CERIDIAN CORP /DE/
Form 10-Q
May 23, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2005**

**or**

**o 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**<br>(State or other jurisdiction of<br>incorporation or organization) | **41-1981625**<br>(IRS Employer<br>Identification No.) |
| **3311 East Old Shakopee Road, Minneapolis, Minnesota**<br>(Address of principal executive offices) | **55425**<br>(Zip Code) |

Registrant s telephone number, including area code: **(952) 853-8100**

Former name, former address and former fiscal year if changed from last report: **Not Applicable**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ý NO o

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

YES ý NO o

The number of shares of registrant s Common Stock, par value $.01 per share, outstanding as of April 30, 2005, was 149,755,344.

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q

March 31, 2005

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**Part I. Financial Information**

**Item 1. Financial Statements**

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in millions, except per share data)

| | For Periods Ended March 31, Three Months | |
|---|---|---|
| | **2005** | **2004** |
| Revenue | $ 357.4 | $ 313.9 |
| Costs and Expenses | | |
| Cost of revenue | 192.9 | 177.2 |
| Selling, general and administrative | 114.1 | 117.2 |
| Research and development | 6.5 | 4.6 |
| (Gain) loss on derivative instruments | 9.5 | (13.7) |
| Other expense (income) | (1.0) | 1.2 |
| Interest income | (1.4) | (0.5) |
| Interest expense | 1.6 | 1.1 |
| Total costs and expenses | 322.2 | 287.1 |
| Earnings before income taxes | 35.2 | 26.8 |
| Income tax provision | 13.2 | 9.5 |
| Net earnings | $ 22.0 | $ 17.3 |
| | | |
| Earnings per share | | |
| Basic | $ 0.15 | $ 0.12 |
| Diluted | $ 0.15 | $ 0.11 |
| | | |
| Shares used in calculations (in 000 s) | | |
| Weighted average shares (basic) | 149,637 | 149,250 |
| Dilutive securities | 1,025 | 2,422 |
| Weighted average shares (diluted) | 150,662 | 151,672 |
| | | |
| Antidilutive shares excluded (in 000 s) | 12,464 | 6,398 |

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions)

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Assets | | |
| Cash and equivalents | $ 254.0 | $ 220.7 |
| Trade and other receivables, less reserves and allowance for doubtful accounts of $21.7 and $20.3 | 547.5 | 505.7 |
| Current deferred income taxes | 28.5 | 27.2 |
| Other current assets | 73.4 | 70.4 |
| Total current assets | 903.4 | 824.0 |
| Property, plant and equipment, net | 135.8 | 140.9 |
| Goodwill | 934.7 | 931.8 |
| Other intangible assets, net | 44.6 | 43.6 |
| Software and development costs, net | 77.1 | 75.7 |
| Prepaid pension cost | 13.0 | 13.1 |
| Deferred income taxes | 26.0 | 26.7 |
| Investments | 16.8 | 16.4 |
| Derivative instruments | | 28.1 |
| Other noncurrent assets | 11.6 | 10.6 |
| Total assets before customer funds | 2,163.0 | 2,110.9 |
| Customer funds | 4,896.0 | 4,096.0 |
| Total assets | $ 7,059.0 | $ 6,206.9 |
| | | |
| Liabilities and Stockholders Equity | | |
| | | |
| Short-term debt and current portion of long-term obligations | $ 69.8 | $ 14.9 |
| Accounts payable | 50.4 | 62.8 |
| Drafts and settlements payable | 187.0 | 153.4 |
| Customer advances | 38.2 | 31.1 |
| Deferred income | 83.9 | 87.4 |
| Accrued taxes | 38.5 | 28.7 |
| Employee compensation and benefits | 56.6 | 53.0 |
| Other accrued expenses | 48.0 | 47.7 |
| Total current liabilities | 572.4 | 479.0 |
| Long-term obligations, less current portion | 9.3 | 85.8 |
| Deferred income taxes | 27.9 | 32.5 |
| Employee benefit plans | 210.9 | 208.4 |
| Other noncurrent liabilities | 45.7 | 38.3 |
| Total liabilities before customer funds obligations | 866.2 | 844.0 |
| Customer funds obligations | 4,885.7 | 4,067.2 |
| Total liabilities | 5,751.9 | 4,911.2 |
| | | |
| Stockholders equity | 1,307.1 | 1,295.7 |
| Total liabilities and stockholders equity | $ 7,059.0 | $ 6,206.9 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in millions)

| | For Periods Ended March 31, Three Months | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net earnings | $ | 22.0 | $ | 17.3 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | | |
| Deferred income tax provision | | 0.5 | | 0.1 |
| Depreciation and amortization | | 20.3 | | 30.7 |
| Provision for doubtful accounts | | 2.4 | | 2.6 |
| Asset write-downs | | | | 2.3 |
| Unrealized (gain) loss on derivative instruments | | 12.5 | | (5.5) |
| Gain on sale of marketable securities | | (1.0) | | (0.5) |
| Other | | 3.1 | | 4.0 |
| Decrease (increase) in trade and other receivables | | (44.3) | | (2.5) |
| Increase (decrease) in accounts payable | | (12.0) | | (3.2) |
| Increase (decrease) in drafts and settlements payable | | 33.7 | | 22.4 |
| Increase (decrease) in employee compensation and benefits | | 3.9 | | (10.6) |
| Increase (decrease) in accrued taxes | | 11.5 | | 21.1 |
| Increase (decrease) in other current assets and liabilities | | 1.1 | | (7.0) |
| Net cash provided by (used for) operating activities | | 53.7 | | 71.2 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Expended for property, plant and equipment | | (5.5) | | (6.0) |
| Expended for software and development costs | | (8.1) | | (5.7) |
| Proceeds from sales of businesses and assets | | 22.4 | | |
| Expended for acquisitions of investments and businesses, less cash acquired | | (8.2) | | (0.9) |
| Net cash provided by (used for) investing activities | | 0.6 | | (12.6) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Revolving credit facilities and overdrafts, net | | (20.3) | | 0.1 |
| Repayment of other debt and long-term obligations | | (2.5) | | (1.0) |
| Repurchase of common stock | | | | (58.4) |
| Proceeds from stock option exercises and stock sales | | 2.3 | | 11.6 |
| Net cash provided by (used for) financing activities | | (20.5) | | (47.7) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | | (0.5) | | 0.2 |
| | | | | |
| NET CASH FLOWS PROVIDED (USED) | | 33.3 | | 11.1 |
| Cash and equivalents at beginning of period | | 220.7 | | 124.2 |
| Cash and equivalents at end of period | $ | 254.0 | $ | 135.3 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(Dollars in millions)

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Common Stock | | |
| Par value - $.01 | | |
| Shares authorized 500,000,000 | | |
| Shares issued 151,257,505 and 151,073,244 | $ 1.5 | $ 1.5 |
| Shares outstanding 149,729,131 and 149,423,127 | | |
| Additional paid-in capital | 936.8 | 936.6 |
| Retained earnings | 587.5 | 565.5 |
| Treasury stock, at cost (1,528,374 and 1,650,117 common shares) | (30.7) | (33.2) |
| Accumulated other comprehensive income, net of deferred income taxes: | | |
| Unrealized gain on marketable securities | 4.2 | 3.6 |
| Unrealized gain on invested customer funds | 6.7 | 18.5 |
| Foreign currency translation adjustment | 41.9 | 44.1 |
| Pension liability adjustment | (240.8) | (240.9) |
| Total stockholders equity | $ 1,307.1 | $ 1,295.7 |

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2005

(Unaudited)

(Dollars in millions, except per share data)

## NOTE 1 GENERAL

*Basis of Presentation*

In the opinion of Ceridian Corporation, the unaudited consolidated financial statements contained herein reflect all adjustments (consisting only of normal recurring adjustments, except as set forth in the notes to consolidated financial statements) necessary to present fairly our financial position as of March 31, 2005, and results of operations and cash flows for the three month periods ended March 31, 2005 and 2004. We have reclassified certain prior year amounts to conform to the current year s presentation. The results of operations for the three month period ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements should be read in conjunction with these notes to consolidated financial statements.

*Recently Issued Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued a Statement of Financial Accounting Standards entitled Share-Based Payment, an amendment of FASB Statements No. 123 and 95 ( FAS 123R ). The principal effect of FAS 123R will be to require the inclusion in our earnings of a compensation expense for stock option grants and employee stock plan purchases that previously was only reported as a disclosure in a note to our consolidated financial statements. FAS 123R will become effective for our quarterly report for the period ended March 31, 2006. We are presently studying FAS 123R and believe that the compensation expense that would be determined as a result of adoption of its provisions would not differ materially from the pro-forma amounts previously presented in the notes to our consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 Exchanges of Nonmonetary Assets ( FAS 153 ), which is effective for transactions occurring after June 15, 2005. We do not expect that adoption of FAS 153 will have a material effect on our investing activities.

## NOTE 2 ACCRUED EXIT COSTS

On December 31, 2004, we sold certain customer relationships and other assets associated with our SourceWeb payroll platform (the SourceWeb Assets ) to RSM McGladrey Employer Services, Inc. ( RSM ) for $4.0 pursuant to the terms and conditions of an asset purchase agreement ( Asset Purchase Agreement ). In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we recorded a $9.1 pre-tax impairment charge on assets associated with this platform representing the excess of net book value of the SourceWeb Assets over sale proceeds. The impaired assets primarily consisted of a purchased software license from The Ultimate Software Group, Inc. ( Ultimate ) and capitalized software development costs. In addition to this asset impairment, we also recorded a $19.4 pre-tax loss on disposal which comprised the fair value of the future minimum royalty obligations to Ultimate of $19.2 and $0.2 of employee severance costs.

SourceWeb was a payroll platform within the small business division of our Human Resource Solutions ( HRS ) business segment. Pursuant to the terms of the Asset Purchase Agreement, we agreed to provide certain transitional and third party services to RSM for up to nine months from December 31, 2004.

| | Severance | Occupancy Costs | Contracts | Total |
|---|---|---|---|---|
| 2004 Exit Activities | | | | |
| SourceWeb | $ 0.2 | $ | $ 19.2 | $ 19.4 |
| Other | 0.2 | 0.1 | | 0.3 |
| Total accrued exit costs | 0.4 | 0.1 | 19.2 | 19.7 |
| Utilization: | | | | |
| 2004 cash payments | (0.1) | | | (0.1) |
| 2005 cash payments | (0.3) | (0.1) | (1.3) | (1.7) |
| Balance at March 31, 2005 | $ | $ | $ 17.9 | $ 17.9 |

NOTE 3 COMPREHENSIVE INCOME

| | For Periods Ended March 31, Three Months | |
|---|---|---|
| | 2005 | 2004 |
| Net earnings | $ 22.0 | $ 17.3 |
| Items of other comprehensive income before income taxes: | | |
| Change in foreign currency translation adjustment | (2.2) | 8.1 |
| Change in unrealized gain (loss) from marketable securities | 1.8 | 5.4 |
| Change in unrealized gain (loss) from invested customer funds | (18.6) | |
| Change in pension liability | 0.1 | |
| Less unrealized gain previously reported on: | | |
| Marketable securities sold or settled in this period | (1.0) | (0.5) |
| Other comprehensive income (loss) before income taxes | (19.9) | 13.0 |
| Income tax (provision) benefit | 6.6 | (1.7) |
| Other comprehensive income (loss) after income taxes | (13.3) | 11.3 |
| Comprehensive income | $ 8.7 | $ 28.6 |

NOTE 4 OTHER EXPENSE (INCOME)

| | For Periods Ended March 31, Three Months | |
|---|---|---|
| | 2005 | 2004 |
| Gain on sale of marketable securities | $ (1.0) | $ (0.5) |
| Foreign currency translation expense (income) | | (0.6) |
| Asset write-downs | | 2.3 |
| Total | $ (1.0) | $ 1.2 |

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. 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.

NOTE 5 EMPLOYEE PLANS

*Stock Plans*

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

Pro Forma Effect of Fair Value Accounting

| | For Periods Ended March 31, Three Months | | | |
|---|---|---|---|---|
| | | **2005** | | **2004** |
| Net earnings as reported | $ | 22.0 | $ | 17.3 |
| Add: Stock-based compensation expense included in reported net income, net of related tax effects | | 0.7 | | 0.6 |
| Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects | | (2.8) | | (3.9) |
| Pro forma net earnings | $ | 19.9 | $ | 14.0 |
| Basic earning per share as reported | $ | 0.15 | $ | 0.12 |
| Pro forma basic earnings per share | $ | 0.13 | $ | 0.09 |
| Diluted earnings per share as reported | $ | 0.15 | $ | 0.11 |
| Pro forma diluted earnings per share | $ | 0.13 | $ | 0.09 |
| *Weighted-Average Assumptions* | | | | |
| Expected lives in years | | 3.91 | | 3.92 |
| Expected volatility | | 35.5% | | 38.8% |
| Expected dividend rate | | | | |
| Risk-free interest rate | | 4.1% | | 2.6% |
| Weighted-average fair value of stock options granted in the period | $ | 6.00 | $ | 6.84 |

*Retirement Plans*

The components of net periodic 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, Three Months | | | |
|---|---|---|---|---|
| | | **2005** | | **2004** |
| Service cost | $ | 1.0 | $ | 0.9 |
| Interest cost | | 10.3 | | 10.5 |

| | | | | |
|---|---|---|---|---|
| Expected return on plan assets | | (11.7) | | (11.7) |
| Net amortization and deferral | | 4.1 | | 3.8 |
| Net periodic pension cost | $ | 3.7 | $ | 3.5 |

Net Periodic Postretirement Benefit Cost

| | For Periods Ended March 31, Three Months | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| Service cost | $ | | $ | |
| Interest cost | | 0.8 | | 0.9 |
| Actuarial loss (gain) amortization | | 0.1 | | 0.1 |
| Net periodic postretirement benefit cost | $ | 0.9 | $ | 1.0 |

NOTE 6 INVESTING ACTIVITY

Derivative Instruments

*Interest Rate Derivative Instruments.* At December 31, 2004, we held interest rate derivative instruments with an aggregate notional amount of $800.0. These interest rate derivative instruments had remaining terms of 6 to 35 months, floor strike levels ranging from 3.85% to 6.00% (averaging 4.99%) and cap strike levels ranging from 3.85% to 7.08% (averaging 5.69%). These derivative instruments did not qualify for hedge accounting treatment so cash settlements and changes in fair value are included in results of operations as (gain) loss on derivative instruments. The fair market value of our interest rate derivative instruments was $26.8 at December 31, 2004.

On February 4, 2005, we disposed of our interest rate derivative instruments and received cash proceeds of $21.0, which represented the fair market value of the contracts on the disposal date. From December 31, 2004 to the disposal date, we received $3.5 in cash for settlements on these derivative instruments. The $2.3 difference between the December 31, 2004 carrying value of $26.8 and the $24.5 total cash received was recorded as a loss on interest rate derivative instruments in the first quarter of 2005.

*Fuel Price Derivative Instruments.* The revenue and net income of Comdata s transportation services business is exposed to variability based on changes in fuel (both diesel fuel and gasoline) prices. For a large portion of its transportation services customers, Comdata earns fee revenue for card transactions based on a percentage of the total amount of each fuel purchase. An increase or decrease in the price of fuel increases or decreases the total dollar amount of fuel purchases and Comdata revenue. Accordingly, we estimate that for each 10¢ change in the average price per gallon of diesel fuel per year, Comdata revenue and pre-tax earnings are impacted by $1.8, absent the effect of any diesel fuel price derivative contracts. In addition, we estimate that for each 10¢ change in the average price per gallon of gasoline per year, Comdata revenue and pre-tax earnings are impacted by $0.7, absent the effect of any gasoline price derivative contracts.

Our risk management objective of managing fuel price risk is to protect Comdata net income from the effects of falling fuel prices by entering into derivative contracts that convert the floating price of fuel used in revenue calculations to a fixed price. In March 2004, Comdata entered into a diesel fuel price derivative contract with a strike price of $1.51 per gallon that was effective until December 31, 2004. In the fourth quarter of 2004, we entered into additional diesel fuel price derivative contracts with similar terms and an average strike price of $1.92 per gallon effective until December 31, 2005. We made payments of $0.5 against these contracts and recorded a net loss on diesel fuel price derivative instruments of $7.1 during the first quarter of 2005. Our diesel fuel price derivative instruments are carried at fair market value and were reported as a liability of $5.8 at March 31, 2005.

We continuously monitor fuel price volatility and the cost of derivative contracts and may enter into additional fuel price derivative contracts solely for the purpose of managing fuel price risk when market conditions are favorable to such transactions. We may use gasoline derivative instruments as part of our fuel price risk management program, but no such instruments were held during the first quarter of 2005.

Investments and Acquisitions of Businesses

*Publicly Held Investments.* At December 31, 2004, we held 556,711 shares of 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. During the first quarter of 2005, we sold 108,289 shares of Ultimate for proceeds of $1.4 and a net gain of $1.0 reported in other expense (income), which reduced our holdings to 448,422 Ultimate shares and the warrant at March 31, 2005. The carrying values of our holdings of Ultimate amounted to $8.1 at March 31, 2005 and $7.7 at December 31, 2004. In addition, we held 199,311 common shares of U.S.I. Holdings Corporation ( USIH ) at March 31, 2005 and December 31, 2004. The carrying values of our holdings of USIH amounted to $2.3 at March 31, 2005 and December 31, 2004. At March 31, 2005, the net unrealized gain on marketable securities amounted to $4.2, after reduction for deferred income taxes of $2.4, and is reported in accumulated other comprehensive income. This compares to a net unrealized gain on marketable securities of $3.6, after reduction for deferred income taxes of $2.2, at December 31, 2004.

*Acquisitions of Businesses.* In the first quarter of 2005, Comdata acquired Tranvia, Inc., a merchant processor for credit, debit, prepaid and e-commerce activities ( Tranvia ), for $8.2 and preliminarily recorded goodwill of $6.1 and other intangible assets totaling $3.4. Tranvia revenue for its year ended December 31, 2004 was $3.3. The results of operations for Tranvia have been included in our consolidated reports of operations since the date of acquisition. Proforma results of operations have not been presented because the effect of the acquisition is not material. During the first quarter of 2004, we acquired a customer base for COBRA services from a major insurance company for $0.9.

NOTE 7 FINANCING

*Debt Instruments*

In June 2002, Comdata entered into a $150.0 receivables securitization facility with a three-year term that uses selected Comdata trade receivables as collateral for borrowings. The interest rate on this facility is based on the lender s commercial paper rate plus program fees, which approximates LIBOR plus 0.5% per annum. The amount outstanding under this facility was $75.0 at December 31, 2004, which we reduced by $20.0 in March 2005, with a remaining amount outstanding of $55.0 at March 31, 2005. The aggregate amount of receivables serving as collateral amounted to $195.9 at March 31, 2005, and $191.9 at December 31, 2004. The amounts outstanding as 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 an interest rate of 1% per annum over LIBOR. We utilized $2.5 of the facility at March 31, 2005 and $2.3 at

December 31, 2004 for letters of credit. Unused borrowing capacity under this facility amounted to $347.5 at March 31, 2005 and $347.7 at December 31, 2004 of which $55.0 serves as backup to the Comdata receivables securitization facility as of March 31, 2005. The domestic revolving credit facility expires on March 30, 2006, which is less than one year to maturity at the date of this report. Liabilities issued under the domestic revolving credit facility and liabilities backed up by the facility, including the $55.0 borrowings under the Comdata receivables securitization facility, are now categorized as current portion of long-term obligations rather than as long-term obligations, less current portion.  We expect to renew the Comdata receivables securitization facility and the domestic revolving credit facility prior to their respective maturity dates.

In May 2004, Ceridian Centrefile replaced its £3.0 million overdraft facility with a £6.5 million overdraft facility available through May 2005 at an interest rate of 1% per annum over the bank s base rate (4.75% per annum at March 31, 2005) and used drawings on this facility to retire an intercompany note due to Ceridian Canada.  The amount outstanding under Ceridian Centrefile s borrowing arrangements amounted to $8.5 at March 31, 2005, and $9.0 at December 31, 2004.  We expect to renew Ceridian Centrefile s overdraft facility prior to its maturity date.

Our capital lease obligations for equipment amounted to $15.6 at March 31, 2005 and $16.7 at December 31, 2004.

We remained in compliance with covenants under our credit facilities at March 31, 2005.  In 2004 and early 2005, we amended our domestic revolving credit facility and the Comdata receivables securitization facility to allow additional time to deliver our Quarterly Reports on Form 10-Q for the second and third quarters of 2004, our 2004 Annual Report on Form 10-K and this report without the delayed delivery constituting a default under these agreements.

*Equity Instruments*

As of March 31, 2005, we may repurchase up to 6,350,500 additional shares of our common stock under an existing authorization from our board of directors.  We generally use our treasury stock to address our obligations under our stock compensation and employee stock purchase plans.

NOTE 8 CUSTOMER FUNDS

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

Investments of customer funds are reported at fair value.  The after-tax impact of unrealized gains and losses resulting from periodic revaluation of these securities are reported as accumulated other comprehensive income in stockholders equity.

At March 31, 2005, the fair value of investments of customer funds exceeded the related amortized cost by $10.3.  This resulted in a net of tax unrealized gain of $6.7 in accumulated other comprehensive income.

Investment income from investments of customer funds includes the yield on these securities as well as realized gains and losses upon disposition and constitutes a component of our compensation for providing services under agreements with our customers. Investment income from investment of customer funds included in revenue for the three month periods ended March 31, 2005 and 2004 amounted to $27.0 and $17.8, respectively. The average cost basis of invested customer funds amounted to $3,197.2 and $2,774.6 for the three month periods ended March 31, 2005 and 2004, respectively.

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

Investments of Customer Funds at March 31, 2005

*(Available-for-sale)*

| | Cost | Market | Gross Unrealized Gain | Gross Unrealized Loss |
|---|---|---|---|---|
| Money market securities and other cash equivalents | $ 3,292.3 | $ 3,292.3 | $ | $ |
| U.S. government and agency securities | 899.1 | 893.4 | 1.8 | (7.5) |
| Canadian and provincial government securities | 337.2 | 349.2 | 12.2 | (0.2) |
| Corporate debt securities | 222.6 | 224.7 | 3.5 | (1.4) |
| Asset-backed securities | 78.6 | 80.0 | 1.7 | (0.3) |
| Mortgage-backed and other debt securities | 38.4 | 38.9 | 0.5 | |
| Invested customer funds | 4,868.2 | 4,878.5 | $ 19.7 | $ (9.4) |
| Trust receivables | 17.5 | 17.5 | | |
| Total customer funds | $ 4,885.7 | $ 4,896.0 | | |

Investments of Customer Funds at December 31, 2004

*(Available-for-sale)*

| | Cost | Market | Gross Unrealized Gain | Gross Unrealized Loss |
|---|---|---|---|---|
| Money market securities and other cash equivalents | $ 2,619.4 | $ 2,619.4 | $ | $ |
| U.S. government and agency securities | 750.4 | 758.7 | 8.8 | (0.5) |
| Canadian and provincial government securities | 323.0 | 337.0 | 14.0 | |
| Corporate debt securities | 243.1 | 247.8 | 5.3 | (0.6) |
| Asset-backed securities | 77.7 | 78.8 | 1.4 | (0.3) |
| Mortgage-backed and other debt securities | 40.0 | 40.7 | 0.8 | (0.1) |
| Invested customer funds | 4,053.6 | 4,082.4 | $ 30.3 | $ (1.5) |
| Trust receivables | 13.6 | 13.6 | | |
| Total customer funds | $ 4,067.2 | $ 4,096.0 | | |

Investments of Customer Funds by Maturity Date

| | March 31, 2005 Cost | March 31, 2005 Market |
|---|---|---|
| Due in one year or less | $ 3,342.4 | $ 3,342.7 |
| Due in one to three years | 342.8 | 350.4 |
| Due in three to five years | 541.2 | 538.0 |
| Due after five years | 641.8 | 647.4 |
| Total | $ 4,868.2 | $ 4,878.5 |

NOTE 9 CAPITAL ASSETS

| | | March 31, 2005 | | December 31, 2004 |
|---|---|---|---|---|
| **Property, Plant and Equipment** | | | | |
| Land | $ | 10.2 | $ | 10.2 |
| Machinery and equipment (accumulated depreciation of $214.9 and $214.7) | | 284.5 | | 288.6 |
| Buildings and improvements (accumulated depreciation of $45.2 and $44.7) | | 101.2 | | 101.5 |
| Total property, plant and equipment | | 395.9 | | 400.3 |
| Accumulated depreciation | | (260.1) | | (259.4) |
| Property, plant and equipment, net | $ | 135.8 | $ | 140.9 |
| | | | | |
| **Goodwill** | | | | |
| At beginning of year (HRS $814.8 and $801.6, Comdata $117.0 and $117.0) | $ | 931.8 | $ | 918.6 |
| Acquisitions (HRS $0.0 and $7.6, Comdata $6.1 and $0.0) | | 6.1 | | 7.6 |
| Translation and other adjustments (HRS) | | (3.2) | | 5.6 |
| At end of period (HRS $811.6 and $814.8, Comdata $123.1 and $117.0) | $ | 934.7 | $ | 931.8 |
| | | | | |
| **Other Intangible Assets** | | | | |
| Customer lists and relationships (accumulated amortization of $34.3 and $34.0) | $ | 61.2 | $ | 59.0 |
| Trademarks (accumulated amortization of $0.5 and $50.5) | | 1.0 | | 51.1 |
| Technology (accumulated amortization of $72.3 and $71.0) | | 85.3 | | 84.8 |
| Non-compete agreements (accumulated amortization of $8.3 and $7.8) | | 12.5 | | 12.0 |
| Total other intangible assets | | 160.0 | | 206.9 |
| Accumulated amortization | | (115.4) | | (163.3) |
| Other intangible assets, net | $ | 44.6 | $ | 43.6 |
| | | | | |
| **Software and Development Costs** | | | | |
| Purchased software (accumulated amortization of $46.6 and $44.2) | $ | 69.8 | $ | 67.5 |
| Internally developed software costs (accumulated amortization of $52.5 and $48.5) | | 106.4 | | 100.9 |
| Total software and development costs | | 176.2 | | 168.4 |
| Accumulated amortization | | (99.1) | | (92.7) |
| Software and development costs, net | $ | 77.1 | $ | 75.7 |

| | For Periods Ended March 31, | | | |
|---|---|---|---|---|
| | | 2005 | | 2004 |
| **Depreciation and Amortization** | | | | |
| Depreciation of property, plant and equipment | $ | 10.4 | $ | 10.8 |
| Amortization of other intangible assets | | 3.1 | | 14.0 |
| Amortization of software and development costs | | 6.8 | | 5.9 |
| Total | $ | 20.3 | $ | 30.7 |

Amortization for other intangible assets held at March 31, 2005 is estimated to be $14.2 for 2005, $12.4 for 2006, $10.2 for 2007, $4.9 for 2008 and $2.4 for 2009.

NOTE 10 SEGMENT DATA

| | For Periods Ended March 31, Three Months | | | |
|---|---|---|---|---|
| | | 2005 | | 2004 |
| **HRS** | | | | |
| Revenue | $ | 265.2 | $ | 232.4 |
| Earnings before interest and taxes | $ | 12.3 | $ | 0.5 |
| | | | | |
| Total assets at March 31, 2005 and December 31, 2004 before customer funds | $ | 1,309.4 | $ | 1,332.8 |
| Customer funds | | 4,881.4 | | 4,079.6 |
| Total assets at March 31, 2005 and December 31, 2004 | $ | 6,190.8 | $ | 5,412.4 |
| | | | | |
| **Comdata** | | | | |
| Revenue | $ | 92.2 | $ | 81.5 |
| Earnings before interest and taxes | $ | 23.1 | $ | 26.9 |
| | | | | |
| Total assets at March 31, 2005 and December 31, 2004 before customer funds | $ | 699.1 | $ | 650.8 |
| Customer funds | | 14.6 | | 16.4 |
| Total assets at March 31, 2005 and December 31, 2004 | $ | 713.7 | $ | 667.2 |
| | | | | |
| **Other** | | | | |
| Revenue | $ | | $ | |
| Earnings before interest and taxes | $ | | $ | |
| | | | | |
| Total assets at March 31, 2005 and December 31, 2004 | $ | 154.5 | $ | 127.3 |
| | | | | |
| **Total Ceridian** | | | | |
| Revenue | $ | 357.4 | $ | 313.9 |
| Earnings before interest and taxes | $ | 35.4 | $ | 27.4 |
| Interest income (expense), net | | (0.2) | | (0.6) |
| Earnings before income taxes | $ | 35.2 | $ | 26.8 |
| | | | | |
| Total assets at March 31, 2005 and December 31, 2004 before customer funds | $ | 2,163.0 | $ | 2,110.9 |
| Customer funds | | 4,896.0 | | 4,096.0 |
| Total assets at March 31, 2005 and December 31, 2004 | $ | 7,059.0 | $ | 6,206.9 |

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

*This report 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 stat 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 Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Factors that Could Affect Future Results of our Annual Report on Form 10-K for the year ended December 31, 2004 (the 2004 Form 10-K ). 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, the timing and amount of remittances of customer deposits, interest rates 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, including the pending stockholder litigation, SEC and other governmental investigations and similar matters*

*Problems effecting system upgrades and conversions*

*Our ability to adapt to changing technology*

*Acquisition risks*

*Our $350 million domestic revolving credit and Comdata receivables securitization facilities may restrict our operating flexibility*

*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 for failures in legal compliance*

*Seasonality of business*

*Relationships with key vendors and suppliers*

*Our change in the SVS revenue recognition policy and our changes in accounting for leases, derivative instruments and other items that resulted in our prior restatements*

*Material weaknesses in our internal controls over financial reporting*

*You should carefully consider each cautionary factor and all of the other information in this report. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosure we make on related subjects in future reports to the SEC.*

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 report and (ii) the consolidated financial statements and related notes to such financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of the 2004 Form 10-K.

Ceridian Corporation provides human resource solutions to employers through our HRS business segment operations principally 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.

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 retail services 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

HRO represents the human resource outsourcing services provided by HRS

**RESULTS OF OPERATIONS**

***Consolidated Results - Overview***

Our net earnings for the first quarter of 2005 amounted to $22.0 million, or 15¢ per diluted share, on revenue of $357.4 million compared to net earnings of $17.3 million, or 11¢ per diluted share, on revenue of $313.9 million in the first quarter of 2004.

**Statements of Operations First Quarter Comparisons**

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

| | Amount | | Inc (Dec) | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | $ | % | 2005 | 2004 |
| Revenue | $ 357.4 | $ 313.9 | 43.5 | 13.8 | 100.0 | 100.0 |
| Cost of revenue | 192.9 | 177.2 | 15.7 | 8.8 | 54.0 | 56.4 |
| SG&A expense | 114.1 | 117.2 | (3.1) | (2.8) | 31.9 | 37.4 |
| R&D expense | 6.5 | 4.6 | 1.9 | 41.9 | 1.8 | 1.5 |
| (Gain) loss on derivative instruments | 9.5 | (13.7) | 23.2 | NM | 2.7 | (4.3) |
| Other expense (income) | (1.0) | 1.2 | (2.2) | NM | (0.3) | 0.4 |
| Interest (income) | (1.4) | (0.5) | 0.9 | NM | (0.4) | (0.2) |
| Interest expense | 1.6 | 1.1 | 0.5 | 45.6 | 0.5 | 0.3 |
| Total costs and expenses | 322.2 | 287.1 | 35.1 | 12.2 | 90.2 | 91.5 |
| Earnings before income taxes | 35.2 | 26.8 | 8.4 | 31.5 | 9.8 | 8.5 |
| Income taxes | 13.2 | 9.5 | 3.7 | 39.1 | 3.7 | 3.0 |
| Net earnings | | | | | | |