of customer payroll funds. We also supply quarterly and annual social security, Medicare and federal, state and local income tax withholding reports that are required to be filed by employers and employees.

We provide human resource information systems (commonly referred to as HRIS) solutions that run in Microsoft Windows environments and serve as a front-end to our payroll processing system, allowing our customers to utilize a common database for both payroll and other HRIS purposes. This

**Table of Contents**

enables the customer to create a single database of employee information for on-line inquiry, updating and reporting in payroll and other areas important to human resource administration and management, such as employee data tracking, government compliance, compensation analysis and benefits administration. We also provide HRIS solutions for Microsoft operating environments that incorporate open, industry standard technology, are scalable, and can be utilized with an existing interface as a front-end for our payroll processing and tax filing services.

Our Source 500 product suite provides an integrated HR/payroll and benefits solution with outsourced payroll and tax filing services to customers primarily in the medium and large employee range. It is available in a hosted Application Service Provider environment (Source Assist) or can be managed in-house as an installed application. Our hosted solutions provide customers with secure 24/7 access to our solutions using a standard web browser.

We recently introduced eSource, a web-enabled, fully hosted integrated payroll and human resource administration solution, designed specifically for the medium and large customer market. eSource also includes integrated time management and Source self service features, as well as wage attachments and disbursements, internet payroll management, and customization features within the core product offering.

Additionally, we have a license agreement with Ultimate Software Group, Inc. to allow us to use that company's UltiPro software as part of an on-line payroll service offering. In January 2003, using the UltiPro software as modified by us, we introduced SourceWeb, an integrated payroll, HRIS, self service solution that is completely hosted and supported by us. This product is designed specifically for small to smaller medium employee size companies.

We also provide Internet payroll processing, tax filing, unemployment compensation management and related services for small employers located in the United States and Canada. Our Powerpay product is a web-based solution that allows customers to complete payroll transactions via the Internet. The Powerpay product also provides small businesses with access to services, such as new hire reporting, tax filing, direct deposit, optional benefits programs, unemployment filing and special reports services that were previously only available to larger companies.

**Tax Filing Services.** Our payroll tax filing services for customers in the United States consist primarily of collecting funds for federal, state and local employment taxes from customers based on payroll information provided by the customers, remitting funds collected to the appropriate taxing authorities, filing applicable returns and handling related regulatory correspondence and amendments. Our tax filing services are provided not only to employers who utilize our payroll processing service, but also to local and regional payroll processors and stand alone tax services provided directly to employees. Payroll-related services are typically priced on a fee-per-item-processed basis.

We hold our customers' tax filing deposits in a trust. This trust invests primarily in high quality collateralized short-term investments, money market funds, U.S. Treasury and Agency securities, AAA rated asset-backed securities and corporate securities rated A3/ A or better. The duration of these investments is carefully managed to meet the liquidity needs of the trust.

**Benefits Administration, Qualified Retirement and Other Plan Administration and Regulatory Compliance Services.** We provide employee health and welfare benefits administration and qualified plan administration services to our customers. Employee health and welfare benefits administration services include health insurance portability (*i.e.*, the Consolidated Omnibus Budget Reconciliation Act, or COBRA, and the Health Insurance Portability and Accountability Act of 1996, or HIPAA) compliance services. We provide our portability services through the trade name CobraServ. Health and welfare benefits administration services also encompass benefits provided to active employees, such as annual health plan enrollment, ongoing employee enrollment and eligibility services, tuition refund plans, transportation reimbursement under the Transportation Equity Act, and Internal Revenue Code Section 125 plans including fully administered and self-administered flexible spending accounts and premium-only plans. We also provide administration services for benefits provided to retired and inactive employees, including retiree healthcare, disability, surviving dependent, family leave and severance benefits.



**Table of Contents**

Our qualified plan administration services include 401(k) plan administration, profit sharing administration, defined benefit plan administration, ESOP administration and Qualified Domestic Relations Order administration.

In 2002, we made three acquisitions to enhance our ability to provide human resource compliance and enrollment and benefit management services. We acquired substantially all of the assets of HR Comply to enhance our ability to provide human resource compliance services, and SYLINQ Corporation and substantially all of the assets of Great Lakes Strategies, LLC to further our capabilities in enrollment and benefits management through leading edge software platform technologies.

***Work-Life Effectiveness and Employee Assistance Programs.*** We are a leader in providing customers and their employees with a single source for fully integrated work-life and employee assistance programs to clients of all sizes throughout the United States, Canada and the United Kingdom. Services are delivered through on-line access and telephonically, and through face-to-face meetings provided by referral resources.

The services and programs we provide may be customized to meet an individual customer's particular needs. Our portfolio of products allows a customer to choose the mix, level and mode of access to services that best meet its needs. These products range from high touch technology capabilities allowing employees to access specific information on-line to comprehensive person-to-person consultation and referral services. Also included are specialized service options, such as assistance with college selection, elder care assessment and facility review services, and health and wellness services. These services address employee effectiveness issues and seek to improve employee retention and productivity, and to reduce absenteeism as well as increase the customer's recruitment success. Consultants provide confidential assistance 24 hours a day to customers' employees to help them address issues ranging from everyday matters to crisis situations. Supporting these consultants are research and subject matter experts who provide specialized expertise or referrals in areas such as parenting/child care, elder care, disabilities, addiction disorders, mental health, health and wellness, financial, legal, managerial/supervisory and education/schooling issues. We have also entered into arrangements with some service and product providers to provide additional leading edge services and expertise to our customers.

***International Operations***

Approximately 22 percent of HRS' 2002 revenue was obtained from customers outside of the United States. Our international HRS operations are primarily conducted in the United Kingdom, through Centrefile Limited, and Canada, through Ceridian Canada Ltd. Centrefile Limited provides human resource services, payroll processing services and HRIS software in the United Kingdom. Centrefile's services generally do not involve the handling or transmission of customer funds. In a very few instances, Centrefile holds client funds for a short period of time in non-interest bearing segregated, accounts prior to disbursement pursuant to Centrefile's client's instructions.

Ceridian Canada's operations handle payroll as well as tax filing funds for our Canadian customers. These Canadian operations collect payroll and payroll tax amounts from customers and remit tax amounts to applicable governmental authorities and make direct deposits of payroll amounts to employees' bank accounts. As a result, revenue from our payroll processing services in Canada includes investment income received from temporarily holding these amounts in trust. About 23 percent of the 2002 revenue of this Canadian business was attributable to this investment income. The Canadian trust invests in securities issued by the government and provinces of Canada, highly rated Canadian banks and corporations, asset backed trusts and mortgages. We earn income from the trust and charge fees for services similar to those provided in the United States. We also provide for interest rate risk management in Canada as further described in Item 7A of this report.

We are expanding our international payroll services into other countries in Europe, including Belgium, France, Germany, the Netherlands, the Republic of Ireland, Spain and Switzerland, by engaging partners within each country to provide us with payroll administration and processing services for that

**Table of Contents**

country. We in turn have contracted with multinational customers for their international requirements, and deliver a fully outsourced payroll service to these customers.

***Customers***

We target employers of all sizes in diverse industries. Our existing customer base covers a wide range of industries and markets. Our products and services are generally provided under written license or service agreements, with contracts for repetitive services generally terminable upon relatively short notice.

Customer retention is an important factor in the amount and predictability of revenue and profits in our HRS businesses. In providing some of our services, particularly payroll processing and tax filing services, we incur installation and conversion costs in connection with new customers that need to be recovered before the contractual relationship will provide incremental profit. The length of time it takes for a contract to become profitable depends on a number of factors such as the number of employees covered by the contract, the complexity of the services involved, the amount of customization of services required and the number of locations in which the customer's employees are located. The longer we are able to retain a customer, the more profitable that contract will likely be.

***Sales and Marketing***

Payroll processing, tax filing and human resource management services are marketed in the United States through our direct sales force operating throughout the country. We have established marketing relationships with banks, accounting firms, insurance companies and others pursuant to which these products and services are offered to the business clients of these entities. The most significant source of customer leads for these transaction-based products and services are referrals from these marketing relationships and existing customers, and other direct marketing efforts, such as telemarketing, direct mail and trade shows. Our operations in the United Kingdom and Canada utilize their own direct sales forces. Customer leads for the products and services of these businesses are generally obtained through referrals, trade shows, product demonstration seminars, third party resellers and direct sales efforts.

We utilize cooperative marketing relationships with other companies offering products or services that complement our businesses as well as informal marketing alliances with human resource consulting firms. We are exploring similar cooperative arrangements with other software, insurance and human resource services providers. We are also seeking to further integrate and coordinate the sales and marketing efforts of our businesses and to sell a greater variety of our products and services to the customers of our various businesses.

***Competition***

The human resource solutions industry is highly competitive. Competition comes from national, regional and local third party transaction processors, as well as from software companies, consulting firms, governments, enterprise wide providers of financial services and internally developed and operated systems and software.

The majority of all payroll processing and tax filing in the United States, Canada and the United Kingdom is supported in-house, with the remainder supported by third party providers. In the United States, Automatic Data Processing, Inc. is the largest third party provider of payroll processing in terms of revenue, with Paychex, Inc., Ceridian and ProBusiness Services, Inc. comprising the other three large, national providers in terms of revenue. ADP serves all sizes of employers, while Paychex generally focuses on small employers and ProBusiness generally focuses on large employers. On January 8, 2003, ADP and ProBusiness announced that they had entered into a merger agreement providing for the acquisition of ProBusiness by ADP. Other third party payroll and tax filing providers are generally regional and local competitors, although larger, national providers of benefits administration, 401(k) processing services or financial institutions may expand further into outsourced payroll processing. In the United Kingdom, we believe that our Centrefile subsidiary is the largest outsourced payroll processing provider in terms of revenue, competing with several other national providers, including a subsidiary of ADP, and local

**Table of Contents**

providers. In Canada, we believe that our Ceridian Canada subsidiary is the second largest outsourced payroll processing provider in terms of revenue, facing a similar competitive environment as in the United Kingdom. Competition in both the payroll processing and HRIS areas also comes from a number of large, national software companies that provide both payroll processing software for in-house processing as well as HRIS software, often in conjunction with other enterprise management software applications.

Apart from payroll processing and tax filing, our other HRS solutions generally compete with a variety of national and regional application software companies, consulting firms, financial services companies and human resource services providers. Generally, the market for these products and services is evolving and is not dominated by a small number of competitors.

Currently, we believe the principal competitive factors in the human resource solutions industry are:

- customer service;
- leadership in technology applications;
- choice of services;
- integrated platforms;
- performance;
- price;
- functionality;
- ease and flexibility of use; and
- expertise in HR processes.

We believe that the ability to integrate human resource management software applications with customers' other in-house applications and the ability to provide client/ server-based solutions and solutions delivered through the Internet are increasingly important competitive factors. While we believe our businesses will be able to compete effectively in the overall human resource solutions market, our ability to compete effectively will depend in large measure on our ability to timely develop and implement new technology, particularly that which incorporates industry standard architecture and client/ server and Internet-based solutions, and provide leading-edge customer service.

**Research and Development**

We intend to continue to invest substantial resources to extend the functionality of our proprietary payroll processing systems and further develop a comprehensive and fully integrated suite of employee administrative services. For example, we are developing several products that are Internet-based. In addition, we expect to introduce additional enhancements to our Source 500 product.

The table below reflects the amount of research and development expenses for our HRS businesses for the periods indicated.

	<b>Years Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(dollars in millions)		
Research and development	\$56.9	\$54.7	\$54.8
Percent of revenue	6.5%	6.3%	6.3%



**Table of Contents****Comdata**

Our Comdata subsidiary provides transaction processing and regulatory compliance services to the transportation and other industries. Comdata's revenue from products and services for the years 2002, 2001 and 2000 was as follows:

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 314.6 million	\$ 316.0 million	\$ 308.8 million

Approximately 79 percent of Comdata's revenue for 2002 was attributable to its transportation business.

***Principal Markets***

The trucking segment of the transportation industry is comprised of both long haul fleets and local fleets. Private fleets predominate in the local fleet segment, but play a lesser role in the long haul fleet segment. Common carriers, which provide trucking services to companies that do not have fleets of trucks of their own, predominate in the long haul fleet segment, which is comprised of less-than-truckload and truckload components. The less-than-truckload component, which involves trucks that make multiple stops to load and unload, is characterized by large capital requirements and a relatively high degree of consolidation. The truckload component, which involves the transportation of full loads directly from shipper to final destination without going through any sorting terminals, is highly fragmented.

The majority of Comdata's trucking company customers are common carriers serving the truckload component of the long haul segment. Many of these carriers do not employ their drivers, but instead contract with individual owner-operators. These owner-operators usually settle their expenses with the common carrier after the completion of each trip. Drivers for truckload carriers often spend weeks on the road at a time, creating a number of unique conditions and business opportunities. Truckload carriers are challenged to monitor and control fuel purchases, provide driver services to aid in recruitment and improve retention, obtain necessary licenses and permits, and effectively manage the routing and logistics of the long-distance trips.

Stored Value Systems, Inc., a wholly owned subsidiary of Comdata and a part of Comdata's retail services division (which we refer to in this report as SVS), provides electronic private label cards that can be assigned a cash value. The market for these private label cards includes merchants, such as retailers and oil companies through gas stations, who (1) use traditional paper gift certificates or gift cards, (2) give store credits in connection with the return of products, and (3) make monetary promotions. SVS markets its private label cash card to these merchants, namely major retailers and gas stations, for use with their customers. Comdata's retail services division also provides a card-based funds transfer system for use by employers and others for, among other things, expense reimbursements, payroll delivery and termination pay. SVS markets this card-based funds transfer system to temporary staffing companies, professional employment organizations, custodial companies, the restaurant and hospitality industries, and retailers, including the customers of SVS.

***Services***

Comdata provides transaction processing and regulatory compliance services primarily to the transportation industry. Comdata also provides transaction processing services to other industries, including the retail, temporary staffing, oil company, restaurant and grocery store sectors. Comdata provides services to trucking companies, truck stops and truck drivers in the long haul segment of the trucking industry, and to the local fleet segment. These services primarily involve the use of a proprietary funds transfer card that facilitates truck driver transactions and provides transaction control and trip information for trucking firms. Additionally, Comdata provides assistance in obtaining regulatory permits and other compliance services, local fueling services and discounted telecommunications services in its markets. Through Comdata's retail services division (which includes SVS), Comdata provides its specialty card products and services to

**Table of Contents**

customers outside of the transportation industry. Comdata operates primarily in the United States and Canada and is expanding its business into Mexico.

***BusinessLink.*** Comdata recently introduced BusinessLink, a card with credit and debit capabilities principally designed to provide businesses with control over payments to and spending by employees. The BusinessLink card allows businesses to authenticate and authorize individual employee purchases, provide payroll to employees and positively identify employees. Through BusinessLink a business can review reports of transactions made by its employees over the Internet. BusinessLink offers businesses the capability of performing these services on a single, customizable employee card. The BusinessLink card may be customized for each individual employee within a business. Comdata intends to expand the services currently available under the BusinessLink card. BusinessLink has been initially introduced to Comdata's primary markets, transportation and retail. Comdata believes that the BusinessLink card has application to businesses in other industries.

***Trucking Company Services (The Comdata Card).*** Comdata's funds transfer system, most commonly initiated through the use of Comdata's proprietary Comdata card, is designed to enable truck drivers to obtain funding for purchases and cash advances at truck stops and other locations en route to their destination. Drivers may use the Comdata card to purchase fuel, lodging and other approved items, obtain cash advances from ATM machines or through the use of Comchek drafts, make long distance phone calls and make direct deposits of pay, settlements (for non-employee owner-operators) or trip advances to personal bank accounts. In 2002, Comdata processed approximately 82.1 million funds transfer transactions involving approximately \$13.0 billion for the transportation industry.

Use of the Comdata card allows the trucking company customer greater control over its expenses by allowing it to set limits on the use of the cards, such as by designating locations where the cards may be used, the frequency with which they may be used, phone numbers which may be called and the amount of authorized use. Use of a Comdata card also enables Comdata to capture and provide transaction and trip-related information to trucking company customers (usually within 24 hours after the completion of a given trip). This information greatly enhances a customer's ability to track and plan fuel purchases and other trip expenses and settle with drivers. Comdata also provides trucking companies with a Windows-based software application that provides trucking companies with on-line access to Comdata's computer system for data on fuel purchases and other trip information, and facilitates pre- and post-trip planning functions. Comdata's iConnectData and MOTRS (Modular Over The Road System) Web-based applications enable customers to go on-line for interactive reporting capabilities, the latest diesel fuel prices and related information.

Use of a Comdata card, in many instances, generates a Comchek draft, which is payable through a Comdata bank account. Comdata funds the underlying transaction when the truck stop (or other payee) negotiates the draft by depositing it in its bank account. Comdata bills the trucking company for the amount of the draft plus a portion of the service fee, and collects from the truck stop the balance of the service fee. The trucking company remits payment to Comdata by wire transfer or check, typically within six days, although Comdata may bill trucking companies in advance for all funds transfers authorized for any purpose in connection with a particular trip. Risks associated with fraudulent or unauthorized transactions are allocated between Comdata and its customers based upon which party may be at fault under a specific circumstance and based upon which party is in the better position to control or eliminate these types of transactions. Comdata believes that historically the number of fraudulent or unauthorized transactions has been minimal compared to the aggregate dollar amount of funds Comdata has transferred annually. Comdata is licensed by 39 states as a seller of checks or money transmitter and, pursuant to these licenses, undergoes annual examinations by several states with respect to the integrity of its funds transfer methods and procedures.

Approximately 12 percent of Comdata's funds transfer revenue is derived from transactions that do not involve the Comdata card. When a truck driver makes a request at a truck stop for a funds transfer, Comdata verifies that the driver's company has established sufficient credit. Upon presentation of valid identification, the truck stop obtains an authorization number from Comdata and issues a Comchek draft.

## **Table of Contents**

Comdata also provides information gathering and processing services in connection with fueling transactions that Comdata does not fund, but instead are billed directly by the truck stop to the trucking company. Fees for these direct bill transactions are substantially lower. Comdata also provides fuel price tracking reports and management within a network of truck stops, including cost/plus fuel purchase programs.

Comdata's regulatory compliance division determines the permits needed for a designated trip, truck and load; purchases those permits on behalf of the customer; and delivers them by facsimile machine to a truck stop where they can be picked up by the driver. Comdata also provides regulatory compliance services, such as processing and auditing of driver trip logs, reporting of fuel taxes, annual licensing and motor vehicle registration verification. Vehicle escort services for oversized loads are also provided.

**Truck Stop Services.** Comdata maintains a nationwide electronic data network with 24-hour independent truck stop service centers that utilize point-of-sale devices and other computer equipment to facilitate communication with Comdata's database and operations centers. The service centers act as Comdata's agents pursuant to a service center agreement, and typically also offer the funds transfer services of other companies.

Comdata's merchant services division provides fueling centers with PC-based, point of sale systems that automate the various transactions that occur at a fuel purchase desk, systems which enable customers to transact card-based fuel purchases at the fuel pump, UPC scanning devices and truck stop management software. These systems accept many types of fuel purchase cards currently used by drivers.

**Local Fueling.** Comdata is a provider of fuel management and payment systems for local transportation fleets. Comdata provides local fleet operators with Comchek MasterCard fleet cards that offer the fleet operators transaction control and trip-related information gathering features similar to those of the Comdata card.

**Retail Services.** SVS provides, among other services, debit card programs to major retailers that are used as gift cards, gift certificates, credits for returned product and retail promotions. SVS believes that its cards, transaction reliability, card maintenance/ inventory programs and reporting capability provide benefits to retailers and their customers, including ease of use and controls previously difficult to realize. Card programs and other services available through SVS may potentially have benefits in e-commerce, facilitating transactions between on-line merchants and their customers.

Comchek eCash is a card-based service allowing employers to post or load payment of wages and other payments, such as expense reimbursements, to Comchek cards issued to employees and other recipients. Cardholders, in turn, may access these funds in a number of ways, including withdrawal of cash from ATMs, point-of-sale purchases at stores or issuance of a Comdata negotiable draft. Long distance telephone service is also available through the card.

### ***Sales and Marketing***

Comdata markets its card-based financial and data management services to several industries, the largest of which is the transportation industry. Comdata markets its services to the transportation industry through a direct sales force domiciled at its headquarters in Brentwood, Tennessee, and operating throughout the United States and Canada. Comdata provides services to more than 18,000 over-the-road and local trucking fleets with approximately 750,000 active fuel cards. Comdata also provides services to more than 8,000 truck stops, travel centers and repair facilities nationwide. Contracts generally range from one to three years in duration.

Through SVS, Comdata markets its private label cash cards, electronic payroll cards and ancillary services through a direct sales force located in Louisville, Kentucky and operating throughout the country. SVS has recently begun sales and marketing efforts in Canada and Europe, most notably in the United Kingdom. SVS has contracts with approximately 130 retailers and oil companies to provide cash cards and/or payroll services. These contracts are generally three years in duration.

**Table of Contents**

*Competition*

The principal competitive factors relevant to funds transfers are marketing efforts, pricing, reliability of computer and communications systems and time required to effect transactions. The major credit and debit card associations and companies, such as Visa, MasterCard, American Express and Discover, are significant competitors of Comdata in that they make cash available to, and facilitate purchases of fuel and other products by, holders of their cards on a nationwide basis. Several other companies also offer similar funds transfer services, including Concord EFS, Inc., T-Chek Systems, Inc., TransPlatinum Service Corp., and Wright Express LLC. In addition, truck stops often negotiate directly with trucking companies for a direct billing relationship. Some of Comdata's competitors, such as TCH, LLC, an affiliate of Flying J, Inc., are under common ownership with entities that operate or franchise nationwide truck stop chains. In addition, Comdata competes with service centers, such as truck stops, that offer similar products and services. Comdata also faces increasing competition in the funds transfer area from ATMs that participate in national networks.

While the majority of regulatory services continue to be performed in-house, at least one other nationwide company, Xerox, Inc., and several regional companies, including The Permit Company, provide permit services similar to those provided by Comdata. Competition in this market is influenced by price, the expertise of personnel and the ease with which permits may be ordered and received. In addition, Comdata believes that technological advances, such as the Internet, will impact the way regulatory services are delivered. These advances may give rise to new competitors or change the way this service is offered.

Comdata believes that one of its competitive weaknesses is that its information technology infrastructure is, in many instances, a mainframe based, legacy system built over many years. This legacy system makes innovation cumbersome. Many of Comdata's competitors are either web-born or web-enabled and, thus, able to take better advantage of transaction and information delivery available through the Internet and information technology systems architectures which are more open than that of Comdata's. Another one of Comdata's competitive weaknesses is that unlike competitors with a brand relationship with a credit card association, such as Visa and MasterCard, Comdata's proprietary card does not possess ubiquitous acceptance. Finally, some of Comdata's competitors possess greater financial and other resources than Comdata.

Comdata believes that its competitive strengths include its:

ability to provide services to trucking companies and drivers at a large number of locations in the continental United States and Canada;

ability to offer a variety of services, frequently tailored to an individual customer's needs;

proprietary databases regarding funds transfers and fuel purchases;

long-term relationships in the transportation industry;

high quality of customer service;

product design innovation; and

long-time reputation in the transportation industry.

Comdata's retail services division (which includes SVS) competes with a number of national companies in providing private label cards, including ValueLink, a subsidiary of First Data Corporation. Comdata's retail services division competes on the bases of breadth of services offered, systems, technology and price. Comdata believes that one of the competitive weaknesses of its retail services division is that most of its competitors have established relationships with many of the potential customers of Comdata's retail services division because these competitors provide additional and unrelated products and services to these customers, such as credit card processing and check authorization services. By providing these other services which Comdata's retail services division does not provide, these competitors have an advantage of being able to bundle their products and services together and present them to existing customers with



**Table of Contents**

whom they have established relationships. Another competitive weakness of Comdata's retail services division is that their competitors have greater financial, sales and marketing resources and better brand name recognition than Comdata's retail services division.

Comdata believes the competitive strengths of Comdata's retail services division are:

leading edge information and communications systems which provide real-time connectivity with retailers' existing platforms;

breadth of solutions offered; and

experience in transaction processing and related services providing for high quality control and reduced time of implementation of cash card solutions.

**Network and Data Processing Operations**

Comdata's principal communications center for its funds transfer business is located near its headquarters in Brentwood, Tennessee, with a secondary center located in suburban Dallas, Texas and an SVS facility in Louisville, Kentucky. Comdata receives telecommunications services from MCI WORLDCOM Network Services, Inc. and Sprint Corporation. Substantially all of Comdata's internal data processing functions for its transportation business, including its payment processing systems, are conducted in a facility located near Nashville, Tennessee, with SVS operating a data processing facility for its business in Louisville, Kentucky.

**Regulation**

Many states require persons engaged in the business of selling or issuing payment instruments, such as the Comchek draft, or in the business of transmitting funds to obtain a license from the appropriate state agency. In some states, Comdata is required to post bonds or other collateral to secure its obligations to its customers in those states. Comdata believes that it is currently in compliance in all material respects with the regulatory requirements applicable to its business. The failure to comply with the requirements of any particular state could significantly harm Comdata's business in that state.

**Research and Development**

Comdata's research and development activities principally include applications development to enhance existing products and services, and the new product development around the BusinessLink initiative. Comdata anticipates a continuing need to develop applications to enhance its products and services to meet the needs of its customers. Further, Comdata expects to develop applications to bring additional features to its products and services, thus enhancing their use in new segments and industries.

The table below reflects the amount of research and development expenses for Comdata for the periods indicated.

	<b>Years Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(dollars in millions)		
Research and development	\$2.4	\$4.4	\$8.0
Percent of revenue	0.8%	1.4%	2.6%

The decrease in the amount of research and development expense in 2002 and 2001 was due largely to development cost savings resulting from the termination of an outsourced transaction processing contract.

## **Table of Contents**

### **Additional Financial Information About Segments**

We refer you to Note D, *Segment Data*, to our consolidated financial statements for additional financial information about our business segments. This information may be found in Part II, Item 8 of this report.

### **Other Investments and Divestitures**

In addition to the spin-off transaction described previously under the heading *General*, we refer you to Note F, *Investing Activity*, to our consolidated financial statements for further information on our investing and divesting activities. This information may be found in Part II, Item 8 of this report.

### **Intellectual Property**

We own or license a number of trademarks, tradenames, copyrights, service marks, trade secrets and other intellectual property rights that relate to our products and services, including several mentioned in this report. Although we believe that these intellectual property rights are, in the aggregate, of material importance to our businesses, we believe that none of our businesses is materially dependent upon any particular trademark, tradename, copyright, service mark, license or other intellectual property right. We believe, however, that the Ceridian and Comdata names, marks and logos are of material importance to us.

We have entered into confidentiality agreements with most of our employees and consultants. In addition, we have entered into license agreements with customers of our businesses, which agreements impose restrictions on these customers' use of our proprietary software and other intellectual property rights.

### **Employees**

As of March 1, 2003, we employed approximately 9,411 people on a full- or part-time basis, including 7,187 full-time and 533 part-time employees of HRS and 1,496 full-time and 102 part-time employees of Comdata. None of our employees is covered by a collective bargaining agreement.

### **Backlog**

Although our businesses are typically characterized by long-term customer relationships that result in a high level of recurring revenue, a substantial portion of our customer contracts used by our businesses are terminable by our customers upon relatively short notice periods, including contracts that have been extended beyond their original terms. In addition, orders for products and services are terminable by our customers, and no order for one of our products or services is considered firm until it is delivered or installed and begins producing revenue. The timing of the delivery or installation of our products and services is largely dependent upon the customer. As such, we do not believe that meaningful backlog information can be provided for our businesses.

### **Available Information**

Our Internet website is <http://www.ceridian.com> and you may access, free of charge, through the Investor Relations portion of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also post other documents containing a substantial amount of information about us on this site. In the future, we anticipate disclosing various information relating to our corporate governance policies and practices, charters of our committees, codes of conduct and other corporate governance matters as is required by the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC and The New York Stock

**Table of Contents**

Exchange. Our Internet website and the information contained on or connected to the website are not intended to be incorporated by reference into this report.

**Item 1A. Executive Officers of the Registrant**

The following provides information on our executive officers as of March 1, 2003:

Name (Age)	Current Position
Ronald L. Turner (56)	Chairman, President and Chief Executive Officer
John R. Eickhoff (62)	Executive Vice President and Chief Financial Officer
Loren D. Gross (57)	Vice President and Corporate Controller
Shirley J. Hughes (57)	Senior Vice President of Human Resources
Gary A. Krow (48)	Executive Vice President and President of Comdata
Gary M. Nelson (51)	Executive Vice President, General Counsel and Corporate Secretary
Bruce J. Thew (44)	Executive Vice President; President, Ceridian International Human Resource Services; and Group Managing Director, Centrefile Limited

Our executive officers are annually elected by our Board of Directors and serve at the pleasure of the Board of Directors and the Chief Executive Officer. There are no immediate family relationships between or among any of our executive officers.

Upon the completion of our spin-off from Ceridian's predecessor on March 31, 2001, each of our executive officers resigned from Ceridian's predecessor and was thereafter reappointed to the equivalent position within Ceridian. Our executive officers have held the following positions with Ceridian, Ceridian's predecessor and certain other entities since March 1998:

Ronald L. Turner has served as a director since July 1998; Chairman since May 2000; Chief Executive Officer since January 2000; and President since April 1998. Mr. Turner was Chief Operating Officer from April 1998 to January 2000; and Executive Vice President of Operations from March 1997 to April 1998.

John R. Eickhoff has served as Executive Vice President and Chief Financial Officer since January 25, 2000. Mr. Eickhoff was Executive Vice President of Strategic Development from January 3, 2000 to January 25, 2000; and Executive Vice President and Chief Financial Officer from May 1995 to January 2000.

Loren D. Gross has served as Vice President and Corporate Controller since July 1993.

Shirley J. Hughes has served as Senior Vice President of Human Resources since June 1998. Ms. Hughes was Vice President of Human Resources of Mercy Health Services, a non-profit integrated health care delivery system currently named Trinity Health Services, from October 1994 to June 1998.

Gary A. Krow has served as Executive Vice President and President of our Comdata subsidiary since November 1999. Mr. Krow was Executive Vice President and Chief Operating Officer of Comdata from January 1999 until November 1999; and Executive Vice President, Transportation Services, of Comdata from January 1997 until December 1998.

Gary M. Nelson has served as Executive Vice President since October 2001; General Counsel since July 1997; and Corporate Secretary since October 1998. Mr. Nelson was Vice President from July 1997 until October 2001.

Bruce J. Thew has served as Executive Vice President and President, Ceridian International Human Resource Services since July 2002. Mr. Thew has served as Group Managing Director, Centrefile Limited since 1997.

**Table of Contents****Item 2. Properties**

Our principal executive offices are located at 3311 East Old Shakopee Road, Minneapolis, Minnesota 55425. As of March 1, 2003, the principal computer and office facilities used in our businesses were located in the metropolitan areas of Minneapolis, Minnesota; Atlanta, Georgia; Los Angeles, California; Chicago, Illinois; East Hanover, New Jersey; Louisville, Kentucky; Nashville, Tennessee; Dallas, Texas; Boston, Massachusetts; St. Petersburg, Florida; Philadelphia, Pennsylvania; Manitoba, Ontario, and Quebec, Canada; and London, England.

The following table summarizes the usage and location of our facilities as of March 1, 2003:

<b>Facilities</b>			
(In thousands of square feet)			
	<u>U.S.</u>	<u>Non-U.S.</u>	<u>Total</u>
<b>Type of Property Interest</b>			
Owned	393		393
Leased	2,024	389	2,413
	<u>          </u>	<u>          </u>	<u>          </u>
Total	2,417	389	2,806
<b>Property Interest by Segment</b>			
HRS	1,583	375	1,958
Comdata	447	14	461
Corporate	387		387
	<u>          </u>	<u>          </u>	<u>          </u>
Total	2,417	389	2,806
<b>Utilization of Property</b>			
Office, Computer Center & Other	2,217	389	2,606
Leased or Subleased to Others	200		200
	<u>          </u>	<u>          </u>	<u>          </u>
Total	2,417	389	2,806

We conduct a substantial portion of our operations in leased facilities, including our 207,000 square foot Minneapolis headquarters complex in Minneapolis, Minnesota. Most of these leases contain renewal options and require payment for taxes, insurance and maintenance. Space subject to assigned leases is not included in the table above, and we remain secondarily liable under all of those leases. As of March 1, 2003, the assigned leases consisted of 45,483 square feet of space and future rental obligations totaled \$1.3 million. We do not anticipate any material non-performance by the assignees of those leases.

Our owned facility in St. Petersburg, Florida is not subject to any major encumbrances. We believe that our facilities are adequate for their intended purposes, are adequately maintained and are reasonably necessary for current and anticipated output levels of those businesses.

**Item 3. Legal Proceedings**

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

Some of these matters raise difficult and complex factual and legal issues, and are subject to many uncertainties, including the facts and circumstances of each particular action, and the jurisdiction, forum and law under which each action is proceeding. Because of this complexity, final disposition of some of these proceedings may not occur for several years. As such, we are not always able to estimate the amount of our possible future liabilities. There can be no certainty that we may not ultimately incur charges in excess of presently or future established financial accruals or insurance coverage. Although occasional



**Table of Contents**

adverse decisions (or settlements) may occur, it is management's opinion that the final disposition of these proceedings will not, considering the merits of the claims and available reserves, have a material adverse effect on our financial position or results of operations.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of 2002.

**PART II**

**Item 5. Market For Registrant's Common Equity and Related Stockholder Matters**

Our common stock is listed and trades on The New York Stock Exchange under the symbol CEN. The number of holders of record of our common stock on March 1, 2003 was 11,280. We have not declared or paid any cash dividends on our common stock since our inception, and our board of directors presently intends to retain all earnings for use in the business for the foreseeable future. The transfer agent and registrar for our common stock is the Bank of New York.

The following table sets forth the high and low sale prices of our common stock as reported on the NYSE Composite Tape for each quarterly period since the spin-off and ending December 31, 2002.

<b>2002</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
High	\$22.50	\$23.05	\$19.02	\$16.26
Low	17.00	18.05	13.10	11.40
<b>2001</b>		<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
High		\$20.55	\$19.95	\$19.43
Low		13.99	13.65	13.90

For informational purposes, the high and low sales price of Ceridian's predecessor's common stock as reported on the NYSE Composite Tape for the quarterly period beginning on January 1, 2001 and ending at the time of the spin-off was \$21.85 and \$14.00, respectively.

**Table of Contents**

**Item 6. Selected Financial Data**

	<b>2002</b>	(Dollars in millions, except per share data)			1998
		2001	2000	1999	
<b>Revenue(1)</b>	<b>\$1,192.7</b>	\$1,189.8	\$1,181.9	\$1,127.0	\$967.6
Earnings from continuing operations(2)	<b>\$ 93.7</b>	\$ 49.5	\$ 79.5		