CERIDIAN CORP /DE/
Form 10-Q
November 08, 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 September 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 October 31, 2006, was 139,124,108.

CERIDIAN CORPORATION AND SUBSIDIARIES

FORM 10-Q

September 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 September 30, Three Months		**Nine Months**	
	2006	**2005**	**2006**	**2005**
Revenue	$ 386.5	$ 364.1	$ 1,161.1	$ 1,079.5
Costs and Expenses				
Cost of revenue	214.6	198.9	634.4	591.2
Selling, general and administrative	112.1	112.3	336.6	336.0
Research and development	7.5	6.1	22.0	19.6
(Gain) loss on derivative instruments	(0.7)	3.1	2.4	12.5
Other (income) expense, net	(5.7)	4.6	(9.7)	2.9
Interest income	(2.4)	(2.0)	(10.5)	(5.4)
Interest expense	1.5	1.0	4.5	3.9
Total costs and expenses	326.9	324.0	979.7	960.7
Earnings before income taxes	59.6	40.1	181.4	118.8
Income tax provision	14.0	14.4	57.4	37.6
Net earnings	$ 45.6	$ 25.7	$ 124.0	$ 81.2
Earnings per share				
Basic	$ 0.33	$ 0.18	$ 0.87	$ 0.55
Diluted	$ 0.32	$ 0.17	$ 0.85	$ 0.54
Shares used in calculations (in 000 s)				
Weighted average shares (basic)	138,905	145,543	142,888	147,668
Dilutive securities	2,355	1,929	2,821	1,389
Weighted average shares (diluted)	141,260	147,472	145,709	149,057
Antidilutive shares excluded (in 000 s)	1,787	3,594	1,464	6,192

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions)

	September 30, 2006	December 31, 2005
Assets		
Cash and equivalents	$ 209.7	$ 335.6
Trade and other receivables, less reserves and allowance for doubtful accounts of $23.8 and $22.1	692.5	584.8
Current deferred income taxes	16.1	16.5
Other current assets	95.3	88.8
Total current assets	1,013.6	1,025.7
Property, plant and equipment, net	113.0	121.5
Goodwill	941.6	936.5
Software and development costs, net	63.6	71.8
Other intangible assets, net	29.4	35.6
Deferred income taxes	16.8	58.0
Other noncurrent assets	41.8	42.0
Total assets before customer funds	2,219.8	2,291.1
Customer funds	3,479.9	4,341.2
Total assets	$ 5,699.7	$ 6,632.3
Liabilities and Stockholders Equity		
Short-term debt and current portion of long-term obligations	$ 31.3	$ 25.5
Accounts payable	63.4	67.7
Drafts and settlements payable	294.0	232.7
Customer advances	43.0	39.3
Deferred income	115.1	114.0
Accrued taxes	9.5	22.8
Employee compensation and benefits	69.1	67.8
Other accrued expenses	61.7	54.7
Total current liabilities	687.1	624.5
Long-term obligations, less current portion	58.1	81.0
Deferred income taxes	28.7	31.2
Employee benefit plans	107.5	224.1
Other noncurrent liabilities	30.1	36.8
Total liabilities before customer funds obligations	911.5	997.6
Customer funds obligations	3,483.2	4,342.9
Total liabilities	4,394.7	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	932.7	931.0
Retained earnings	817.4	693.4
Treasury stock, at cost 12,587,563 and 6,848,402 shares	(294.7)	(144.1)
Accumulated other comprehensive loss	(151.9)	(190.0)
Total stockholders equity	1,305.0	1,291.8
Total liabilities and stockholders equity	$ 5,699.7	$ 6,632.3

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in millions)

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 124.0	$ 81.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income tax provision (benefit)	22.0	(10.8)
Depreciation and amortization	65.1	63.0
Provision for doubtful accounts	4.5	8.8
Net periodic pension costs	5.9	8.4
Unrealized loss on derivative instruments	(0.3)	8.5
Gain on sale of marketable securities and other assets	(8.6)	(2.6)
Stock-based compensation	16.8	2.0
Tax benefits from stock-based compensation	(14.9)	
Asset abandonments	0.3	5.5
Other	0.5	1.7
Changes in operating assets and liabilities:		
Trade and other receivables	(116.2)	(128.3)
Accounts payable	(5.4)	(9.1)
Drafts and settlements payable	61.3	107.9
Deferred income	0.4	(16.3)
Employee compensation and benefits	0.4	8.7
Accrued taxes	1.0	14.0
Contribution to retirement plan trust	(75.0)	
Other current assets and liabilities	4.0	33.1
Net cash provided by operating activities	85.8	175.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Expended for property, plant and equipment	(21.9)	(21.5)
Expended for software and development costs	(16.5)	(25.0)
Proceeds from sales of businesses and assets	19.2	31.5
Expended for acquisitions of investments and businesses, less cash acquired	(5.5)	(8.8)
Net cash used for investing activities	(24.7)	(23.8)
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving credit facilities and overdrafts, net	(15.6)	(24.9)
Repayment of other debt and long-term obligations	(8.0)	(8.1)
Repurchase of common stock	(276.5)	(138.8)
Tax benefits from stock-based compensation	14.9	
Proceeds from stock option exercises and stock sales	97.3	37.7
Net cash used for financing activities	(187.9)	(134.1)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.9	2.9
NET CASH FLOWS (USED) PROVIDED	(125.9)	20.7
Cash and equivalents at beginning of period	335.6	220.7
Cash and equivalents at end of period	$ 209.7	$ 241.4

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
September 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 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, 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 Quarterly Reports on 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 September 30, 2006, our results of operations for the three and nine months ended September 30, 2006 and 2005 and our cash flows for the nine months ended September 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 (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.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability, and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this new standard.

In September 2006, the FASB issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS 158 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, recognize changes in that funded status in the year in which the changes occur through comprehensive income and measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year. The provisions of SFAS 158 are effective for fiscal years ending after December 15, 2006. We are currently evaluating the impact of this new standard. No material impact on our debt covenants is expected.

In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company s financial statements and the related financial statement disclosures. SAB 108 is effective for fiscal years ending after November 15, 2006. We do not expect SAB 108 to have a material impact on the consolidated financial statements.

NOTE 2 INVESTING ACTIVITY

Derivative Instruments

Interest Rate Derivative Instruments. As of September 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 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 nine months ended September 30, 2006 and 2005 was as follows:

	For Periods Ended September 30,			
	Three Months		**Nine Months**	
	2006	**2005**	**2006**	**2005**
Payments to counterparties	$ 1.5	$ 2.2	$ 2.7	$ 4.0
Unrealized (gain) loss	(2.2)	0.9	(0.3)	6.2
(Gain) loss on derivative instruments	$ (0.7)	$ 3.1	$ 2.4	$ 10.2

Our diesel fuel price derivative instruments are carried at fair market value and were reported as an asset of $0.4 in other non-current assets and a liability of $0.3 recorded in other accrued expenses at September 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, Acquisitions and Divestitures of Businesses

Publicly Held Investments. At September 30, 2006 and December 31, 2005, we held 255,922 and 340,922 shares, respectively, of The Ultimate Software Group, Inc. (Ultimate) common stock with a carrying value of $6.0 and $6.5, respectively. During the first nine 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 third quarter of 2005, we sold 70,000 shares of Ultimate for proceeds of $1.3 and a net gain of $1.0 and, for the first nine months of 2005, we sold 178,289 shares of Ultimate for proceeds of $2.7 and a net gain of $2.0 reported in other (income) expense. Gains and losses on sales of marketable securities are reported in other (income) expense, 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 September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	**December 31, 2005**
Cost	$ 1.0	$ 1.4
Gross unrealized gains	5.0	5.1
Fair value	$ 6.0	$ 6.5

Acquisitions and Divestitures of Businesses. In the third quarter of 2006, Ceridian sold the major portion of its Retirement Plan Services (RPS) recordkeeping and administration business to The Newport Group Newport , a retirement services provider. The sale price consisted of an initial closing payment of $11.1 to Ceridian and a subsequent payment to Ceridian to be determined one year after the closing date based on a percentage of revenue received by Newport from retained transferred customers. We recognized a gain on the sale of the business during the third quarter of $5.8. Assuming retention of all transferred customers by Newport, the subsequent payment to Ceridian would be approximately $4.9. The results of operations for RPS are reported as part of the HRS segment within benefits administration services. We are not required to classify the results of operations of RPS as a discontinued operation as it did not meet the criteria to qualify as a discontinued operation.

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, and wrote-off a pre-existing minority interest investment in SASH of $0.6.

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) EXPENSE, NET

	For Periods Ended September 30,			
	Three Months		Nine Months	
	2006	2005	2006	2005
Gain on sale of marketable securities	$	$ (1.0)	$ (1.6)	$ (2.0)
Foreign currency translation income	(0.2)	(0.1)	(0.7)	
(Gain) loss on sale of assets	(5.7)	0.5	(6.7)	(0.6)
Asset abandonments	0.3	5.2	0.4	5.5
Litigation settlement			(1.0)	
Other expense	(0.1)		(0.1)	
Total	$ (5.7)	$ 4.6	$ (9.7)	$ 2.9

During the third quarter of 2006, we sold a major portion of RPS which resulted in a gain of $5.8. For the first nine months of 2006, in addition to the gain on sale of RPS, we also received a cash payment and recorded an additional gain of $1.0 related to the settlement of a lawsuit and completed a sale of assets that resulted in a gain of $1.1. During the third quarter of 2005, asset write-downs included an abandonment related to a payroll software application in HRS that amounted to $4.3. Sales of marketable securities are described in Note 2, Investing Activity.

NOTE 4 CAPITAL ASSETS

	September 30, 2006	December 31, 2005
Property, Plant and Equipment		
Land	$ 2.9	$ 3.0
Machinery and equipment (accumulated depreciation of $196.1 and $200.8)	253.7	264.8
Buildings and improvements (accumulated depreciation of $47.6 and $44.3)	100.1	98.8
Total property, plant and equipment	356.7	366.6
Accumulated depreciation	(243.7)	(245.1)
Property, plant and equipment, net	$ 113.0	$ 121.5
Goodwill		
At beginning of year	$ 936.5	$ 931.8
Acquisitions	2.9	5.2
Divestitures	(4.9)	
Translation and other adjustments	7.1	(0.5)
At end of period	$ 941.6	$ 936.5
Software and Development Costs		
Purchased software (accumulated amortization of $55.2 and $47.2)	$ 74.5	$ 69.3
Internally developed software costs (accumulated amortization of $74.4 and $60.1)	118.7	109.8
Total software and development costs	193.2	179.1
Accumulated amortization	(129.6)	(107.3)
Software and development costs, net	$ 63.6	$ 71.8

Other Intangible Assets		
Customer lists and relationships (accumulated amortization of $39.1 and $34.1)	$ 59.4	$ 56.1
Trademarks (accumulated amortization of $1.0 and $0.7)	1.0	0.9
Technology (accumulated amortization of $50.7 and $51.3)	58.1	62.3
Non-compete agreements (accumulated amortization of $9.2 and $7.9)	10.9	10.3
Total other intangible assets	129.4	129.6
Accumulated amortization	(100.0)	(94.0)
Other intangible assets, net	$ 29.4	$ 35.6

NOTE 5 FINANCING

	September 30, 2006	**December 31, 2005**
Debt and Capital Lease Obligations		
Ceridian revolving credit facility	$ 26.4	$ 40.6
Comdata receivables securitization facility	55.0	55.0
Total revolving credit facilities	81.4	95.6
Capital lease obligations	8.0	10.9
Total debt and capital lease obligations	89.4	106.5
Less short-term debt and current portions of long-term debt and capital lease obligations	31.3	25.5
Long-term obligations, less current portions	$ 58.1	$ 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 and upon bank approval, 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 4.86% at September 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 September 30, 2006 and December 31, 2005 were $26.4 and $40.6, respectively. The carrying amount approximates fair value. We have classified $26.4 and $20.7 as of September 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 September 30, 2006, we utilized $2.8 of the 2005 Revolving Credit Facility for letters of credit, leaving an unused borrowing capacity of $220.8 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 (5.34% at September 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 Comdata s option. The amount outstanding at both September 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 $330.3 at September 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 September 30, 2006 and December 31, 2005, Ceridian UK maintained overdraft facilities totaling £6.5 million and £7.5 million, respectively. There was no amount outstanding as of September 30, 2006 and December 31, 2005. The £6.5 million overdraft facility expires in February 2007. The £1.0 million overdraft facility expired in September 2006.

In addition to the amount available under the Canadian subfacility, Ceridian Canada had available at September 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 September 30, 2006 and December 31, 2005.

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

Equity Activities

In the third quarter of 2006, we repurchased 2,000,000 shares of our common stock for $47.1 on the open market at an average net price of $23.55 per share. In the third quarter of 2005, we repurchased 2,513,200 shares of our common stock for $51.9 on the open market at an average net price of $20.67 per share. During the first nine months of 2006, we repurchased 11,404,800 shares of our common stock for $276.5 on the open market at an average net price of $24.24 per share. During the first nine months of 2005, we repurchased 7,237,650 shares of our common stock on the open market for $142.8 at an average net price of $19.72 per share. We recorded accounts payable of $4.0 for late September 2005 open market trades that were settled in early October 2005 and were reported as financing cash outflows in the fourth quarter of 2005. As of September 30, 2006, we may repurchase up to 4,209,250 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 September 30, 2006 and December 31, 2005, the related amortized cost of customer funds exceeded the fair value of investments by $3.3 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 September 30, 2006 and 2005 amounted to $30.1 and $24.5 for the third quarter of 2006 and

2005, respectively, and $101.0 and $78.6 for the nine months ended September 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 September 30, 2006 and December 31, 2005 were as follows:

Investments of Customer Funds at September 30, 2006

	Amortized Cost	**Gross Unrealized Gain**	**Loss**	**Fair Value**
Money market securities and other cash equivalents	$ 1,827.1	$	$	$ 1,827.1
Available for sale investments:				
U.S. government and agency securities	902.9	0.7	(12.7)	890.9
Canadian and provincial government securities	393.3	9.0	(0.1)	402.2
Corporate debt securities	257.3	1.2	(1.6)	256.9
Asset-backed securities	65.9	0.1		66.0
Mortgage-backed and other securities	32.1	0.3	(0.2)	32.2
Total available for sale investments	1,651.5	11.3	(14.6)	1,648.2
Invested customer funds	3,478.6	$ 11.3	$ (14.6)	3,475.3
Trust receivables	4.6			4.6
Total customer funds	$ 3,483.2			$ 3,479.9

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 September 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	$ (0.4)	$ 93.9	$ (12.3)	$ 694.1	$ (12.7)	$ 788.0
Canadian and provincial government securities			(0.1)	24.5	(0.1)	24.5
Corporate debt securities		24.1	(1.6)	86.4	(1.6)	110.5
Asset-backed securities		13.5		1.5		15.0
Mortgage-backed and other securities			(0.2)	16.5	(0.2)	16.5
Total available for sale investments	$ (0.4)	$ 131.5	$ (14.2)	$ 823.0	$ (14.6)	$ 954.5

Management does not believe any individual unrealized losses as of September 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 September 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 September 30, 2006

	Amortized Cost	Fair Value
Due in one year or less	$ 2,049.4	$ 2,050.2
Due in one to three years	544.1	538.8
Due in three to five years	456.0	450.0
Due after five years	429.1	436.3
Invested customer funds	$ 3,478.6	$ 3,475.3

NOTE 7 INCOME TAXES

During the third quarter of 2006, the expiration of the statute of limitations on an international tax contingency resulted in an $8.6 reduction in our income tax expense. In 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 first nine months of 2006. In 2005, income tax expense was reduced by $5.9 due to settlement of our potential tax obligations from a previous spin-off transaction and $2.0 due to the expiration of the statute of limitations on tax contingent liabilities.

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 $2.8 for the first nine months of 2006, and a reduction in the projected pension expense for the year by $4.9, or $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 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 September 30,			
	Three months		**Nine months**	
Net Periodic Pension Cost	**2006**	**2005**	**2006**	**2005**
Service cost	$ 0.7	$ 1.0	$ 2.7	$ 3.1
Interest cost	10.5	10.2	31.0	30.7
Expected return on plan assets	(13.3)	(11.6)	(37.4)	(35.0)
Net amortization and deferral	3.6	4.0	11.8	12.2
Net periodic pension cost	1.5	3.6	8.1	11.0
Settlements				1.3
Total pension cost	$ 1.5	$ 3.6	$ 8.1	$ 12.3

	For Periods Ended September 30,			
	Three months		**Nine months**	
Net Periodic Postretirement Benefit Cost	**2006**	**2005**	**2006**	**2005**
Service cost	$	$	$ 0.1	$ 0.1
Interest cost	0.7	0.8	2.2	2.3
Actuarial loss amortization	0.1	0.1	0.2	0.3
Net periodic postretirement benefit cost	$ 0.8	$ 0.9	$ 2.5	$ 2.7

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 September 30, 2006		
	As Reported	**Pro Forma Under APB No. 25**	**Difference**
Earnings before income taxes	$ 59.6	$ 62.5	$ (2.9)
Net earnings	$ 45.6	$ 47.5	$ (1.9)
Cash flows from operating activities	$ 72.1	$ 78.1	$ (6.0)
Cash flows from financing activities	$ (30.8)	$ (36.8)	$ 6.0
Earnings per share:			
Basic	$ 0.33	$ 0.35	$ (0.02)
Diluted	$ 0.32	$ 0.34	$ (0.02)

	Nine Months Ended September 30, 2006		
	As Reported	**Pro Forma Under APB No. 25**	**Difference**
Earnings before income taxes	$ 181.4	$ 193.8	$ (12.4)
Net earnings	$ 124.0	$ 132.2	$ (8.2)
Cash flows from operating activities	$ 85.8	$ 100.7	$ (14.9)
Cash flows from financing activities	$ (187.9)	$ (202.8)	$ 14.9
Earnings per share:			
Basic	$ 0.87	$ 0.93	$ (0.06)
Diluted	$ 0.85	$ 0.91	$ (0.06)

Results of operations for the three months and nine months ended September 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 nine months ended September 30, 2005 would have been as follows:

Pro Forma Effect of Fair Value Accounting	**Three Months Ended September 30, 2005**	**Nine Months Ended September 30, 2005**
Net earnings as reported	$ 25.7	$ 81.2
Add: Stock-based compensation expense included in reported net income, net of related tax effects	0.5	1.3
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(3.4)	(8.5)
Pro forma net earnings	$ 22.8	$ 74.0
Basic earnings per share as reported	$ 0.18	$ 0.55
Pro forma basic earnings per share	$ 0.16	$ 0.50
Diluted earnings per share as reported	$ 0.17	$ 0.54
Pro forma diluted earnings per share	$ 0.16	$ 0.50

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 September 30, 2006, 2,755,685 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 September 30, 2006, 1,403,528 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 accelerates future vesting (service) dates to the retirement date for recipients who terminate employment and who are age 55 or older and have 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 g