CERIDIAN CORP /DE/
Form 10-K
February 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

For the Transition Period from to

Commission File Number 1-15168

CERIDIAN CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**41-1981625** (I.R.S. Employer Identification No.)

3311 East Old Shakopee Road
Minneapolis, Minnesota 55425

(Address of principal executive offices)

Telephone No.: (952) 853-8100

(Registrant s telephone number, including area code)

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

Title of each class:	**Name of each exchange on which registered:**
Common stock, par value $.01 per share	The New York Stock Exchange
Rights to Purchase Class A Junior Participating Preferred Stock	The New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

Indicate by check mark whether the registrant is 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 Act). Yes o No x

The aggregate market value of the voting stock of Ceridian held by non-affiliates of Ceridian on June 30, 2006 was $3,377,012,226 based on the closing sales price of Ceridian common stock as reported on the New York Stock Exchange on June 30, 2006.

The number of shares of Ceridian common stock outstanding as of February 1, 2007 was 141,229,286.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2007 Annual Meeting of Stockholders: Part III

CERIDIAN CORPORATION

Annual Report on Form 10-K

For the fiscal year ended December 31, 2006

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CERIDIAN CORPORATION

PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Ceridian Corporation and its subsidiaries contained in this report that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, anticipates, estimates, believes or plans, or comparable terminology, are forward-looking statements based on current expectations and assumptions, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Important factors known to us that could cause material differences are described in this report, including in Part I, Item 1A, Risk Factors of this report. You should carefully consider each cautionary factor and all of the other information in this report. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the Securities and Exchange Commission.

We own or have the rights to various trademarks, trade names or service marks, including the following: Ceridian Corporation and logo® , Ceridian®, Comchek®, Comdata® and logoSM , Comdata®, and LifeWorks®. The trademarks American Express®, Discover®, MasterCard®, Visa®, Cirrus® and Maestro® referred to in this report are the registered trademarks of others.

Item 1. Business

General

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

Ceridian Corporation is an information services company principally in the human resource (HR), transportation and retail markets. Our human resource solutions business (which we refer to in this report as HRS or Human Resource Solutions) enables customers to outsource a broad range of employment processes, such as payroll, tax filing, human resource information systems, employee self-service, time and labor management, benefits administration, employee assistance and work-life programs, recruitment and applicant screening, and post-employment health insurance portability compliance. We have HRS operations primarily in the United States, Canada and the United Kingdom. Our Comdata subsidiary (which we refer to in this report as Comdata) provides transaction processing, financial services and regulatory compliance services primarily to the transportation and retail industries. Comdata s products and services include payment processing and the issuance of credit, debit and stored value cards.

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

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

Financial Information About Segments

Our business has two segments, HRS and Comdata. We refer you to Note 13, *Segment Data* to our consolidated financial statements for financial information about our business segments and geographic areas. This information may be found in Part II, Item 8 of this report.

Human Resource Solutions

The operating units comprising HRS offer a broad range of managed human resource solutions built around a core capability of payroll processing and transactions associated with payroll. The broader solutions are designed to help companies maximize the value of their people by more effectively managing their work force and the information that is integral to human resource processes. Our human resource management products and services are provided principally in the United States, Canada and the United Kingdom. Our international HRS operations are primarily conducted in Canada, through Ceridian Canada Ltd. (Ceridian Canada) and in the United Kingdom, through Ceridian UK Limited (Ceridian U.K.).

Late in 2005, we realigned our internal organization structure in the United States operations of HRS (U.S. HRS) into several operating units to improve the organization s effectiveness and functional operating environment. The HRS organization s structure is aligned to certain HR solution areas (payroll processing, tax filing, and other HR services; benefits administration services; and work-life and employee assistance programs).

HRS s and U.S. HRS s revenue for the years ended December 31, 2006, 2005 and 2004 was as follows:

	Years Ended December 31, 2006 (dollars in millions)		**2005**		**2004**	
HRS Revenue						
U.S. HRS	$ 822.4	74.8 %	$ 799.8	76.2 %	$ 731.5	75.9 %
Ceridian Canada	182.6	16.6 %	158.1	15.0 %	141.1	14.6 %
Ceridian U.K.	94.8	8.6 %	92.2	8.8 %	91.8	9.5 %
Total HRS	$ 1,099.8	100.0 %	$ 1,050.1	100.0 %	$ 964.4	100.0 %
U.S. HRS Revenue						
Payroll processing, tax filing and other HR services	$ 527.1		$ 500.9		$ 452.0	
Benefits administration services	154.0		151.1		146.1	
Work-life and employee assistance programs	141.3		147.8		133.4	
	$ 822.4		$ 799.8		$ 731.5	

HRS revenue in 2006 includes approximately $132.0 million of investment income earned in lieu of additional fees from customer funds temporarily held in the United States and Canada pending remittance to taxing authorities, customer employees or other third parties. All customer funds temporarily held by us are held primarily in trusts. Funds from U.S. customers are invested primarily in high quality collateralized short-term investments or money market mutual funds. We may also invest in U.S. Treasury and Agency securities, AAA rated asset-backed securities, and corporate securities rated A3/A- or better. Funds from Canadian customers are invested primarily in securities issued by the government and provinces of Canada, highly rated Canadian banks and corporations, asset-backed trusts and mortgages. The maturity

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of these investments is carefully managed to meet the related payment obligations. Due to the significance of this investment income, our quarterly revenue and profitability fluctuate as a result of changes in interest rates and in the amount of customer funds held.

Market

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

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

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

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

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

Type of Employer	**Size of Employer***	**Typical Characteristics**
Small	Fewer than 100 employees	Human resource management needs tend to be relatively more price sensitive, to require less customization or flexibility in product and service offerings and to switch more readily from one provider to another.
Corporate	100 to 5,000 employees	Human resource management needs tend to be more complex, and therefore require more flexibility in products and services, greater integration among data processing systems and a greater variety of products and services . Within this group, the lower mid-market (100-300 employees) tend to have simpler requirements and upper mid-market (300-5,000 employees) tend to have more complex requirements.
Enterprise	Over 5,000 employees	Human resource management needs tend to be the most complex, and therefore often require the most customization and flexibility in products and services, the greatest integration among data processing systems and the greatest variety of products and services; also has the greatest reliance on their integral legacy systems which increases integration complexity and challenges outsourcing and migration decisions.

* This column of the table reflects the employer size of U.S. customers in 2006. In Canada and the United Kingdom, the employer segment sizes are typically smaller, although the characteristics of such segments are similar in nature.

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

Further, we believe that customers are increasingly seeking providers that can take responsibility for entire human resource management processes. These human resource outsourcing (referred to in this report as HRO) relationships transfer responsibility for managing each core process from the employer to the provider. Through HRO, we are able to provide our customers with a comprehensive suite of modular, fully managed HRS products and services described above. By fully managing the products and services that we can otherwise provide on a standalone basis and presenting a single face to our customers employees, we are able to transfer responsibility for managing each core HR process from the employer to the provider. Our HRO services to date typically involve: (1) conversion and implementation consulting services; (2) processing and hosting services related to payroll, tax filing and benefits needs; and (3) administration of HR, payroll and benefits functions.

Products and Services

Our human resource management solutions include:

- payroll processing, tax filing and other HR services;
- benefits administration services; and
- work-life and employee assistance programs.

Payroll Processing, Tax Filing and Other HR Services

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

We provide human resource information systems (commonly referred to as HRIS) solutions that serve as a front-end to our payroll processing system, allowing our customers to utilize a common database for both payroll and other HRIS purposes. This enables the customer to create a single database of employee information for on-line inquiry, updating and reporting in payroll and other areas important to human resource administration and management, such as employee data tracking, time and labor management, government compliance, compensation analysis and benefits administration. We also provide HRIS solutions that incorporate open, industry standard technology, are scalable and can be utilized with an existing interface as a front-end for our payroll processing and tax filing services.

Our HR/payroll product suite provides an integrated HR/payroll and benefits solution with outsourced payroll and tax filing services to customers primarily in the corporate and enterprise customer markets. It is primarily available in a hosted application service provider environment but also can be managed in-house as an installed application. Our hosted solutions provide customers with secure 24/7 access to our solutions using a standard web browser.

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

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

Tax Filing. Our payroll tax filing services for customers in the United States consist primarily of collecting funds for federal, state and local employment taxes from customers based on payroll information provided by the customers, remitting funds collected to the appropriate taxing authorities, filing applicable returns and handling related regulatory correspondence and amendments. Our tax filing services are provided not only to employers who utilize our payroll processing service, but also to local and regional payroll processors and directly to employers as standalone tax services.

Other HR Services. We also provide customers with a number of other HR solutions. Such services include time and attendance, administration of payroll and benefit functions, recruiting, employee/manager self service and human capital management services. These services are generally designed to automate, streamline and integrate certain traditional HR services to provide our customers with the ability to focus less on administration and more on their core business.

Benefits Administration Services. We provide employee health and welfare benefits administration services to our customers. Employee health and welfare benefits administration services include health insurance portability (*i.e.*, the Consolidated Omnibus Budget Reconciliation Act, or COBRA, and the Health Insurance Portability and Accountability Act of 1996, or HIPAA) compliance services. Health and welfare benefits administration services also encompass benefits provided to active employees, such as annual health plan enrollment, ongoing employee enrollment and eligibility services, tuition refund plans, transportation reimbursement under the Transportation Equity Act, and Internal Revenue Code Section 125 plans including fully administered and self-administered flexible spending accounts and premium-only plans.

We also provide qualified domestic relations order and medical support order administration to our customers; and administration and benefits billing services for benefits provided to retired and inactive employees of our customers, including retiree healthcare, disability, surviving dependent, family leave and severance benefits.

Work-Life and Employee Assistance Programs. We provide customers of all sizes and their employees with a single source for fully integrated work-life and employee assistance programs. Our customers include employers in both the private and public sectors (including certain agencies of the U.S. Government). Services are delivered through on-line access and telephonically, and through face-to-face counseling provided by referral resources.

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

International Operations

Ceridian Canada provides payroll processing services, HRIS solutions, tax filing services, work-life and employee assistance programs and recruitment services to its Canadian customers. Ceridian Canada handles payroll as well as tax filing funds for our Canadian customers. These Canadian operations collect payroll and payroll tax amounts from customers, remit tax amounts to applicable governmental authorities and make direct deposits of payroll amounts to employees bank accounts. As a result, revenue from our payroll processing services in Canada includes investment income received in lieu of additional fees from temporarily holding these amounts in trust.

Ceridian U.K. provides payroll processing services, HRIS solutions, work-life and employee assistance programs and recruitment services primarily in the United Kingdom. Ceridian U.K. s services generally do not involve the handling or transmission of customer funds. In a very few instances, Ceridian U.K. holds customer funds for a short period of time in non-interest bearing segregated accounts prior to disbursement pursuant to the customer s instructions.

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

There are risks associated with operating internationally. We refer you to Part I, Item 1A, Risk Factors of this report.

Customers

Our existing customer base covers a wide range of industries and markets. Our products and services are generally provided under written agreements, with contracts for repetitive services generally terminable upon relatively short notice.

Customer retention is an important factor in the amount and predictability of revenue and profits in our HRS businesses. The length of time it takes for a contract to become profitable depends on a number of factors such as the pricing of the contract, the number of employees covered by the contract, the complexity of the services involved, the amount of customization of services required and the number of locations in which the customer s employees are located. The longer we are able to retain a customer, the more profitable that contract will likely be.

Sales and Marketing

Our HRS services are sold in the United States through our direct sales force operating throughout the country. We currently utilize, and seek to develop other, cooperative marketing relationships with other companies offering products or services that complement our businesses as well as informal and formal marketing alliances with human resource consulting firms, other outsourcing firms and benefits brokers. The most significant source of customer leads for these transaction-based products and services are referrals from these marketing relationships and existing customers, and other direct marketing efforts such as web marketing, telemarketing, direct mail and trade shows. Our international HRS operations, principally located in Canada and the United Kingdom, utilize their own direct sales forces. Customer leads for the products and services of these businesses are generally obtained through referrals, trade shows, product demonstration seminars, third party resellers and direct sales efforts. We are exploring additional cooperative arrangements with other benefits brokers and human resource services providers. We are also seeking to sell a greater variety of our products and services to the customers of our various businesses.

Competition

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

We believe that the majority of all payroll processing and tax filing in the United States, Canada and the United Kingdom is supported by in-house systems, with the remainder supported by third party providers. In the United States, we believe that Automatic Data Processing, Inc. (ADP) is the largest third party provider of payroll processing in terms of revenue, with Paychex, Inc. and Ceridian comprising the other two large, national providers in terms of revenue. Other third party payroll and tax filing providers are generally regional and local competitors, although larger, national providers of benefits administration and 401(k) processing services or financial institutions may expand further into outsourced payroll processing. In Canada, we believe that Ceridian Canada is the second largest outsourced payroll services provider in terms of revenue, facing competition from other national providers, including ADP, and local providers. In the United Kingdom, we believe that Ceridian U.K. is the second largest outsourced payroll processing provider in terms of revenue, competing with several other national providers, including a subsidiary of ADP and a division of Northgate Information Solutions, and local providers. Competition in both the payroll processing and HRIS areas also comes from a number of large, national software companies that provide both payroll processing software for in-house processing as well as HRIS software, often in conjunction with other enterprise management software applications.

Apart from payroll processing and tax filing, our other human resource solutions generally compete with a variety of national and regional application software companies, consulting firms, financial services companies and human resource services providers. Generally, the markets for these products and services are evolving.

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

- repeatable and reliable transaction processing with timely and accurate access to data;
- servicing our customers;
- choice of services;
- performance;
- price;
- functionality;
- ease and flexibility of use;
- expertise in HR processes;

- integrated platforms;
- regulatory compliance in the delivery of products and services; and
- data security and privacy.

We believe that the ability to integrate transaction processing and broader human resource management solutions with a customer s other acquired services and in-house applications are increasingly important competitive factors. While we believe our businesses will be able to compete effectively in the overall human resource solutions market, our ability to compete effectively will depend in large measure on our ability to provide reliable and repeatable transaction processing. Without attention to our core capabilities, our opportunity to deliver further value to new and existing customers will be severely restricted.

Regulation

The delivery of services by HRS is subject to various local, state, federal and international laws, statutes and regulations. For example, tax filing services must comply with the applicable regulatory requirements of the various taxing authorities. Additionally, through contract or directly applicable regulation, various data security and privacy interests of our customers must be protected.

Research and Development

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

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

	Years Ended December 31,		
	2006	**2005**	**2004**
	(dollars in millions)		
Research and development	$ 20.6	$ 21.5	$ 21.7
Percent of revenue	1.9 %	2.0 %	2.3 %

Comdata

Comdata provides payment solutions, transaction processing and related services to its customers in a variety of industries such as trucking, retail, government services, aviation, construction, service businesses, restaurants and hospitality. Payment solutions range from credit and debit cards, gift and loyalty cards, fleet, fuel, payroll, purchasing and travel and entertainment cards. As a full-service merchant processor, Comdata s platforms support both its proprietary and branded card networks, as well as card processing for all card types. Comdata is headquartered in the United States, processing transactions that originate in over 21 countries worldwide. Approximately 3% of Comdata s revenue for each of 2006, 2005 and 2004 was derived from customers outside of the United States. Comdata s revenue from products and services for the years ended December 31, 2006, 2005 and 2004 was as follows:

	Years Ended December 31,					
	2006		**2005**		**2004**	
	(dollars in millions)					
Revenue						
Transportation	$ 311.5	66.9 %	$ 283.1	69.2 %	$ 257.1	72.2 %
Retail services	153.8	33.1 %	125.8	30.8 %	98.9	27.8 %
Total	$ 465.3	100.0 %	$ 408.9	100.0 %	$ 356.0	100.0 %

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Products and Services; Customers

Transportation Services. Comdata provides transaction processing, financial services and regulatory compliance services to customers within the transportation industry, primarily to companies in the trucking industry. Comdata sells such services through a direct sales force located at its headquarters in Brentwood, Tennessee. Such services are provided to trucking companies, truck stops, and long haul (e.g., long distance carriers) and local fleet (e.g., local delivery companies, home maintenance companies and local and state government agencies) drivers. Comdata s services primarily involve the use of the Comdata Card to facilitate truck driver transactions and to provide transaction control and trip information for trucking firms. Comdata also markets co-branded cards and transaction processing in association with MasterCard networks.

The Comdata Card product is a payment transaction services card with credit and debit capabilities principally designed to provide businesses with control over payments to and spending by their employees. The Comdata Card allows businesses to authenticate and authorize individual employee purchases and provide payroll to employees. A Comdata customer can review reports of transactions made by its employees over the Internet, as well as request the issuance of new employee cards. The Comdata Card offers businesses the capability of performing these services on a single, customizable employee card. The Comdata Card may be customized for each individual employee within a business. Although the Comdata Card is primarily used by Comdata s trucking customers, Comdata believes that the Comdata Card has application to businesses in a variety of industries. In 2006, more than 21,000 customers used the Comdata Card.

Comdata also provides assistance in obtaining regulatory permits, pilot car services, and other compliance services, such as fuel tax reporting and driver log auditing, and local fueling services to its trucking company customers.

Fleet Services. Comdata s financial services, most commonly initiated through the use of the Comdata Card, are designed to enable truck drivers to obtain funding for purchases and cash advances at truck stops and other locations en route to their destination. Drivers may use the Comdata Card to purchase fuel, lodging and other approved items, obtain cash advances from ATM machines or through the use of Comchek drafts (drafts that are drawn on Comdata and payable through a bank), and make direct deposits of pay, settlements (for non-employee owner-operators) or trip advances to personal bank accounts. In 2006, Comdata processed approximately 94.6 million funds transfer transactions involving approximately $23.4 billion for its trucking customers.

Use of the Comdata Card allows the trucking company customer greater control over its expenses by allowing it to set limits on the use of the cards, such as by designating locations where the cards may be used, and the frequency and amount of authorized use. Use of a Comdata Card also enables Comdata to capture and provide transaction and trip-related information to trucking company customers. This information greatly enhances a customer s ability to track and plan fuel purchases and other trip expenses and to settle with drivers. Comdata also provides information gathering and processing services in connection with fueling transactions that Comdata does not fund, but that are billed instead directly by the truck stop to the trucking company. Fees for these direct bill transactions are substantially lower than fees for Comdata funded transactions. Comdata also provides fuel price tracking reports and fuel management programs within a network of truck stops, including cost/plus fuel purchase programs.

Comdata also provides trucking companies with on-line access to Comdata s computer system for data on fuel purchases and other trip information, facilitating pre- and post-trip planning functions. Comdata s iConnectData web-based portal enables customers to go on-line from their computer for interactive reporting capabilities, the latest diesel fuel prices and related information.

In addition to the Comdata Card, Comdata provides Comchek drafts. When a truck driver makes a request at a truck stop for a Comchek transaction, Comdata verifies that the driver s company has established sufficient credit. Upon presentation of valid identification, the truck stop obtains an authorization number from Comdata and prints a Comchek draft. Comdata funds the underlying transaction when the truck stop (or other payee) negotiates the draft by depositing it in its bank account. Comdata bills the trucking company for the amount of the draft plus a portion of the service fee, and collects from the truck stop the balance of the service fee. The trucking company remits payment to Comdata by wire transfer, electronic transfer or check, typically within seven days, although customers that do not meet Comdata s credit criteria are required to prepay their accounts. Risks associated with fraudulent or unauthorized transactions are allocated between Comdata and its customers based upon which party may be at fault under a specific circumstance and based upon which party is in the better position to control or eliminate these types of transactions. Historically the number of fraudulent or unauthorized transactions attributable to this aspect of Comdata s business has been minimal compared to the aggregate dollar amount of funds Comdata has transferred annually. Comdata is licensed by 41 states as a seller of checks or money transmitter and, pursuant to these licenses, undergoes annual examinations by several states with respect to the integrity of its funds transfer methods and procedures.

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

Truck Stop Services. Comdata maintains a nationwide electronic data network with 24-hour independent truck stop service centers that utilize point-of-sale devices and other computer equipment to facilitate communication with Comdata s database and operations centers. The service centers accept Comdata s payment instruments as a method of payment pursuant to a service center agreement with Comdata.

Comdata s merchant services division provides fueling centers with PC-based, point of sale systems that automate the various transactions that occur at a fuel purchase desk and systems which enable customers to transact card-based fuel purchases at the fuel pump. These systems accept many types of fuel purchase cards currently used by drivers. The merchant services division additionally offers point-of-sale systems for use at attended and unattended fuel sites.

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

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

Comdata provides services to more than 21,000 long haul and local trucking fleets with more than 1,100,000 active fuel cards. Comdata also provides services to more than 8,500 truck stops, travel centers and repair facilities nationwide. Contracts for these services generally range from one to three years in duration.

Comdata is also pursuing fixed based operators that service private airplanes and airplane fleets. Comdata expects to provide these aviation customers with controlled spending solutions offered through the Comdata Card. Comdata will provide flight managers with flexibility, efficiency, service and control over operations. Benefits include consolidated billing for all trip-related expenses, with line-item detail, as well as the management of expenditures including fuel purchases, repairs, travel and entertainment, and fuel discount administration.

Retail Services. Comdata s retail services division, which is comprised of Comdata s payment services division and Comdata Stored Value Solutions, Inc. (formerly known as Stored Value Systems, Inc.), a wholly owned subsidiary of Comdata (referred to in this report as Comdata SVS), provides stored value cards and employer pay cards to customers principally in the retail, restaurant and hospitality, and service industries. Comdata s payment services division provides pay cards used by its customers to pay their employees. The Comdata Card with Comchek eCash is a card-based service allowing employers to post or load payment of wages and other payments, such as expense reimbursements, to cards issued to employees and other recipients. Cardholders, in turn, may access these funds in a number of ways, including withdrawal of cash from ATMs, point-of-sale purchases at stores or issuance of a Comchek draft.

Comdata SVS provides, among other services, stored value card programs to major retailers that are used as gift cards, gift certificates, credits for returned product, loyalty promotions and retail promotions. Comdata SVS also provides ancillary support services including card inventory management and assistance in designing and supervising the production of plastic cards. Comdata SVS believes that its cards, transaction reliability, card maintenance/inventory programs and reporting capability provide benefits to retailers and their customers, including ease of use and controls previously difficult to realize. In 2006, Comdata SVS expanded its product offering through the acquisition of the remaining interest in SASH Management, L.L.C. d/b/a Gift Card Solutions and HQ Gift Cards, LLC, a provider of mall gift card program management services, and now provides cash cards and/or payroll distribution services to more than 650 customers. The contracts with these customers are generally three years in duration.

Comdata s retail services division also provides a card-based funds distribution service for use by employers and others for, among other things, expense reimbursements, payroll delivery and termination pay. Comdata markets this card-based funds distribution service to a variety of employers, such as temporary staffing companies, professional employment organizations, custodial companies, the restaurant and hospitality industries, and retailers, including the customers of Comdata SVS.

Through Comdata SVS, Comdata sells its private label cash cards, electronic payroll cards and ancillary services throughout the United States and Canada through a direct sales force located in Louisville, Kentucky. Comdata SVS sales efforts are also being conducted to retailers and other merchants with locations in approximately 20 other countries worldwide. All Comdata SVS transaction processing is conducted in Louisville, Kentucky regardless of the location in the world where the sale occurs or the card is used.

Comdata offers transaction processing services to merchants for a variety of card-based products, such as traditional bank credit and debit cards carrying the Visa or MasterCard logos. Such transaction processing services include transaction authorization, settlement and reporting. Comdata s transaction processing clients are acquired through both direct sales and, indirectly, through third parties, such as banks and other financial institutions and independent sales organizations.

Suppliers

Comdata s current business relies upon relationships with third-party suppliers, such as MasterCard, to effect and support transactions, including access to the Cirrus ATM network and the Maestro point-of-sale debit network. The ability of Comdata to continue to provide some of its services in the manner in which it currently delivers them may be affected by actions taken by third-party suppliers, including

MasterCard or other similar card associations. Comdata has applied to form a Utah industrial bank that would likely become a direct participant in the MasterCard credit and debit networks. This application is subject to FDIC approval, which is currently pending.

Competition

The principal competitive factors relevant to transaction processing are marketing efforts, pricing, reliability of computer and communications systems and time required to effect transactions. The major credit and debit card associations and companies, such as Visa, MasterCard, American Express and Discover, are significant competitors of Comdata since they make cash available to, and facilitate purchases of fuel and other products by, holders of their cards on a nationwide basis. Several other companies also offer similar services, including First Data Corporation, T-Chek Systems, Inc., Fleet One, L.L.C., FleetCor and Wright Express Corp. In addition, truck stops often negotiate directly with trucking companies for a direct billing relationship. Some of Comdata s competitors, such as Transportation Clearing House, LLC, an affiliate of Flying J, Inc., are under common ownership with entities that operate or franchise nationwide truck stop chains. In addition, Comdata competes with truck stops and other service centers that offer similar products and services.

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

Comdata believes that it is the leading provider of transaction processing, financial services and regulatory compliance services to the long haul fleets and one of the leading providers to local fleets in the trucking segment of the transportation industry. Comdata believes that its competitive strengths include its:

- ability to provide services to trucking companies and drivers at a large number of locations in the continental United States and Canada;
- ability to offer a variety of services, frequently tailored to an individual customer s needs;
- proprietary databases regarding funds transfers and fuel purchases;
- long-term relationships in the transportation industry;
- high quality of customer service; and
- positive reputation in the transportation industry.

Comdata s retail services division (which principally includes Comdata SVS) competes with a number of national companies in providing private label cards, including First Data Corporation, Chase Paymentech Solutions LLC, and Chockstone, Inc. Comdata believes that it is one of the leading providers of private label cards to large retailers in the United States. Comdata s retail services division competes on the bases of breadth of services offered, systems, technology and price. Comdata believes that one of the competitive weaknesses of its retail services division is that most of its competitors have established relationships with many of the potential customers of Comdata s retail services division to provide additional and unrelated products and services to these customers, such as credit card processing and check authorization services. By providing these other services which Comdata s retail services division does not provide, these competitors have an advantage of being able to bundle their products and services together and present them to existing customers with whom they have established relationships. Comdata believes a competitive weakness of the retail services division is that its competitors have greater financial, sales and marketing resources and better brand name recognition than Comdata s retail services division.

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

- leading edge information and communications systems which provide real-time connectivity with retailers existing platforms;
- breadth of solutions offered; and
- experience in transaction processing and related services providing for high quality control and reduced time of implementation of cash card solutions.

Network and Data Processing Operations

Comdata operates two communications and data processing facilities, one located in Brentwood, Tennessee and the other in Louisville, Kentucky. All internal data processing functions for Comdata s transportation business, including its payment processing systems, and Comdata SVS are conducted in one of these two facilities, depending on the application, process or transaction being performed. These dual sites operate in tandem with one another to execute certain functions. Moreover, each facility serves as a back-up facility for the other in connection with various activities.

Regulation

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

Research and Development

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

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

	Years Ended December 31,		
	2006	**2005**	**2004**
	(dollars in millions)		
Research and development	$ 7.5	$ 6.6	$ 4.4
Percent of revenue	1.6 %	1.6 %	1.2 %

Other Investments and Divestitures

In addition to the Arbitron spin-off, we refer you to Note 2, *Investing Activity,* and Note 9, *Supplementary Data to Statements of Operations,* to our consolidated financial statements for further information on our investing and divesting activities. This information may be found in Part II, Item 8 of this report.

Intellectual Property

We own or license a number of trademarks, tradenames, copyrights, service marks, trade secrets and other intellectual property rights that relate to our products and services, including several mentioned in this report. Although we believe that these intellectual property rights are, in the aggregate, of material importance to our businesses, we believe that none of our businesses is materially dependent upon any particular trademark, tradename, copyright, service mark, license or other intellectual property right. We believe, however, that the Ceridian and Comdata names, marks and logos are of material importance to us. U.S. trademark and service mark registrations are generally for a term of 10 years, renewable every 10 years as long as the trademark or service mark is used in the regular course of trade.

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

Seasonality

Because the volume of payroll items processed increases in the fourth quarter of each year in connection with employers year-end reporting requirements, our HRS revenue and profitability tend to be greater in that quarter.

In Comdata s transportation business, trucking activity has traditionally diminished at the end of December of each year, which has led to declining accounts receivable and drafts payable balances and increased cash flow from operations.

Employees

As of January 31, 2007, we employed approximately 9,579 people on a full- or part-time basis, including 7,356 full-time and 470 part-time employees of HRS, 1,535 full-time and 121 part-time employees of Comdata, and 95 full-time and two part-time corporate employees. None of our employees are covered by a collective bargaining agreement.

Backlog

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

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

Executive Officers of Registrant

Our executive officers as of February 1, 2007 are:

Name (Age)	Current Position
Kathryn V. Marinello (50)	President and Chief Executive Officer
Perry H. Cliburn (48)	Executive Vice President, Chief Technology Officer
Gary A. Krow (51)	Executive Vice President and President of Comdata
Gary M. Nelson (55)	Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary
Douglas C. Neve (51)	Executive Vice President and Chief Financial Officer
Michael F. Shea (41)	Executive Vice President, Quality and Service Operations
Kairus K. Tarapore (45)	Executive Vice President, Human Resources
Randy W. Strobel (39)	Vice President and Corporate Controller

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

Except as specifically noted, our executive officers have held the following positions with Ceridian, Ceridian s predecessor and certain other entities for the past five years:

Kathryn V. Marinello has served as President and Chief Executive Officer since October 2006. Ms. Marinello was President and Chief Executive Officer of a number of divisions of General Electric Company, a diversified financial services, technology and manufacturing company, since 1997, including: President and CEO of GE Fleet Services from October 2002 until October 2006; and President and CEO of GE Insurance Solutions from August 1999 to October 2002.

Perry H. Cliburn has served as Executive Vice President, Chief Technology Officer since December 2006. Mr. Cliburn was Senior Vice President and Chief Information Officer of Hewitt Associates, Inc., a human resource outsourcing and consulting company, from April 1999 to July 2006.

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

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

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

Michael F. Shea has served as Executive Vice President, Quality and Service Operations since January 2007. Mr. Shea served in various positions within the Commercial Finance Fleet Services division of General Electric Company prior to January 2007, including: Senior Vice President, Operations from June 2003 until January 2007; and Six Sigma Master Black Belt from July 2001 until June 2003.

Kairus K. Tarapore has served as Executive Vice President, Human Resources since December 2006. Mr. Tarapore served in various positions with divisions of General Electric Company prior to December 2006, including: Senior Vice President, Global Quality, GE Fleet Services, from November 2004 until December 2006; Vice President, HR, GE Auto Financial Services and

Vice President, Organization & Staffing for GE Fleet Services, from July 2002 until October 2004; and HR Integration Leader, GE Fleet Services, Canada, from September 2001 until July 2002.

Randy W. Strobel has served as Vice President and Controller since June 2005. Mr. Strobel was Vice President of Finance of Mesaba Aviation, Inc., an aviation company, from October 2002 until June 2005, and Controller of Mesaba Aviation from October 2001 until September 2002.

Available Information

Our Internet website is *http://www.ceridian.com.* You may access, free of charge, through the Investor Relations portion of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We also post other documents containing information about our corporate governance on our website, including information relating to our corporate governance policies and practices, charters of our committees of the Board of Directors, code of conduct and other corporate governance matters. These documents are located in the Corporate Governance section of our website. Copies of our corporate governance policies and guidelines, charters for each of our committees of the Board of Directors, code of conduct and other corporate governance documents contained in the Corporate Governance section of our website are available in print without charge to any stockholder by writing Ceridian Corporation, Attention: Corporate Secretary, 3311 East Old Shakopee Road, Minneapolis, Minnesota 55425-1640. Our Internet website and the information contained on or connected to the website are not intended to be incorporated by reference into this report.

Item 1A. Risk Factors

Our business faces many risks. Any of the risks and uncertainties discussed below, or elsewhere in this report or our other filings with the Securities and Exchange Commission, could have a material impact on our business, financial condition or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially affected. If that happens, the trading price of our common stock could decline significantly.

Our ability to implement and execute our strategic plans may not be successful and, accordingly, we may not be successful in achieving our strategic goals.

We cannot ensure that we will be successful in developing and implementing our strategic plans for our businesses or that the operational plans that have been or need to be developed to implement the strategic plans will produce the revenue, margins, earnings or synergies that we need to be successful. In addition, these strategic plans and operational plans need to continue to be assessed and reassessed to meet the challenges and needs of our businesses in order for us to remain competitive. Further, the execution of the strategic plans will, to some extent, be dependent on external factors that we cannot control.

Economic and governmental factors may adversely affect our business and operating results.

Economic conditions, trade, monetary and fiscal policies, and governmental regulations may substantially change, with corresponding impacts on the industries that we serve. Changing overall economic conditions could affect:

- interest rates, with a corresponding impact on investment income from invested customer funds which are held pending remittance to taxing authorities, customer employees and other third parties;

- decreased employment levels, as well as slowed economic conditions, could negatively affect wage and bonus payments, orders and the timing of product installations, and negatively impact the operating results of our HRS business;

- fuel prices, with falling fuel prices negatively impacting Comdata s revenue while rising fuel prices increase the working capital requirements and subject Comdata to greater credit or bad debt risks with respect to its customers that purchase fuel using a Comdata payment method; and

- level of activity in the transportation and retail industries impacting Comdata s revenue.

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

If we are unable to respond to changing economic factors and timely and appropriately comply with existing or changed government regulations, there may be an adverse affect on our financial results and we may be subject to sanctions and the payment of fines and penalties.

Our future revenue and revenue growth will depend on our ability to retain our existing customers, sell additional products and services to our existing customers, introduce new or enhanced products and services and attract and retain new customers.

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

- customer satisfaction;

- new product and service offerings;

- customer service levels;

- price;

- customer viability; and

- competition.

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

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

Our ability to retain existing customers, attract new customers and grow revenue will depend on a variety of factors, including:

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

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

Our ability to improve operating margins will depend on the degree to which and the speed with which we are able to make investments in our business to improve our business performance, make investments to improve the performance of our technology, and reduce operating costs.

We have ongoing and continuing initiatives to invest in and improve the performance of our businesses. These initiatives include:

- improving our customer service model;
- improving customer retention;
- continuing product enhancements;
- improving our return on information technology (IT) investments;
- investing in and improving our return on process improvements;

- consolidating and improving efficiencies at our processing centers;
- increasing the effectiveness of our direct sales efforts and account management programs; and
- integrating acquisitions.

The profitability of certain elements of our business can also vary from year to year due to either external or internal factors. We may not be able to improve the performance of the elements of the business that lose money or are less profitable than others. Further, each business and operating function requires substantial ongoing investment in maintaining and improving infrastructure and product solutions. We may not have sufficient financial resources to fund all of the desired or necessary investments.

We have ongoing and continued initiatives to invest in and improve the performance of IT systems and technology based products and services. These initiatives include:

- standardizing the IT development process;
- enhancing data processing systems and/or software that process customer data;
- integrating of new technology into our products and services to avoid obsolescence;
- providing scalability; and
- upgrading our financial systems.

We cannot assure you that our efforts will be successful and that the amount we invest in this process will improve the performance of our technology or improve our ability to compete in the markets we serve. Problems or delays with the installation or initial operation of new or enhanced systems could disrupt or increase costs in connection with our delivery of services and with our operations planning, financial reporting and management. If these initiatives are unsuccessful or less successful than planned, or the level of investment needs to be increased, our business and operating results could be adversely affected.

We have ongoing and continued initiatives to reduce our overall cost structure compared to our revenues, or otherwise improve productivity. These initiatives include:

- installing new products and services for customers;
- rationalizing our staff and locations;
- consolidating various functions, including administrative functions, eliminating duplicate operations and consolidating facilities; and
- outsourcing or off-shoring various operating and administrative functions, to the extent we deem appropriate.

We may face delays or difficulties in implementing product, process and system improvements which could adversely affect the timing or effectiveness of cost reduction and margin improvement efforts in our business and our ability to successfully compete in the markets we serve.

Any breach of our IT security or loss of customer data could adversely affect our businesses.

Any security breach in our business processes and/or systems has the potential to impact our customer information and our financial reporting capabilities which could result in the potential loss of business and our ability to accurately report financial results. In addition, any issues of data privacy as it relates to unauthorized access to or loss of customer and/or employee information could result in the potential loss of business, damage to our market reputation, litigation and regulatory investigation and penalties. We cannot assure you that our continued investment in the security of our IT systems, continued efforts to improve the controls within our IT systems, business processes improvements, and the enhancements to our culture of information security will prevent attempts to breach our security or unauthorized access to confidential information. If our security is breached or confidential information accessed, our business and operating results could be adversely affected.

In the event of a catastrophic occurrence, our ability to protect client data and maintain operations may be impaired.

In the event of a catastrophic occurrence, either natural or man-made, our ability to protect our infrastructure, including client data, and maintain ongoing operations may be significantly impaired. We cannot assure you that our business continuity and disaster recovery plans and strategies will be successful in mitigating the effects of a catastrophic occurrence. We could potentially lose control of customer data and may experience significant interruptions of our operations and service to our customers.

The failure of our HRS business to comply with applicable laws could result in substantial taxes, penalties and liabilities that could adversely affect our business.

Our HRS customers remit employer and employee tax funds to our HRS businesses. Our HRS businesses process the data received from its customers and remit the funds along with a tax return to the appropriate taxing authorities when due. Under various service agreements with its customers, our HRS businesses assume financial responsibility for the payment of the taxes, penalties and liabilities assessed against its customers arising out of the failure of our HRS businesses to fulfill its obligations under its agreements with these customers, unless these taxes, penalties or liabilities are attributable to the customer s failure to comply with the terms of the agreement the customer has with our HRS businesses. These taxes, penalties and liabilities could, in some cases, be substantial and could adversely affect its business and operating results. Additionally, the failure of our HRS businesses to fulfill its obligations under its customer agreements could adversely affect our reputation, its relationship with our customers and its ability to gain new customers. Mistakes may occur in connection with this service. Our HRS businesses and its customers may be subject to penalties imposed by tax authorities for late filings or underpayment of taxes.

As a result of the services our benefit services subsidiary provides, it may be subject to potential legal liability as a provider of portability compliance services. As a provider of COBRA compliance services, our benefit services subsidiary is subject to excise taxes and penalties for noncompliance with provisions of COBRA. In addition to the excise tax and penalty liabilities that may be imposed on our benefit services subsidiary, substantial excise taxes and penalties may be imposed under COBRA on our customers. In addition, as a provider of HIPAA compliance and administration services, our benefit services subsidiary may be subject to ERISA (Employee Retirement Income Security Act of 1974) penalties for noncompliance with various provisions of HIPAA.

As a result of work-life and assistance programs currently provided to the Federal Government, we are required to comply with all applicable Federal contracting regulations. Non-compliance with required reporting and performance activities subjects us to penalties and legal liabilities imposed by regulatory authorities.

Litigation and governmental inquiries, investigations and proceedings may adversely affect our financial results.

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

From time to time, we have had inquiries from regulatory bodies relating to the operation of our business. It has been our practice to cooperate with such inquiries. Such inquiries may result in various audits, reviews and investigations. For example, 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, our restatements, revenue recognition, capitalization, expense recognition, how we respond to any internal ethics complaints, and our 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. On January 8, 2007, we received a second subpoena seeking additional documents relating to the areas of inquiry identified above. We continue to fully cooperate with the SEC.

An adverse outcome of this SEC investigation or other inquiries from regulatory bodies could have a material adverse effect on us and result in:

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

In addition, the following lawsuits have been filed in relation to the restatements and SEC investigation. An adverse outcome of these lawsuits could have a material adverse effect on our company.

Since August 6, 2004, six shareholder lawsuits have been filed against Ceridian Corporation and certain of our 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 PJS-RLE. This consolidated action purports to be a class action filed on behalf of all persons who purchased or otherwise acquired our common stock between April 17, 2003 through and including March 17, 2005, and allege claims against Ceridian Corporation and certain of our former executive 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 us regarding our financial performance, and in particular our 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 our 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 our 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. We have made a motion to dismiss the amended consolidated class action.

Since August 13, 2004, two shareholders have filed derivative suits on behalf of Ceridian Corporation against Ceridian Corporation, as nominal defendant, certain current and former directors and certain of our 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 our Board of Directors as of August 2004 and certain of our former executive officers breached fiduciary duties, through abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. The consolidated lawsuit, which is currently stayed, relies on the same factual allegations as the purported class action shareholder lawsuit described above.

Our strategy to make acquisitions of and investments in complementary businesses, products and technologies may not be successful and involves risks that could adversely affect our business and operating results.

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

- the availability of suitable acquisition candidates and investments at acceptable costs;
- complete financial information to make informed investment decisions;
- our ability to compete effectively for these acquisition candidates and investments;
- the availability of capital to complete these acquisitions and investments; and
- the proper allocation of resources to value, negotiate, acquire and integrate the acquisition or investment into our business segments.

A number of these factors are outside our control. In addition, implementation of this strategy entails a number of other risks, including:

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

In addition, from an accounting perspective, most acquisitions and investments involve periodic assessments of the recoverable value of goodwill and other intangible assets. Such assessments could result in an impairment of the goodwill or other intangible assets recorded which may have an adverse impact on our financial condition or operating results.

These risks could be heightened if we complete several acquisitions or investments within a relatively short period of time. The benefits of an acquisition or investment may often take considerable time to be realized, or may never be realized, and we cannot guarantee that any acquisition or investment will in fact produce the revenue, earnings or business synergies that we anticipated at the time of the transaction.

Our success is dependent on the retention and acquisition of talented people and the skills and abilities of our management team and key personnel.

We must continue to attract, hire, train, develop and retain talented people to fill the key roles within the organization. We must provide challenging roles, with accountability and commensurate rewards, to attract and retain the appropriate individuals to the organization. If we are unable to attract and retain

talented employees who work effectively as members of teams, it could impact our ability to deliver the expected results from our operations.

The success and performance of our business is dependent upon retaining and attracting management and key personnel with the appropriate skills, abilities and market knowledge for each of our operating functions and geographic areas, as well as for product development. There is no assurance we can retain our current management and key personnel or attract additional talent and skills to our existing team. We must continue to retain, attract and develop a core group of management personnel with the appropriate skills, abilities and market knowledge and continually develop appropriate succession plans to continue to grow our business. The failure to do so could have a material adverse effect on our business, operating results and financial condition.

Our ability to remain competitive depends on our speed to market with new or enhanced technology.

As a provider of information management and data processing services in both of our business segments, we need to rapidly adapt and respond to the technological advances offered by our competitors and the technological requirements of our customers in order to maintain or improve upon our competitive position. There can be no assurance that we will develop and release new products and services or product and service enhancements within the required time frames and within targeted costs. Significant delays, difficulties or added costs in introducing new products and services or enhancements, either through internal development, acquisitions or cooperative relationships with other companies, could adversely affect the market acceptance of our products and services and our operating results.

The markets we serve are highly competitive and may attract new competitors or cause current competitors to focus more on these markets, which could adversely affect our business.

The markets for our businesses are highly competitive. We face a variety of competitors, and some of our competitors have substantially greater financial resources than us. In addition, new competitors could decide to enter the markets we serve or current competitors could decide to focus greater resources on these markets, which could intensify the highly competitive conditions that already exist. These new entrants and existing competitors could offer or introduce new technologies or a different service model, or could treat the services to be provided by one of our businesses as one component of a larger product or service offering. These developments could enable these new and existing competitors to offer similar products or services at reduced prices. Any of these or similar developments could adversely affect our business and results of operations.

Our U.S. HRS business is subject to the risks associated with contracting with the government.

Our U.S. HRS business provides certain services to various government agencies or parties, and therefore is exposed to risks associated with government contracting which could have a material adverse effect on our business.

Although we generally seek multi-year contracts from the government, funds are generally appropriated on a fiscal year basis even though the contract may continue for several years. Consequently, government contracts are often only partially funded initially and additional funds are committed only with further appropriations. The termination of funding for a particular government contract would result in a loss of anticipated future revenues attributable to that program which could have a negative impact on our operations.

Generally, government contracts contain provisions permitting the government to terminate the contract at its convenience, in whole or in part, without prior notice, and to provide for payment of compensation only for work done and commitments made at the time of termination. We cannot guarantee that any of our government contracts will not be terminated under these circumstances.

As a result of contracting with the government, we may be subject to audits, cost reviews and investigations by contracting oversight agencies. During the course of an audit, the oversight agency may disallow costs. Such cost disallowances may result in adjustments to previously reported revenues. In addition, our failure to comply with the terms of one or more of our government contracts, other government agreements, or government regulations and statutes could result in our being suspended or barred from future government projects for a significant period of time and possible civil or criminal fines and penalties and the risk of public scrutiny of our performance which could have a material adverse effect on our business.

We generally obtain government contracts through a competitive bidding process. We cannot provide assurance that we will win competitively awarded contracts and that such contracts will be profitable. In addition, if we failed to obtain a renewal or follow-on contract as to a particular government contract, there could be an adverse effect on our business. For example, we currently provide customized work-life and employee assistance services to U.S. Armed Services personnel under a contract with the U.S. Department of Defense. We have received a series of short-term contract extensions since this contract expired in early 2006. We expect to continue operating under short-term extensions until the new contract is awarded. The term of the current contract, as extended, is through February 28, 2007. On May 11, 2006, the U.S. Department of Defense issued a request for proposal to enter into a long-term contract. We timely responded to the request for proposal.

Furthermore, government contracts may be subject to protest or challenge by unsuccessful bidders or to termination, reduction or modification in the event of changes in government requirements, reductions in federal spending or other factors. For example, in September 2006 we were awarded a contract to provide employee assistance program services to Federal Occupational Health, a division of the U.S. Department of Health and Human Services, Program Support Center. The contract was suspended in October when a protest to the contract award was filed by an unsuccessful bidder. In January 2007, we were notified by the government that the original contract value was reduced because one major government agency is no longer part of the contract. In February 2007, at the request of the government, we submitted a revised business proposal, and are awaiting a response on a revised contract award.

We are subject to risks related to our international operations, which may adversely affect our operating results.

Approximately 25.2% of HRS revenue in 2006 was obtained from our international operations. Our Ceridian Canada operations provide certain HRS services for our Canadian customers, and our Ceridian U.K. subsidiary primarily provides certain HRS services in the United Kingdom. We are beginning to expand our international HRS business into other countries by engaging a partner within a country to provide us with payroll administration and processing services for that country. Comdata also has operations in Canada, and is expanding both its transportation and retail businesses internationally. Approximately 3% of Comdata s revenue in 2006 was derived from customers outside of the United States. In addition to the risks otherwise described herein, international operations are subject to further additional risks that could adversely affect those operations or our business as a whole, including:

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

- exposure to legal jurisdictions which may not recognize or interpret customer contracts in predictable ways;
- exposure to local economic and political conditions; and
- unfavorable currency exchange rates.

In addition, we anticipate that customers and potential customers may increasingly require and demand that a single vendor provide HRS solutions and services for their employees in a number of countries. If we are unable to provide the required services on a multi-national basis, there may be a negative impact on our new orders and customer retention, which would negatively impact revenue and earnings. Although we have a multi-national strategy, substantial additional investment and efforts may be necessary to ensure success.

Our $250 million revolving credit facility and $150 million Comdata receivables securitization facility may restrict our operating flexibility.

The governing documents for our $250 million revolving credit facility and the $150 million Comdata receivables securitization facility contain a number of significant provisions that, among other things, restrict our ability to:

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

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

Our business and results of operations are dependent on several vendors and suppliers, the loss of whom could adversely affect our consolidated results of operations.

Our business is dependent on several vendors and suppliers, the loss of whom could adversely affect our consolidated results of operations. In particular, Comdata s current business relies upon its relationships with third party suppliers, such as MasterCard, to effect and support transactions, including access to the Cirrus ATM network and the Maestro point-of-sale debit network. The ability of Comdata to continue to provide some of its services in the manner in which it currently delivers them may be affected by actions taken by third party suppliers, including MasterCard or other similar card associations. Comdata s application to form a Utah industrial bank that would likely become a direct participant in the MasterCard credit and debit networks is subject to FDIC approval, which is currently pending and may not be approved. Any adverse change in Comdata s relationship with these vendors or Comdata s inability to timely and effectively establish an industrial bank or find other timely and effective alternatives to these vendor relationships could likely adversely affect Comdata s business and results of operations and could adversely affect our consolidated results of operations as well.

There may be a contested election for directors at our 2007 annual meeting of stockholders, which may be disruptive and impose costs and expenses.

On January 23, 2007, Pershing Square Capital Management, L.P., a Ceridian stockholder, submitted a notice to us proposing to nominate eight individuals to stand for election to our board of directors at our 2007 annual meeting of stockholders, in opposition to the nominees to be proposed by our board. Contested elections for directors can be time-consuming and expensive, and can divert company resources and management attention. In addition, contested elections can create uncertainty among employees and other company constituencies. We cannot predict the outcome or impact on us of such a contested election.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

Our principal executive offices are located at 3311 East Old Shakopee Road, Minneapolis, Minnesota 55425. As of February 1, 2007, the principal computer and office facilities used in our businesses were located in the metropolitan areas of Minneapolis, Minnesota; Atlanta, Georgia; Los Angeles, California; Chicago, Illinois; St. Louis, Missouri; Louisville, Kentucky; Raleigh, North Carolina; Nashville, Tennessee; Dallas, Texas; El Paso, Texas; St. Petersburg, Florida; Philadelphia, Pennsylvania; in London, Manchester and Rickmansworth, England; in Winnipeg, Manitoba, St. Laurent, Quebec and Markham, Ontario, Canada; and in Ebene, Mauritius.

The following table summarizes the usage and location of our facilities as of February 1, 2007:

Facilities
(in thousands of square feet)

	U.S.	Non-U.S.	Total
Type of Property Interest			
Owned	388		388
Leased	1,729	490	2,219
Total	2,117	490	2,607
Property Interest by Segment			
HRS	1,648	480	2,128
Comdata	399	10	409
Corporate	70		70
Total	2,117	490	2,607
Utilization of Property			
Office, Computer Center & Other	2,081	490	2,571
Leased or Subleased to Others	36		36
Total	2,117	490	2,607

With the exception of our St. Petersburg, Florida facility, we conduct all of our operations in leased facilities, including our 211,000 square feet Minneapolis headquarters complex in Minneapolis, Minnesota. Most of these leases contain renewal options and require payment for taxes, insurance and maintenance.

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

Item 3. Legal Proceedings

We 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 audits and 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 Action

Since August 6, 2004, six shareholder lawsuits have been filed against Ceridian Corporation and certain of our 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 PJS-RLE. This consolidated action purports to be a class action filed on behalf of all persons who purchased or otherwise acquired our common stock between April 17, 2003 through and including March 17, 2005, and allege claims against Ceridian Corporation and certain of our former executive 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 us regarding our financial performance, and in particular our 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 our 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 our 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. We have made a motion to dismiss the amended consolidated class action.

We believe these claims are without merit and we intend to vigorously defend our position in this action. We cannot estimate the possible loss or range of loss from this matter.

Derivative Action

Since August 13, 2004, two shareholders have filed derivative suits on behalf of Ceridian Corporation against Ceridian Corporation, as nominal defendant, certain current and former directors and certain of our 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 our

Board of Directors as of August 2004 and certain of our former executive officers breached fiduciary duties, through abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. The consolidated lawsuit, which is currently stayed, relies on the same factual allegations as the purported class action shareholder lawsuit described above.

We intend to appropriately defend our position in this action. We cannot estimate the possible loss or range of loss from this matter.

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, our restatements, revenue recognition, capitalization, expense recognition, how we respond to any internal ethics complaints, and our 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. On January 8, 2007, we received a second subpoena seeking additional documents relating to the areas of inquiry identified above. We continue to fully cooperate with the SEC.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of 2006.

PART II

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

Our common stock is listed and trades on The New York Stock Exchange under the symbol CEN . The number of holders of record of our common stock on February 1, 2007 was 10,941. We have not declared or paid any cash dividends on our common stock since our inception and our Board of Directors presently intends to retain all earnings for use in the business for the foreseeable future. The transfer agent and registrar for our common stock is the Bank of New York.

The following table sets forth the high and low sale prices of our common stock as reported on the NYSE Composite Tape for each quarterly period during the fiscal years ending December 31, 2006 and 2005.

2006	**1Q**	**2Q**	**3Q**	**4Q**
High	$ 26.00	$ 25.75	$ 24.54	$ 28.99
Low	23.51	23.04	21.76	22.18

2005	**1Q**	**2Q**	**3Q**	**4Q**
High	$ 18.55	$ 20.05	$ 21.34	$ 25.16
Low	16.55	16.22	19.34	20.48

The table below sets forth the information with respect to purchases made by or on behalf of Ceridian of our common stock during the three months ended December 31, 2006.

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)**
Month #1 (October 1, 2006- October 31, 2006)	200,000	$ 23.15	200,000	4,009,250
Month #2 (November 1, 2006- November 30, 2006)	1,341,700	$ 24.63	1,341,700	2,667,550
Month #3 (December 1, 2006- December 31, 2006)	105,941 (2)	$ 24.54	100,000	2,567,550
Total:	1,647,641	$ 24.44	1,641,700	2,567,550

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(1) On July 27, 2005, our Board of Directors authorized Ceridian to repurchase up to 20,000,000 additional shares of our common stock. We disclosed this increase in the repurchase program in a press release on July 28, 2005. The repurchase program is being effected from time to time, depending on market conditions and other factors, through open market purchases and privately negotiated transactions. The total remaining authorization under the repurchase program was 2,567,550 shares as of December 31, 2006. The repurchase program has no set expiration or termination date.

(2) 5,941 shares were returned from the Ceridian Corporation Deferred Compensation Plan.

We refer you to Part III, Item 12 of this report for information about our securities that may be issued under our equity compensation plans.

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The graph below compares the cumulative total return from December 31, 2001 to December 31, 2006 for our common stock, the S&P 500 Index and our peer group index of data services companies aligned to our HRS and Comdata business segments. The peer group index of data services companies, weighted for market capitalization, consists of Automatic Data Processing, Inc.; Bisys Group, Inc.; Computer Sciences Corporation; Concord EFS, Inc. (prior to February 26, 2004, when it was acquired by First Data Corporation); DST Systems, Inc.; Equifax, Inc.; First Data Corporation; Fiserv, Inc.; and Paychex, Inc. The graph assumes the investment of $100 in each of our common stock, the S&P 500 Index and our peer group index on December 31, 2001, and the reinvestment of all dividends as and when distributed.

COMPARISON OF CUMULATIVE TOTAL RETURN
(CERIDIAN, THE S&P 500 INDEX AND THE PEER GROUP INDEX)

	Years Ending					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Ceridian Corporation	$ 100.00	$ 76.91	$ 111.68	$ 97.49	$ 132.53	$ 149.23
S&P 500 Index	100.00	77.90	100.25	111.15	116.61	135.03
Peer Group Index	100.00	73.25	82.73	89.45	93.73	101.16

Item 6. Selected Financial Data

The selected consolidated historical financial information set forth below should be read along with Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data of this report.

(Dollars in millions, except per share data)

	Years Ended December 31, 2006	2005	2004	2003	2002
Revenue	$ 1,565.1	$ 1,459.0	$ 1,320.4	$ 1,213.9	$ 1,160.3
Net earnings	$ 173.6	$ 127.9	$ 36.9	$ 98.8	$ 111.5
Earnings Per Common Share					
Basic	$ 1.22	$ 0.87	$ 0.25	$ 0.66	$ 0.75
Diluted	$ 1.20	$ 0.86	$ 0.24	$ 0.66	$ 0.74
Shares used in calculations (in thousands)					
Basic	141,882	146,935	149,074	148,634	148,029
Diluted	144,531	148,633	151,079	150,197	149,633
Balance Sheet Data at end of year					
Working capital	$ 386.7	$ 401.3	$ 345.0	$ 302.6	$ 246.6
Total assets before customer funds	2,341.0	2,312.2	2,129.6	2,053.4	2,025.7
Customer funds	4,593.4	4,341.2	4,096.0	3,152.7	2,446.6
Total assets	6,934.4	6,653.4	6,225.6	5,206.1	4,472.3
Total debt and capital lease obligations	100.5	106.5	100.7	163.5	193.5
Stockholders equity	$ 1,371.2	$ 1,291.8	$ 1,295.7	$ 1,245.2	$ 1,102.3
Number of Employees at end of year	9,538	9,633	9,517	9,349	9,412

We have reclassified certain prior year amounts to conform to the current year s presentation. These reclassifications had no effect on the previously reported consolidated net earnings or stockholders equity.

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

The following discussion should be read in conjunction with Item 1A. Risk Factors and in conjunction with our consolidated financial statements and the notes related to those consolidated financial statements contained in Part II, Item 8, Financial Statements and Supplementary Data of this report. Any reference to a Note in this discussion relates to the accompanying notes to the consolidated financial statements unless otherwise indicated. All dollars in the following discussion are in millions except per share amounts.

Overview

Our human resource solutions (HRS) business segment enables customers to outsource a broad range of employment processes, such as payroll, tax filing, human resource information systems, employee self-service, time and labor management, benefits administration, employee assistance and work-life programs, recruitment and applicant screening, and post-employment health insurance portability compliance. We have HRS operations primarily in the United States, Canada and the United Kingdom. Our Comdata subsidiary (which we refer to in this report as Comdata) provides transaction processing, financial services and regulatory compliance services primarily to the transportation and retail industries. Comdata s products and services include payment processing and the issuance of credit, debit and stored value cards. Comdata s operations are located primarily in the United States. Our businesses are more fully described in Part I, Item 1, Business and in Note 13, Segment Data.

A number of events or transactions occurred during the period covered by this discussion that had a significant effect on the year-to-year comparisons of our financial condition and performance, including:

- *Adoption of SFAS 123R.* The comparison of cost of revenue, selling, general and administrative (SG&A), and research and development expense for 2006 to 2005 was significantly affected by adoption of Statement of Financial Accounting Standards (SFAS) 123R, Share-Based Payment. The principal effect of SFAS 123R was to require the inclusion in our earnings of compensation expense for employee services obtained through stock-based payment transactions that previously were only reported as a disclosure in a note to our consolidated financial statements. Total costs and expenses for stock-based compensation in 2006 equaled $21.0 compared to $2.5 and $2.4 in 2005 and 2004, respectively. The adoption of this pronouncement is discussed further in Note 8, Stock-Based Compensation Plans.

- *Income tax matters.* In 2006, the expiration of the statute of limitations on an international tax contingency and a Canadian tax rate reduction resulted in a reduction in our income tax expense of $8.6 and $2.8, respectively. During 2005, we reduced our income tax provision by $24.5 due primarily to the settlement of specific tax matters and the expiration of the statute of limitations in various jurisdictions. In addition, in 2005 we repatriated $130.3 of accumulated earnings from Ceridian Canada under the American Jobs Creation Act of 2004, resulting in an additional tax expense of $5.2. During 2004, we reduced our tax by $16.3 related to tax settlements and $7.0 related to a valuation allowance realization partially offset by increased tax expense of $12.3 for a proposed tax adjustment on international earnings.

- *Phase-out of CobraServ trademark.* The comparison of SG&A expense for 2005 to 2004 was affected by the abandonment of the CobraServ trademark. The CobraServ trademark was capitalized as part of our 1999 acquisition of our benefits administration services business. In 2004, the CobraServ trademark was phased out of operation. As part of this abandonment, we accelerated the amortization of the remaining net book value of $42.6 in 2004. This amortization is reported in SG&A expense in the HRS operations for the year ended December 31, 2004.

- *Sale of our SourceWeb payroll platform and the reorganization within our U.S. HRS payroll processing and tax filing operations.* The sale on December 31, 2004 of certain customer relationships and other assets associated with our SourceWeb payroll platform (SourceWeb Assets) resulted in a 2004 charge to earnings of $28.5. The elimination of the direct costs associated with this product offering and the benefits of the reorganization within our U.S. HRS payroll processing and tax filing operations significantly improved the comparison of costs and expenses for 2005 to 2004.

Results of Operations
2006 Compared to 2005

Statements of Operations

	Amount 2006	2005	Increase (Decrease) $	%	% of Revenue 2006	2005
Revenue	$ 1,565.1	$ 1,459.0	106.1	7.3	100.0	100.0
Cost of revenue	843.0	785.2	57.8	7.4	54.9	54.8
SG&A expense	450.0	458.1	(8.1)	(1.7)	28.7	31.4
Research and development (R&D) expense	28.1	28.1	0.0	(0.2)	1.8	1.9
Loss on derivative instruments	2.7	11.6	(8.9)	(76.4)	0.2	0.8
Other (income) expense, net	(10.5)	4.5	(15.0)	(330.6)	(0.7)	0.3
Interest income	(13.5)	(7.8)	(5.7)	71.8	(0.9)	(0.5)
Interest expense	6.0	5.5	0.5	7.3	0.4	0.4
Total costs and expenses	1,305.8	1,285.2	20.6	1.6	83.4	88.1
Earnings before income taxes	259.3	173.8	85.5	49.2	16.6	11.9
Income tax provision	85.7	45.9	39.8	86.8	5.5	3.1
Net earnings	$ 173.6	$ 127.9	45.7	35.7	11.1	8.8
Diluted earnings per common share	$ 1.20	$ 0.86	0.34	39.5	NM	NM

*NM represents comparisons that are not meaningful to this analysis.

Consolidated Results Overview

Consolidated revenue increased $106.1, or 7.3%, to $1,565.1 in 2006 from $1,459.0 in 2005. The HRS business segment revenue increased $49.7 in 2006 primarily due to higher interest income on invested customer funds resulting from higher interest rates and increased customer float balances, higher customer employment levels, the strengthening of the Canadian dollar against the U.S. dollar, and increased customer demand partially offset by incremental revenue deferrals. Our Comdata business segment revenue increased $56.4 in 2006 due to higher customer demand, the benefit of higher fuel prices and the impact of price increases. Results for our HRS and Comdata segments are discussed below under Business Segment Results.

Cost of revenue as a percent of revenue increased slightly to 54.9% in 2006 from 54.8% in 2005. This included increased costs in the HRS segment related to our government contracts and an increase in stock-based compensation expense, offset by increased interest income on invested customer funds without significant incremental costs and reduced costs through reorganization efforts principally in our HRS segment.

SG&A expense decreased $8.1, or 1.7%, to $450.0 in 2006 from $458.1 in 2005. This decrease was primarily due to cost savings resulting through reorganization efforts in our HRS segment, reductions in medical and postretirement expenses and lowered pension expense primarily due to the pension remeasurement in 2006. These expense reductions were partially offset by increased stock-based compensation expense and general expense increases.

R&D expense remained flat to last year at $28.1. External consulting costs were lower offset by increases in internal cost and increased stock-based compensation.

In 2006, the loss on derivative instruments amounted to $2.7 in 2006 compared to a loss of $11.6 in 2005. The decreased loss included the impact of a $2.3 loss from the sale of our interest rate derivative instruments in February 2005 while the remaining reduction of $6.6 million resulted from a greater increase in diesel fuel futures prices in 2005 compared to 2006.

Other (income) expense, net for 2006 primarily relates to gain on the sale of marketable securities, sale of other assets, and gain from the settlement of a lawsuit. Other (income) expense, net in 2005 resulted from asset impairments, partially offset by gain on sale of marketable securities and other assets.

Interest income in 2006 increased $5.7 to $13.5 compared to $7.8 in 2005. The increase was driven by a higher average level of cash and equivalents and higher interest rates. Interest expense increased $0.5 in 2006 compared to 2005 primarily driven by higher average interest rates.

Income taxes increased $39.8 to $85.7 in 2006 compared to $45.9 in 2005. Our effective tax rate for 2006 was 33.0% compared to 26.4% for 2005. The effective tax rate for 2006 was favorably impacted by the expiration of the statute of limitations on an international tax contingency and a Canadian tax rate reduction. The statute expiration resulted in an $8.6 decrease in income tax expense. The Canadian tax rate change impacted our deferred income tax balance and reduced income tax expense by $2.8. The effective rate and income tax expense for 2005 were favorably impacted by a settlement of a tax matter that reduced income tax expense by $13.0, the settlement of an audit of a former affiliate that resolved our potential obligation which reduced our tax expense by $5.9, the expiration of the statute of limitations in various jurisdictions and other adjustments to our contingent tax liabilities that reduced income tax expense by $5.6. In addition, in 2005 we repatriated foreign earnings from Ceridian Canada under the American Jobs Creation Act of 2004 resulting in additional tax expense of $5.2.

Business Segment Results

Our business is classified into two reportable segments; HRS and Comdata. We measure business segment results by reference to earnings before interest and taxes (EBIT) because interest income and interest expense are not allocated to our segments. Revenue between business segments is not material and is eliminated upon consolidation. Expenses incurred by corporate center operations are directly charged or otherwise allocated to the business segments. Corporate center costs include medical, workers compensation, casualty and property insurance, retirement plan expenses, treasury services, tax services, audit services, accounting services, general management services and other corporate overhead such as occupancy and aircraft costs. Certain of these costs are charged to the business segment based on usage or direct costs and the remainder is allocated on a consistent basis based on a percentage of revenue.

HRS

	Amount 2006	2005	Increase (Decrease) $	%	% of Revenue 2006	2005
Revenue	$ 1,099.8	$ 1,050.1	49.7	4.7	100.0	100.0
Cost of revenue	620.6	601.4	19.2	3.2	56.4	56.7
SG&A expense	370.0	382.3	(12.3)	(3.2)	33.7	36.4
R&D expense	20.6	21.5	(0.9)	(4.2)	1.9	2.0
Loss on derivative instruments		2.3	(2.3)	(100.0)		0.2
Other (income) expense, net	(9.6)	4.5	(14.1)	(313.3)	(0.9)	0.4
EBIT	$ 98.2	$ 44.6	53.6	119.9	8.9	4.3

HRS revenue increased $49.7, or 4.7%, to $1,099.8 in 2006 compared to $1,050.1 in 2005. Revenue from U.S. operations increased $22.6, or 2.8%, from $799.8 to $822.4, revenue from Ceridian Canada operations increased $24.5, or 15.5%, from $158.1 to $182.6, and revenue from Ceridian U.K. operations increased $2.6, or 2.8%, from $92.2 to $94.8.

The increase in revenue from U.S. operations in 2006 included a $26.2 increase in payroll processing, tax filing and other human resource services (Payroll and Tax Services) and a $2.9 increase from benefits

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administration services (Benefit Services), partially offset by a $6.5 decrease in work-life and employee assistance programs (LifeWorks). The increase in Payroll and Tax Services U.S. operations revenue in 2006 was mainly driven by increases in interest income earned on invested customer funds of $20.2, of which $17.0 was from a higher average yield and $3.2 was from a higher average invested balance. The increase in Benefit Services U.S. operations revenue of $2.9 was primarily driven by increased customer employee participation and higher interest rates on invested customer funds. LifeWorks U.S. operations revenue decrease of $6.5 was primarily from a reduction in business volume and lower pricing due to the competitive environment.

The Ceridian Canada revenue increase of $24.5 included $11.3 due to the strengthening of the Canadian dollar against the U.S. dollar, $6.3 from additional interest income primarily resulting from a higher average invested balance, with the remainder of the increase attributed to growth in the payroll base and price increases. The Ceridian U.K. revenue increase of $2.6 was due to the strengthening of the British Pound Sterling against the U.S. dollar and increased volume.

HRS cost of revenue as a percent of revenue decreased to 56.4% in 2006 from 56.7% in 2005 mainly due to increased interest income on invested customer funds without significant incremental costs and reduced costs through reorganization efforts principally in our Payroll and Tax Services business, offset by an increase in expenses related to our government LifeWorks business and an increase in stock-based compensation expense of $2.6.

SG&A expense for HRS decreased $12.3, or 3.2%, to $370.0 in 2006 compared to $382.3 in 2005 resulting from a decrease of $11.2 in selling expense and of $1.1 in general and administrative expense. The decrease in selling expense of $11.2 was primarily the result of the Payroll and Tax Services reorganization and reduced headcount of approximately $16.0, partially offset by $1.8 from additional stock-based compensation expense, $1.3 due to the strengthening of the Canadian dollar against the U.S. dollar and general expense increases. The decrease in general and administrative expense of $1.1 was primarily due to a $5.7 reduction in medical and postretirement expenses, a $4.8 reduction related to the pension remeasurement in the second quarter of 2006, a $4.7 reduction in severance charges and reduced external Sarbanes-Oxley compliance expenses of $3.4, partially offset by $8.5 of additional stock-based compensation expense, $2.9 due to the strengthening of the Canadian dollar and British Pound Sterling against the U.S. dollar, $0.9 related to legal accruals and the remaining due to compensation and benefit increases.

R&D expense for HRS decreased $0.9, or 4.2%, to $20.6 in 2006 compared to $21.5 in 2005. This decrease was a result of a large consulting project in 2005 that was not duplicated in 2006 partially offset by additional stock-based compensation expense of $0.5 in 2006.

We maintained interest rate derivatives for the purpose of mitigating interest rate risk on customer funds until February 2005. In the first quarter of 2005, we recorded a loss of $2.3 associated with the disposition of these derivative instruments. We held no interest rate derivatives in 2006.

Other (income) expense, net for 2006 primarily relates to a $5.8 gain on the sale of a major portion of the RPS business and a gain on sale of marketable securities and other assets of $3.4. Other (income) expense, net in 2005 resulted from asset impairments of $9.1, partially offset by a $4.3 gain of sale of marketable securities and other assets.

HRS EBIT increased $53.6, or 119.9%, to $98.2 or 8.9% of revenue in 2006 compared to $44.6 or 4.3% of revenue in 2005. The increase was primarily due to an improvement in operating performance in the U.S. HRS business driven by increased revenue, higher other income and a reduction in SG&A expenses.

Comdata

	Amount 2006	2005	Increase (Decrease) $	%	% of Revenue 2006	2005
Revenue	$ 465.3	$ 408.9	56.4	13.8	100.0	100.0
Cost of revenue	222.4	190.3	32.1	16.9	47.8	46.6
SG&A expense	80.0	75.8	4.2	5.6	17.2	18.5
R&D expense	7.5	6.6	0.9	14.1	1.6	1.6
Loss on derivative instruments	2.7	9.3	(6.6)	(70.6)	0.6	2.3
Other income, net	(0.9)		(0.9)	NM	(0.2)	
EBIT	$ 153.6	$ 126.9	26.7	21.1	33.0	31.0

Comdata revenue increased $56.4, or 13.8%, to $465.3 in 2006 from $408.9 in 2005. The increase in revenue in 2006 was primarily due to increased customer demand and price increases generating $50.0 and fuel price increases generating $6.4. For a portion of its transportation customers, Comdata earns fee revenue for card transactions based on a percentage of the total cost of each fuel purchase. An increase or decrease in the price of fuel increases or decreases the total dollar amount of fuel purchases and corresponding Comdata revenue. Revenue from transportation increased $28.4, or 10.0%, to $311.5 in 2006 from $283.1 in 2005. Revenue from retail services increased $28.0, or 22.3%, to $153.8 in 2006 from $125.8 in 2005.

The increase in revenue from transportation of $28.4 in 2006 related primarily to revenue from the long haul business, which increased $14.9, including a $5.0 increase resulting from higher fuel prices. The remaining long haul revenue increase of $9.9 primarily resulted from an increase in transaction volume in 2006 over 2005, reflecting in part the continued growing acceptance of the Comdata Card. Local fleet revenue increased $8.6 due to $7.2 from new customers and greater utilization by major local fleet customers of Comdata s products and services, including the Comdata Card and a $1.4 increase resulting from higher fuel prices. The remaining increase in transportation revenue of $4.9 is primarily from regulatory compliance services which increased $5.2 due largely to price increases and improved delivery of services.

Revenue from retail services increased $28.0 in 2006 primarily due to higher levels of retail cards in use, greater transaction volume and the acquisition of HQ Giftcards, LLC (HQ Giftcards), a provider of mall gift card program management services, in the fourth quarter of 2006. Revenue from retail services is generally deferred and recognized largely over a six-month period following the activation of a card, which typically takes place about seven months after the shipment of the card to the retailer. Cards delivered increased 15.6% while transactions processed increased approximately 16.5% in 2006 over 2005.

Comdata cost of revenue as a percent of revenue for 2006 increased to 47.8% compared to 46.6% in 2005. Cost of revenue included higher payroll expenses to support the retail services business and $1.2 for stock-based compensation expense. Cost of revenue as a percent of revenue was reduced by the benefit from higher fuel prices without significant incremental cost.

SG&A expense increased $4.2, or 5.6%, to $80.0 in 2006 compared to $75.8 in 2005. The increase is due to higher legal fees and litigation accruals of $7.8, a $4.1 increase in selling expense due to growth in revenue and stock-based compensation expense of $3.7, partially offset by a reduction in bad debt expense of $6.1 due to higher charges in 2005, a $1.9 reduction in medical and postretirement expenses, a $1.6 reduction related to the pension remeasurement in the second quarter of 2006, reduced internal financial controls compliance expenses of $1.1 and a reduction in severance charges of $0.8.

R&D expense increased $0.9, or 14.1%, to $7.5 in 2006 compared to $6.6 in 2005 primarily due to staffing additions to develop new service offerings.

The net loss on the diesel fuel price derivative instruments in 2006 was $2.7 compared to $9.3 in 2005. This primarily resulted from a greater increase in diesel fuel futures prices in 2005 compared to 2006. Our diesel fuel price risk management objective is to protect Comdata earnings from the effects of falling diesel fuel prices by entering into derivative instruments that convert the floating price of diesel fuel used in revenue calculations to a fixed price. During late 2005 and early 2006, we acquired diesel fuel price derivative instruments covering approximately 80% of our anticipated 2006 diesel fuel price related earnings exposure with an average strike price of $2.55 per gallon. During 2005, we covered approximately 100% of our diesel fuel price risk for the full year with a combination of instruments with an average strike price of $1.92 per gallon.

Other income, net primarily reflects a $1.0 gain from the settlement of a lawsuit.

Comdata EBIT increased $26.7, or 21.1%, to $153.6 or 33.0% of revenue in 2006 compared to $126.9 or 31.0% of revenue in 2005 primarily due to a continued increase in customer demand, the benefit of higher fuel prices, and the reduced loss on diesel fuel price derivative instruments partially offset by increased legal fees and litigation accruals.

2005 Compared to 2004

Statements of Operations

	Amount		**Increase (Decrease)**		**% of Revenue**	
	2005	**2004**	**$**	**%**	**2005**	**2004**
Revenue	$ 1,459.0	$ 1,320.4	138.6	10.5	100.0	100.0
Cost of revenue	785.2	741.4	43.8	5.9	53.8	56.2
SG&A expense	458.1	483.1	(25.0)	(5.2)	31.4	36.6
R&D expense	28.1	26.1	2.0	7.6	1.9	2.0
Loss on derivative instruments	11.6	0.3	11.3	NM	0.8	0.0
Other expense, net	4.5	26.5	(22.0)	82.9	0.3	2.0
Interest income	(7.8)	(2.6)	(5.2)	NM	(0.5)	(0.2)
Interest expense	5.5	4.4	1.1	27.2	0.4	0.3
Total costs and expenses	1,285.2	1,279.2	6.0	0.5	88.1	96.9
Earnings before income taxes	173.8	41.2	132.6	321.9	11.9	3.1
Income tax provision	45.9	4.3	41.6	NM	3.1	0.3
Net earnings	$ 127.9	$ 36.9	91.0	246.7	8.8	2.8
Diluted earnings per common share	$ 0.86	$ 0.24	0.62	258.3	NM	NM

Consolidated Results Overview

Total revenue increased $138.6 or 10.5% to $1,459.0 in 2005 compared to $1,320.4 in 2004. HRS business segment revenue increased $85.7 from 2004 to 2005 while the Comdata business segment revenue increased $52.9 from 2004 to 2005. HRS revenue benefited $19.3 from higher yields on invested customer funds, $10.6 from higher invested balances, $20.2 from increased revenue from LifeWorks and $10.1 from the effect of foreign currency translation. Comdata s revenue benefited $25.3 from increased revenue from retail services and $12.9 due to increased transaction fees for transportation services due to higher fuel prices. In addition, both segments benefited from the addition of new customers, selling additional services to existing customers and price increases.

Cost of revenue as a percent of revenue improved from 56.2% in 2004 to 53.8% in 2005. The improvement was primarily due to increased sales of higher margin products and services and improved efficiencies resulting from reorganization efforts principally in our Payroll & Tax Services business.

SG&A expense decreased $25.0, or 5.2% to $458.1 in 2005 from $483.1 in 2004. This was primarily due to the $42.6 charge in 2004 for accelerated amortization of the CobraServ trademark.

Loss on derivative instruments increased $11.3 mainly due to our diesel fuel price derivatives. During 2005, we made payments of $8.2 to counterparties for our diesel fuel price derivatives and recorded a $1.1 unrealized loss on such derivatives. We sold our interest rate derivatives in February 2005 and recorded a $2.3 loss. Other expense decreased $22.0 in 2005 mainly due to the charge to earnings in 2004 as a result of the sale of our SourceWeb Assets in 2004.

Interest income increased $5.2 to $7.8 in 2005 due to both a higher average level of cash and equivalents and higher interest rates. Our average outstanding borrowings under our U.S. credit facilities decreased from $125.2 for 2004 to $61.2 for 2005. Our average effective interest rate on these facilities increased from 1.97% for 2004 to 4.15% for 2005. Interest expense increased $1.1 in 2005 from $4.4 in 2004 due to rising interest rates.

Income taxes increased $41.6 from 2004 to 2005 primarily due to increased earnings and additional taxes of $5.2 related to the repatriation of funds from Ceridian Canada. In 2005, we favorably settled a tax matter that resulted in a $13.0 reduction in tax expense. In addition, a former affiliate settled an audit that resolved our potential obligations which reduced our tax expense by $5.9. Finally, the expiration of the statute of limitations and other adjustments to our contingent tax liabilities resulted in a $5.6 reduction in our tax expense. The income tax expense for 2004 was lower primarily due to lower earnings. We also provided additional tax expense in 2004 of $12.3 for a proposed tax adjustment on international earnings. We reduced tax expense in 2004 by $16.3 related to tax settlements and $7.0 related to a valuation allowance realization. The reported effective tax rate was 26.4% for 2005 and 10.4% for 2004.

Business Segment Results

Our business is classified into two reportable segments; HRS and Comdata. We measure business segment results by reference to EBIT because interest income and interest expense are not allocated to our segments. Revenue between business segments is not material and is eliminated upon consolidation. Expenses incurred by corporate center operations are directly charged or otherwise allocated to the business segments. Corporate center costs include medical, workers compensation, casualty and property insurance, retirement plan expenses, treasury services, tax services, audit services, accounting services, general management services and other corporate overhead such as occupancy and aircraft costs. Certain of these costs are charged to the business segment based on usage or direct costs and the remainder is allocated on a consistent basis based on a percentage of revenue.

HRS

	Amount		Increase (Decrease)		% of Revenue	
	2005	**2004**	**$**	**%**	**2005**	**2004**
Revenue	$ 1,050.1	$ 964.4	85.7	8.9	100.0	100.0
Cost of revenue	594.9	572.4	22.5	3.9	56.7	59.3
SG&A expense	382.3	418.3	(36.0)	(8.7)	36.4	43.3
R&D expense	21.5	21.7	(0.2)	(0.9)	2.0	2.3
Loss (gain) on derivative instruments	2.3	(1.1)	3.4	NM	0.2	(0.1)
Other expense, net	4.5	25.7	(21.2)	(82.4)	0.4	2.7
EBIT	$ 44.6	$ (72.6)	117.2	161.4	4.3	(7.5)

HRS revenue increased $85.7 or 8.9% in 2005. Revenue from U.S. operations increased $68.3, revenue from Ceridian Canada operations increased $17.0 and revenue from Ceridian U.K. operations increased $0.4.

The increase in revenue from U.S. operations in 2005 included an increase in Payroll and Tax Services of $48.9, Benefit Services contributing $5.0, and LifeWorks contributing $14.4. The increase in Payroll and Tax Services revenue was mainly driven by a $25.3 increase in interest income earned on invested customer funds due to both a higher average invested balance and a higher average yield. The remainder of the increase in Payroll and Tax Services revenue was primarily driven by the addition of new customers. The increase in Benefit Services revenue was mainly driven by increased interest income of $2.3 and the addition of new customers. LifeWorks revenue increased $20.2 due to increased revenue from work-life services.

The Ceridian Canada revenue increased $17.0 with $10.2 of the increase due to the strengthening of the Canadian dollar against the U.S. dollar and $2.3 due to increased interest income. Ceridian U.K. revenue increased $0.4. Currency rate changes had little effect on Ceridian U.K. revenue.

HRS cost of revenue as a percent of revenue improved from 59.3% in 2004 to 56.7% in 2005. The improvement was mainly driven by a decrease of 6.9 percentage points in cost of revenue as a percent of revenue in Payroll and Tax Services as a result of reorganization efforts that reduced cost and by increased interest income on invested customer funds without significant incremental costs. The improvement in the cost of revenue as a percent of revenue in Payroll and Tax Services was partially offset by increases in cost of revenue as a percent of revenue mainly due to compensation and benefit increases.

SG&A expense for HRS decreased $36.0 from 2004 to 2005 primarily due to the $42.6 expense in 2004 for amortization of the CobraServ trademark, a decrease of $21.4 related to selling expense, partially offset by an increase of $28.0 related to other general and administrative expense. The decrease in selling expense is primarily attributed to cost savings resulting from our Payroll and Tax Services reorganization in connection with the disposition of our SourceWeb Assets. The increase in general and administrative expense of $28.0 was primarily due to increased costs of technology support, compensation, benefits and severance costs.

We have maintained interest rate derivatives for the purpose of mitigating interest rate risk on customer funds, although as of December 31, 2005, we held no such instruments. The fair market value of our interest rate derivative instruments was $26.8 at December 31, 2004.

In the first quarter of 2005, we disposed of our interest rate derivative instruments, receiving proceeds of $21.0 and $3.5 for settlements. We recorded a loss of $2.3 on interest rate derivative instruments representing the difference between the carrying value of $26.8 and the $24.5 of total cash received.

Other expense, net for HRS decreased $21.2 in 2005 primarily due to a charge to earnings of $28.5 recorded in 2004 associated with the sale of our SourceWeb Assets. In addition, we recognized gains on sales of marketable securities of $4.3 offset by $9.1 of asset write-downs. In 2004, we recognized gains on sales of marketable securities of $4.5 offset in part by $3.6 of asset write-downs.

HRS EBIT increased from a loss of $72.6 in 2004 to earnings of $44.6 in 2005. This improvement was mainly driven by an improvement in EBIT from the U.S. HRS business resulting from increased revenue as well as reduced SG&A and other expense.

Comdata

	Amount		Increase (Decrease)		% of Revenue	
	2005	**2004**	**$**	**%**	**2005**	**2004**
Revenue	$ 408.9	$ 356.0	52.9	14.8	100.0	100.0
Cost of revenue	190.3	169.0	21.3			