CERIDIAN CORP /DE/
Form 10-K
April 21, 2005

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, 2004

Commission File Number 1-15168

CERIDIAN CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**41-1981625**
(State or other jurisdiction of incorporation or organization)	(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:	Name of each exchange on which registered:
Common stock, par value $.01 per share	The New York Stock Exchange
Rights to Purchase Class A Junior Participating Preferred Stock	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 o 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. o

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

The aggregate market value of the voting stock of Ceridian held by non-affiliates of Ceridian on June 30, 2004 was $3,340,012,388, based on the closing sales price of Ceridian common stock as reported on the New York Stock Exchange on June 30, 2004.

The number of shares of Ceridian common stock outstanding as of March 31, 2005 was 149,729,131.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Annual Meeting of Stockholders to be held on May 26, 2005:
Part III

CERIDIAN CORPORATION
Annual Report on Form 10-K
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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 comparable 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 Securities and Exchange Commission.

We own or have the rights to various trademarks, trade names or service marks, including the following: BusinessLink , Ceridian Corporation and logo, Ceridian®, Comchek®, Comchek eCash®, Comdata Corporation® and logo, Comdata®, LifeWorks®, and Stored Value Systems® and logo. The trademarks American Express®, Discover®, MasterCard®, 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 is an information services company principally in the human resource, transportation and retail markets. Our human resource solutions business enables customers to outsource a broad range of employment processes, from recruitment and applicant screening, to payroll, tax filing, human resource information systems, employee self-service, time and labor management, benefits administration, employee assistance and work-life programs, to post-employment COBRA, HIPAA, and retirement plan administration. We have human resource solutions operations primarily in the United States, Canada and the United Kingdom. Our Comdata business provides transaction processing, financial services and regulatory compliance services primarily to the transportation and retail industries. Comdata s products and services include payment processing and the issuance of credit, debit and stored value cards.

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 is referred to in this report as Ceridian s predecessor). On March 30, 2001, we became an independent public company when Ceridian s predecessor distributed all of our outstanding common stock to its stockholders in a tax-free spin-off transaction (which transaction is referred to in this report as the spin-off or the Arbitron spin-off). Despite the legal form of the spin-off, because of the relative significance of our businesses to Ceridian s predecessor, we are considered the divesting entity and treated as the accounting successor to Ceridian s predecessor for financial reporting purposes. As used in this report, references to Ceridian, the Company, we, our or us 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 Ceridian s predecessor prior to the spin-off, as well as the continuing operations of the operations that were transferred to us by Ceridian s predecessor 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.

Financial Information About Segments

Our business has two segments, Human Resource Solutions and Comdata. We refer you to Note E, *Segment Data* to our consolidated financial statements for financial information about our business segments. This information may be found in Part II, Item 8 of this report.

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 principally in the United States, Canada and the United Kingdom. HRS s revenue for the years ended December 31, 2004, 2003 and 2002 was as follows:

2004	2003	2002
$964.4 million	$ 894.2 million	$ 847.3 million

In 2004, about 71.0% of our HRS revenue came from payroll processing and tax filing services, 15.2% from benefits services and 13.8% from employee assistance programs. Further, about 75.9% of our 2004 HRS revenue was from operations located in the United States, about 14.6% from Canada, and about 9.5% from the United Kingdom.

Because the volume of payroll items processed increases in the fourth quarter 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.

Our HRS revenue includes investment income earned in lieu of fees from customer deposits temporarily held in the United States and Canada pending remittance to taxing authorities, customer employees or other third parties. About $75.6 million of revenue in 2004 was attributable to this investment income earned in lieu of fees. All customer funds temporarily held by us are held in either a trust or in segregated accounts. Funds from U.S. customers are invested primarily in money market mutual funds, short-term repurchase agreements with high quality counterparties, U.S. Treasury and Agency securities, AAA rated asset and mortgage backed securities, and corporate bonds rated A3/A- or better. Funds from Canadian customers are invested primarily in securities issued by the government and provinces of Canada, highly rated Canadian banks and corporations, asset backed trusts and mortgages. The maturity of these investments is carefully managed to meet the related payment obligations. Investment income is earned on these funds in lieu of charging additional fees to our customers. 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.

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

We believe that the market for these solutions will 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 believe the demand for human resource solutions will increase as organizations seek assistance in maintaining their compliance with the increasing scope and complexity of laws and regulations governing businesses and increasingly complicated work-life issues faced by employers and employees.

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:

Type of Employer	**Size of Employer***	**Typical Characteristics**
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
Corporate	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
Enterprise	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

* This column of the table reflects the employer size of U.S. customers in 2004. In Canada and the United Kingdom, the employer segment sizes are typically smaller, although the characteristics of such segments are similar in nature.

We believe, however, that with regard to any size employer, a provider of a core 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 service, such as time and labor management, COBRA and HIPAA compliance administration, flexible spending account administration, employee self-service, benefits eligibility and enrollment, employee assistance and work-life services, and retirement plan administration. 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 achieve higher margins. Further, we believe that customers are increasingly seeking providers that can take responsibility for entire human resource management processes. These human resource outsourcing (referred to in this report as HRO) relationships transfer responsibility for managing each core process from the employer to the provider. In 2003, we began entering into HRO arrangements with larger customers. Although these HRO arrangements are expected to reduce our margins in the short term, we believe that our ability to continue to assume responsibility for our clients HR processes in HRO relationships will over time further expand long-term growth in revenue and margins for this business.

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 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 to the customer s employees. We also supply quarterly and annual social security, Medicare and federal, state and local income tax withholding reports and forms that are required to be filed by employers and employees.

We provide human resource information systems (commonly referred to as HRIS) solutions that 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 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, time and labor management, government compliance, compensation analysis and benefits administration. We also provide HRIS solutions 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 HR/Payroll product suite (Source 500) provides an integrated HR/payroll and benefits solution with outsourced payroll and tax filing services to customers primarily in the corporate and enterprise customer markets. It is available in a hosted application service provider environment (HR/Payroll 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.

Our HR/Payroll Web product (eSource) is a web-enabled, fully hosted integrated payroll and human resource administration solution, designed specifically for the corporate and enterprise customer markets. Ceridian s HR/Payroll Web product also includes integrated time management and self-service features, as well as wage attachments and disbursements, Internet payroll management, and customization features within the core product offering.

We also provide Internet and phone-in payroll processing, tax filing, unemployment compensation management and related services for small employers located in the United States and Canada. Our Small Business HR/Payroll product is a web-based solution that allows customers to complete payroll transactions via the Internet. The Small Business HR/Payroll 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 employers. Payroll-related tax filing services are typically priced on a fee-per-item-processed basis.

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. 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.

Our qualified plan administration services include 401(k) plan administration, profit sharing plan administration, defined benefit plan administration, employee stock ownership plan administration and Qualified Domestic Relations Order and medical support order administration.

Work-Life and Employee Assistance Programs. We provide customers and their employees (and the U.S. military) with a single source for fully integrated work-life and employee assistance programs to clients of all sizes. 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 customers 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

Our international HRS operations are primarily conducted in the United Kingdom, through Ceridian Centrefile Limited, and in Canada, through Ceridian Canada Ltd. Ceridian Centrefile Limited provides human resource services, payroll processing services, HRIS solutions, work-life and employee assistance programs and recruitment services primarily in the United Kingdom. Ceridian Centrefile s services generally do not involve the handling or transmission of customer funds. In a very few instances, Ceridian Centrefile holds client funds for a short period of time in non-interest bearing segregated accounts prior to disbursement pursuant to Ceridian Centrefile s client s instructions.

Ceridian Canada s operations provide payroll processing services, HRIS solutions, tax filing services, work-life and employee assistance programs and recruitment services to its customers. Ceridian Canada handles 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 in lieu of fees from temporarily holding these amounts in trust. We also charge fees for services to our Canadian customers that are similar in nature to those provided in the United States.

We have begun to expand our international payroll services into other countries, principally in Europe, by engaging partners within a country to provide us with payroll administration and processing services for that country. We in turn have contracted with multinational customers for their international requirements, and deliver a fully outsourced payroll service to these customers.

There are risks associated with operating internationally. We refer you to our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of this report, and specifically to the section of that discussion entitled Cautionary Factors That Could Affect Future Results.

Customers

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. The length of time it takes for a contract to become profitable depends on a number of factors such as the pricing of the contract, 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 currently utilize, and seek to develop other, cooperative marketing relationships with other companies offering products or services that complement our businesses as well as informal and formal marketing alliances with human resource consulting firms and other outsourcing firms. 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 web marketing, telemarketing, direct mail and trade shows. Our international operations located 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, broker 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, complete enterprise outsourcing providers, including information technology providers, and internally developed and operated systems and software.

We believe that 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. (ADP) is the largest third party provider of payroll processing in terms of revenue, with Paychex, Inc. and Ceridian comprising the other two large, national providers in terms of revenue. ADP serves all sizes of employers, while Paychex generally focuses on small employers. 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 Ceridian Centrefile subsidiary is the second largest outsourced payroll processing provider in terms of revenue, competing with several other national providers, including a subsidiary of ADP and a division of Northgate Information Solutions, and local 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 human resource 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 solutions with customers other acquired services and in-house applications and the ability to provide 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 the appropriate technology solutions, particularly those which incorporate industry standard architecture and Internet-based solutions, and provide leading-edge customer service.

Research and Development

We intend to continue to invest resources to extend the functionality of our proprietary payroll processing systems and further develop a comprehensive and fully integrated suite of employee administrative services.

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

	Years Ended December 31,			
	2004		2003		2002	
	(dollars in millions)					
Research and development	$ 22.4		$ 16.3		$ 12.6	
Percent of revenue	2.3	%	1.8	%	1.5	%

Comdata

Our Comdata subsidiary (which we refer to in this report as Comdata) provides transaction processing, financial services and regulatory compliance services primarily to the transportation and retail industries. Comdata s revenue from products and services for the years ended December 31, 2004, 2003 and 2002 was as follows:

2004	2003	2002
$356.0 million	$ 319.7 million	$ 313.0 million

Approximately 72.2% of Comdata s revenue for 2004 was attributable to Comdata s transportation business and 27.8% was attributable to Comdata s retail services 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. The truckload component involves the transportation of full loads directly from shipper to final destination without going through any sorting terminals.

The majority of Comdata s trucking company customers are common carriers serving the truckload component of the long haul segment. Many of these carriers use a combination of company-employed drivers and drivers contracted 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.

In addition to providing services to long distance trucking companies, Comdata also offers card-based payment and transaction processing services to companies and organizations which operate local fleets. Customers in this segment include, by way of example, local delivery companies, home maintenance companies and local and state government agencies.

Stored Value Systems, Inc., a wholly owned subsidiary of Comdata and a part of Comdata s retail services division (referred 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, 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 or stored-value-based loyalty promotions. SVS markets its private label cash card to these merchants, namely major retailers, for use with their customers, both as gift cards and loyalty building tools. Additionally, SVS markets ancillary support services including card inventory management and assistance in designing and supervising the production of plastic cards. 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. Comdata markets this card-based funds transfer system to a variety of employers, such as 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, financial services, 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 markets co-branded cards and transaction processing in association with MasterCard networks. Comdata also provides assistance in obtaining regulatory permits, pilot car services, and other compliance services, such as fuel tax reporting and driver log auditing, 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 customers outside of the transportation industry. Comdata operations are located substantially in the United States with some operations in Canada and prospects for expanding operations into Latin and South America and Europe.

BusinessLink. Comdata s BusinessLink product is a payment transaction services 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 and provide payroll to employees. Through BusinessLink a business can review reports of transactions made by its employees over the Internet, as well as request the issuance of new employee cards. 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 principal markets, transportation and retail. Comdata believes that the BusinessLink card has application to businesses in other industries. In 2004, more than 2,050 customers used BusinessLink.

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 2004, Comdata processed approximately 88.3 million funds transfer transactions involving approximately $17.0 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 local dial-up access, interactive reporting capabilities, the latest diesel fuel prices and related information from their computer.

Use of a Comdata account, 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 attributable to this aspect of its business has been minimal compared to the aggregate dollar amount of funds Comdata has transferred annually. Comdata is licensed by 41 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.

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. 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 assists in determining 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. These systems accept many types of fuel purchase cards currently used by drivers. The merchant services division additionally offers point-of-sale systems for use at privately owned truck terminals and unattended fuel sites.

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

Financial Services. Comdata operates a factoring business known as Financial Services. Generally, Financial Services purchases accounts receivable due to trucking companies from manufacturers and shippers at a discount and with recourse back to the trucking company in the event of non-payment. This permits trucking companies to receive payment on shipping invoices sooner than they may otherwise receive payment from shippers. While the majority of the Financial Services portfolio relates to trucking company operations as described above, Comdata may, on occasion, enter into a factoring arrangement with a business outside the trucking industry.

Retail Services**.** Comdata s retail services division, which is comprised of SVS and Comdata s payment services division, provides stored value cards and employer pay cards to customers principally in the retail industry. SVS provides, among other services, debit card programs to major retailers that are used as gift cards, gift certificates, credits for returned product, loyalty promotions 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.

Comdata s payment services division provides pay cards used by its customers to pay their employees. Comchek eCash is a card-based service allowing employers to post or load payment of wages and other payments, such as expense reimbursements, to 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, delivered through both proprietary and branded payment networks, to several industries, the largest of which is the transportation industry. Comdata markets its services to the transportation industry through a direct sales force located at its headquarters in Brentwood, Tennessee, and operating throughout the United States and Canada. Comdata provides services to more than 20,000 over-the-road and local trucking fleets with more than 900,000 active fuel cards. Comdata also provides services to more than 8,500 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, operating throughout the United States, Canada, and expanding to Europe, most notably in the United Kingdom. In 2004, SVS provided cash cards and/or payroll distribution services to more than 400 customers. The contracts with these customers are generally three years in duration.

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 since 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 First Data Corporation (as a result of First Data s merger with Concord EFS, Inc. on February 26, 2004), T-Chek Systems, Inc., TransPlatinum Service Corp., Fleet One, L.L.C., Fleet Cor and Wright Express Corp. In addition, truck stops often negotiate directly with trucking companies for a direct billing relationship. Some of Comdata s competitors, such as Transportation Clearing House, 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, Xero-Fax, 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 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; and
- long-time reputation in the transportation industry.

Comdata s retail services division (which principally includes SVS) competes with a number of national companies in providing private label cards, including ValueLink, a division 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 whom they have established relationships. Another competitive weakness of Comdata s retail services division is that its 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 operates two communications and data processing facilities, one located in Brentwood, Tennessee and the other in Louisville, Kentucky. All internal data processing functions for Comdata s transportation business, including its payment processing systems, and SVS are conducted in one of these two facilities, depending on the application, process or transaction being performed. These dual sites operate in tandem with one another to execute certain functions. Moreover, each facility serves as a back-up facility for the other in connection with various activities. Comdata receives telecommunications services from Sprint Corporation and MCI, Inc.

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.

	Years Ended December 31,		
	2004	2003	2002
	(dollars in millions)		
Research and development	$ 4.4	$ 3.1	$ 2.4
Percent of revenue	1.2 %	1.0 %	0.8 %

Other Investments and Divestitures

In addition to the spin-off transaction and the sale of our SourceWeb Assets described previously under the heading General , we refer you to Note D, *Supplementary Data to Statement of Operations*, and Note H, *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. U.S. trademark and service mark registrations are generally for a term of 10 years, renewable every 10 years as long as the trademark or service mark is used in the regular course of trade. 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 31, 2005, we employed approximately 9,464 people on a full- or part-time basis, including 7,350 full-time and 493 part-time employees of HRS, 1,455 full-time and 69 part-time employees of Comdata, and 97 full-time corporate employees.

We are currently negotiating a first collective bargaining agreement relating to approximately 108 employees at our Eagan, Minnesota, work-life service center facility. None of our other employees are covered by collective bargaining agreements. We have never experienced a work stoppage and we believe our employee relations are good.

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. The timing of the delivery of our products and services is largely dependent upon the customer. As such, we do not have backlog information that can be provided for our businesses.

In our HRS business, we do, however, track the estimated dollar value of a year s worth of product or service orders from our customers that have not yet been billed or installed. Although not a reported number, this metric is used by management as a planning tool relating to resources needed to install products and services, and a means of assessing our performance against installation timing expectations of us and our customers.

Available Information

Our Internet website is *http://www.ceridian.com.* 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 information about our corporate governance on our website, including information relating to our corporate governance policies and practices, charters of our committees of the Board of Directors, codes of conduct and other corporate governance matters. These documents are located in the Corporate Governance section of our website. Copies of all of our charters for each of our committees of the Board of Directors, corporate governance policies and guidelines, code of conduct and other corporate governance documents contained in the Corporate Governance section of our website are available in print without charge to any stockholder by writing Ceridian Corporation, Attention: Corporate Secretary, 3311 East Old Shakopee Road, Minneapolis, Minnesota 55425-1640. 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

Our executive officers as of March 31, 2005 are:

Name (Age)	**Current Position**
Ronald L. Turner (58)	Chairman, President and Chief Executive Officer
Gary A. Krow (50)	Executive Vice President and President of Comdata
Gary M. Nelson (53)	Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary
Douglas C. Neve (49)	Executive Vice President and Chief Financial Officer

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, with the exception of Mr. Neve, each of our executive officers resigned as an executive officer from Ceridian s predecessor and was thereafter reappointed to the equivalent position within Ceridian. In connection with this spin-off, Mr. Turner resigned as a director of Ceridian s predecessor and became a director of Ceridian. Except as specifically noted, our executive officers have held the following positions with Ceridian, Ceridian s predecessor and certain other entities for the past five years:

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.

Gary A. Krow has served as Executive Vice President and President of our Comdata subsidiary since November 1999.

Gary M. Nelson has served as Executive Vice President since October 2001; Chief Administrative Officer since January 2005; General Counsel since July 1997; and Corporate Secretary since October 1998. Mr. Nelson was Vice President from July 1997 until October 2001.

Douglas C. Neve has served as Executive Vice President and Chief Financial Officer since February 2005. Mr. Neve was a senior audit partner with Deloitte & Touche LLP, an international public accounting firm, from June 2002 until February 2005 and an audit partner with Arthur Andersen, an international public accounting firm, from September 1989 through May 2002.

Item 2. Properties

Our principal executive offices are located at 3311 East Old Shakopee Road, Minneapolis, Minnesota 55425. As of March 31, 2005, 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 31, 2005:

Facilities
(in thousands of square feet)

	U.S.	**Non-U.S.**	**Total**
Type of Property Interest			
Owned	393	0	393
Leased	1,970	391	2,361
Total	2,363	391	2,754
Property Interest by Segment			
HRS	1,687	375	2,062
Comdata	441	16	457
Corporate	235	0	235
Total	2,363	391	2,754
Utilization of Property			
Office, Computer Center & Other	2,199	391	2,590
Leased or Subleased to Others	164	0	164
Total	2,363	391	2,754

We conduct a substantial portion of our operations in leased facilities, including our 211,000 square feet Minneapolis headquarters complex in Minneapolis, Minnesota. Most of these leases contain renewal options and require payment for taxes, insurance and maintenance.

None of our owned facilities is 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 course of our current and past operations, including employment-related disputes, contract disputes, government proceedings, customer disputes, and tort claims. In some proceedings, the claimant seeks damages as well as other relief, which, if granted, would require substantial expenditures on our part.

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

Securities Class Actions

Since August 6, 2004, six shareholder lawsuits have been filed against Ceridian Corporation and certain executive officers in United States District Court, District of Minnesota. *Edmund Biancarelli v. Ceridian Corp., et al.*, filed August 16, 2004; *Garco Investments v. Ceridian Corp., et al.*, filed September 2, 2004; *Ellen Lear v. Ceridian Corp., et al.*, filed August 26, 2004; *Bruce Valentine Mickan v. Ceridian Corp., et al.*, filed September 24, 2004; *Richard Shaller v. Ceridian Corp., et al.*, filed August 6, 2004; and *Sharon Zaks v. Ceridian Corp., et al.*, filed August 25, 2004. The complaints for these actions are virtually identical. In an order dated March 7, 2005, the Court consolidated the cases into a case captioned *In re: Ceridian Corporation Securities Litigation*. These consolidated actions purport to be class actions filed on behalf of all persons who purchased or otherwise acquired common stock of the company between April 17, 2003 through and including July 19, 2004, and allege claims against the company and certain of its officers under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs challenge the accuracy of certain public disclosures made by Ceridian regarding its financial performance, and in particular Ceridian s accounting for revenue at its Stored Value Systems business unit and accounting for capitalization and expensing of certain costs in Ceridian s U.S. Human Resource Solutions business.

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

Derivative Actions

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

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

SEC Investigation

On January 22, 2004, we filed a Current Report on Form 8-K, under Item 5, stating that we announced that we are responding to a document request from the Securities and Exchange Commission, and that we have been advised that the SEC has issued a formal order of investigation. In February 2004, we provided documents responsive to the SEC. In July 2004, we advised the SEC of an investigation the

Audit Committee of the Board of Directors was directing (the Audit Committee Investigation). We kept the SEC advised on a regular basis of the Audit Committee Investigation. On December 10, 2004, we received a further formal confidential document request from the SEC. The second request has broadened the areas of inquiry to include, among other things, Ceridian s restatement, revenue recognition, capitalization, expense recognition, how we respond to any internal ethics complaints, and Ceridian s accounting policies and procedures. The formal document requests state that the SEC investigation is a non-public, fact-finding inquiry, and that the investigation and document requests do not mean that the SEC has concluded that we have violated any securities laws. We are cooperating with the SEC and are in the process of responding to the SEC s additional document request.

Item 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 2004.

PART II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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 30, 2005 was 11,029. 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 during the fiscal years ending December 31, 2004 and December 31, 2003.

2004	**1Q**	**2Q**	**3Q**	**4Q**
High	$ 22.56	$ 23.41	$ 22.57	$ 19.42
Low	16.69	19.70	17.05	16.25

2003	**1Q**	**2Q**	**3Q**	**4Q**
High	$ 16.05	$ 17.99	$ 20.35	$ 21.85
Low	12.58	13.30	16.71	18.70

We did not repurchase any of our common stock during the three months ended December 31, 2004. On July 24, 2002, our Board of Directors approved a share repurchase program, pursuant to which up to 12,500,000 shares of our common stock may be repurchased. We disclosed this repurchase program in our periodic reports filed with the SEC, including the Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended December 31, 2003. The repurchase program is being effected from time to time, depending on market conditions and other factors, through open market purchases and privately negotiated transactions. The total remaining authorization under the repurchase program was 6,350,500 shares as of January 1, 2005. The repurchase program has no set expiration or termination date.

Item 6. Selected Financial Data

The following information has been restated for 2003 and prior years to reflect adjustments that are further discussed in Note B, Restatement of Financial Statements to our consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K. You should read the selected consolidated historical financial information set forth below along with Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K.

(Dollars in millions, except per share data)

	Years Ended December 31, 2004	2003 (restated)	2002 (restated)	2001 (restated)	2000 (restated)
Revenue	**$ 1,320.4**	$ 1,213.9	$ 1,160.3	$ 1,167.0	$ 1,174.8
Earnings from continuing operations(1)	**$ 36.9**	$ 98.8	$ 111.5	$ 54.5	$ 70.0
Discontinued operations of Arbitron(2)				5.2	20.7
Net earnings	**$ 36.9**	$ 98.8	$ 111.5	$ 59.7	$ 90.7
Earnings Per Common Share					
Basic					
Continuing operations	**$ 0.25**	$ 0.66	$ 0.75	$ 0.37	$ 0.48
Net earnings	**$ 0.25**	$ 0.66	$ 0.75	$ 0.41	$ 0.62
Diluted					
Continuing operations	**$ 0.24**	$ 0.66	$ 0.74	$ 0.37	$ 0.48
Net earnings	**$ 0.24**	$ 0.66	$ 0.74	$ 0.40	$ 0.62
Shares used in calculations (in thousands)					
Basic	**149,074**	148,634	148,029	146,069	145,229
Diluted	**151,079**	150,197	149,633	147,669	146,182
Balance Sheet Data at end of year					
Working capital	**$ 345.0**	$ 302.6	$ 246.6	$ 189.6	$ 237.7
Total assets before customer funds	**$ 2,110.9**	$ 2,028.1	$ 2,006.9	$ 1,858.9	$ 2,039.5
Customer funds	**$ 4,096.0**	$ 3,152.7	$ 2,446.6	$ 2,177.6	$ 2,984.1
Total assets	**$ 6,206.9**	$ 5,180.8	$ 4,453.5	$ 4,036.5	$ 5,023.6
Debt obligations	**$ 100.7**	$ 163.5	$ 193.5	$ 237.9	$ 500.6
Stockholders equity	**$ 1,295.7**	$ 1,245.2	$ 1,102.3	$ 1,049.3	$ 934.6
Equity Per Common Share	**$ 8.67**	$ 8.30	$ 7.42	$ 7.16	$ 6.41
Common shares outstanding at end of year (in thousands)	**149,423**	150,022	148,541	146,485	145,754
Number of Employees at end of year(3)	**9,517**	9,349	9,412	9,546	9,667

(1) Earnings from continuing operations include unusual losses of $68.2 ($42.9 after-tax) in 2004, unusual gains of $3.1 ($2.0 after-tax) in 2003 and unusual losses of $33.6 ($21.4 after-tax) in 2002, $50.9 ($33.4 after-tax) in 2001 and $30.5 ($18.7 after-tax) in 2000. The unusual gains and losses in 2004, 2003 and 2002 are further described in the section entitled Unusual Items in Part II, Item 7 of this Form 10-K.

(2) Includes earnings, net of costs related to the Arbitron spin-off, as further described in Note D, Supplementary Data to Statements of Operations, to the consolidated financial statements contained in Part II, Item 8 of this Form 10-K.

(3) Continuing operations only.

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes related to those consolidated financial statements contained in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K. Any reference to a Note in this discussion relates to the accompanying notes to the consolidated financial statements unless otherwise indicated. All applicable disclosures in the following discussion have been modified to reflect the Restatement, as described below.

The Company has not amended and does not intend to amend its previously filed Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended December 31, 2003 or its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the Restatement that ended prior to December 31, 2003. For this reason, the consolidated financial statements, auditors reports and related financial information for the affected periods contained in such reports should no longer be relied upon.

The Company does plan to amend its Quarterly Reports on Form 10-Q for each of the first three quarters in the year ended December 31, 2004.

Restatement

We have restated our consolidated financial statements for the years 2000 through 2003 and for the first nine months of 2004 (the Restatement). The determination to restate these financial statements was made after errors were discovered in March and April 2005. In addition, certain disclosures in the notes to our consolidated financial statements have been restated to reflect the Restatement adjustments. In the Restatement, we have:

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

The Restatement reduced our earnings before income taxes for the years 2000 through 2003 and the first nine months of 2004 by $37.8 million consisting of $30.6 million related to the CobraServ trademark amortization, $7.2 million related to leases and $0.1 million related to the accrual of costs and expenses, partially offset by a $0.1 million expense reduction related to international acquisition accounting. The impact of the Restatement on the consolidated statements of operations for these periods is shown in the table below. Further information on the nature and impact of these adjustments is provided in Note B, Restatement of Financial Statements. In addition, the quarterly impact of the Restatement for 2003 and 2004 is presented in Note O, Supplementary Quarterly Data.

Earnings Adjustments Related to the Restatement
(Dollars in millions)

	First Nine Months of 2004	For Years Ended December 31, 2003	2002	2001	2000
Trademark amortization	$ 30.6	$	$	$	$
Lease accounting	1.5	2.1	1.1	1.6	0.9
International acquisition accounting	(0.6)	(0.8)	1.3	(0.5)	0.5
Accrual of costs and expenses	(0.3)		0.3	0.1	
Costs and expenses increase	31.2	1.3	2.7	1.2	1.4
Total pretax earnings decrease	(31.2)	(1.3)	(2.7)	(1.2)	(1.4)
Tax effect of restatement(1)	(10.8)	(1.4)	(1.0)	(0.4)	(0.4)
Total net earnings increase (decrease)	$ (20.4)	$ 0.1	$ (1.7)	$ (0.8)	$ (1.0)

(1) 2003 includes a $0.9 million tax reserve adjustment in addition to the $0.5 million tax effect of the pretax earnings decrease of $1.3 million.

Adjustments for periods prior to 2000 of $2.2 million before income taxes decreased opening retained earnings as of January 1, 2000 by $1.6 million, net of tax. The $2.2 million pretax decrease consisted of $0.3 million for leases and $2.4 million for international acquisition accounting, partially offset by a $0.5 million increase related to accruals of costs and expenses.

The primary impact of the above adjustments on the December 31, 2003 consolidated balance sheet was to intangible assets due to international acquisition adjustments, customer funds, and other noncurrent liabilities due to lease adjustments. The impact of the Restatement on our consolidated balance sheet at December 31, 2003 is shown in tables accompanying Note B, Restatement of Financial Statements.

The Restatement had no impact on historical cash balances or total cash flows from operating, investing or financing activities for the years ended December 31, 2003 and 2002. The only impact on the consolidated statements of cash flows was to reclassify certain amounts within operating cash flows.

Overview

Ceridian Corporation provides human resource solutions to employers through our Human Resource Solutions business segment operations located primarily in the United States, Canada and the United Kingdom. We also provide transaction processing and related services primarily to the transportation and retail industries through our Comdata business segment operations located principally in the United States. Our businesses are more fully described in Part I, Item 1, Business and in Note E, Segment Data.

This discussion presents our views on our earnings and cash flow performance over the most recent three-year period and our financial condition at the end of the two most recent years in the following manner:

- We begin this discussion with a management summary in which we provide a context for a review of our financial performance over the past three years and highlight those factors that we believe are most meaningful in assessing that performance. This includes highlights of our results of operations for the past three years and changes in our financial condition during 2004, as well as a discussion of a number of events or arrangements that had or will have a significant effect on our financial condition and performance.

- We then address our earnings performance in a section entitled Results of Operations. There we compare our performance from 2004 to 2003 and 2003 to 2002 on a consolidated basis for the whole company as well as for our Human Resource Solutions and Comdata business segments.

Transactions affecting earnings that we consider unusual or nonrecurring are discussed in a subsection entitled Unusual Items.

- We continue by discussing our balance sheets and cash flow performance in further detail. There we describe the impact of particular developments that affected our cash balance through our operating, investing and financing activities. In a subsection entitled Liquidity and Capital Resources, we also discuss our plans for funding future major expenditures and any financial commitments, including those that are not reported on our consolidated balance sheet under current accounting rules.

- We conclude our discussion by describing what we believe to be the most critical accounting policies in determining our financial condition and results of operations and the most significant risks and uncertainties facing our businesses.

In the following 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 expense
- HRS represents our human resource solutions business segment
- Comdata represents our transportation and retail services business segment
- Other relates to the results of our corporate center operations that were not allocated to our HRS and Comdata business segments
- NM represents percentage relationships in the tables that are not meaningful
- U.S. represents the United States

Management s Summary

Ceridian Corporation is an information services company principally in the human resource, transportation and retail markets. Our human resource solutions business enables customers to outsource a broad range of employment processes, from recruitment and applicant screening, to payroll, tax filing, human resource information systems, employee self-service, time and labor management, benefits administration, employee assistance and work-life programs, to post-employment COBRA, HIPAA and retirement plan administration. We have HRS operations in the United States, Canada and the United Kingdom. Our Comdata business provides transaction processing, financial services and regulatory compliance services primarily to the transportation and retail industries. Comdata s products and services include payment processing and the issuance of credit, debit and stored value cards.

The period covered by this discussion featured a number of events or arrangements that had or will have a significant effect on our financial condition and performance. You will find the following matters described in this discussion or through a reference to the notes to our consolidated financial statements.

- *Phase-Out of CobraServ Trademark.* As a result of the determination to rename the CobraServ product offering, we began phasing out use of the CobraServ trademark over the course of 2004. We concluded that the economic life of this trademark as of January 1, 2004 was one year and that the originally scheduled amortization for 2005 and beyond of $40.9 million should be amortized ratably over the year ended December 31, 2004. This accelerated amortization is reported in general and administrative expense in HRS U.S. operations and is discussed further in the Results of Operations and Unusual Items sections of this discussion and in Note B, Restatement of Financial Statements, Note G, Capital Assets and Note O, Supplementary Quarterly Data.

- *Our software development arrangement with Ultimate Software.* In March 2001, we entered into an agreement with The Ultimate Software Group, Inc. (Ultimate), amended in August 2001 and February 2002, that provided us with a non-exclusive license to use Ultimate s software as part of a

Web-enabled integrated payroll/HR/self-service offering to our small business customers. Pursuant to the February 2002 amendment, the license agreement provided for a monthly royalty commencing in January 2003, based on the number of our customers employees paid by using the software and subject to minimum and maximum amounts. The minimum obligation required monthly payments of $0.5 million per month from January 2004 until January 1, 2006, when the per-employee monthly charge escalates at a rate of 5% per annum until the end of the noncancelable term in March 2008. On December 31, 2004, we sold certain customer relationships and other assets associated with our SourceWeb payroll platform and ceased use of this contractual relationship. We remained obligated to make future minimum royalty payments totaling $20.7 million as of December 31, 2004. A further description of this contract arrangement is presented in the section of this discussion entitled Liquidity and Capital Resources and in the section entitled Contracts of Note L, Commitments and Contingencies. A description of the SourceWeb Assets sale is presented in Note D, Supplementary Data to Statements of Operations.

- *Derivative instruments.* Our interest rate derivative instruments contributed significantly to the variability of earnings during the reported periods in this Form 10-K as further discussed in the Results of Operations section of this discussion, the section in Note A, Accounting Policies Cash and Investments, including Derivatives, and in Note H, Investing Activity Derivative Instruments.

- *Our principal defined benefit pension plan.* Declines in equity securities market values and in interest rates resulted in our principal pension plan becoming an under-funded plan. This change in funded status required that we reclassify the amount formerly reported as a pension asset into a combined reduction of our equity and an increase in our liabilities. As a further result of this change in funded status, the additional net periodic pension cost reduced earnings before income taxes by $12.3 million in 2003 compared to 2002. In December 2004, we determined that the measurement date for this plan, and for our other defined benefit plans, should be changed from September 30 to December 31. The later measurement date would permit the use of more current data and coincide with the end of our reporting year. The change in measurement date resulted in a reduction in 2004 net periodic pension cost of $4.9 million for this plan. We made cash contributions to this plan during 2003 of $103.7 million. We made no additional contributions to this plan in 2004 and do not anticipate making additional contributions in 2005 although subsequent investment performance, interest rate changes or regulatory actions may require a reconsideration of this position. We discuss our pension and postretirement obligations in the Liquidity and Capital Resources section of this discussion and in Note I, Retirement Plans.

- *The effect of changing currency exchange rates.* The strength of the Canadian dollar and British pound sterling against the U.S. dollar in 2004 and 2003 significantly increased revenue and costs and expenses for our Ceridian Canada and Ceridian Centrefile subsidiaries during those periods.

- *New services offerings.* New offerings have contributed significantly to revenue growth in 2004 and 2003 in our HRS segment (including eSource) and in our Comdata segment (examples include BusinessLink and eCash). These service offerings are more fully described in Part I, Item 1 of this Form 10-K.

- *Acceleration of W-2 information delivery.* In 2003, we advanced the processing, delivery and billing of W-2 information for our customers. This resulted in the recognition of $9.2 million of revenue in December 2003 that otherwise would have been recognized in January 2004. Because the costs associated with W-2 activities are reported as incurred throughout the year, essentially all of this amount was reflected in 2003 earnings before income taxes. This means that 2003 revenue included two contributions for W-2 activities; one in the first quarter of 2003 relating to 2002 annual W-2s and another in the fourth quarter of 2003 relating to 2003 annual W-2s. The 2004 results included only the W-2 revenue recognized in the fourth quarter relating to 2004 W-2s.

Comparison of Annual Periods Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Operations Highlights
(Dollars in millions, except per share data)

	Years ended December 31, 2004	2003 (restated)	2002 (restated)
Revenue	$ 1,320.4	$ 1,213.9	$ 1,160.3
Net earnings	$ 36.9	$ 98.8	$ 111.5
Diluted shares used in calculations (in thousands)	151,079	150,197	149,633
Net earnings per diluted share	$ 0.24	$ 0.66	$ 0.74

Results of Operations Overview for the Three Years Ended December 31, 2004

Revenue of $1,320.4 million increased by $106.5 million over 2003 revenue of $1,213.9 million and by $53.6 million over 2002 revenue of $1,160.3 million as both HRS and Comdata contributed to the improved results. Net earnings of $36.9 million in 2004 (24¢ per diluted share) decreased by $61.9 million from 2003 net earnings of $98.8 million (66¢ per diluted share). Net earnings in 2003 decreased by $12.7 million to $98.8 million (66¢ per diluted share) from $111.5 million (74¢ per diluted share) in 2002. Unusual losses (gains or recoveries), net of income taxes, amounted to $42.9 million (28¢ per diluted share) in 2004, $(2.0) million (1¢ per diluted share) in 2003 and $21.4 million (14¢ per diluted share) in 2002. Further information on results of operations is presented in the following section of this discussion entitled Results of Operations and in the subsection of that section entitled Unusual Items.

Results of Operations

2004 Compared to 2003

Statements of Operations
(Dollars in millions, except per share data)

	Amount 2004	2003 (restated)	Increase (Decrease) $	%	% of Revenue 2004	2003
Revenue	$ 1,320.4	$ 1,213.9	106.5	8.8	100.0	100.0
Cost of revenue	748.3	693.8	54.5	7.9	56.7	57.2
SG&A expense	475.5	365.1	110.4	30.3	36.0	30.1
R&D expense	26.8	19.4	7.4	38.2	2.0	1.6
(Gain) loss on derivative instruments	0.3	(14.7)	15.0	NM	0.0	(1.2)
Other expense (income)	26.5	(2.5)	29.0	NM	2.0	(0.2)
Interest (income)	(2.6)	(2.0)	(0.6)	31.6	(0.2)	(0.2)
Interest expense	4.4	4.6	(0.2)	(5.7)	0.3	0.4
Total costs and expenses	1,279.2	1,063.7	215.5	20.3	96.9	87.6
Earnings before income taxes	41.2	150.2	(109.0)	(72.6)	3.1	12.4
Income taxes	4.3	51.4	(47.1)	(91.6)	0.3	4.2
Net earnings	$ 36.9	$ 98.8	(61.9)	(62.7)	2.8	8.1
Diluted earnings per common share	$ 0.24	$ 0.66	(0.42)	(63.6)	NM	NM

Consolidated Results Overview

The following factors, which significantly influenced the revenue or costs and expenses performances of our business segments in 2004, are discussed briefly below and further in the following section of this discussion entitled Business Segment Results.

Revenue Factors

- Growth in Comdata s retail cards in use and processing transactions

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- New customers and service offerings in both business segments
- Impact of currency rate changes on HRS international results of operations
- Higher levels of HRS invested customer funds balances and yields
- Acceleration of annual W-2 processing, delivery and billing beginning in December 2003

Costs and Expenses Factors

- Accelerated amortization of the HRS CobraServ trademark in 2004
- SourceWeb exit costs, net of recoveries
- Gains and losses on interest rate derivative instruments
- Accounting compliance costs

Revenue from the return on invested customer funds increased by $13.4 million in 2004 compared to 2003 including $10.9 million for U.S. payroll and tax filings, $1.2 million for U.S. benefits services and $1.3 million for Ceridian Canada. The benefit of a higher average invested balance contributed $8.4 million to the total increase while a higher average yield increased revenue by $5.0 million. The average balance of invested customer funds increased by $289.3 million, or 13.5%, to $2,435.2 million in 2004 from $2,145.9 million in 2003 largely due to growth in a new direct deposit payroll service, higher levels of customer tax obligations and, to a lesser extent, the effect of the strengthening Canadian dollar on Ceridian Canada invested customer funds. We do not include the average balances of Comdata customer funds since these amounts were not interest-bearing. The average yield on invested customer funds increased to 3.10% in 2004 from 2.90% in 2003.

(Gain) loss on derivative instruments included both realized gains or losses from cash settlements and unrealized gains or losses from revaluation of the future expected cash flows associated with these instruments over their remaining terms. The valuation of the interest rate derivative instruments is based upon future expected interest rates as determined from LIBOR futures prices in effect at the end of the reporting year. As further discussed in Note H, Investing Activity, we sold our interest rate derivative instruments in February 2005. The valuation of fuel price derivative instruments is based on a national average of diesel fuel purchase transactions involving Comdata customers correlated with the U.S. Department of Energy national average price for diesel fuel. The gains and losses from derivative instruments are discussed in the following section entitled Business Segment Results.

Other expense (income) includes the results of transactions that are not appropriately classified in another costs and expenses category and that generally are not recurring. The results of these transactions are discussed in the following section entitled Business Segment Results.

Our 2004 interest income increased by $0.6 million compared to 2003 due to both a higher average level of cash and equivalents and higher interest rates.

Our 2004 total financing cost for debt obligations was unchanged compared to 2003 as a lower level of outstanding debt offset the effect of rising interest rates. This total financing cost comparison included a $0.2 million decrease in interest expense and a $0.2 million increase in capitalized interest. Our average outstanding borrowings under U.S. credit facilities decreased from $174.5 million for 2003 to $125.2 million for 2004. Our average effective interest rate on these facilities increased from 2.64% for 2003 to 3.51% for 2004. A further discussion of our financing arrangements can be found in Note K, Financing and in the sections of this discussion entitled Cash Flows-Financing Activities and Liquidity and Capital Resources.

Income taxes decreased by $47.1 million from 2003 to 2004 primarily due to the decrease in earnings before income taxes, the realization of a valuation allowance and favorable tax settlements. The reported effective tax rate was 10.4% for 2004 and 34.2% for 2003. Income taxes decreased by $48.5 million from 2003 to 2004 primarily due to the decrease in earnings before income taxes, the realization of a valuation allowance and favorable tax settlements.

Business Segment Results

Segment Comparisons
(Dollars in millions)

	Amount		Increase (Decrease)		% of Revenue	
	2004	**2003 (restated)**	**$**	**%**	**2004**	**2003**
Revenue						
HRS	$ 964.4	$ 894.2	70.2	7.9	73.0	73.7
Comdata	356.0	319.7	36.3	11.4	27.0	26.3
Total	$ 1,320.4	$ 1,213.9	106.5	8.8	100.0	100.0
Earnings before interest and taxes						
HRS	$ (72.6)	$ 48.5	(121.1)	NM	(7.5)	5.4
Comdata	115.6	104.3	11.3	10.9	32.5	32.6
Total	$ 43.0	$ 152.8	(109.8)	(71.9)	3.3	12.6

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

HRS. The increase of $70.2 million in HRS revenue in 2004 compared to 2003 reflected increases of $43.8 million from U.S. operations, $13.9 million from Ceridian Canada and $12.5 from Ceridian Centrefile. As described in the section entitled Management s Summary earlier in this discussion, the acceleration of W-2 information delivery to customers of U.S. operations, made possible by technological advances first accomplished at the end of 2003, resulted in the recognition of $9.2 million of revenue in December 2003 that would otherwise not have been recognized until the first quarter of 2004. This resulted in revenue related to two W-2 years (2003 and 2002) being recognized in 2003 while the 2004 revenue includes only the W-2 revenue recognized in the fourth quarter relating to 2004 W-2s. Strengthening of the Canadian dollar and British pound sterling against the U.S. dollar added $21.6 million to 2004 revenue for our international operations.

Revenue from U.S. operations benefited in 2004 from increases of $16.1 million in payroll and tax filing services, $10.2 million in benefits services and $17.5 million from our work life and employee assistance programs (LifeWorks). Without regard to the $9.2 million of additional W-2 revenue in 2003, the 2004 increase in payroll and tax filing revenue amounted to $25.3 million including $10.9 million resulting from a greater return on invested customer funds as described earlier in this discussion. The additional increase of $14.4 million resulted from net additions of customers receiving repetitive services and growth in sales of add-on services offset in part by price concessions and lower non-repetitive revenue. Employee populations for our continuing customers stabilized during 2004 and were little changed from 2003. The $10.2 million increase in benefits services revenue in 2004 over 2003 related primarily to the addition of customers and higher levels of individuals being served. The $17.5 million increase in LifeWorks revenue reflected an additional $22.6 million from a full year and a higher level of service deliveries under a U.S. Department of Defense contract that commenced during the last half of 2003, offset in part by a reduction in revenue from commercial customers.

Ceridian Canada revenue increased by $13.9 million in U.S. dollar terms in 2004 including an increase of $11.9 million due to changes in currency exchange rates. The remaining $2.0 million increase in revenue at Ceridian Canada reflected increases from small business services, managed payroll services and employee assistance services, which more than offset the decrease in revenue resulting from lower non-repetitive revenue and investment income from customer funds. Ceridian Centrefile reported $12.5 million more revenue in 2004 compared to 2003 in U.S. dollar terms. Without regard to an increase of $9.7 million from currency rate changes, Ceridian Centrefile revenue increased by $2.8 million in 2004 over 2003 due primarily to growth in small business services and managed payroll services.

HRS costs and expenses, excluding net interest, increased by $191.3 million in 2004 compared to 2003 including $40.9 in accelerated amortization charges in 2004, a $14.4 million reduction in the gains from our interest rate derivative instruments, a net increase in other expense (income) of $30.1 million and an increase in other costs and expenses of $105.9 million. As a result of the determination to rename the CobraServ product offering, we phased out use of the CobraServ trademark over the course of 2004. We concluded that the economic life of this trademark as of January 1, 2004 was one year and that the originally scheduled amortization for 2005 and beyond of $40.9 million should be amortized ratably over the year ended December 31, 2004. This accelerated amortization is reported in general and administrative expense in HRS U.S. operations for 2004. The reduction of $14.4 million in gains from interest rate derivative instruments in 2004 compared to 2003 included a decrease in realized gains of $1.2 million from cash settlements and a decrease in unrealized gains of $13.2 million from revaluation of the future expected benefit from these instruments over their remaining terms. These results reflected the rise of interest rates during 2004. Other expense (income) for HRS in 2004 included a loss of $28.5 million associated with the sale of the SourceWeb assets described earlier in this discussion. In addition, we also recognized gains on sale of marketable securities of $4.5 million offset in part by asset write-downs. Other expense (income) for HRS in 2003 reflected income of $4.4 million largely from a net gain from the sale of marketable securities and land not used in our business. Further information on HRS other expense (income) is provided in a following section of this discussion entitled Unusual Items.

Cost of revenue for HRS increased by $37.7 million in 2004 compared to 2003. In U.S. operations, cost of revenue increased by $28.4 million in 2004 over 2003. Cost of revenue for U.S. payroll and tax filing operations increased by $15.1 million as implementation costs increased by $6.8 million. Staff additions and compensation added $4.9 million in 2004, which offset in part cost reductions of $6.0 million resulting from reassignment of staff from production to selling activities. The remaining increase in 2004 over 2003 of $9.4 million in U.S. payroll and tax filing operations cost of revenue related primarily to higher costs associated with the amortization of internally developed software. The acceleration of 2003 W-2 revenue into December 2003 did not have a material effect on the cost of revenue comparison, since the timing of incurrence of related costs was largely unaffected. Cost of revenue for benefits services increased by $4.7 million in 2004 over 2003 largely as a result of increased revenue. Cost of revenue increases for benefits services reflected staff additions, compensation increases and higher levels of contracted services and software amortization. Cost of revenue for LifeWorks increased by $8.6 million in 2004 due largely to support of the U.S. Department of Defense contract for a full year in 2004 compared to the last five months of 2003 and a higher level of activities under this contract in 2004.

Cost of revenue in Ceridian Canada operations increased by $3.1 million in 2004 compared to 2003 as currency exchange rate changes contributed $5.3 million to the comparison. Without regard to the currency effect, Ceridian Canada cost of revenue declined by $2.2 million due to cost reduction efforts, which more than recovered $1.5 million of severance cost recorded in the first quarter of 2004. Cost of revenue in Ceridian Centrefile operations increased by $6.2 million as currency exchange rate changes added $4.8 million and additional costs, primarily associated with geographic market expansion and new customer implementations, added $1.4 million.

The 2004 increase in SG&A expense for HRS compared to 2003 amounted to $103.2 million including the $40.9 million charge for accelerated amortization of the CobraServ trademark. Without regard to this charge, the increase amounted to $62.3 million of which $24.8 million related to selling and $37.5 million related to general and administrative.

Selling expense in HRS grew by $24.8 million in 2004 over 2003 with an increase of $19.2 million in U.S. operations and $5.6 million in international operations. The increase of $19.2 million in U.S. operations included $9.4 million from staff additions including $6.0 million for staff reassigned from production to selling. The remaining increase in U.S. HRS selling expense of $9.8 million in 2004 over 2003 related primarily to higher occupancy costs, royalties and contracted services. Ceridian Canada selling expense increased by $4.9 million from 2003 to 2004 including a $1.1 million impact from currency exchange rate changes and $3.8 million resulting from additions to the sales staff, higher commissions and increased advertising. Ceridian Centrefile selling expense increased by $0.7 million in 2004 compared to 2003 including $1.2 million due to currency exchange rate changes.

General and administrative expense for HRS increased in 2004 over 2003 by $78.4 million including the CobraServ trademark accelerated amortization charge of $40.9 million. Without the accelerated amortization charge, the increase for HRS would have been $37.5 million of which $28.5 related to U.S. operations and $9.0 million to Ceridian Canada and Ceridian Centrefile operations. The $28.5 million increase for U.S. operations resulted primarily from an increase in allocated expenses of $9.4 million for accounting compliance costs and $7.1 million from higher technology support costs. The remaining $12.0 million primarily reflected additional staff compensation as well as higher expenses for business meetings and management reorganization efforts. The $6.4 million increase for Ceridian Canada included $2.2 million related to currency exchange rate changes with the remaining increase due largely to higher compensation expense and management reorganization costs in 2004. The $2.6 million increase for Ceridian Centrefile included $4.0 million for currency exchange rate changes that was more than offset by reduced pension expense.

R&D expense for HRS in 2004 increased by $6.1 million compared to 2003 due entirely to a higher level of software development efforts in U.S. operations.

Comdata. Comdata revenue increased by $36.3 million in 2004 compared to 2003 as revenue from retail services grew by $21.2 million and revenue from transportation services grew by $15.1 million. Revenue from retail services grew in 2004 over 2003 due to higher levels of cards in use, greater transaction volume and the addition of new customers. As described in the Revenue Recognition section of Note A, Accounting Policies, revenue from retail services is generally deferred and recognized largely over a six-month period following the activation of a card, which typically takes place about seven months after the shipment of the card to the retailer. The amount of gross billable fees for retail services added to deferred revenue during 2004 increased by $23.0 million, or 29%, over the amount added in 2003. The $15.1 million increase in transportation services revenue in 2004 over 2003 related primarily to revenue from the over-the-road business, which increased by $12.2 million including $5.5 million resulting from higher fuel prices. A higher level of transactions in 2004 over 2003, including the impact of the growing acceptance of the BusinessLink card, provided the remaining $6.7 million increase in over-the-road revenue. Business fleet revenue grew by $3.5 million in 2004 over 2003, including $2.3 million from higher fuel prices, as major local fueling customers increased their utilization of Comdata products and services, including the BusinessLink card. The remaining net decrease in transportation services revenue in 2004 compared to 2003 of $0.6 million reflected lower revenue from phone services and point of sale terminal equipment sales that were offset in part by modest increases in revenue for financial services and regulatory compliance services.

Comdata costs and expenses, excluding net interest, increased by $25.0 million in 2004 compared to 2003. Cost of revenue increased by $16.8 million in 2004 over 2003 including an increase of $17.5 million from retail services due to the higher revenue level. The remaining decrease in cost of revenue included increases totaling $1.6 million in bank fees and costs related to point of sale terminal equipment sales, which were more than offset by cost savings from restructuring and other cost reduction actions.

Comdata SG&A expense increased by $7.3 million in 2004 compared to 2003. Selling expense increased by $1.7 million as a result of increases in staffing, compensation and advertising, largely related to retail services and regulatory compliance. General and administrative expense increased $5.6 million in 2004 over 2003 due primarily to an increase of $4.6 million in compensation expense and an increase of $3.7 million in contracted services. The increase of $4.6 million in compensation expense in 2004 over 2003 included incentives related to improved operating performance and an addition to the executive staff. The increase of $3.7 million in contracted services included $2.9 million for accounting compliance efforts in addition to legal and other professional services. These increases were offset in part by a reduction of $2.7 million in the provision for doubtful accounts. The reduction in the provision for doubtful accounts reflected improved credit checking and collection performance as well as the impact of a $1.2 million provision for a particular doubtful account in the first quarter of 2003.

R&D expense increased in 2004 over 2003 by $1.3 million due primarily to a higher level of product enhancement activities. The loss on derivative instruments related to the diesel fuel price contracts increased to $1.4 million in 2004 from $0.8 million in 2003 and offset in part the favorable impact of higher fuel prices reported in revenue. Other expense (income) decreased by $1.1 million in 2004 as compared with 2003 due primarily to a $1.9 million charge in 2003 to settle a dispute with a vendor as further described in the section below entitled Unusual Items.

2003 Compared to 2002

Statements of Operations

(Dollars in millions, except per share data)

	Amount		**Increase (Decrease)**		**% of Revenue**	
	2003 (restated)	**2002 (restated)**	**$**	**%**	**2003**	**2002**
Revenue	$ 1,213.9	$ 1,160.3	53.6	4.6	100.0	100.0
Cost of revenue	693.8	654.2	39.6	6.0	57.2	56.4
SG&A expense	365.1	353.8	11.3	3.1	30.1	30.5
R&D expense	19.4	15.0	4.4	29.5	1.6	1.3
(Gain) loss on derivative instruments	(14.7)	(73.3)	58.6	(80.0)	(1.2)	(6.3)
Other expense (income)	(2.5)	33.1	(35.6)	NM	(0.2)	2.9
Interest (income)	(2.0)	(2.1)	0.1	(5.4)	(0.2)	(0.2)
Interest expense	4.6	6.3	(1.7)	(26.5)	0.4	0.5
Total costs and expenses	1,063.7	987.0	76.7	7.8	87.6	85.1
Earnings before income taxes	150.2	173.3	(23.1)	(13.3)	12.4	14.9
Income taxes	51.4	61.8	(10.4)	(16.8)	4.2	5.3
Net earnings	$ 98.8	$ 111.5	(12.7)	(11.3)	8.1	9.6
Diluted earnings per common share	$ 0.66	$ 0.74	(0.08)	(10.8)	NM	NM

Consolidated Results Overview

The following factors, which significantly influenced the revenue and profitability performances of our business segments in 2003, are discussed in the following section of this discussion entitled Business Segment Results.

- Lower yields on invested customer funds
- Gains and losses on interest rate derivative instruments
- Contributions from businesses acquired for HRS in 2002
- Impact of currency rate changes on HRS international results of operations
- Growth in Comdata s retail cards in use and processing
- New customers and service offerings in both business segments

- Higher levels of HRS invested customer funds
- Acceleration of annual W-2 processing, delivery and billing beginning in December 2003
- Lower sales of equipment and permitting services by Comdata
- Increased expenses related to technology support

(Gain) loss on derivative instruments included both realized gains or losses from cash settlements and unrealized gains or losses from revaluation of the future expected cash flows associated with these instruments over their remaining terms. The valuation of the interest rate derivative instruments is based upon future expected interest rates as determined from LIBOR futures prices in effect at the end of the reporting year. The valuation of fuel price derivative instruments is based on a national average of diesel fuel purchase transactions involving Comdata customers correlated with the U.S. Department of Energy national average price for diesel fuel. The gains and losses from derivative instruments are discussed in the following section entitled Business Segment Results.

Our 2003 interest income decreased by $0.1 million compared to 2002 as the benefit of a higher average level of cash and equivalents was more than offset by lower interest rates.

Our 2003 total financing cost for debt obligations declined by $1.8 million compared to 2002 as a result of a lower level of outstanding debt and lower interest rates. This decrease included a $1.7 million decrease in interest expense and a $0.1 million decrease in capitalized interest. Our average outstanding borrowings under U.S. credit facilities decreased from $207.3 million for 2002 to $174.5 million for 2003. Our average effective interest rate on these facilities declined from 3.04% for 2002 to 2.64% for 2003. A further discussion of our financing arrangements can be found in Note K, Financing and in the Cash Flows sections of this discussion entitled Cash Flows Financing Activities and Liquidity and Capital Resources.

Income taxes decreased by $10.4 million from 2002 to 2003 due largely to the decrease in earnings before income taxes. The reported effective tax rate decreased to 34.2% for 2003 from 35.7% for 2002.

Business Segment Results

Segment Comparisons

(Dollars in millions)

	Amount 2003 (restated)	**2002 (restated)**	**Increase (Decrease) $**	**%**	**% of Revenue 2003**	**2002**
Revenue						
HRS	$ 894.2	$ 847.3	46.9	5.5	73.7	73.0
Comdata	319.7	313.0	6.7	2.1	26.3	27.0
Total	$ 1,213.9	$ 1,160.3	53.6	4.6	100.0	100.0
Earnings before interest and taxes						
HRS	$ 48.5	$ 81.9	(33.4)	(40.7)	5.4	9.7
Comdata	104.3	91.5	12.8	14.1	32.6	29.2
Other		4.1	(4.1)	NM	NM	NM
Total	$ 152.8	$ 177.5	(24.7)	(13.9)	12.6	15.3

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

HRS. The increase of $46.9 million in HRS revenue in 2003 compared to 2002 reflected increases of $31.9 million from U.S. operations, $14.3 million from Ceridian Canada and $0.7 million from Ceridian Centrefile. Businesses acquired during 2002 contributed $18.2 million of post-acquisition revenue growth to U.S. operations in 2003. The accelerated processing, delivery and billing of 2003 W-2 forms in December 2003, described in the section entitled Management s Summary earlier in this discussion, contributed $9.2 million to the revenue increase from U.S. operations. Strengthening of the Canadian dollar and British pound sterling against the U.S. dollar added $19.7 million to 2003 revenue for our international operations.

Revenue from the return on invested customer funds decreased by $2.4 million in 2003 with the benefit of a higher average invested balance contributing $7.6 million while a lower average yield reduced revenue by $10.0 million. The average balance of invested customer funds increased by $214.0 million, or 11.1%, to $2,145.9 million in 2003 from $1,931.9 million in 2002 largely due to growth in a new direct deposit payroll service and the effect of the strengthening Canadian dollar on Ceridian Canada invested customer funds. The average yield on invested customer funds declined to 2.90% in 2003 from 3.34% in 2002.

Revenue from U.S. operations benefited in 2003 from increases of $18.8 million in payroll and tax filing services, $11.1 million in benefits services revenue and $2.0 million from LifeWorks. In addition to a decrease of $5.5 million in the return on invested customer funds and $9.2 million of additional W-2 revenue, the 2003 increase in payroll and tax filing revenue included an additional $17.2 million from net additions of customers receiving repetitive services and growth in sales of add-on services. The net benefit to payroll and tax filing revenue from price increases in 2003 amounted to $5.3 million. Employee populations for our continuing customers declined about 1% from the 2002 level, reducing payroll and tax filing revenue by $8.0 million in 2003. The $11.1 million increase in benefits services revenue in 2003 substantially related to the contribution of Great Lakes Strategies, a business that we acquired in December 2002. The $2.0 million increase in LifeWorks revenue reflected an additional $6.1 million from the commencement of service deliveries during the last half of 2003 under a U.S. Department of Defense contract, which largely offset the revenue decrease from customer losses.

Ceridian Canada revenue increased by $14.3 million in U.S. dollar terms in 2003 and by $1.9 million without regard to changes in currency exchange rates. Increased revenue at Ceridian Canada from small business customers, add-on services and employee assistance services more than offset the decrease in revenue resulting from a reduced number of customer employees. Ceridian Centrefile reported $0.7 million more revenue in 2003 in U.S. dollar terms. Without regard to currency changes, Ceridian Centrefile revenue declined by $6.6 million in 2003. Major factors contributing to Ceridian Centrefile s revenue decline included 2002 non-repetitive services for a major customer that was not replaced, lower levels of customer employees, and slippage of installations from late 2003 to 2004.

HRS costs and expenses, excluding net interest, increased by $80.3 million in 2003 compared to 2002 including a $57.9 million reduction in the gains from our interest rate derivative instruments, a net reduction in other expense (income) of $29.4 million and an increase in other costs and expenses of $51.8 million.

The reduction of $57.9 million in gains from interest rate derivative instruments in 2003 compared to 2002 included an increase in realized gains of $4.9 million from cash settlements and a decrease in unrealized gains of $62.8 million from revaluation of the future expected benefit from these instruments over their remaining terms.

Other expense (income) for HRS in 2002 included unusual items that resulted in a net expense of $25.0 million that included write-downs of marketable securities and software, severance and other exit costs. We discuss these items in a section of this discussion entitled Unusual Items. In 2003, HRS other expense (income) reflects income of $4.4 million largely from a net gain from the sale of marketable securities and land not used in our business. Factors generally affecting the comparison of 2003 HRS costs and expenses to 2002 included costs associated with businesses acquired in 2002, the effect of currency exchange rate changes in 2003, and higher 2003 employee benefit costs and software development expense, including SourceWeb.

Cost of revenue for HRS increased by $34.5 million in 2003. In U.S. operations, cost of revenue increased by $26.4 million in 2003 compared to 2002. Cost of revenue for U.S. payroll and tax filing operations increased by $24.8 million due largely to higher costs associated with the introduction and continued development of internally developed software. Costs associated with the development and implementation of the 2003 offering of SourceWeb added $16.0 million to cost of revenue. Other technology support and implementation costs added $12.3 million to cost of revenue in 2003 compared to 2002. Acquisitions completed in 2002 added $4.4 million. Lower production and supplies costs and external contract and consulting costs reduced cost of revenue by $7.9 million. The acceleration of 2003 W-2 revenue into December 2003 did not have a material effect on the cost of revenue comparison, since the timing of incurrence of related costs was largely unaffected. Cost of revenue for benefits services increased by $2.1 million. The additional cost of revenue for Great Lakes Strategies, acquired in December 2002, and the impact of staff increases were offset in part by a reduction of external consulting costs incurred in connection with the transfer of certain benefits services operations begun in 2002 and completed in 2003. Cost of revenue for LifeWorks decreased by $0.5 million in 2003 primarily due to staff reductions.

Cost of revenue in Ceridian Canada operations increased by $4.1 million in 2003 as currency exchange rate changes added $6.4 million to the 2003 amount. Without regard to the currency effect, Ceridian Canada cost of revenue declined by $2.3 million due to changes in services mix and cost reduction efforts, particularly in the last half of 2003. Cost of revenue in Ceridian Centrefile operations increased by $4.0 million as currency exchange rate changes added $3.4 million, while the remaining increase was primarily the result of revenue growth and geographic market expansion.

The 2003 increase in SG&A expense for HRS amounted to $13.5 million over the 2002 amount. Selling expense in HRS grew by $7.0 million in 2003 of which $1.5 million occurred in U.S. operations and $5.5 million in international operations. The increase of $1.5 million in U.S. operations primarily related to incremental costs associated with businesses acquired in 2002. The $5.5 million increase in selling expense for Ceridian Canada and Ceridian Centrefile operations included a $1.7 million impact from currency exchange rate changes and $3.8 million related in large part to increased marketing efforts and small business development.

General and administrative expense for HRS increased in 2003 over 2002 by $6.5 million including increases of $3.1 million for U.S. operations and $3.4 million for Ceridian Canada and Ceridian Centrefile operations. The $3.1 million increase for U.S. operations resulted primarily from an increase in allocated expenses of $9.3 million for pensions and other employee benefit programs, which more than offset the effects of staff reductions and reduced provisions for incentive payouts in 2003. The $2.2 million increase for Ceridian Canada included $2.4 million related to currency exchange rate changes and the $1.2 million increase for Ceridian Centrefile included $2.4 million for currency exchange rate changes.

R&D expense for HRS in 2003 increased by $3.8 million compared to 2002 due to a higher level of software development efforts in U.S. operations.

Comdata. Comdata revenue increased by $6.7 million in 2003 compared to 2002 as revenue from retail services grew significantly and improving general economic conditions began to benefit transportation revenue performance. Revenue from retail services increased by $14.8 million in 2003 over 2002 due to a higher level of cards in use, greater transaction volume and the addition of new customers. Revenue in the over-the-road business in 2003 increased by $1.5 million compared to 2002 as additional revenue from card services more than offset the effect of lower revenue from fuel transactions. Revenue from sales of equipment to truck stops decreased by $6.6 million in 2003 and truck stop service fees decreased by $0.7 million. Business fleet revenue grew by $2.8 million in 2003 over 2002 as major local fueling customers increased their utilization of Comdata products and services. Phone services revenue declined by $2.9 million in 2003. Regulatory compliance revenue, including permitting and pilot services, declined by $2.0 million compared to 2002 as cooperative efforts by permit issuers continued to reduce the volume of transactions.

Comdata costs and expenses, excluding net interest, decreased by $6.1 million in 2003 compared to 2002. Cost of revenue increased by $5.1 million in 2003. Costs related to SVS card sales and processing increased by $9.2 million. The change in cost of revenue included a $4.1 million reduction for equipment sales to truck stops and an increase in bank fees of $1.7 million.

Comdata SG&A expense decreased by $1.8 million in 2003 compared to 2002. The decrease related primarily to a reduction of $4.3 million in the provision for doubtful accounts and $3.7 million due to the conclusion of certain contracted services and amortization on certain intangible assets in late 2002. The reduction in the provision for doubtful accounts reflected continued improvement in the quality of receivables in 2003 and a bankruptcy filing by a major customer in 2002. These decreases were offset in part by higher compensation and benefits expense including $3.9 million of allocated corporate costs related to increased employee benefits costs. The loss on fuel derivative instruments in 2003 was $0.8 million. Comdata held no derivative instruments in 2002. Other expense (income) decreased by $11.0 million in 2003 due primarily to the 2002 factoring receivables loss of $9.8 million and a September 2003 payment of $1.9 million to settle a dispute with a vendor. These costs are further described in the section below entitled Unusual Items.

Other. The reported other income of $4.1 million for 2002 results from reduction of a previously established accrual for environmental cleanup, based on a periodic review that took place in the first quarter of 2002.

Unusual Items

The comparison of our earnings from continuing operations is significantly affected by a number of unusual events and transactions. We also have presented information on this subject in the Notes to our Consolidated Financial Statements including Note D, Supplementary Data to Statements of Operations.

Unusual Losses (Gains or Recoveries)

(Dollars in millions)

	Years Ended December 31		
	2004	**2003**	**2002**
By transaction type:			
SourceWeb exit costs, net of recoveries	$ 28.5	$	$
Litigation and contract settlement costs		1.9	0.8
Gain on sale of assets	(0.6)	(1.6)	
(Gain) loss on marketable securities	(4.5)	(3.4)	6.3
Accrued exit costs, net of recoveries	0.3		13.5
Factoring receivables loss			9.8
Asset write-downs	3.6		7.3
Reduction in environmental accrual			(4.1)
Total unusual losses reported in other expense (income)	$ 27.3	$ (3.1)	$ 33.6
Acceleration of trademark amortization (SG&A expense)	40.9		
Total unusual losses (gains or recoveries)	$ 68.2	$ (3.1)	$ 33.6
By segment:			
HRS	$ 67.9	$ (5.0)	$ 25.0
Comdata	0.3	1.9	12.7
Other			(4.1)
Total unusual losses (gains or recoveries)	$ 68.2	$ (3.1)	$ 33.6

SourceWeb exit costs, net of recoveries

On December 31, 2004 we sold the SourceWeb Assets to RSM for $4.0 million pursuant to the terms and conditions of an Asset Purchase Agreement. In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets we recorded a $9.1 million 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 Ultimate and capitalized software development costs. In addition to this asset impairment, we also recorded a $19.4 million pre-tax loss on disposal which comprised the fair value of the future minimum royalty obligations to Ultimate of $19.2 million and $0.2 million of employee severance costs.

SourceWeb was a payroll platform within the small business division of our 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.

Litigation and contract settlement costs

During the third quarter of 2003, Comdata paid $1.9 million to settle out of court with a former vendor. In the fourth quarter of 2002, we also recorded $0.8 million of other unusual costs in HRS for a litigation settlement.

(Gain) loss on marketable securities

During 2004, we sold 193,289 common shares of Ultimate for proceeds of $2.4 million and a net gain of $1.6 million. Also in 2004, we sold 582,758 common shares of USIH for proceeds of $8.7 million and a net gain of $2.9 million.

During September 2003, we sold 785,000 common shares of Ultimate for proceeds of $5.9 million and a net gain of $3.0 million. In addition, we sold 137,158 common shares of USIH for proceeds of $1.8 million and a net gain of $0.4 million. We further describe these transactions in Note H, Investing Activity.

During the fourth quarter of 2002, HRS recorded a $6.3 million write-down of the carrying value of certain marketable equity securities. The investment write-down related primarily to our December 2001 cost-based investment in preferred stock of USIH, which was converted to common stock as a result of an initial public offering in October 2002.

Accrued exit costs, net of recoveries

During the third quarter of 2004, we announced a shut-down of a Comdata facility that resulted in accrued exit costs of $0.3 million of which $0.2 million was for severance and $0.1 million was related to the lease of the facility.

During the first quarter of 2002, we announced two separate series of actions intended to consolidate certain operations in each of our business segments and recorded accrued exit costs of $9.0 million. A plan to consolidate certain HRS payroll and tax filing processing services, previously conducted in 25 district offices, into four regional processing centers resulted in the accrual of $7.5 million for exit costs. Of the $7.5 million accrual, $5.3 million related to severance costs for 317 employees all of whom were terminated by December 31, 2002, and $2.2 million represented other exit costs, primarily related to lease terminations. Consolidation of certain Comdata facilities resulted in accrued severance costs of $1.0 million for 76 employees, all of whom were terminated by December 31, 2003, and other exit costs of $0.5 million, primarily related to lease terminations.

In the fourth quarter of 2002, we reviewed the status of accrued exit costs and revised the estimated amounts to reduce the severance cost provisions made in prior years by $1.4 million. The revisions by HRS included $0.8 million related to provisions recorded in the first quarter of 2002 and $0.3 million recorded in the first quarter of 2000. The revisions by Comdata amounted to $0.3 million related to provisions recorded in the first quarter of 2002. We also incurred additional expense in HRS for severance costs of $1.3 million, involving 81 employees, and other exit costs of $2.9 million and in Comdata for severance costs of $0.6 million, involving 41 employees, and other exit costs of $1.1 million. We paid all of the additional HRS severance costs during the fourth quarter of 2002. The other exit costs largely represented lease commitments, net of expected recoveries.

Factoring receivables loss

During the third quarter of 2002, we examined purchases of receivables from a certain trucking company by Comdata s factoring business that had grown rapidly during 2002 and found that the debtors could not be verified. In the meantime, the parties that had sold us the receivables declared bankruptcy. We recorded the full amount of the loss of $9.8 million, including $0.3 million of investigative costs incurred. Due to the unusual and non-recurring nature of the loss, we have reported the loss as other expense (income). We also made certain modifications to our policies and procedures related to the factoring business.

Asset write-downs

In January 2004, we committed to the internal development of a replacement for our 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 million in the first quarter of 2004 representing the carrying value of the capitalized software related to the work performed by the external contractor that was abandoned and determined to have no future value to us. In addition, during the fourth quarter of 2004, we recorded an asset write-down of $0.9 million due to an impairment of an internally developed software product in HRS.

HRS recorded a $4.9 million asset write-down of internally developed software costs in the first quarter of 2002 as a result of the February 2002 acceptance of the software technology provided under a March 2001 agreement with Ultimate further described in Note L, Commitments and Contingencies. An additional software asset write-down of $0.6 million was recorded in the second quarter of 2002. Also in the fourth quarter of 2002, HRS recorded a $1.5 million write-down of the carrying values of certain cost-based investments and wrote off the $0.3 million carrying value of an abandoned software product.

Reduction in environmental accrual

During the first quarter of 2002, we conducted a periodic reassessment of our environmental obligation. This obligation relates to the 1989 sale by our predecessor (Control Data Corporation) of its disk drive operations, which involved remediable environmental sites. The sale agreement provided terms describing how remedial costs related to remediable environmental sites would be shared between the buyer and us as the seller. The terms of the agreement included periodic joint reviews of the obligation by the buyer and us. Our obligations covered only those sites identified prior to the fifth anniversary of the sale. At the time of the sale, we established an accrual for our estimated costs that might occur as a result of this agreement. During the first 10 years following the sale, both parties incurred significant costs, which then began to decrease as these sites entered a water extraction and monitoring stage. During the first quarter of 2002, we participated in a periodic review of the status of this obligation with the environmental officer of the buyer. A site visit was made by our environmental representative at that time, and it was determined that our estimated liability was $4.1 million less than previously determined. The excess accrual was then credited back to earnings as a component of other expense (income).

Acceleration of trademark amortization

In March 2005, we discovered that the CobraServ trademark capitalized as part of a 1999 acquisition of our HRS benefits services business was no longer being used. This discovery caused us to restate the amortization expense in our consolidated financial statements for the first three quarters of 2004 as discussed in Note B, Restatement of Financial Statements. It was determined that the decision to abandon the CobraServ trademark was made in January 2004 and to stop use of the CobraServ trademark in December 2004. As part of this abandonment, the scheduled amortization expense for 2005 and future years of $40.9 million was accelerated and amortized ratably during 2004 as a change in accounting estimate under APB No. 20, Accounting Changes.

Balance Sheets at December 31, 2004 and 2003

Consolidated Balance Sheet Comparisons
(Dollars in millions, except per share data)

	Amount Dec 2004	Dec 2003 (restated)	Inc (Dec) $	%	% of Total Dec 2004	Dec 2003
Cash and equivalents	$ 220.7	$ 124.2	96.5	77.7	26.8	18.4
Receivables, net	505.7	467.3	38.4	8.2	61.4	69.1
Other current assets	97.6	84.5	13.1	15.5	11.8	12.5
Total current assets	$ 824.0	$ 676.0	148.0	21.9	100.0	100.0
Capital assets	$ 1,192.0	$ 1,243.0	(51.0)	(4.1)	92.6	91.9
Investments, including derivatives	44.5	78.6	(34.1)	(43.4)	3.5	5.8
Other noncurrent assets	50.4	30.5	19.9	65.2	3.9	2.3
Total noncurrent assets	$ 1,286.9	$ 1,352.1	(65.2)	(4.8)	100.0	100.0
Total operating assets	$ 2,110.9	$ 2,028.1	82.8	4.1	34.0	39.1
Customer funds	4,096.0	3,152.7	943.3	29.9	66.0	60.9
Total assets	$ 6,206.9	$ 5,180.8	1,026.1	19.8	100.0	100.0
Current debt	$ 14.9	$ 6.5	8.4	129.2	3.1	1.7
Drafts and settlements payable	153.4	113.7	39.7	34.9	32.0	30.5
Other current liabilities	310.7	253.2	57.5	22.7	64.9	67.8
Total current liabilities	$ 479.0	$ 373.4	105.6	28.3	100.0	100.0
Noncurrent debt	$ 85.8	$ 157.0	(71.2)	(45.4)	23.5	38.3
Employee benefit plans	208.4	196.0	12.4	6.3	57.1	47.9
Other noncurrent liabilities	70.8	56.5	14.3	25.3	19.4	13.8
Total noncurrent liabilities	$ 365.0	$ 409.5	(44.5)	(10.9)	100.0	100.0
Total operating liabilities	$ 844.0	$ 782.9	61.1	7.8	13.6	15.1
Customer funds obligations	4,067.2	3,152.7	914.5	29.0	65.5	60.9
Stockholders equity	1,295.7	1,245.2	50.5	4.1	20.9	24.0
Total liabilities and stockholders equity	$ 6,206.9	$ 5,180.8	1,026.1	19.8	100.0	100.0
Total Debt	$ 100.7	$ 163.5	(62.8)	(38.4)	7.2	11.6
Stockholders Equity	1,295.7	1,245.2	50.5	4.1	92.8	88.4
Total Capitalization	$ 1,396.4	$ 1,408.7	(12.3)	(0.9)	100.0	100.0

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

Our operating assets increased by $82.8 million during 2004 as current assets increased by $148.0 million and noncurrent assets decreased by $65.2 million. Our current assets increase was due primarily to increases of $96.5 million in cash and equivalents and $38.4 million in receivables. The increase in cash and equivalents reflected to some extent our decision to suspend repurchases of our common stock during the last half of 2004. The increase in receivables is largely related to Comdata and reflects the impact of higher fuel prices, which more than offset the benefit of improved collection results. We discuss changes in cash and equivalents in a following section of this discussion entitled Cash Flows. Our noncurrent assets decreased by $65.2 million as the carrying value of goodwill and other intangible assets declined by $31.1 million and investments (including derivatives) declined by $34.1 million. The decrease in goodwill and other intangible assets included a reduction of $40.9 million related to our decision to phase out the use of the CobraServ trademark during 2004 as further discussed in Note B, Restatement of Financial Statements and Note G, Capital Assets. The decrease in the carrying value of investments reflected both the disposition of equity securities as well as settlements and revaluation of derivative instruments. As described in Note H, Investing Activity Interest Rate Contracts, we disposed of our interest rate derivative instruments in February 2005. While the customer funds assets balance on December 31, 2004 was $943.3 million higher than the balance on December 31, 2003, the average invested balance for the year 2004 was $288.2 million higher than for the year 2003. The higher average balance largely reflected increasing acceptance of our direct deposit payroll service and higher levels of customer tax obligations.

Current liabilities increased by $105.6 million during 2004 as current debt increased by $8.4 million and Comdata drafts and settlements payable increased by $39.7 million. Higher trade accounts payable and deferred income, related primarily to Comdata retail services, represented most of the remaining increase. The increase in current debt largely represents drawings by Ceridian Centrefile on its bank overdraft facility. The decrease of $44.5 million in noncurrent liabilities includes a reduction in borrowings under our Comdata receivables securitization facility of $65.0 million, as well as an increase in the noncurrent portion of deferred income. Customer funds obligations increased by $914.5 million together with the increase in customer funds assets, without regard to unrealized gains added to the assets as a result of revaluing these securities at market prices. The increase of $50.5 million in stockholders equity includes net earnings of $36.9 million, unrealized gains from customer funds and marketable securities of $18.2 million and currency translation of $22.9 million, further increased by $58.6 million from employee stock plans and reduced by $80.3 million representing the cost of reacquired Ceridian common shares held as treasury stock and a pension liability adjustment of $5.8 million.

Cash Flows

Consolidated Statements of Cash Flows Highlights
(Dollars in millions)

	Years ended December 31,		
	2004	**2003**	**2002**
Operating activities	$ 252.9	$ 56.6	$ 137.4
Investing activities	(68.4)	(34.4)	(104.4)
Financing activities	(93.5)	(37.5)	(15.1)
Effect of exchange rate on cash and equivalents	5.5	5.2	0.2
Net cash flows provided (used)	$ 96.5	$ (10.1)	$ 18.1
Cash and equivalents at end of year	$ 220.7	$ 124.2	$ 134.3

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Reconciliation of Earnings to Cash Inflows (Outflows) from Operating Activities
(Dollars in millions)

	Years ended December 31, 2004	2003 (restated)	2002 (restated)
Net earnings	$ 36.9	$ 98.8	$ 111.5
Deferred income tax provision (benefit)	(19.8)	34.2	24.7
Depreciation and amortization	124.7	79.3	75.8
Provision for doubtful accounts	9.7	11.2	17.0
SourceWeb exit costs, net of recoveries	28.5		
Asset write-downs	3.6		7.3
Unrealized (gain) loss on derivative instruments	28.0	15.7	(47.1)
(Gain) loss on marketable securities	(4.5)	(3.4)	6.3
Contribution to retirement plan trusts		(105.5)	(3.3)
Other	6.5	7.0	(10.4)
From earnings	213.6	137.3	181.8
From working capital activities	39.3	(80.7)	(44.4)
Cash flows provided by operating activities	$ 252.9	$ 56.6	$ 137.4

Cash Balances and Operating Activities

During 2004, our cash and equivalents increased by $96.5 million to $220.7 million as we used operating cash flows and cash balances to fund investing activities, repay debt and repurchase stock. In 2003, our cash and equivalents decreased by $10.1 million due largely to operating activities. The cash flows from operating activities for 2003 included payments of $105.5 million for employer contributions to our pension plans for employees in the U.S. and the United Kingdom. In 2002, our cash and equivalents increased by $18.1 million to $134.3 million as cash flows from operating activities provided funds for investing and to reduce debt.

Our operating cash flows increased $196.3 million during 2004 as compared to 2003 due mostly to pension contributions of $105.5 million in 2003 and an increase in working capital activities of $120.0 million due mostly to an increase in accrued taxes, accounts payable and drafts settlements payable. Although the impact of the change in receivables changed little in the comparative periods, a Comdata effort to improve receivables management and collection processes contributed significantly to 2004 operating cash flows compared to 2003. This increase was more than offset by the effect of rising fuel prices included in Comdata receivables.

During 2003, our operating cash flows were $56.6 million compared to $137.4 million in 2002. This decrease of $80.8 million was due mostly to an increase in pension contributions of $102.2 million. When comparing the working capital cash flows for 2003 and 2002, the $36.3 million additional cash usage is largely due to decreases in accrued taxes and Comdata drafts and settlements payable.

Investing Activities

Our net cash outflows from investing activities amounted to $68.4 million in 2004, $34.4 million in 2003 and $104.4 million in 2002 as set forth in the following table.

	2004 (dollars in millions)	2003	2002
Capital expenditures	$ (66.2)	$ (57.5)	$ (54.6)
Acquisitions of investments and businesses	(19.3)	(1.7)	(50.3)
Proceeds from sales of businesses and assets	17.1	24.8	0.5
Net cash inflows (outflows)	$ (68.4)	$ (34.4)	$ (104.4)

During 2004, our capital expenditures included $32.9 million for property and equipment and $33.3 million for software and development costs. Our expenditures for acquisitions of investments and businesses (net of cash acquired) amounted to $19.3 million with the HRS acquisition of Recruiting Solutions, Inc., a provider of web-based recruiting products, for $11.0 million and the Comdata acquisition of Datamark Technologies, Inc., a provider of stored value and customer loyalty programs, for $4.1 million. Our proceeds from sales of businesses and assets amounted to $17.1 million and consisted largely of $8.7 million from the sale of 582,758 common shares of U.S.I. Holdings Corporation (USIH), $2.4 million from the sale of 193,289 common shares of Ultimate and $4.0 million from the sale of the SourceWeb Assets.

Our 2003 investing activities included capital expenditures of $30.5 million for property and equipment and $27.0 million for software and development costs. In March 2003, we spent $3.0 million to acquire 750,000 shares and a warrant to purchase an additional 75,000 shares of Ultimate. During September 2003, we sold 785,000 Ultimate common shares purchased on the open market in years prior to 2003 for $5.9 million and 137,158 common shares of USIH for $1.8 million. Also during 2003, we received $1.4 million returned from an earn-out escrow related to the acquisition of GLS Benefits Services LLC, a benefits administration outsourcing firm (Great Lakes Strategies) in 2002, $12.1 million for assets sold relative to two sale leaseback transactions, and $4.3 million for sale of land not used in our businesses.

During 2002, our investment in capital expenditures included $31.1 million for property and equipment and $23.5 million for software and development costs. The software development costs included $4.7 million for development of SourceWeb. During 2002, we also spent $15.6 million to acquire SYLINQ Corporation (SYLINQ), $8.9 million for HR Comply, $19.0 million for Great Lakes Strategies and a total of $6.8 million for other acquisitions. We described these transactions further in Note H, Investing Activity.

Financing Activities

Our net cash outflows from financing activities amounted to $93.5 million in 2004, $37.5 million in 2003 and $15.1 million in 2002 as set forth in the following table.

	2004	2003	2002
	(dollars in millions)		
Revolving credit facilities and overdrafts, net	$ (59.6)	$ (49.6)	$ (44.6)
Repayment of other debt	(4.1)	(1.4)	
Repurchase of common stock	(80.3)	(28.8)	(5.4)
Proceeds from stock option exercises and stock sales	50.5	42.3	34.9
Net cash inflows (outflows)	$ (93.5)	$ (37.5)	$ (15.1)

Our financing activities for 2004 included the repurchase of 4,012,400 shares of our common stock for $80.3 million on the open market at an average net price of $20.01 per share. We also received proceeds of $50.5 million for exercises of stock options and employee stock plan purchases. Also during 2004, we paid $65.0 million on our Comdata receivable securitization facility. At December 31, 2004, under our $350.0 million domestic revolving credit facility, we had $347.5 million of unused borrowing capacity. Of that amount, we have designated $75.0 million as backup for the amount outstanding under the Comdata receivables securitization facility, which leaves $272.7 million available for other purposes.

During 2003, we repurchased 1,844,100 shares of our common stock for $28.8 million on the open market at an average net price of $15.60 per share. Proceeds from exercises of stock options and employee stock plan purchases amounted to $42.3 million during 2003 compared to $34.9 million in 2002. Also during 2003, we entered into two capital lease arrangements resulting in an obligation of $22.2 million to be paid over a 60-month period. We also reduced our borrowings under our domestic revolving credit facility by $40.0 million and our Comdata receivable securitization facility by $10.0 million.

In June 2002, Comdata entered into a $150.0 million receivables securitization facility. The facility has up to a three-year term and uses certain of Comdata s trade receivables as collateral for borrowings. At December 31, 2002, $150.0 million had been drawn against and remained outstanding under this facility. We used those proceeds and additional payments of $45.0 million to reduce borrowings under our $350.0 million revolving credit facility to $40.0 million at the end of 2002. Proceeds from exercises of stock options and employee stock plan purchases during 2002 amounted to $34.9 million. We purchased 393,000 shares of our common stock on the open market during the last half of 2002 for $5.4 million at an average price, including commissions, of $13.74 per share.

For further information on financing cash flows, see Note K, Financing and the following section of this discussion entitled Liquidity and Capital Resources.

Liquidity and Capital Resources

We expect to meet our liquidity needs from existing cash balances, cash flows from operations and borrowings under external credit facilities. Cash balances and cash flows are discussed under the section of this discussion entitled Cash Flows. Cash flows from operations are primarily influenced by the same factors that influence revenue as discussed in a preceding section of this discussion entitled Results of Operations and in several of the items in the following section entitled Cautionary Factors That Could Affect Future Results. Cautionary factors of particular relevance include those that refer to the effects of government regulations on such matters as the timing of tax payments, interest rates, employee benefits, and funds transfer activities; our ability to attract new customers and retain our existing customers; and general economic conditions.

At December 31, 2004, our committed credit arrangements included a domestic revolving credit facility that provides up to $350.0 million for a combination of advances of which up to $50.0 million can be used for letters of credit until March 2006. In addition at December 31, 2004, we had a $150.0 million receivables securitization facility with a term ending in June 2005, which uses selected Comdata trade receivables as collateral for borrowing. In May 2004, Ceridian Centrefile replaced its £3.0 million overdraft facility with a £6.5 million overdraft facility available through April 2005.

As of December 31, 2004, we have unused borrowing capacity under the $350.0 million revolving credit facility amounting to $347.5 million of which we have designated $75.0 million as backup for the amount outstanding at that date under the Comdata receivables securitization facility. The interest rate for borrowings under the revolving credit facility is 1% per annum over LIBOR, subject to change based on our senior unsecured debt ratings. The revolving credit facility contains certain covenants that require that our consolidated debt must not exceed our stockholders equity, as defined in the agreement, as of the end of any quarter, and the ratio of earnings before interest and taxes to interest expense on a rolling four quarter basis to be at least 2.75 to 1 and also limit liens, subsidiary debt, contingent obligations, operating leases, minority equity investments and divestitures, among other things. In late 2004 and early 2005, we amended our domestic revolving credit facility to allow additional time to deliver our quarterly reports on Form 10-Q for the second and third quarters of 2004 and this Form 10-K to our lenders without the delayed delivery constituting a default under this agreement. We have also further amended this agreement to apply the provisions with respect to amortization and/or impairment of goodwill as are in effect under GAAP on March 31, 2005 for the fourth quarter 2004 and periods thereafter for the calculation of financial ratios and other financial requirements set forth in such agreement. We are in compliance with all covenants related to the amended credit facilities.

Our planned expenditures for capital assets in 2005 are expected to be between $80.0 million and $85.0 million with an estimated allocation of 87% to HRS and 13% to Comdata. We also plan to continue to grow our businesses through strategic acquisitions.

As described in the preceding discussion of financing activities in the Cash Flows section of this discussion, we have been repurchasing Ceridian common stock pursuant to our stock repurchase program since late 2002. We repurchased 393,000 shares in 2002 and 1,844,100 shares in 2003. In 2004, we suspended the program in mid-year due to delays in filing our periodic SEC reports. At the time we suspended our repurchase effort, we had repurchased 4,012,400 shares during 2004 for a total of $80.3 million. As of December 31, 2004, we were authorized to purchase up to 6,350,500 additional shares of our common stock under the authorization from our Board of Directors. We generally use our treasury stock to address our obligations under our stock compensation and employee stock purchase plans. We expect to resume our stock repurchase program following the release of first quarter 2005 results.

The table below describes the annual cash payments for which we are obligated under our financing agreements, which are reported on our balance sheet, and our operating lease agreements and significant contractual commitments, which are not on our balance sheet, at that date.

Contractual Obligations at December 31, 2004
(Dollars in millions)

		Payments due by period			
	Total	**Less than one year**	**1-3 Years**	**3-5 Years**	**More than 5 years**
Long-term debt and capital leases	$ 100.7	$ 89.9	$ 9.0	$ 1.8	$
Operating leases	294.2	52.7	87.4	62.6	91.5
Purchase obligations	22.9	8.2	12.9	1.8	
Retirement plans	551.0	51.1	104.2	109.6	286.1
Total	$ 968.8	$ 201.9	$ 213.5	$ 175.8	$ 377.6

Our long-term debt and capital lease obligations are described in the Cash Flows section of this discussion and in Note K, Financing. Since we have the capability and intention of continuing our use of short-term borrowings under our Comdata receivables securitization facility when it matures in June 2005 and our revolving credit facility when that facility matures in 2006, the outstanding balances are reported as noncurrent liabilities on our consolidated balance sheet. The table above reflects the $75.0 million due under the Comdata receivables securitization facility according to the contractual 2005 maturity date.

We conduct a substantial portion of our operations in leased facilities. Most of these leases contain renewal options and require payments for taxes, insurance and maintenance. We also lease equipment for use in our businesses. In the table above, we include our on-balance-sheet capital lease obligations with our debt payments and our off-balance-sheet operating lease commitments as lease payments.

In March 2001, we entered into an agreement with Ultimate, amended in August 2001 and February 2002, that provided us with a non-exclusive license to use Ultimate s software as part of a Web-enabled integrated payroll/HR/self-service offering to our small business customers. Pursuant to the February 2002 amendment, the license agreement provided for a monthly royalty commencing in January 2003, which is based on the number of our customers employees paid by using the software and subject to minimum and maximum amounts. The minimum obligation required monthly payments of $0.5 million per month from January 2004 until January 1, 2006, when the per-employee monthly charge escalates at a rate of 5% per annum until the end of the noncancelable term in March 2008. On December 31, 2004, we sold certain customer relationships and other assets associated with our SourceWeb payroll platform and ceased use of this contractual relationship. As of December 31, 2004 we remained obligated to make minimum royalty payments totaling $20.7 million, which are included in the table above. A further description of this contract arrangement is presented in Note L, Commitments and Contingencies and a description of the sale of the SourceWeb Assets is presented in Note D, Supplementary Data to Statements of Operations.

In connection with the acquisition of certain call center assets in December 2002, we entered into royalty and services arrangements that are noncancelable for the first 36 months. Under these arrangements, we are obligated to make minimum payments of $2.2 million in 2005.

Our payment obligations for employee benefit plans are further described in Note I, Retirement Plans.

Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires us to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas that require significant judgments, estimates, and assumptions include the assignment of fair values upon acquisition of goodwill and other intangible assets and testing for impairment, the capitalization, amortization and impairment testing of software and development costs, the determination of our liability for pensions and other postretirement benefits, and tax matters. We use historical experience, qualified independent consultants and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the company s financial statements at any given time. Despite these inherent limitations, we believe that our Management s Discussion and Analysis of Financial Condition and Results of Operations and consolidated financial statements and related notes provide a meaningful and fair perspective of our company. Further discussion of the judgments and uncertainties associated with our business can be found in the section of this discussion entitled Cautionary Factors That Could Affect Future Results and Part II, Item 7A of this report.

Assignment of fair values upon acquisition of goodwill and other intangible assets and testing for impairment

In the event of a business combination where we are the acquiring party, we are required to assign fair values to all identifiable assets and liabilities acquired, including intangible assets such as customer lists, trademarks, technology and covenants not to compete. We are also required to determine the useful life for amortizable assets acquired. These determinations require significant judgments, estimates, and assumptions; and, when material amounts are involved, we generally utilize the assistance of independent valuation consultants. The remainder of the purchase cost of the acquired business not assigned to identifiable assets or liabilities is then recorded as goodwill. Although goodwill is no longer subject to amortization after January 1, 2002, the carrying value is subject to periodic review, at least annually, for impairment of that value.

We reassess the carrying value of goodwill annually, or more frequently when certain developments occur. A number of significant assumptions and estimates are involved in determining the current fair value of the reporting unit including operating cash flows, markets and market share, sales volumes and prices, costs to produce, and working capital changes. We consider historical experience and all available information at the time the fair values of our reporting units are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill. The evaluation of impairment involves comparing the current fair value of the reporting units to the recorded value (including goodwill).

If the recorded value (including goodwill) of a reporting unit exceeds its current fair value, then to the extent that the recorded value of goodwill of the reporting unit exceeds the implied fair value of the reporting unit s goodwill an impairment loss is recognized. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, the fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit including any unrecognized intangible assets and the excess is the implied fair value of goodwill.

We also test long-lived assets, including other intangible assets, under the guidance of Statement of Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying value of such an asset or group of assets may not be recoverable. Events or circumstances that might indicate an impairment of carrying value include:

- a significant decrease in the market value of the asset or asset group
- a significant adverse change in the extent or manner in which the asset or asset group is used or in its physical condition
- a significant adverse change in legal factors or in the business climate that could affect the value of the asset or asset group, including an adverse action or assessment by a regulator
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset or asset group
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the asset or asset group.

When the need for such a test is indicated, we consider such factors as whether the amortization of the carrying values for these assets for each operating unit can be recovered through forecasted undiscounted cash flows over their remaining economic life.

Capitalization, amortization and impairment testing of software and development costs

Our software and development efforts are substantially for internal use and, as indicated in Note A, Accounting Policies Software and Development Costs to our consolidated financial statements, we rely on AICPA Statement of Position 98-1 (SOP 98-1) for accounting guidance. Therefore, for our modification or development efforts, we need to identify by nature and by stage of development those costs which are to be capitalized rather than charged to operations as incurred. We also need to identify the point at which the modified or developed software is ready for use, capitalization of cost will cease and amortization of that cost will begin. Costs incurred subsequent to the ready for use date will generally be charged to operations and only capitalized if justified as a material improvement in the functionality of the capitalized software product.

With regard to the recoverability of capitalized software and development costs, we regularly perform an assessment of our ability to recover the costs invested in these assets. The net amount of these costs shown on our consolidated balance sheet at December 31, 2004 was $75.7 million. The elements of software and development costs were purchased software of $23.3 million and internally developed software of $52.4 million. These amounts represent the costs we have invested in these assets, reduced by amortization expense charged against our earnings as the software was used in our operations and by any write-downs as a result of our recoverability analysis. Our recoverability analysis considers projected future cash flows from the utilization of the underlying software in the respective components of the business. Our projections of future cash flows are affected by such factors as technological change, competitive offerings, marketplace expectations and project development. Changes in any of these factors may result in future write-downs of the carrying value of these or other assets. The amount of the write-down, if any, is largely dependent on our estimates of future cash flows and the selection of an appropriate discount rate. As a result of our assessments during the past three years, we recorded $3.2 million in 2004 for abandoned software projects, none in 2003, and $5.8 million in 2002 for abandoned software projects.

Determination of our liability for pensions and other postretirement benefits

We present information about our pension and postretirement benefit plans in Note I, Retirement Plans to our consolidated financial statements. The determination of the liabilities and expenses for pensions and other postretirement benefits are accomplished with the assistance of independent actuaries using actuarial methodologies and incorporating significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age, and mortality). The rate used to discount future estimated liabilities is determined considering the rates available at year-end on debt instruments that could be used to settle the obligations of the plan. The impact on the liabilities of a change in the discount rate of ¼ of 1% would be approximately $18.2 million and approximately $0.3 million to pre-tax earnings in the following year. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of assets. A change in the assumption for the long-term rate of return on plan assets of ¼ of 1% would impact pre-tax earnings by approximately $1.3 million for 2005.

Tax matters

As a company with operations in many states in the U.S. as well as in the United Kingdom and Canada, we record an estimated liability and expense for income and other taxes based on what we determine will likely be paid in the various tax jurisdictions in which we operate. The liabilities ultimately realized and paid are dependent on various matters including the resolution of the tax audits in the various affected tax jurisdictions and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

Cautionary Factors That Could Affect Future Results

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

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

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

- customer satisfaction;
- product and service offerings by competitors;
- customer service levels;
- price; and
- customer viability.

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

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

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

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

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

- the continued selling of products and services to our existing customers;
- the introduction of new or enhanced products and services in our businesses;
- the selling of products and services to new customers; and
- the selling of additional products and services to our existing customers.

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

- the quality and perceived value of our product and service offerings;
- effective sales and marketing efforts;
- our ability to attract new and retain new and existing customers;
- the level of market acceptance and the avoidance of difficulties or delays in development or introduction of new products and services;
- our ability to integrate technology and information systems into our products and services;
- our successful implementation of products and services for new and existing customers;
- the regulatory needs and requirements facing our customers; and
- our ability to meet increased customer regulatory requirements, including our customers that are governmental agencies or entities.

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

Economic factors may harm our business and operating results.

Trade, monetary and fiscal policies, and political and economic conditions may substantially change, with corresponding impacts on the industries that we serve, particularly those more economically sensitive industries such as trucking and retail. Approximately 72 percent of Comdata s revenue for 2004 was attributable to its transportation business. Comdata s results of operations are, therefore, dependent on the level of activity in the transportation industry, which, in turn, is affected by general economic

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conditions. For example, a decrease in the number of truck drivers would decrease the number of Comchek transactions and could adversely affect Comdata s revenues. Similarly, since a significant portion of our fueling transactions are priced by reference to the amount spent on the transaction, our revenue can be significantly affected by changes in fuel prices. Falling fuel prices directly reduce the amounts of revenue and earnings related to these transactions. Rising fuel prices increase our revenue and earnings but also increase the working capital requirements of Comdata and subject Comdata to greater credit or bad debt risks with respect to its customers that purchase fuel using a Comdata payment method.

Changes in trade, monetary and fiscal policies, and political and economic conditions could also affect employment levels, with a corresponding impact on our payroll processing and tax filing businesses. Decreased employment levels, as well as slowed economic conditions, could negatively affect wage and bonus payments, orders and the timing of product installations, and negatively impact the operating results of our HRS business.

Litigation and governmental investigations may harm our financial results.

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

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

- the institution of administrative or civil proceedings;
- sanctions and the payment of fines and penalties;
- the restatement of our financial results for the years under review;
- changes in personnel;
- stockholder lawsuits; and
- increased review and scrutiny of us by our customers, regulatory authorities, the media and others.

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

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

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

In addition, we restated our consolidated financial statements for the years 1999 through 2003 and for the quarterly period ended March 31, 2004 to correct errors in accounting relating principally to the capitalization of internally developed software, the commencement of amortization of capitalized software development costs, accounting for interest rate and fuel price derivative instruments and the accrual of costs and expenses. The determination to restate these consolidated financial statements was made after errors were discovered in October 2004 and January 2005. We refer you to the note entitled Restatement of Financial Statements contained in Part II, Item 8, Financial Statements and Supplementary Data in Amendment No. 1 on Form 10-K/A to our annual report on Form 10-K for the year ended December 31, 2003 for additional discussion of this restatement. Further, we restated our consolidated financial

statements for the years 2000 through 2003 and the first, second and third quarterly periods in 2004 to correct errors in accounting related principally to the CobraServ trademark amortization, leases, international acquisitions, accrual of costs and expenses, and income tax reserves. The determination to restate these consolidated financial statements was made after errors were discovered in March and April 2005. We refer you to Note B, Restatement of Financial Statements and Note O, Supplementary Quarterly Data contained in Part II, Item 8, Financial Statements and Supplementary Data contained in Part II, Item 8, Financial Statements and Supplementary Data in this Form 10-K for additional discussion of this restatement. These restatements could result in new litigation or expand existing litigation. The judgments, settlement and costs of such litigation could have an adverse effect on our financial results.

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

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

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

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

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

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

- the availability of suitable acquisition candidates and investments at acceptable costs;
- our ability to compete effectively for these acquisition candidates and investments; and
- the availability of capital to complete these acquisitions and investments.

These risks could be heightened if we complete several acquisitions or investments within a relatively short period of time. The benefits of an acquisition or investment may often take considerable time to develop, and we cannot guarantee that any acquisition or investment will in fact produce the revenue, earnings or business synergies that we anticipated.

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

- inaccurate assessment of undisclosed liabilities;
- entry into markets in which we may have limited or no experience;
- potential loss of key employees or customers of the acquired businesses;
- difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies and cost savings;
- reallocation of significant amounts of capital from operating initiatives to acquisitions; and
- increase in our indebtedness and a limitation in our ability to access additional capital when needed.

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

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

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

- sell assets;
- incur more indebtedness;
- grant or incur liens on our assets;
- make investments or acquisitions;
- enter into leases or assume contingent obligations;
- engage in mergers or consolidations; and
- engage in transactions with our affiliates.

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

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

New competitors could decide to enter the markets we serve or current competitors could decide to focus more on these markets, and thereby intensify the highly competitive conditions that already exist. These new entrants and existing competitors could offer or introduce new technologies or a different

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service model, or could treat the services to be provided by one of our businesses as one component of a larger product or service offering. These developments could enable these new and existing competitors to offer similar products or services at reduced prices. Any of these or similar developments could harm our business and results of operations.

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

Approximately 24 percent of HRS revenue in 2004 was obtained from our international operations. Our Ceridian Centrefile subsidiary provides human resource services, payroll processing services and human resource information systems software in the United Kingdom. Ceridian Centrefile is expanding its payroll services into numerous countries by engaging a partner within a country to provide us with payroll administration and processing services for that country. Our Ceridian Canada operations handle and hold payroll as well as tax filing funds for our Canadian customers. Comdata also operates in Canada, and has prospects for expanding its business into Latin and South America and Europe. In addition to the risks otherwise described herein, international operations are subject to further additional risks that could adversely affect those operations or our business as a whole, including:

- costs of customizing products and services for foreign customers;
- difficulties in managing and staffing international operations;
- difficulties with or inability to engage partners in Europe;
- reduced protection for intellectual property and other legal rights in some countries;
- longer sales and payment cycles;