CERIDIAN CORP /DE/
Form 10-Q
August 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For transition period from to

Commission file number: 1-15168

CERIDIAN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**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)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

LARGE ACCELERATED FILER x ACCELERATED FILER o NON-ACCELERATED FILER o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

The number of shares of registrant s common stock, par value $.01 per share, outstanding as of July 31, 2006, was 138,992,620.

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q

June 30, 2006

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Part I. Financial Information

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in millions, except per share data)

	For Periods Ended June 30, Three Months 2006	2005	Six Months 2006	2005
Revenue	$ 387.1	$ 358.0	$ 771.4	$ 715.4
Costs and Expenses				
Cost of revenue	210.9	199.3	416.6	392.3
Selling, general and administrative	109.0	109.6	224.5	223.7
Research and development	6.7	7.1	14.5	13.5
Loss (gain) on derivative instruments	2.2	(0.1)	3.1	9.4
Other income, net	(2.5)	(0.7)	(4.0)	(1.7)
Interest income	(4.0)	(2.0)	(8.1)	(3.4)
Interest expense	1.7	1.3	3.0	2.9
Total costs and expenses	324.0	314.5	649.6	636.7
Earnings before income taxes	63.1	43.5	121.8	78.7
Income tax provision	20.9	10.0	43.4	23.2
Net earnings	$ 42.2	$ 33.5	$ 78.4	$ 55.5
Earnings per share				
Basic	$ 0.29	$ 0.23	$ 0.54	$ 0.37
Diluted	$ 0.29	$ 0.22	$ 0.53	$ 0.37
Shares used in calculations (in 000 s)				
Weighted average shares (basic)	144,269	147,826	144,880	148,969
Dilutive securities	2,809	1,182	3,074	1,090
Weighted average shares (diluted)	147,078	149,008	147,954	150,059
Antidilutive shares excluded (in 000 s)	1,729	6,693	1,293	12,458

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in millions)

	June 30, 2006	**December 31, 2005**
Assets		
Cash and equivalents	$ 171.3	$ 335.6
Trade and other receivables, less reserves and allowance for doubtful accounts of $23.0 and $22.1	661.2	584.8
Current deferred income taxes	17.6	16.5
Other current assets	96.0	88.8
Total current assets	946.1	1,025.7
Property, plant and equipment, net	114.9	121.5
Goodwill	946.0	936.5
Software and development costs, net	67.1	71.8
Other intangible assets, net	32.8	35.6
Deferred income taxes	18.6	58.0
Other noncurrent assets	39.4	42.0
Total assets before customer funds	2,164.9	2,291.1
Customer funds	4,043.3	4,341.2
Total assets	$ 6,208.2	$ 6,632.3
Liabilities and Stockholders Equity		
Short-term debt and current portion of long-term obligations	$ 22.6	$ 25.5
Accounts payable	70.4	67.7
Drafts and settlements payable	280.5	232.7
Customer advances	46.4	39.3
Deferred income	115.6	114.0
Accrued taxes	8.1	22.8
Employee compensation and benefits	57.1	67.8
Other accrued expenses	59.7	54.7
Total current liabilities	660.4	624.5
Long-term obligations, less current portion	75.8	81.0
Deferred income taxes	18.7	31.2
Employee benefit plans	106.9	224.1
Other noncurrent liabilities	31.3	36.8
Total liabilities before customer funds obligations	893.1	997.6
Customer funds obligations	4,073.3	4,342.9
Total liabilities	4,966.4	5,340.5
Common stock - $.01 par, authorized 500,000,000 shares, issued 151,567,406 and 151,567,406	1.5	1.5
Additional paid-in capital	938.3	931.0
Retained earnings	771.8	693.4
Treasury stock, at cost 12,794,856 and 6,848,402 shares	(299.3)	(144.1)
Accumulated other comprehensive loss	(170.5)	(190.0)
Total stockholders equity	1,241.8	1,291.8
Total liabilities and stockholders equity	$ 6,208.2	$ 6,632.3

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in millions)

	Six Months Ended June 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 78.4	$ 55.5
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income tax provision (benefit)	18.6	(4.4)
Depreciation and amortization	43.1	41.7
Provision for doubtful accounts	2.9	6.3
Net periodic pension costs	5.1	5.6
Unrealized loss on derivative instruments	2.3	11.1
Gain on sale of marketable securities and other assets	(2.6)	(1.9)
Stock-based compensation	12.8	1.3
Tax benefits from stock-based compensation	(8.9)	
Other	0.3	1.6
Changes in operating assets and liabilities:		
Trade and other receivables	(82.1)	(62.3)
Accounts payable	(14.6)	(16.0)
Drafts and settlements payable	47.9	61.8
Deferred income	0.9	(7.4)
Employee compensation and benefits	(11.6)	5.6
Accrued taxes	(9.1)	11.6
Contribution to retirement plan trust	(75.0)	
Other current assets and liabilities	5.3	17.2
Net cash provided by operating activities	13.7	127.3
CASH FLOWS FROM INVESTING ACTIVITIES		
Expended for property, plant and equipment	(12.1)	(13.9)
Expended for software and development costs	(11.3)	(18.5)
Proceeds from sales of businesses and assets	7.2	30.2
Expended for acquisitions of investments and businesses, less cash acquired	(5.5)	(8.2)
Net cash used for investing activities	(21.7)	(10.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving credit facilities and overdrafts, net	(7.5)	(21.6)
Repayment of other debt and long-term obligations	(5.6)	(5.4)
Repurchase of common stock	(213.2)	(87.4)
Tax benefits from stock-based compensation	8.9	
Proceeds from stock option exercises and stock sales	60.3	15.6
Net cash used for financing activities	(157.1)	(98.8)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.8	(1.8)
NET CASH FLOWS (USED) PROVIDED	(164.3)	16.3
Cash and equivalents at beginning of period	335.6	220.7
Cash and equivalents at end of period	$ 171.3	$ 237.0

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
June 30, 2006
(Unaudited)
(Dollars in millions, except per share data)

NOTE 1 GENERAL

Nature of Our Business

Ceridian Corporation (Ceridian, the Company, we, our or us) is an information services company principally ser the human resource, transportation and retail markets. Our human resource solutions (HRS) business segment enables customers to outsource a broad range of human resource processes. We have HRS operations primarily in the United States, Canada and the United Kingdom. Our Comdata business segment (Comdata) 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. Comdata s operations are located substantially in the United States with some operations in Canada.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission s regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. The accounting policies we follow are set forth in Note A, Accounting Policies, to the Company s financial statements in our Annual Report on Form 10-K, for the year ended December 31, 2005 (the 2005 Form 10-K). The following notes should be read in conjunction with such policies and other disclosures in the 2005 Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the unaudited consolidated financial statements contained herein reflect all adjustments (consisting only of normal recurring adjustments, except as set forth in these notes to consolidated financial statements) necessary to present fairly our financial position as of June 30, 2006, our results of operations for the three and six months ended June 30, 2006 and 2005 and our cash flows for the six months ended June 30, 2006 and 2005. We have reclassified certain prior period amounts to conform to the current period s presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements and our reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The more significant estimates that could affect our results of operations or financial condition involve 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; the determination of the allowance for doubtful accounts and reserve for sales adjustment; the resolution of tax matters; and the determination of stock-based compensation expenses. Further discussion on these estimates can be found in related disclosures elsewhere in this report and in our 2005 Form 10-K.

Recently Issued Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 155, Accounting for Certain Hybrid Instruments an amendment of FASB Statement 133 and 140. The new standard no longer requires financial instruments that have embedded derivatives to be bifurcated and accounted for separately. The new standard is effective for all financial instruments acquired or issued for years beginning after September 15, 2006 and is not expected to have a material effect on the results of our operations or financial position.

In March 2006, the FASB issued SFAS 156, Accounting for Servicing of Financial Assets that amends SFAS 140 regarding the circumstances under which a servicing asset or servicing liability must be recognized, the initial and subsequent measurement of recognized servicing assets and liabilities, and information required to be disclosed relating to servicing assets and liabilities. Further, the new standard allows mark-to-market accounting for servicing rights resulting in reporting that is similar to fair-value hedge accounting, but without the effort and system costs needed to identify effective hedging instruments and document hedging relationships. The new standard is effective for years beginning after September 15, 2006 and is not expected to have a material effect on the results of our operations or financial position.

In July 2006, the FASB issued Financial Accounting Standards Board Interpretation (33 FIN) 48, Accounting for Uncertainty in Income Tax Positions. FIN 48 clarifies the application of SFAS 109, Accounting for Income Taxes, by establishing a threshold condition that a tax position must meet for any part of the benefit of that position to be recognized in the financial statements. In addition to recognition, FIN 48 provides guidance concerning measurement, derecognition, classification, and disclosure of tax positions. The new standard is effective for years beginning after December 15, 2006. We are currently evaluating the impact of this new standard.

NOTE 2 INVESTING ACTIVITY

Derivative Instruments

Interest Rate Derivative Instruments. As of June 30, 2006 and December 31, 2005, we did not hold any interest rate derivative instruments. On February 4, 2005, we disposed of our interest rate derivative instruments for cash proceeds of $21.0, which represented the fair market value of the instruments on the disposal date. From December 31, 2004 to the disposal date, we received $3.5 in cash for settlements on these derivative instruments. The $2.3 difference between the December 31, 2004 carrying value of $26.8 and the $24.5 total cash received was recorded as a loss on interest rate derivative instruments in the first quarter of 2005.

Fuel Price Derivative Instruments. The revenue and earnings of the transportation services business of Comdata is exposed to variability based on changes in fuel (both diesel fuel and gasoline) prices. For a portion of its transportation services customers, Comdata earns fee revenue for card transactions based on a percentage of the total amount of each fuel purchase. An increase or decrease in the price of fuel increases or decreases the total dollar amount of fuel purchases and Comdata revenue. Accordingly, we estimate that for each 10¢ change in the average price per gallon of diesel fuel per year, Comdata revenue and pre-tax earnings are impacted by $2.0, absent the effect of any diesel fuel price derivative instruments. In addition, we estimate that for each 10¢ change in the average price per gallon of gasoline per year, Comdata revenue and pre-tax earnings are impacted by $0.4, absent the effect of any gasoline price derivative instruments.

Our fuel price risk management objective is to protect Comdata earnings from the effects of falling fuel prices by entering into derivative instruments that convert the floating price of fuel used in revenue calculations to a fixed price. We continuously monitor fuel price volatility and the cost of derivative instruments. For 2005, we covered approximately 100% of our diesel fuel price risk for the full year with a combination of diesel fuel price derivative instruments with similar terms at an average strike price of $1.92 per gallon. In October 2005, we entered into a diesel fuel price derivative instrument with a strike price of $2.61 per gallon on approximately 20% of our estimated diesel fuel price risk effective from January 1 until December 31, 2006. In January 2006, we entered into additional diesel fuel price derivative instruments bringing the total risk covered in 2006 to approximately 80% of our anticipated diesel fuel price risk with an average strike price of $2.55 per gallon effective until December 31, 2006. The activity related to diesel fuel derivative instruments for the three and six months ended June 30, 2006 and 2005 was as follows:

	For Periods Ended June 30,			
	Three Months		Six Months	
	2006	2005	2006	2005
Payments to counterparties	$ 0.6	$ 1.3	$ 1.3	$ 1.8
Unrealized loss (gain)	1.6	(1.4)	1.8	5.3
Loss (gain) on derivative instruments	$ 2.2	$ (0.1)	$ 3.1	$ 7.1

Our diesel fuel price derivative instruments are carried at fair market value and were reported as a liability of $2.1 recorded in other accrued expenses at June 30, 2006 and were reported as an asset of $0.5 in other noncurrent assets and a liability of $0.8 in other noncurrent liabilities at December 31, 2005.

Investments and Acquisitions of Businesses

Publicly Held Investments. At June 30, 2006 and December 31, 2005, we held 255,922 and 340,922 shares, respectively, of The Ultimate Software Group, Inc. (Ultimate), a provider of human resources, payroll and workforce management solutions, common stock with a carrying value of $4.9 and $6.5, respectively. We did not sell any shares of Ultimate stock during the second quarter of 2006 or 2005. During the first six months of 2006, we sold 85,000 shares of Ultimate common stock for proceeds of $1.9 and a net gain of $1.6. During the first six months of 2005, we sold 108,289 shares of Ultimate common stock for proceeds of $1.4 and a net gain of $1.0. Gains and losses on sales of marketable securities are reported in other income, net in our consolidated statements of operations.

The Ultimate securities are treated as available for sale securities. The carrying value of these securities has been adjusted at each balance sheet date to reflect the current market price. The amount of this change is reported as unrealized gain or loss from marketable securities in accumulated other comprehensive income. The cost and fair values of securities available for sale at June 30, 2006 and December 31, 2005 were as follows:

	June 30, 2006	December 31, 2005
Cost	$ 1.0	$ 1.4
Gross unrealized gains	3.9	5.1
Fair value	$ 4.9	$ 6.5

Acquisitions of Businesses. In the second quarter of 2006, Comdata acquired the remaining 80.1% equity interest in SASH Management, LLC (SASH), a mid-market provider of gift certificates and gift cards, for $5.8 in cash and recorded goodwill of $2.9, other intangible assets of $3.2 and net assets of $0.3, including $0.3 in cash. In the first quarter of 2005, Comdata acquired Tranvia, Inc. (Tranvia), a

merchant processor for credit, debit and prepaid cards and e-commerce activities, for $8.2 and recorded goodwill of $5.1, other intangible assets totaling $3.4 and net liabilities of $0.3. The results of operations for SASH and Tranvia have been included in our consolidated results of operations since the date of acquisition. Pro forma financial information has not been presented for either acquisition because the impact was not material.

NOTE 3 OTHER INCOME, NET

	For Periods Ended June 30,			
	Three Months		**Six Months**	
	2006	**2005**	**2006**	**2005**
Gain on sale of marketable securities	$	$	$ (1.6)	$ (1.0)
Foreign currency translation (income) expense	(0.5)	0.1	(0.5)	0.1
Gain on sale of assets	(1.1)	(0.9)	(1.1)	(0.9)
Asset write-downs		0.1		0.1
Litigation settlement	(1.0)		(1.0)	
Other expense	0.1		0.2	
Total	$ (2.5)	$ (0.7)	$ (4.0)	$ (1.7)

During the second quarter of 2006, we received a cash payment and recorded a gain of $1.0 related to the settlement of a lawsuit and completed the sale of assets that resulted in a gain of $1.1. During the second quarter of 2005 we recorded a gain on the sale of land for $0.9. Sales of marketable securities are described in Note 2, Investing Activity .

NOTE 4 CAPITAL ASSETS

	June 30, 2006	**December 31, 2005**
Property, Plant and Equipment		
Land	$ 3.0	$ 3.0
Machinery and equipment (accumulated depreciation of $195.3 and $200.8)	253.6	264.8
Buildings and improvements (accumulated depreciation of $46.4 and $44.3)	100.0	98.8
Total property, plant and equipment	356.6	366.6
Accumulated depreciation	(241.7)	(245.1)
Property, plant and equipment, net	$ 114.9	$ 121.5
Goodwill		
At beginning of year	$ 936.5	$ 931.8
Acquisitions	2.9	5.2
Translation and other adjustments	6.6	(0.5)
At end of period	$ 946.0	$ 936.5
Software and Development Costs		
Purchased software (accumulated amortization of $52.3 and $47.2)	$ 72.6	$ 69.3
Internally developed software costs (accumulated amortization of $69.7 and $60.1)	116.5	109.8
Total software and development costs	189.1	179.1
Accumulated amortization	(122.0)	(107.3)
Software and development costs, net	$ 67.1	$ 71.8

Other Intangible Assets		
Customer lists and relationships (accumulated amortization of $38.5 and $34.1)	$ 60.5	$ 56.1
Trademarks (accumulated amortization of $0.9 and $0.7)	0.9	0.9
Technology (accumulated amortization of $49.3 and $51.3)	58.1	62.3
Non-compete agreements (accumulated amortization of $9.0 and $7.9)	11.0	10.3
Total other intangible assets	130.5	129.6
Accumulated amortization	(97.7)	(94.0)
Other intangible assets, net	$ 32.8	$ 35.6

NOTE 5 FINANCING

Debt and Capital Lease Obligations	**June 30, 2006**	**December 31, 2005**
Ceridian revolving credit facility	$ 34.4	$ 40.6
Comdata receivables securitization facility	55.0	55.0
Total revolving credit facilities	89.4	95.6
Capital lease obligations	9.0	10.9
Total debt and capital lease obligations	98.4	106.5
Less short-term debt and current portions of long-term debt and capital lease obligations	22.6	25.5
Long-term obligations, less current portions	$ 75.8	$ 81.0

Revolving Credit Facility

The domestic revolving credit facility that we entered into on November 18, 2005 (2005 Revolving Credit Facility) provides for up to $250.0 (subject to possible increase, at our request as authorized by our Board of Directors, up to $400.0) for a combination of advances and letters of credit until November 18, 2010. The interest rate on this facility is 57.5 basis points over the Eurocurrency Rate (resulting in a total rate of 4.88% at June 30, 2006). This facility includes a $25.0 sublimit for swingline loans, a $100.0 U.S. dollar equivalent sublimit for loans made in Canadian dollars to Ceridian Canada (Canadian subfacility), and a $50.0 U.S. dollar equivalent sublimit for multicurrency borrowings in certain currencies. In connection with the repatriation of funds from Ceridian Canada to Ceridian Corporation in December 2005, Ceridian Canada s net borrowings under the Canadian subfacility of the 2005 Revolving Credit Facility as of June 30, 2006 and December 31, 2005 were $34.4 and $40.6, respectively. The carrying amount approximates fair value. We have classified $17.9 and $20.7 as of June 30, 2006 and December 31, 2005, respectively, as a current liability based on management s intent to repay this amount within the following twelve months. As of June 30, 2006, we utilized $2.8 of the 2005 Revolving Credit Facility for letters of credit, leaving an unused borrowing capacity of $212.8 of which we have designated $55.0 as backup to the Comdata receivables securitization facility.

Comdata Receivables Securitization Facility

In June 2006, Comdata renewed its existing $150.0 receivables securitization facility by amending the agreements to extend the maturity date to June 14, 2009 with similar terms. Under this facility, Comdata sells receivables to a special purpose subsidiary, Comdata Funding Corporation, which resells the receivables to a third party commercial paper conduit (Conduit). The interest rate paid by Comdata is typically equal to the Conduit s pooled A-1/P-1 commercial paper rate (5.15% at June 30, 2006) plus program fees. However, in the event the Conduit is unable to sell commercial paper, the rate becomes the Prime rate or LIBOR plus 1.5% at

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Comdata s option. The amount outstanding at both June 30, 2006 and December 31, 2005 was $55.0, leaving an unused borrowing capacity under this facility of $95.0 as of both dates. The aggregate amount of receivables serving as collateral amounted to $298.9 at June 30, 2006, and $230.2 at December 31, 2005. The amount outstanding is accounted for as long-term debt and the receivables remain on our consolidated balance sheet even though the receivables are not available to satisfy claims of creditors.

Other Debt Financing

At June 30, 2006 and December 31, 2005, Ceridian Centrefile maintained two overdraft facilities totaling £7.5 million. There was no amount outstanding under either facility as of June 30, 2006 and December 31, 2005. The £6.5 million overdraft facility has been renewed until February 2007.

In addition to the amount available under the Canadian subfacility, Ceridian Canada had available at June 30, 2006 and December 31, 2005 a committed bank credit facility that provided up to CAD $5.0 million for issuance of letters of credit and it is renewed annually at the option of the bank. The amounts of letters of credit outstanding under this facility were CAD $4.1 million ($3.7 and $3.5) at June 30, 2006 and December 31, 2005.

We remained in compliance with the debt covenants under our credit facilities at June 30, 2006.

Equity Activities

During the first six months of 2006, we repurchased 9,404,800 shares of our common stock for $229.4 on the open market at an average net price of $24.39 per share. We paid $213.2 of the purchase price before the end of the second quarter of 2006 and accrued $16.2 for trades settled in early July 2006. During the first six months of 2005, we repurchased 4,724,450 shares of our common stock for $90.8 on the open market at an average net price of $19.22 per share. We paid $87.4 of the purchase price before the end of the second quarter of 2005 and accrued $3.4 for trades settled in early July 2005. As of June 30, 2006, we may repurchase up to 6,209,250 additional shares of our common stock under an existing authorization from our Board of Directors.

NOTE 6 CUSTOMER FUNDS

Customer funds are invested in high quality collateralized short-term investments or money market mutual funds as well as debt securities issued by U.S. or Canadian governments and agencies, AAA-rated asset-backed securities and corporate securities rated A3/A- or better. Investments of customer funds are reported at fair value. The after-tax impact of unrealized gains and losses resulting from quarterly revaluation of these securities are reported in accumulated other comprehensive loss in stockholders equity. At June 30, 2006 and December 31, 2005, the related amortized cost of customer funds exceeded the fair value of investments by $30.0 and $1.7, respectively, primarily as a result of changes in interest rates.

Investment income from invested customer funds constitutes a component of our compensation for providing services under agreements with our customers. Investment income from invested customer funds included in revenue for the periods ended June 30, 2006 and 2005 amounted to $34.9 and $27.1 for the second quarter of 2006 and 2005, respectively, and $70.9 and $54.1 for the six months ended June 30, 2006 and 2005, respectively. Investment income includes realized gains and losses from sales of customer fund investments.

The amortized cost and fair value of investments of customer funds available for sale at June 30, 2006 and December 31, 2005 were as follows:

Investments of Customer Funds at June 30, 2006

	Amortized Cost	Gross Unrealized Gain	Loss	Fair Value
Money market securities and other cash equivalents	$ 2,417.6	$	$	$ 2,417.6
Available for sale investments:				
U.S. government and agency securities	901.9		(27.9)	874.0
Canadian and provincial government securities	392.0	4.2	(2.9)	393.3
Corporate debt securities	250.3	0.9	(4.1)	247.1
Asset-backed securities	74.9	0.3	(0.4)	74.8
Mortgage-backed and other securities	30.5	0.2	(0.3)	30.4
Total available for sale investments	1,649.6	5.6	(35.6)	1,619.6
Invested customer funds	4,067.2	$ 5.6	$ (35.6)	4,037.2
Trust receivables	6.1			6.1
Total customer funds	$ 4,073.3			$ 4,043.3

Investments of Customer Funds at December 31, 2005

	Amortized Cost	Gross Unrealized Gain	Loss	Fair Value
Money market securities and other cash equivalents	$ 2,705.1	$	$	$ 2,705.1
Available for sale investments:				
U.S. government and agency securities	905.9	1.4	(11.9)	895.4
Canadian and provincial government securities	381.2	9.6	(0.2)	390.6
Corporate debt securities	248.0	1.2	(2.1)	247.1
Asset-backed securities	63.1	0.6	(0.2)	63.5
Mortgage-backed and other securities	29.8	0.1	(0.2)	29.7
Total available for sale investments	1,628.0	12.9	(14.6)	1,626.3
Invested customer funds	4,333.1	$ 12.9	$ (14.6)	4,331.4
Trust receivables	9.8			9.8
Total customer funds	$ 4,342.9			$ 4,341.2

The following represents the gross unrealized losses and the related fair value of the investments of customer funds available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2006.

	Less than 12 months		12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. government and agency securities	$ (10.5)	$ 407.7	$ (17.4)	$ 466.3	$ (27.9)	$ 874.0
Canadian and provincial government securities	(2.9)	163.0			(2.9)	163.0
Corporate debt securities	(2.3)	129.9	(1.8)	51.2	(4.1)	181.1
Asset-backed securities	(0.4)	35.9		1.8	(0.4)	37.7
Mortgage-backed and other securities	(0.2)	16.9	(0.1)	1.3	(0.3)	18.2
Total available for sale investments	$ (16.3)	$ 753.4	$ (19.3)	$ 520.6	$ (35.6)	$ 1,274.0

Management does not believe any individual unrealized losses as of June 30, 2006 represent an other-than-temporary impairment. The unrealized losses are primarily attributable to changes in interest rates and not credit deterioration. We currently have both the intent and ability to hold the securities for the time necessary to recover the amortized cost.

The amortized cost and fair value of investment securities available for sale at June 30, 2006, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investments of Customer Funds by Maturity Date at June 30, 2006

	Amortized Cost	Fair Value
Due in one year or less	$ 2,665.4	$ 2,665.7
Due in one to three years	558.6	547.4
Due in three to five years	458.5	443.1
Due after five years	384.7	381.0
Invested customer funds	$ 4,067.2	$ 4,037.2

NOTE 7 INCOME TAXES

During the second quarter of 2006, the Canadian Government enacted new tax legislation lowering the federal corporate income tax rates to 20.5% in 2008, 20% in 2009 and 19% in 2010. The effect of applying the newly enacted tax rates to our Canadian deferred income tax balance resulted in a $2.9 reduction of income tax expense for the quarter. At December 31, 2004, our income tax returns remained subject to income tax audits in various jurisdictions for 1989 and subsequent years, as a result of tax sharing agreements related to the disposition of certain operations. During the second quarter of 2005, we reversed $5.8 of income tax reserves as a result of a favorable tax settlement related to the tax returns of those operations for which Ceridian had remained liable under tax sharing agreements.

NOTE 8 RETIREMENT PLANS

On May 31, 2006, we made an employer contribution of $75.0 to our U.S. defined benefit pension plan from our existing cash balance, resulting in a remeasurement of the plan assets, liabilities and projected pension expenses under SFAS 87, Employers Accounting for Pensions, as of that date. The discount rate used to value the assets and liabilities increased from 5.5% to 6.25%. The effect of this remeasurement resulted in a reduction of our net periodic pension cost for this plan by $0.7 for the second quarter of 2006, and a reduction in the projected pension expense for the year by approximately $4.9, or approximately $0.02 per diluted share. In addition, accumulated other comprehensive loss was reduced by $50.0 as a result of the cash contribution. See further discussion in Note 12 Comprehensive Income. The impact resulting from the contribution and remeasurement to our U.S. defined benefit pension plan on the funded status of the Company s defined benefit plans, which includes all of the pension plans of Ceridian, is reflected in the following table.

Remeasurement of Funded Status of Defined Benefit Plans	**June 30, 2006**	**December 31, 2005**
Accumulated benefit obligation	$ 669.7	$ 719.1
Market value of assets	(621.2)	(550.3)
Unfunded accumulated benefit obligation	48.5	168.8
Prepaid pension cost	271.5	201.2
Additional minimum liability required	320.0	370.0
Offsetting intangible asset	(0.2)	(0.2)
Net reduction in equity before income tax	$ 319.8	$ 369.8

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

	For Periods Ended June 30,			
	Three months		**Six months**	
Net Periodic Pension Cost	**2006**	**2005**	**2006**	**2005**
Service cost	$ 0.9	$ 1.1	$ 1.9	$ 2.1
Interest cost	10.2	10.2	20.5	20.5
Expected return on plan assets	(12.4)	(11.7)	(24.1)	(23.4)
Net amortization and deferral	4.2	4.1	8.3	8.2
Net periodic pension cost	2.9	3.7	6.6	7.4
Settlements		1.3		1.3
Total pension cost	$ 2.9	$ 5.0	$ 6.6	$ 8.7

	For Periods Ended June 30,			
	Three months		**Six months**	
Net Periodic Postretirement Benefit Cost	**2006**	**2005**	**2006**	**2005**
Service cost	$	$ 0.1	$	$ 0.1
Interest cost	0.8	0.7	1.5	1.5
Actuarial loss amortization	0.1	0.1	0.2	0.2
Net periodic postretirement benefit cost	$ 0.9	$ 0.9	$ 1.7	$ 1.8

NOTE 9 STOCK-BASED COMPENSATION

In December 2004, FASB issued SFAS 123R, Share-Based Payment. SFAS 123R is a revision of SFAS 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows, and its related implementation guidance. On January 1, 2006, we adopted the provisions of SFAS 123R using the modified prospective method, under which prior periods are not retroactively restated. The valuation provisions of SFAS 123R apply to awards granted after the effective date. Estimated stock-based compensation expense for awards granted prior to the effective date but that remain unvested on the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services through stock-based payment transactions. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant. The cost is to be recognized over the period during which an employee is required to provide services in exchange for the award. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense be reported as a financing cash flow, rather than as an operating cash flow as prescribed under the prior accounting rules. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under prior accounting rules. Upon adoption of SFAS 123R, we recognized a one-time gain in the first quarter of 2006 of $0.4 based on SFAS 123R s requirement to apply an estimated forfeiture rate to unvested awards. Previously, we recorded forfeitures as incurred. There was no impact on previously reported interim periods upon the adoption of SFAS 123R.

Prior to the adoption of SFAS 123R, we followed the intrinsic value method in accordance with APB 25 to account for our equity grants. Accordingly, no compensation expense was recognized for stock purchase rights granted in connection with the issuance of stock options under our employee stock option plans or employee stock purchase plans; however, compensation expense was recognized in connection with the issuance of restricted stock. The adoption of SFAS 123R primarily resulted in a change in our method of recognizing the fair value of stock-based compensation and estimating forfeitures for all unvested awards. The following table shows the effect of adopting SFAS 123R on selected reported items (As Reported) and what those items would have been under previous guidance under APB 25:

	Three Months Ended June 30, 2006		
	As Reported	**Pro Forma Under APB No. 25**	**Difference**
Earnings before income taxes	$ 63.1	$ 66.0	$ (2.9)
Net earnings	$ 42.2	$ 44.3	$ (2.1)
Cash flows from operating activities	$ (28.6)	$ (26.5)	$ (2.1)
Cash flows from financing activities	$ (192.2)	$ (194.3)	$ 2.1
Earnings per share:			
Basic	$ 0.29	$ 0.30	$ (0.01)
Diluted	$ 0.29	$ 0.30	$ (0.01)

	Six Months Ended June 30, 2006		
	As Reported	Pro Forma Under APB No. 25	Difference
Earnings before income taxes	$ 121.8	$ 131.3	$ (9.5)
Net earnings	$ 78.4	$ 84.7	$ (6.3)
Cash flows from operating activities	$ 13.7	$ 22.6	$ (8.9)
Cash flows from financing activities	$ (157.1)	$ (166.0)	$ 8.9
Earnings per share:			
Basic	$ 0.54	$ 0.58	$ (0.04)
Diluted	$ 0.53	$ 0.57	$ (0.04)

Results of operations for the three months and six months ended June 30, 2005 and prior periods have not been restated to reflect recognition of stock-based compensation expense.

If compensation expense for employee stock-based compensation had been determined based on the fair value at the grant dates consistent with the methods provided in SFAS No. 123, net income and earnings per share for the three months and six months ended June 30, 2005 would have been as follows:

Pro Forma Effect of Fair Value Accounting	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net earnings as reported	$ 33.5	$ 55.5
Add: Stock-based compensation expense included in reported net income, net of related tax effects	0.3	0.8
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(2.3)	(5.1)
Pro forma net earnings	$ 31.5	$ 51.2
Basic earnings per share as reported	$ 0.23	$ 0.37
Pro forma basic earnings per share	$ 0.21	$ 0.34
Diluted earnings per share as reported	$ 0.22	$ 0.37
Pro forma diluted earnings per share	$ 0.21	$ 0.34

We maintained stock-based compensation plans for non-employee directors, officers, employees, consultants and independent contractors.

Our 2004 Long-Term Stock Incentive Plan, as amended (2004 LTSIP), authorizes the issuance of up to 6,000,000 common shares in connection with awards of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, performance awards, stock awards and other stock-based awards. Eligible participants in the 2004 LTSIP include our employees, officers, consultants, advisors and non-employee directors. Awards may be granted under the 2004 LTSIP until May 11, 2014. As of June 30, 2006, 2,690,165 shares were available for future grants under the 2004 LTSIP.

Our Amended and Restated 2001 Long-Term Stock Incentive Plan (2001 LTSIP) authorizes the issuance of up to 27,000,000 common shares in connection with similar awards. Eligible participants in the 2001 LTSIP include our employees and non-employee directors, consultants and independent contractors. Awards may be granted under the 2001 LTSIP until November 27, 2010. As of June 30, 2006, 1,321,925 shares were available for future grants under the 2001 LTSIP.

The Company has also granted non-qualified stock options to employees who were not executive officers or directors pursuant to our 2002 Employee Stock Incentive Plan (2002 ESIP). The 2002 ESIP was terminated on May 12, 2004 in connection with the approval by our shareholders of the 2004 LTSIP. All outstanding awards under the 2002 ESIP remained in effect at the time of termination of this plan.

Stock options, restricted stock awards and restricted stock units awarded under the 2004 LTSIP, 2001 LTSIP and 2002 ESIP generally vest either annually over a three-year period or on a specific date if certain performance criteria are satisfied. Stock options generally have either a 5-year or 10-year term and have an exercise price that is not less than the fair market value of the underlying stock on the date of grant. Prior to February 17, 2006, most stock option award agreements under these plans include a retirement feature that accelerated future vesting (service) dates to the retirement date for recipients who terminated employment and who were age 55 or older and had 10 years of qualified employment service. Subsequent to February 17, 2006, stock option and restricted stock unit award agreements under the 2004 LTSIP contain a retirement feature that permits the continued vesting of such awards following a recipients retirement for recipients who terminate employment and who are age 55 or older and have 10 years of qualified employment service. Restricted stock awards do not include a retirement feature.

For stock option awards granted prior to January 1, 2006, compensation expense is generally recognized evenly over the requisite service period of each individual vesting increment. For restricted stock awards granted prior to January 1, 2006, compensation expense is generally recognized evenly over the requisite service period, which is usually the entire vesting period of each grant. Subsequent to January 1, 2006, compensation expense for all awards is recognized evenly over the requisite service period, which is usually the entire vesting period of each grant. The fair value of stock options and restricted stock units received by retirement eligible employees is expensed when granted.

Our Amended and Restated 2001 Director Performance Incentive Plan (2001 DPIP), which expired in May 2005, authorized the issuance of common shares in connection with awards of stock options, restricted stock and deferred restricted stock units to our non-employee directors. All outstanding awards under the 2001 DPIP remained in effect at the time of expiration of this plan. Since the expiration of the 2001 DPIP, equity awards made to non-employee directors are under the 2004 LTSIP.

Prior to January 1, 2006, an annual grant of a non-qualified stock option to purchase 4,000 shares was made to each eligible non-employee director at the time of election or re-election to the Board, with such grants becoming fully exercisable six months after the date of grant. The exercise price of the options was the fair market value of the underlying stock at the date of grant, and the options expire in ten years. Effective January 1, 2006, the amount of shares underlying the annual grant of non-qualified stock options was increased to 8,000 shares. Such grants will vest annually over a three year period after the date of grant. The exercise price of the options will be the fair market value of the underlying stock at the date of grant, and the options will expire in five years.

Additionally, at least 50% of the annual Board retainer for each non-employee director is provided in the form of restricted stock, deferred restricted stock units or a combination of the two. Non-employee directors may elect to receive up to 100% of their annual Board retainer and up to 100% of any Board committee chair fees in the form of restricted stock, deferred restricted stock units or a combination of the two. Such restricted stock and deferred restricted stock units are subject to forfeiture on a pro rata basis if a director s service on the

Board terminates before December 31 in the year of grant other than following a change of control, and the restrictions on transfer of such awards lapse at the conclusion of the director s service.

A one-time award of restricted stock is made to each non-employee director when the director first joins the Board with restrictions on transfer that ordinarily lapse annually over a five-year period. Prior to January 1, 2006, the number of shares awarded had a fair market value equal to two and one-half times the then-current annual Board retainer paid to non-employee directors. Subsequent to January 1, 2006, the number of shares awarded had a fair market value of $150,000.

We have reserved 500,000 common shares for issuance under the 2001 Savings-Related Share Option Plan (2001 SAYE) for our employees in the United Kingdom. At June 30, 2006, 57,129 shares of common stock remain eligible to be purchased under the 2001 SAYE. No future participation will be permitted in this plan.

We generally use our treasury stock to address our obligations under our stock compensation plans.

Our Amended and Restated Employee Stock Purchase Plan (ESPP) was terminated on December 15, 2005. The ESPP provided for the issuance of up to 1,600,000 newly issued or treasury common shares to eligible employees of Ceridian. The purchase price of the common shares was 85% of the lesser of the fair market value on either the first day or the last day of the applicable three-month offering period. 419,359 common shares remained available under the ESPP at the time of termination.

A summary of information with respect to stock-based compensation is as follows:

	For Periods Ended June 30,			
	Three Months		**Six Months**	
	2006	**2005**	**2006**	**2005**
Stock-based compensation costs included in:				
Cost of revenue	$ 0.9	$	$ 2.4	$
Selling, general and administrative	3.1	0.6	10.2	1.3
Research and development	0.1		0.2	
Total stock-based compensation costs	4.1	0.6	12.8	1.3
Amounts capitalized				
Amounts charged against income, before income tax benefit	4.1	0.6	12.8	1.3
Income tax benefit related to stock-based compensation included in net earnings	(1.1)	(0.3)	(4.2)	(0.5)
Net compensation expense included in net earnings	$ 3.0	$ 0.3	$ 8.6	$ 0.8

Stock option activity in the six months ended June 30, 2006 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2006	16,572,506	$ 17.92		
Granted	1,614,260	$ 25.74		
Exercised	(3,506,123)	$ 17.40		
Forfeited or expired	(369,837)	$ 19.89		
Options outstanding at June 30, 2006	14,310,806	$ 18.89	2.64	$ 81.7
Options exercisable at June 30, 2006	10,032,671	$ 17.81	2.13	$ 66.8

Other information pertaining to options was as follows:

	For Periods Ended June 30,			
	Three Months		Six Months	
	2006	2005	2006	2005
Total intrinsic value of stock options exercised	$ 6.9	$ 3.2	$ 27.4	$ 3.7
Weighted average grant date fair value per share of stock options granted	$ 7.65	$ 5.44	$ 8.61	$ 5.98
Cash received from the exercise of stock options	$ 16.0	$ 13.3	$ 60.3	$ 15.6
Tax benefit related to the exercise of stock options	$ 2.1	$ 0.7	$ 8.9	$ 0.9

At June 30, 2006, there was $14.2 of total stock option compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.19 years.

The fair value of these stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	For Periods Ended June 30,			
	Three Months		Six Months	
	2006	2005	2006	2005
Expected life in years	3.96	3.76	4.16	3.90
Expected volatility	29.8 %	34.9 %	33.5 %	35.5 %
Expected dividend rate				
Risk-free interest rate	4.8 %	3.7 %	4.4 %	4.1 %

For the three and six months ended June 30, 2006, we used a projected expected life for each award granted based on historical experience of our employees exercise behavior. We stratify our employee population based upon distinctive exercise behavior patterns. Expected volatility is based on historical daily volatility levels of our common shares. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues.

Restricted stock unit activity in the six months ended June 30, 2006 was as follows:

	Number of Restricted Stock Units	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Units outstanding at January 1, 2006	3,747		
Granted	356,099		
Converted	(716)		
Forfeited	(12,030)		
Units outstanding at June 30, 2006	347,100	1.63	$ 8.5
Undelivered vested units at June 30, 2006	3,171		

The intrinsic value of the converted restricted stock units during the six months ended June 30, 2006 was less than $0.1. There were no restricted stock units converted during the six months ended June 30, 2005. As of June 30, 2006, there was $5.7 of total restricted stock unit compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.63 years.

Restricted stock award activity in the six months ended June 30, 2006 was as follows:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Nonvested balance as of January 1, 2006	308,416	$ 18.46
Granted	7,350	$ 24.85
Vested	(138,937)	$ 17.98
Forfeited	(8,516)	$ 19.28
Nonvested balance as of June 30, 2006	168,313	$ 19.10

The fair value of restricted stock vested during the three months ended June 30, 2006 was less than $0.1 and was $0.1 for the three months ended June 30, 2005. The fair value of restricted stock vested during the six months ended June 30, 2006 and 2005 was $2.5 and $2.1, respectively. As of June 30, 2006, there was $2.3 of total restricted stock award compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.62 years.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Guarantees

SourceWeb was a payroll platform within the HRS business segment. On December 31, 2004, we sold certain customer relationships and other assets associated with our SourceWeb payroll platform (the SourceWeb Assets) to RSM McGladrey Employer Services, Inc. for $4.0. As a result of the sale of the SourceWeb Assets in 2004, we recorded a pre-tax charge and accrued a liability of $19.2 representing the fair value of an associated guaranteed future minimum royalty obligation to Ultimate. As of June 30, 2006 and December 31, 2005, the remaining liability was $11.1 and $13.9, respectively. Future payments of principal and interest under this obligation will amount to $3.2 in 2006, $6.6 in 2007 and $1.7

in 2008.

Legal Matters

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

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

Securities Class Actions

Since August 6, 2004, six shareholder lawsuits have been filed against Ceridian Corporation and certain current and former executive officers in United States District Court, District of Minnesota. Those lawsuits have been consolidated into a single case captioned *In re Ceridian Corporation Securities Litigation*, Case No. 04-cv-03704 MJD-JGL. This consolidated action purports to be a class action filed on behalf of all persons who purchased or otherwise acquired common stock of the Company between April 17, 2003 through and including March 17, 2005, 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 and expenses, accounting for capitalization, accounting for derivatives, accounting for long-term leases, and accounting for trademarks. Plaintiffs allege, in essence, that the Company s series of restatements constituted a violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934. On May 25, 2006, the United States District Court, District of Minnesota granted Ceridian s motion to dismiss the consolidated class action complaint and gave leave to the plaintiffs to file an amended complaint. An amended complaint was filed on July 14, 2006.

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 current and former 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 into a single lawsuit. 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. The consolidated lawsuit relies on the same factual allegations as the purported class action shareholder lawsuits described above.

Ceridian intends to appropriately defend itself in the consolidated lawsuit. We cannot estimate the possible loss or range of loss from these matters.

SEC Investigation

On January 22, 2004, we filed a Current Report on Form 8-K, under Item 5, stating that we announced that we are responding to a document request from the Securities and Exchange Commission, and that we have been advised that the SEC has issued a formal order of investigation. In February 2004, we provided documents responsive to the SEC. In July 2004, we advised the SEC of the investigation being directed by the Audit Committee of our Board of Directors. We kept the SEC advised on a regular basis of the Audit Committee s investigation. On December 10, 2004, we received a further formal confidential document request from the SEC. The second request has broadened the areas of inquiry to include, among other things, Ceridian s restatements, revenue recognition, capitalization, expense recognition, how we respond to any internal ethics complaints, and Ceridian s accounting policies and procedures. The formal document requests state that the SEC investigation is a non-public, fact-finding inquiry, and that the investigation and document requests do not mean that the SEC has concluded that we have violated any securities laws. As is common in SEC investigations, on June 15, 2005, we received a subpoena from the SEC seeking certain additional documents that relate to some of the areas of inquiry identified above. The subpoena is consistent with investigations of this type and was anticipated. We continue to fully cooperate with the SEC and are in the process of completing our response to the SEC s additional document request and subpoena.

NOTE 11 SEGMENT DATA

	For Periods Ended June 30,			
	Three Months		**Six Months**	
	2006	**2005**	**2006**	**2005**
Revenue:				
HRS	$ 271.3	$ 255.5	$ 551.2	$ 520.7
Comdata	115.8	102.5	220.2	194.7
Total Ceridian	$ 387.1	$ 358.0	$ 771.4	$ 715.4
Earnings before Interest and Taxes (EBIT):				
HRS	$ 20.6	$ 8.9	$ 42.2	$ 21.2
Comdata	40.2	33.9	74.5	57.0
Total Ceridian	60.8	42.8	116.7	78.2
Interest income, net	2.3	0.7	5.1	0.5
Earnings before income taxes	$ 63.1	$ 43.5	$ 121.8	$ 78.7

Revenue by product and service is as follows:

	For Periods Ended June 30, Three Months		Six Months	
	2006	2005	2006	2005
HRS Revenue:				
Payroll and Tax Services	$ 193.5	$ 179.4	$ 394.6	$ 369.8
Benefit Services	39.0	37.5	78.5	74.6
LifeWorks	38.8	38.6	78.1	76.3
Total HRS Revenue	$ 271.3	$ 255.5	$ 551.2	$ 520.7
Comdata Revenue:				
Transportation	$ 80.1	$ 70.7	$ 153.0	$ 136.3
Retail Services	35.7	31.8	67.2	58.4
Total Comdata Revenue	115.8	102.5	220.2	194.7
Total Revenue	$ 387.1	$ 358.0	$ 771.4	$ 715.4

Our operations are conducted primarily in the U.S. and revenue from sales between U.S. and non U.S. entities is not material. Operations in Canada and the United Kingdom relate almost entirely to the HRS segment. Geographic data for the periods presented below is determined by reference to the location of operation.

Revenue by geography is as follows:

	For Periods Ended June 30, Three Months		Six Months	
	2006	2005	2006	2005
Revenue:				
U.S.	$ 319.2	$ 296.3	$ 636.6	$ 590.1
Canada	44.3	36.6	88.7	76.1
United Kingdom	23.6	25.1	46.1	49.2
Total International	67.9	61.7	134.8	125.3
Total Revenue	$ 387.1	$ 358.0	$ 771.4	$ 715.4

NOTE 12 COMPREHENSIVE INCOME

	For Periods Ended June 30,			
	Three Months		Six Months	
	2006	2005	2006	2005
Net earnings	$ 42.2	$ 33.5	$ 78.4	$ 55.5
Items of other comprehensive income before income taxes:				
Change in foreign currency translation adjustment	7.3	(3.1)	7.0	(5.3)
Change in unrealized (gain) loss from marketable securities	(1.7)	0.5	0.4	2.3
Change in unrealized (gain) loss from invested customer funds	(11.7)	25.3	(28.4)	6.7
Change in pension liability adjustment	50.0	1.3	50.0	1.4
Less realized gain on:				
Marketable securities sold or settled in this period			(1.6)	(1.0)
Customer funds securities sold or settled in this period		(0.8)		(0.8)
Other comprehensive loss before income taxes	43.9	23.2	27.4	3.3
Income tax benefit	(13.8)	(9.6)	(7.9)	(3.0)
Other comprehensive loss after income taxes	30.1	13.6	19.5	0.3
Comprehensive income	$ 72.3	$ 47.1	$ 97.9	$ 55.8

As discussed in Note 8 Retirement Plans, we made an employer contribution of $75.0 to our U.S. defined benefit pension plan resulting in a $50.0 reduction in the pension liability adjustment within accumulated other comprehensive income.

NOTE 13 SUBSEQUENT EVENT

On July 25, 2006, Ceridian entered into an agreement to sell the major portion of its Retirement Plan Services (RPS) recordkeeping and administration business to The Newport Group, a retirement services provider, and closed the transaction effective as of the close of business July 31, 2006. The sale price consisted of an initial closing payment of $11.1 and a subsequent payment to be determined one year after the closing date based on a percentage of revenue received by The Newport Group from retained transferred customers. Assuming retention of all transferred customers by The Newport Group, which may or may not occur, the subsequent payment would be approximately $4.9. The Company expects to recognize a gain on the sale of these assets during the third quarter of approximately $0.02 per diluted share. Annualized revenue for the portion of the RPS business that was sold was approximately $17.1 with negligible earnings before interest and taxes. The results of operations for the RPS business are reported as part of the HRS segment within benefits administration services.

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

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Ceridian Corporation contained in this report that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, anticipates, estimates, believes or plans, or comparable terminology, are forward-looking statements. Forward-looking statements are based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in these forward-looking statements. Important factors known to us that could cause such material differences are identified and discussed from time to time in our filings with the Securities and Exchange Commission, including those factors discussed in Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 Form 10-K), as such factors are amended and supplemented by the risk factors contained in Part II, Item IA, Risk Factors of this report and our Quarterly Report on Form 10-Q, for the period ended March 31, 2006. Such important factors include:

- *Our ability to attract and retain customers, sell additional products and services to existing customers, and introduce new or enhanced products and services*
- *The speed at which we are able to increase operational efficiencies and reduce operating costs*
- *Competitive conditions*
- *The loss of our contract with the U.S. Department of Defense*
- *Breach of our information technology security or loss of customer data*
- *Political and economic factors such as trade, monetary and fiscal policies and interest rates, employment levels and fuel prices*
- *Volatility associated with Comdata s fuel price derivative instruments*
- *The effect of changes in governmental regulations relating to employee benefits, taxes, funds transfer, the timing and amount of remittances of customer deposits, changes in interest rates and other matters*
- *Success of investments and initiatives to improve our businesses and technology*
- *Problems effecting system upgrades and conversions*
- *Our speed to market with new or enhanced technology*
- *Our ability to protect client data and maintain operations following a catastrophic occurrence*
- *Our ability to attract and retain talented people who work effectively together and to recruit a successor for our chief executive officer*
- *International operations risks*
- *Relationships with key vendors and suppliers*
- *Liability for failures in legal compliance*

- *Risks associated with litigation, including the pending stockholder litigation, the ongoing SEC investigation and other governmental investigations and similar matters*

- *Our ability to implement and execute our strategic plans to achieve our strategic goals*

- *Acquisition risks*

- *Our $250 million revolving credit and $150 million Comdata receivables securitization facilities may restrict our operating flexibility*

- *A material weakness in our internal controls over financial reporting*

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

This discussion should be read in conjunction with (i) the accompanying consolidated financial statements and related notes to such financial statements included in Part I, Item 1, Financial Statements of this report and (ii) the consolidated financial statements and related notes to such financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of the 2005 Form 10-K. In this discussion, SG&A expense refers to our selling, general and administrative expense and R&D expense refers to our research and development expense. Any reference to a note in this discussion relates to the accompanying notes to the consolidated financial statements unless otherwise indicated.

Ceridian Corporation (Ceridian, the Company, we, our or us) is an information services company principally serving the human resource, transportation and retail markets. Our human resource solutions (HRS) business segment enables customers to outsource a broad range of human resource processes. We have HRS operations primarily in the United States (U.S. HRS), Canada (Ceridian Canada) and the United Kingdom (Ceridian UK). Our Comdata business segment (Comdata) 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. Comdata s operations are located substantially in the United States with some operations in Canada.

As described in Note 9 Stock-Based Compensation, we adopted Statement of Financial Accounting Standards (SFAS) 123R as of January 1, 2006 to account for grants of stock options and awards of restricted common stock and restricted common stock units. SFAS 123R requires that we measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant and recognize this cost as expense over the period during which an employee is required to provide services in exchange for the award. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense be reported as a financing cash flow, rather than as an operating cash flow as prescribed under the prior accounting rules. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under prior accounting rules. Upon adoption of SFAS 123R, we recognized a one-time gain in the first quarter of 2006 of $0.4 million based on SFAS 123R s requirement to apply an estimated forfeiture rate to unvested awards. Previously, we recorded forfeitures as incurred. There was no impact on previously reported interim periods upon the adoption of SFAS 123R.

Prior to the adoption of SFAS 123R, we followed the intrinsic value method in accordance with APB 25 to account for our equity grants. Accordingly, no compensation expense was recognized for stock purchase rights granted in connection with the issuance of stock options under our employee stock option plans or employee stock purchase plans; however, compensation expense was recognized in connection with the issuance of restricted stock. The adoption of SFAS 123R primarily resulted in a change in our method of recognizing the fair value of stock-based compensation and estimating forfeitures for all unvested awards.

As presented in Note 9 and in the following discussion, this change in accounting affected the comparison of our pre- and post-adoption costs and expenses and the resulting pre-tax and net earnings and earnings per share. The impact of adoption in the first quarter of 2006 was heightened by the existence of a retirement eligible feature that accelerates the end of the requisite service period to the retirement eligibility date for recipients who are age 55 or older and have 10 years of qualified employment service.

RESULTS OF OPERATIONS

Statements of Operations Second Quarter Comparisons

(Dollars in millions, except per share data)	Amount 2006	2005	Inc (Dec) $	%	% of Revenue 2006	2005
Revenue	$ 387.1	$ 358.0	29.1	8.1	100.0	100.0
Cost of revenue	210.9	199.3	11.6	5.8	54.5	55.7
SG&A expense	109.0	109.6	(0.6)	(0.5)	28.1	30.6
R&D expense	6.7	7.1	(0.4)	(5.9)	1.7	2.0
Loss (gain) on derivative instruments	2.2	(0.1)	2.3	NM	0.6	
Other income, net	(2.5)	(0.7)	(1.8)	NM	(0.6)	(0.2)
Interest income	(4.0)	(2.0)	(2.0)	99.2	(1.0)	(0.6)
Interest expense	1.7	1.3	0.4	24.3	0.4	0.4
Total costs and expenses	324.0	314.5	9.5	3.0	83.7	87.9
Earnings before income taxes	63.1	43.5	19.6	45.1	16.3	12.1
Income tax provision	20.9	10.0	10.9	109.4	5.4	2.7
Net earnings	$ 42.2	$ 33.5	8.7	26.0	10.9	9.4
Diluted earnings per common share	$ 0.29	$ 0.22	0.07	31.8		

NM represents comparisons that are not meaningful to this analysis.

Statements of Operations June 30 Year-To-Date Comparisons

(Dollars in millions, except per share data)	Amount 2006	2005	Inc (Dec) $	%	% of Revenue 2006	2005
Revenue	$ 771.4	$ 715.4	56.0	7.8	100.0	100.0
Cost of revenue	416.6	392.3	24.3	6.2	54.0	54.8
SG&A expense	224.5	223.7				