

CERIDIAN CORP /DE/
Form 10-Q/A
March 15, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 31, 2003

or

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

For transition period from _____ to _____

Commission file number: 1-15168

CERIDIAN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-1981625
(IRS Employer
Identification No.)

3311 East Old Shakopee Road, Minneapolis, Minnesota
(Address of principal executive offices)

55425
(Zip Code)

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

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

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

YES NO

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

YES NO

The number of shares of registrant's Common Stock, par value \$.01 per share, outstanding as of April 30, 2003, was 148,099,691.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends Items 1, 2 and 3 of Part I and Item 6 of Part II of our Quarterly Report on Form 10-Q previously filed for the quarterly period ended March 31, 2003. This Form 10-Q/A is filed in connection with our restated financial statements as of and for the periods ended March 31, 2003 as a result of changes in revenue recognition at our Stored Value Systems unit. Stored Value Systems is a wholly owned subsidiary of our Comdata subsidiary that provides stored value cards and related processing principally to the retail industry. Financial statement information and related disclosures included in this Form 10-Q/A reflect, where appropriate, changes as a result of the restated financial statements and certain other changes that were responsive to comments received from the Division of Corporation Finance of the Securities and Exchange Commission. Certifications from our Chief Executive Officer and Chief Financial Officer required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached to this Form 10-Q/A as Exhibits 31.01, 31.02, 32.01 and 32.02. All other information contained in this Form 10-Q/A is as of the date of the original filing.

We are filing an Amendment No. 1 to our annual report on Form 10-K for the fiscal year ended December 31, 2002 and an Amendment No. 1 to quarterly reports on Form 10-Q for each of the second and third quarters of 2003 concurrently with the filing of this Form 10-Q/A. We have not amended and do not intend to amend our previously filed annual reports on Form 10-K or our quarterly reports on Form 10-Q for the periods affected by the restated financial statements for periods ending on or prior to December 31, 2002. For this reason, the consolidated financial statements, auditors' reports and related financial information contained in such reports for the affected periods should no longer be relied upon.

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SIGNATURE

Certification of our CEO Pursuant to Section 302

Certification of our CFO Pursuant to Section 302

Certification of our CEO Pursuant to Section 906

Certification of our CFO Pursuant to Section 906

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<p>In the opinion of Ceridian Corporation, the unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals, except as set forth in the notes to consolidated financial statements) necessary to present fairly our financial position as of March 31, 2003, and results of operations and cash flows for the three month periods ended March 31, 2003 and 2002.</p> <p>The results of operations for the three month period ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year.</p> <p>The consolidated financial statements should be read in conjunction with the notes to consolidated financial statements.</p>	
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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

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

Ceridian Corporation
and Subsidiaries

	For Periods Ended March 31, Three Months	
	2003	2002
Revenue	\$ 314.1	\$ 302.1
Costs and Expenses		
Cost of revenue	142.4	139.2
Selling, general and administrative	111.6	106.0
Research and development	16.3	15.3
Other expense (income)	(0.4)	9.8
Interest income	(0.5)	(0.3)
Interest expense	1.2	1.9
	<hr/>	<hr/>
Total costs and expenses	270.6	271.9
	<hr/>	<hr/>
Earnings before income taxes	43.5	30.2
Income tax provision	15.4	10.8
	<hr/>	<hr/>
Net earnings	\$ 28.1	\$ 19.4
	<hr/>	<hr/>
Earnings per share		
Basic	\$ 0.19	\$ 0.13
Diluted	\$ 0.19	\$ 0.13
Shares used in calculations (in 000 s)		
Weighted average shares (basic)	148,451	146,875
Dilutive securities	434	4,057
	<hr/>	<hr/>
Weighted average shares (diluted)	148,885	150,932
	<hr/>	<hr/>
Antidilutive shares excluded (in 000 s)	18,567	4,401

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS (Unaudited) (Restated)

(Dollars in millions)

Ceridian Corporation
and Subsidiaries

	March 31, 2003	December 31, 2002
	<hr/>	<hr/>
Assets		
Cash and equivalents	\$ 108.8	\$ 134.3
Trade receivables, less allowance of \$20.2 and \$18.4	445.4	393.1
Other receivables	29.1	27.5
Current portion of deferred income taxes	28.4	28.4
Other current assets	52.1	45.9
	<hr/>	<hr/>
Total current assets	663.8	629.2
Property, plant and equipment, net	144.6	149.1
Goodwill	894.9	890.3
Other intangible assets, net	110.9	114.5
Software and development costs, net	113.3	113.5
Prepaid pension cost	11.7	11.7
Deferred income taxes, less current portion	22.3	22.5
Investments	21.8	17.5
Derivative securities	70.3	71.4
Other noncurrent assets	8.5	10.3
	<hr/>	<hr/>
Total assets before customer funds	2,062.1	2,030.0
Customer funds	2,906.2	2,440.9
	<hr/>	<hr/>
Total assets	\$4,968.3	\$4,470.9
	<hr/>	<hr/>
Liabilities and Stockholders' Equity		
Short-term debt and current portion of long-term obligations	\$ 2.2	\$ 2.0
Accounts payable	33.0	35.3
Drafts and settlements payable	144.7	120.8
Customer advances	14.8	13.2
Deferred income	50.0	48.8
Accrued taxes	63.6	61.1
Employee compensation and benefits	41.7	55.9
Other accrued expenses	39.6	42.8
	<hr/>	<hr/>
Total current liabilities	389.6	379.9
Long-term obligations, less current portion	190.0	191.5
Deferred income taxes	28.0	25.4
Employee benefit plans	276.2	278.3
Other noncurrent liabilities	32.9	35.2
	<hr/>	<hr/>

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Total liabilities before customer funds obligations	916.7	910.3
Customer funds obligations	2,906.2	2,440.9
	<u> </u>	<u> </u>
Total liabilities	3,822.9	3,351.2
Stockholders' equity	1,145.4	1,119.7
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$4,968.3	\$4,470.9
	<u> </u>	<u> </u>

See notes to consolidated financial statements.

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

Ceridian Corporation
and Subsidiaries

	For Periods Ended March 31, Three Months	
	2003	2002
	<hr/>	<hr/>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 28.1	\$ 19.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income tax provision	2.7	(0.9)
Depreciation and amortization	20.6	17.7
Asset write-downs		4.9
Reduction of environmental accrual		(4.1)
Contribution to retirement plan trust	(4.1)	
Provision for doubtful accounts	3.8	4.1
Other	2.4	(2.6)
Decrease (Increase) in trade and other receivables	(59.4)	(67.7)
Increase (Decrease) in accounts payable	(2.5)	6.3
Increase (Decrease) in drafts and settlements payable	23.8	34.1
Increase (Decrease) in employee compensation and benefits	(14.5)	(15.8)
Increase (Decrease) in accrued taxes	2.7	11.0
Increase (Decrease) in other current assets and liabilities	(7.1)	1.3
	<hr/>	<hr/>
Net cash provided by (used for) operating activities	(3.5)	7.7
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expended for property, plant and equipment	(6.2)	(6.5)
Expended for software and development costs	(5.5)	(10.0)
Expended for investments in and advances to businesses, less cash acquired	(3.1)	(15.5)
Proceeds from sales of businesses and assets	0.5	
	<hr/>	<hr/>
Net cash provided by (used for) investing activities	(14.3)	(32.0)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving credit and overdrafts, net		(14.3)
Repurchase of common stock	(9.1)	
Exercise of stock options and other	1.4	13.1
	<hr/>	<hr/>
Net cash provided by (used for) financing activities	(7.7)	(1.2)
	<hr/>	<hr/>
NET CASH PROVIDED (USED)	(25.5)	(25.5)
Cash and equivalents at beginning of period	134.3	116.2
	<hr/>	<hr/>

Cash and equivalents at end of period	\$ 108.8	\$ 90.7
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See notes to consolidated financial statements.

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

STOCKHOLDERS EQUITY (Restated)

	March 31, 2003	December 31, 2002
	<u> </u>	<u> </u>
Common Stock		
Par value - \$.01		
Shares authorized 500,000,000		
Shares issued 148,821,096 and 148,657,541	\$ 1.5	\$ 1.5
Shares outstanding 148,158,668 and 148,540,540		
Additional paid-in capital	906.3	906.3
Retained earnings	428.4	400.3
Treasury stock, at cost (662,428 and 117,001 common shares)	(8.9)	(1.6)
Accumulated other comprehensive income, net of deferred income taxes:		
Unrealized gain on derivative securities	45.3	45.9
Unrealized gain on marketable securities	0.3	1.0
Cumulative translation adjustment	(1.3)	(7.5)
Pension liability adjustment	(226.2)	(226.2)
	<u> </u>	<u> </u>
Total stockholders equity	<u>\$1,145.4</u>	<u>\$1,119.7</u>

COMPREHENSIVE INCOME (LOSS) (Restated)

	For Periods Ended March 31, Three Months	
	2003	2002
	<u> </u>	<u> </u>
Net earnings	\$ 28.1	\$ 19.4
Items of other comprehensive income before income taxes:		
Change in foreign currency translation adjustment	6.2	(3.4)
Change in unrealized gain from derivative securities	6.4	(5.8)
Change in unrealized gain from marketable securities	(1.1)	0.5
Change in pension liability		
Less unrealized gain previously reported on marketable and derivative securities sold or settled in this period	(7.3)	(6.5)

Other comprehensive income (loss) before income taxes	4.2	(15.2)
Income tax effect	0.7	4.1
Other comprehensive income (loss) after income taxes	4.9	(11.1)
Comprehensive income	\$ 33.0	\$ 8.3

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RESTATEMENT OF FINANCIAL STATEMENTS

As announced on February 18, 2004 and as described in a note to our amended Annual Report on Form 10-K/A for the year ended December 31, 2002, we have corrected our application of SEC Staff Accounting Bulletin No. 101 (SAB 101) to arrangements that include the sale of retail cards and related services such as activation, processing and reporting and restated all periods subsequent to December 31, 1999. The change in revenue and related cost recognition defers and extends the period over which we recognize revenue and related costs from retail card sales and processing. We present our revised policy in Part II, Item 8 of our Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2002 in Note A, Accounting Policies, to the consolidated financial statements in the section entitled Revenue Recognition under the heading Retail Services.

The cumulative effect of this restatement reduced retained earnings by \$5.7 at March 31, 2003 and \$7.1 at December 31, 2002. The corrections had no effect on operating, investing or financing cash flows.

	For Periods Ended March 31, Three Months	
	2003	2002
Revenue as previously reported	\$ 314.6	\$ 301.8
Revenue as restated	\$ 314.1	\$ 302.1
Total costs and expenses as previously reported	\$ 273.2	\$ 272.8
Total costs and expenses as restated	\$ 270.6	\$ 271.9
Earnings before income taxes as previously reported	\$ 41.4	\$ 29.0
Earnings before income taxes as restated	\$ 43.5	\$ 30.2
Income tax provision as previously reported	\$ 14.7	\$ 10.4
Income tax provision as restated	\$ 15.4	\$ 10.8
Net earnings as previously reported	\$ 26.7	\$ 18.6
Net earnings as restated	\$ 28.1	\$ 19.4
Basic earnings per share as previously reported	\$ 0.18	\$ 0.13
Basic earnings per share as restated	\$ 0.19	\$ 0.13
Diluted earnings per share as previously reported	\$ 0.18	\$ 0.12
Diluted earnings per share as restated	\$ 0.19	\$ 0.13
	At March 31, 2003	At December 31, 2002
Other current assets as previously reported	\$ 41.8	\$ 38.2
Other current assets as restated	\$ 52.1	\$ 45.9
Deferred income tax asset as previously reported	\$ 18.7	\$ 18.2
Deferred income tax asset as restated	\$ 22.3	\$ 22.5
Deferred income as previously reported	\$ 29.9	\$ 29.2

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Deferred income as restated	\$	50.0	\$	48.8
Retained earning as previously reported	\$	434.1	\$	407.4
Retained earnings as restated	\$	428.4	\$	400.3

CHANGES IN PRESENTATION

Comdata's provision for doubtful accounts has been reclassified from cost of revenue to general expense to be consistent with the classification of such provisions by our other businesses. Amounts for prior periods have been reclassified to conform to the current presentation. Also see the accompanying note to the consolidated financial statements entitled "Customer Funds" regarding a reclassification of funds held by benefits services.

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EMPLOYEE PLANS*Stock Plans*

We account for our stock-based compensation plans under the intrinsic method of APB Opinion No. 25 and related Interpretations. Under FAS 148, we are required to disclose the pro forma effects on reported net earnings and earnings per share that would have resulted if we elected to use the fair value method of accounting for stock-based compensation on an interim basis. This disclosure is presented in the accompanying table. We employ the Black-Scholes option pricing model to determine the fair value of stock option grants and employee stock purchase plan purchases.

Pro Forma Effect of Fair Value Accounting (Restated)

	For Periods Ended March 31,	
	2003	2002
	<hr/>	<hr/>
Net earnings as reported	\$28.1	\$19.4
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(3.8)	(4.1)
	<hr/>	<hr/>
Pro forma net earnings	\$24.3	\$15.3
Diluted earnings per share as reported	\$0.19	\$0.13
Pro forma diluted earnings per share	\$0.16	\$0.10
<i>Weighted-Average Assumptions</i>		
Expected lives in years	4-8	4-8
Expected volatility	43.6%	37.1%
Expected dividend rate		
Risk-free interest rate	2.3%	4.7%

Retirement Plans

We maintain defined benefit pension plans for participating employees in the U.S. and in the UK. The U.S. plans include a principal plan that was offered to employees until it was closed on January 2, 1995. Inactive participants in this plan represent approximately 90% of the total participants. The other U.S. defined benefit plan is a supplemental plan that is not subject to ERISA. At December 31, 2002, the aggregate projected benefit obligation for these plans exceeded the aggregate fair value of plan assets by \$239.2. The net periodic pension cost (credit) for these defined benefit pension plans for the first quarter of 2003 amounted to \$2.6 compared to \$(0.5) in the first quarter of 2002. We used assumptions of a 6.75% discount rate, a long-term rate of return on plan assets of 8.75% and a rate of compensation increase of 4.0% in determining the 2003 net periodic pension cost.

During the first quarter of 2003, we made a voluntary employer cash contribution to the principal plan of \$4.1.

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OTHER EXPENSE (INCOME)

	For Periods Ended March	
	31,	
	Three Months	
	2003	2002
	<hr/>	<hr/>
Foreign currency translation expense (income)	\$ (0.3)	\$
Gain on sale of assets	(0.2)	
Other expense (income)	0.1	
Accrued exit costs		9.0
Asset write-downs		4.9
Reduction of environmental accrual		(4.1)
	<hr/>	<hr/>
Total	\$ (0.4)	\$ 9.8
	<hr/>	<hr/>

During the first quarter of 2002, we announced a series of actions intended to consolidate certain operations in both of our business segments and recorded accrued exit costs of \$9.0. A plan to consolidate certain HRS payroll and tax filing processing services, previously conducted in 25 district offices, into 4 regional processing centers resulted in the accrual of \$7.5 for exit costs. Of the \$7.5 accrual, \$5.3 related to severance costs for 317 employees, all of whom were terminated by December 31, 2002, and \$2.2 represented other exit costs, primarily related to lease terminations. Consolidation of certain Comdata facilities resulted in accrued severance costs of \$1.0 for 76 employees, including 67 terminated by March 31, 2003, and other exit costs of \$0.5, primarily related to lease terminations.

HRS recorded a \$4.9 asset write-down of internally developed software costs in the first quarter of 2002 as a result of the February 2002 acceptance of the software technology provided under a March 2001 agreement with The Ultimate Software Group, Inc. (which this report refers to as Ultimate). Also during the first quarter of 2002, we conducted a periodic reassessment of our environmental obligations, which revealed a reduced requirement for certain of these obligations that were previously established. As a result, we credited \$4.1 to other expense (income) and removed that amount from other noncurrent liabilities.

In the fourth quarter of 2002, we reviewed the status of accrued exit costs and revised the estimated amounts to reduce the severance cost provisions made by HRS in the first quarter of 2002 by \$0.8 and in the first quarter of 2000 by \$0.3 and by Comdata in the first quarter of 2002 by \$0.3. We also incurred additional expense in HRS for severance costs of \$1.3, involving 81 employees (all terminated by December 31, 2002), and other exit costs of \$2.9 and in Comdata for severance costs of \$0.6, involving 41 employees (all of whom were terminated by March 31, 2003), and other exit costs of \$1.1. We paid all of the additional HRS severance costs during the fourth quarter of 2002. The other exit costs largely represented lease commitments, net of expected recoveries.

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OTHER EXPENSE (INCOME) (Continued)

Accrued Exit Costs

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
First quarter 2002	\$ 6.3	\$ 2.7	\$ 9.0
Fourth quarter 2002	1.9	4.0	5.9
	<u>8.2</u>	<u>6.7</u>	<u>14.9</u>
Total 2002 accrued exit costs			
Utilization:			
2002 cash payments	(6.3)	(2.5)	(8.8)
2002 recoveries	(1.1)		(1.1)
2003 cash payments	(0.3)	(1.5)	(1.8)
	<u>\$ 0.5</u>	<u>\$ 2.7</u>	<u>\$ 3.2</u>

INVESTING ACTIVITY

Derivative Securities

During the reported periods we maintained interest rate contracts to hedge interest rate risk in our customer funds and corporate cash portfolios. These derivative securities provide that if one-month LIBOR is below a floor, the counterparty makes a payment to us. Likewise, if one-month LIBOR is above a cap, we make a payment to the counterparty. These payments increase or decrease investment income from customer funds as reported in HRS revenue. Counterparties are all commercial banks with debt ratings of A or better. The maximum length of any derivative security is approximately 5.2 years.

The fair market value of the derivative securities is reported in the non-current asset section of the balance sheet. The fair market value decreased from \$71.4 at December 31, 2002 to \$70.3 at March 31, 2003. This decrease in value was primarily due to a decline in forward interest rates net of collections of cash payments from counterparties of \$7.3 during the first three months of 2003. Based upon future expected interest rates as determined from LIBOR futures prices in effect at the close of business on March 31, 2003, we expect to collect an additional \$30.2 during the next 12 months.

At March 31, 2003, the net unrealized gain related to these securities amounted to \$45.3, after reduction for deferred income taxes of \$24.4, and is reported in other comprehensive income. This compares to a net unrealized gain of

\$45.9, after reduction for deferred income taxes of \$24.7, at December 31, 2002.

In April 2003, Comdata executed diesel fuel price hedge contracts to hedge the variability of Comdata revenue from customer contracts in which Comdata fees are determined as a percentage of pump fuel prices. These contracts hedge approximately half of the expected change in total Comdata revenue due to changes in diesel fuel prices for the period June 1 to December 31, 2003.

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INVESTING ACTIVITY (Continued)

Investments

During March 2003, we paid \$3.0 to acquire from the issuer 750,000 unregistered shares of the common stock of Ultimate and a warrant to purchase an additional 75,000 unregistered common shares at a price of \$4.00 per share. At December 31, 2002 and March 31, 2003, we also held 785,000 Ultimate common shares purchased on the open market. Our holdings of Ultimate represent an equity interest of approximately 9.2%. In addition, we held 919,227 common shares of U.S.I. Holdings Corporation (which this report refers to as USIH) at December 31, 2002 and March 31, 2003. These securities are recorded at cost and treated as available for sale securities. The carrying value of these securities has been adjusted at each balance sheet date to reflect the market price reported by the stock exchange that lists those securities. The amount of this change is reported as unrealized gain or loss from marketable securities in comprehensive income. The carrying values of our holdings of Ultimate amounted to \$6.0 at March 31, 2003 and \$2.9 at December 31, 2002. The carrying values of our holdings of USIH amounted to \$9.6 at March 31, 2003 and \$10.8 at December 31, 2002. At March 31, 2003, the net unrealized gain related to these securities amounted to \$0.3, after reduction for deferred income taxes of \$0.2, and is reported in other comprehensive income. This compares to a net unrealized gain of \$1.0, after reduction for deferred income taxes of \$0.6, at December 31, 2002.

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(Unaudited)

FINANCING

Debt Instruments

At December 31, 2002, we maintained two major credit facilities described below. We also maintain an overdraft account in our UK subsidiary with outstanding balances of \$2.2 at March 31, 2003 and \$2.0 at December 31, 2002. A note payable for \$1.5 due in January 2003 to a creditor that was also a customer was converted into a customer advance at the maturity date of the note in connection with a sales arrangement. Therefore, the non-cash settlement of the note does not appear in the statement of cash flows.

In June 2002, Comdata entered into a \$150.0 receivables securitization facility with up to a three-year term that uses Comdata trade receivables as collateral for borrowings. The amount outstanding under this facility at December 31, 2002 was \$150.0, and we have maintained that amount through March 31, 2003. The aggregate amount of receivables serving as collateral amounted to \$182.6 at March 31, 2003 and \$173.3 at December 31, 2002. The amounts outstanding as long-term debt and the collateralized receivables remain on our consolidated balance sheet.

The domestic revolving credit facility that we initiated in January 2001 provides up to \$350.0 for a combination of advances and up to \$50.0 of letters of credit until March 2006. We had no activity in this facility during the first quarter of 2003, so the balances outstanding remain at \$40.0 for advances and \$2.3 for letters of credit. Payments under this facility during the first quarter of 2002 amounted to \$15.0. At March 31, 2003, we have unused borrowing capacity under the domestic revolving credit facility of \$307.7, of which we have designated \$150.0 as backup to the receivables securitization facility.

We remain in compliance with covenants under our credit facilities at March 31, 2003.

Equity Instruments

During the first quarter of 2003, we paid \$9.1 to repurchase 675,800 shares of our common stock on the open market at an average net price of \$13.48 per share. As of March 31, 2003, we may repurchase up to 11,531,200 additional shares of our common stock under an existing authorization from our board of directors.

CUSTOMER FUNDS

Effective in 2003, we report our benefits services funds together with our payroll and tax filing funds and present the combined amount as customer funds in our balance sheet. The related obligations are similarly reported on a combined basis. We believe that such a presentation better reflects our practice of utilizing benefits services customer deposits to meet the related customer obligation, even though the use of these funds is not restricted by law or regulation. Amounts for prior periods have been restated to conform to the current presentation.

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 CERIDIAN CORPORATION AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 March 31, 2003
 (Dollars in millions, except per share data)
 (Unaudited)

CUSTOMER FUNDS (Continued)

The balance sheet effect of the change reclassified benefit services assets previously reported in cash and equivalents and short-term investments (\$33.4 and \$27.0 at December 31, 2002) into customer funds and reclassified related liabilities previously presented in drafts and customer funds payable (\$60.4 at December 31, 2002) into customer funds obligations. The effect on the statement of cash flows eliminated this cash and equivalents amount from the operations cash and equivalents balance, any changes in these short-term investments from investing cash flows, and any changes in these customer funds payable from working capital operating cash flows.

Investment income from invested customer funds constitutes a component of our compensation for providing services under agreements with our customers. Invested income from invested customer funds included in revenue amount to \$23.8 and \$23.7 for the quarterly periods ended March 31, 2003 and 2002.

Customer funds and the offsetting obligations amounted to \$2,906.2 at March 31, 2003 and \$2,440.9 at December 31, 2002. This amount varies significantly during the year and averaged \$2,414.4 and \$2,218.1, respectively, for the three-month periods ended March 31, 2003 and 2002. The following tables provide information on cost and market price for various classifications of customer fund investments and amounts by maturity date.

Investments of Customer Funds

	March 31, 2003		December 31, 2002	
	Cost	Market	Cost	Market
Money market securities and other cash equivalents	\$2,056.8	\$2,056.8	\$1,612.5	\$1,612.5
Held-to-maturity investments:				
U.S. government and agency securities	208.1	217.6	197.6	207.0
Canadian and provincial government securities	124.4	129.2	124.7	130.5
Corporate debt securities	222.7	227.6	211.7	217.8
Asset-backed securities	219.1	226.8	212.7	223.0
Mortgage-backed and other securities	75.1	76.7	81.7	84.3
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Total held-to-maturity investments	849.4	877.9	828.4	862.6
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Payroll and tax filing funds	\$2,906.2			