AUTOMATIC DATA PROCESSING INC
Form 10-Q
November 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2018

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 1-5397

AUTOMATIC DATA PROCESSING, INC.
(Exact name of registrant as specified in its charter)

Delaware	22-1467904
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One ADP Boulevard, Roseland, New Jersey	07068
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (973) 974-5000

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [x] Accelerated filer [ ]

Non-accelerated filer [ ]   Smaller reporting company [ ]
Emerging growth company [ ]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of shares outstanding of the registrant’s common stock as of October 26, 2018 was 437,732,499.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Earnings
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30,	
	2018	2017 *As Adjusted
REVENUES:		
Revenues, other than interest on funds held for clients and PEO revenues	$2,218.6	$2,078.9
Interest on funds held for clients	118.5	99.4
PEO revenues (A)	986.1	898.9
TOTAL REVENUES	3,323.2	3,077.2
EXPENSES:		
Costs of revenues:		
Operating expenses	1,709.9	1,630.7
Systems development and programming costs	158.0	158.2
Depreciation and amortization	72.6	62.6
TOTAL COSTS OF REVENUES	1,940.5	1,851.5
Selling, general, and administrative expenses	713.9	675.4
Interest expense	35.9	28.0
TOTAL EXPENSES	2,690.3	2,554.9
Other income, net	(13.9)	(42.6)
EARNINGS BEFORE INCOME TAXES	646.8	564.9
Provision for income taxes	141.4	152.3
NET EARNINGS	$505.4	$412.6
BASIC EARNINGS PER SHARE	$1.16	$0.93
DILUTED EARNINGS PER SHARE	$1.15	$0.93
Basic weighted average shares outstanding	436.8	442.2
Diluted weighted average shares outstanding	439.9	445.0
Dividends declared per common share	$0.690	$0.570

*See Note 2 for a summary of adjustments.

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of $9,629.4 million and $8,738.5 million for the three months ended September 30, 2018 and 2017, respectively.

See notes to the Consolidated Financial Statements.

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended September 30,	
	2018	2017 *As Adjusted
Net earnings	$505.4	$412.6
Other comprehensive income/loss:		
Currency translation adjustments	(22.9)	52.8
Unrealized net losses on available-for-sale securities	(50.4)	(12.8)
Tax effect	12.3	3.5
Reclassification of net losses on available-for-sale securities to net earnings	0.9	—
Tax effect	(0.2)	—
Reclassification of pension liability adjustment to net earnings	0.2	2.3
Tax effect	(0.2)	(0.9)
Other comprehensive (loss)/income, net of tax	(60.3)	44.9
Comprehensive income	$445.1	$457.5

*See Note 2 for a summary of adjustments.

See notes to the Consolidated Financial Statements.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Balance Sheets
(In millions, except per share amounts)
(Unaudited)

	September 30, 2018	June 30, 2018 *As Adjusted
Assets		
Current assets:		
Cash and cash equivalents	$1,490.3	$2,170.0
Accounts receivable, net of allowance for doubtful accounts of $52.2 and $51.3, respectively	2,216.4	1,984.2
Other current assets	846.5	531.3
Total current assets before funds held for clients	4,553.2	4,685.5
Funds held for clients	25,402.7	27,137.8
Total current assets	29,955.9	31,823.3
Long-term receivables, net of allowance for doubtful accounts of $0.6 and $0.5, respectively	25.2	25.5
Property, plant and equipment, net	787.7	793.7
Deferred contract costs	2,352.3	2,377.4
Other assets	1,053.4	699.3
Goodwill	2,325.0	2,243.5
Intangible assets, net	917.2	886.4
Total assets	$37,416.7	$38,849.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$131.8	$135.4
Accrued expenses and other current liabilities	1,603.5	1,547.6
Accrued payroll and payroll-related expenses	446.9	667.7
Dividends payable	298.8	298.9
Short-term deferred revenues	229.0	225.7
Obligations under reverse repurchase agreements (A)	453.0	—
Income taxes payable	75.4	43.9
Total current liabilities before client funds obligations	3,238.4	2,919.2
Client funds obligations	25,798.9	27,493.5
Total current liabilities	29,037.3	30,412.7
Long-term debt	2,002.4	2,002.4
Other liabilities	736.4	728.0
Deferred income taxes	533.2	522.0
Long-term deferred revenues	428.6	448.1
Total liabilities	32,737.9	34,113.2
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $1.00 par value: authorized, 0.3 shares; issued, none	—	—
Common stock, $0.10 par value: authorized, 1,000.0 shares; issued, 638.7 shares at September 30, 2018 and June 30, 2018; outstanding, 438.2 and 438.8 shares at September 30, 2018 and June 30, 2018, respectively	63.9	63.9

Capital in excess of par value	1,035.1	1,014.8
Retained earnings	16,741.1	16,546.6
Treasury stock - at cost: 200.5 and 199.9 shares at September 30, 2018 and June 30, 2018, respectively	(12,421.2)	(12,209.6)
Accumulated other comprehensive loss	(740.1)	(679.8)
Total stockholders’ equity	4,678.8	4,735.9
Total liabilities and stockholders’ equity	$37,416.7	$38,849.1

*See Note 2 for a summary of adjustments.

(A) As of September 30, 2018, $123.8 million of short-term marketable securities, $328.6 million of long-term marketable securities and $0.6 million of cash and cash equivalents have been pledged as collateral under the Company's reverse repurchase agreements (see Note 10).

See notes to the Consolidated Financial Statements.

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Cash Flows
(In millions)
(Unaudited)

	Three Months Ended September 30,	
	2018	2017 *As Adjusted
Cash Flows from Operating Activities:		
Net earnings	$505.4	$412.6
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	99.0	87.2
Amortization of deferred contract costs	216.9	204.7
Deferred income taxes	26.4	55.4
Stock-based compensation expense	38.4	39.0
Net pension expense	17.1	2.7
Net amortization of premiums and accretion of discounts on available-for-sale securities	14.3	19.4
Impairment of intangible assets	12.1	—
Other	10.1	9.6
Changes in operating assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(239.2)	(81.7)
Increase in other assets	(471.2)	(460.7)
Decrease in accounts payable	(2.3)	(24.5)
Decrease in accrued expenses and other liabilities	(77.8)	(19.0)
Net cash flows provided by operating activities	149.2	244.7
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(755.8)	(1,157.3)
Proceeds from the sales and maturities of corporate and client funds marketable securities	539.8	1,007.7
Capital expenditures	(43.2)	(73.3)
Additions to intangibles	(73.8)	(69.7)
Acquisitions of businesses, net of cash acquired	(119.7)	—
Net cash flows used in investing activities	(452.7)	(292.6)
Cash Flows from Financing Activities:		
Net decrease in client funds obligations	(1,711.5)	(1,674.3)
Payments of debt	(0.5)	(0.9)
Repurchases of common stock	(227.1)	(250.1)
Net proceeds from stock purchase plan and stock-based compensation plans	(24.4)	(15.1)
Dividends paid	(302.6)	(253.7)
Net proceeds from reverse repurchase agreements	448.4	129.4
Net cash flows used in financing activities	(1,817.7)	(2,064.7)
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	(12.6)	14.2
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	(2,133.8)	(2,098.4)

Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	6,542.1	8,181.6
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	$4,408.3	$6,083.2
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	$1,490.3	$2,363.6
Restricted cash and restricted cash equivalents included in funds held for clients (A)	2,918.0	3,719.6
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$4,408.3	$6,083.2
Supplemental disclosures of cash flow information:		
Cash paid for interest	$49.4	$41.4
Cash paid for income taxes, net of income tax refunds	$39.3	$41.9

*See Note 2 for a summary of adjustments.

(A) See Note 8 for a reconciliation of restricted cash and restricted cash equivalents in funds held for clients on the Consolidated Balance Sheets.

See notes to the Consolidated Financial Statements.

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Automatic Data Processing, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
(Tabular dollars in millions, except per share amounts)
(Unaudited)
Note 1. Basis of Presentation

The accompanying Consolidated Financial Statements and footnotes thereto of Automatic Data Processing, Inc., its subsidiaries and variable interest entity (“ADP” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Consolidated Financial Statements and footnotes thereto are unaudited. In the opinion of the Company’s management, the Consolidated Financial Statements reflect all adjustments, which are of a normal recurring nature, that are necessary for a fair presentation of the Company’s interim financial results.

The Company has a grantor trust, which holds the majority of the funds provided by its clients pending remittance to employees of those clients, tax authorities, and other payees. The Company is the sole beneficial owner of the trust. The trust meets the criteria in Accounting Standards Codification ("ASC") 810 “Consolidation” to be characterized as a variable interest entity (“VIE”). The Company has determined that it has a controlling financial interest in the trust because it has both (1) the power to direct the activities that most significantly impact the economic performance of the trust (including the power to make all investment decisions for the trust) and (2) the right to receive benefits that could potentially be significant to the trust (in the form of investment returns) and therefore, consolidates the trust. Further information on these funds and the Company’s obligations to remit to its clients’ employees, tax authorities, and other payees is provided in Note 8, “Corporate Investments and Funds Held for Clients.”

Restatements

Effective July 1, 2018, certain prior period amounts have been restated to conform to the current period presentation in connection with the adoption of Accounting Standards Update ("ASU") 2014-09, “Revenue from Contracts with Customers (ASC 606)” and ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost.” Also, beginning in the first quarter of the fiscal year ended June 30, 2019 ("fiscal 2019"), the Company's chief operating decision maker ("CODM") reviews segment results reported at actual interest rates and the results of the PEO segment inclusive of the results of ADP Indemnity, and with changes to certain corporate allocations. Refer to Note 2 and Note 16 for additional information.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the assets, liabilities, revenue, expenses, and accumulated other comprehensive income that are reported in the Consolidated Financial Statements and footnotes thereto. Actual results may differ from those estimates. Interim financial results are not necessarily indicative of financial results for a full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (“fiscal 2018”).

Note 2. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Effective July 1, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (ASC 606)” on a retrospective basis. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 resulted in enhanced revenue related disclosures. The standard primarily impacted the manner in which it treats certain costs to fulfill contracts (i.e., implementation costs) and costs to acquire new contracts (i.e., selling costs). The provisions of the new standard require the Company to capitalize and amortize additional implementation costs than those capitalized and amortized under previous U.S. GAAP. Under previous U.S. GAAP, the Company immediately expensed all selling expenses. The adoption of provisions of the new standard did not materially impact the timing or amount of revenue the Company recognized and did not result in significant changes in its business processes or systems. Refer to Note 3 for further details. Refer to the table below for a summary of the restatements required, as a result of this change, on the Company's consolidated results of operations, statements of financial condition, and cash flows for the three months ended September 30, 2017.

Effective July 1, 2018, the Company adopted ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost”. ASU 2017-07 requires reporting the service cost component in the same line item or items as other compensation costs arising during the period in the Statements of

Consolidated Earnings. The other components of net periodic pension cost are required to be presented in the Statements of Consolidated Earnings separately from the service cost component. The Company retrospectively adopted the new standard, and as a result reclassified the non-service cost components of the net periodic benefit cost from within the respective line items of our Statements of Consolidated Earnings to Other income, net. Refer to the table below for a summary of the reclassification required, as a result of this change, on the Company's consolidated results of operations for the three months ended September 30, 2017. The adoption of the new accounting rules only impacted the classification of expenses on the Statements of Consolidated Earnings and did not impact the Company's consolidated income, statements of financial condition, or cash flows.

Adoption of ASC 606 and ASU 2017-07 impacted the Company's prior period Statements of Consolidated Earnings, Consolidated Balance Sheets, and Consolidated Cash Flows as follows:

Statements of Consolidated Earnings

	Three Months Ended September 30, 2017			
	As reported	Adjustments ASC 606	Adjustments ASU 2017-07	As adjusted
Revenues, other than interest on funds held for clients and PEO revenues	$2,080.9	$ (2.0)	$ —	$2,078.9
Interest on funds held for clients	99.4	—	—	99.4
PEO revenues	898.5	0.4	—	898.9
TOTAL REVENUES	3,078.8	(1.6)	—	3,077.2
Operating expenses	1,646.9	(25.3)	9.3	1,630.7
Systems development and programming costs	156.9	—	1.3	158.2
Depreciation and amortization	62.6	—	—	62.6
Selling, general, and administrative expenses	662.4	7.0	5.9	675.4
Interest expense	28.0	—	—	28.0
Total Expenses	2,556.8	(18.3)	16.5	2,554.9
Other income, net	(26.2)	—	(16.5)	(42.6)
EARNINGS BEFORE INCOME TAXES	548.2	16.7	—	564.9
Provision for income taxes	146.7	5.6	—	152.3
NET EARNINGS	$401.5	$ 11.1	$ —	$412.6

Consolidated Balance Sheets

	June 30, 2018 As reported	Adjustments ASC 606	June 30, 2018 As adjusted
Assets			
Current assets:			
Other current assets	$758.0	$ (226.7)	$531.3
Total current assets	32,050.0	(226.7)	31,823.3
Deferred contract costs	—	2,377.4	2,377.4
Other assets	1,089.6	(390.3)	699.3
Total assets	$37,088.7	$ 1,760.4	$38,849.1
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term deferred revenues	226.5	(0.8)	225.7

Total current liabilities	30,413.6	(0.8)	30,412.7
Deferred income taxes	107.3	414.7	522.0
Long-term deferred revenues	377.8	70.2	448.1
Total liabilities	33,629.1	484.1	34,113.2
Stockholders' equity:			
Retained earnings	15,271.3	1,275.3	16,546.6
Total stockholders' equity	3,459.6	1,276.3	4,735.9
Total liabilities and stockholders' equity	$37,088.7	$ 1,760.4	$38,849.1

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Statements of Consolidated Cash Flows

	Three Months Ended September 30,		
	2017 As reported	Adjustments ASC 606	2017 As adjusted
Cash Flows from Operating Activities:			
Net earnings	$401.5	$ 11.1	$412.6
Adjustments to reconcile net earnings to cash flows provided by operating activities:			
Amortization of deferred contract costs	—	204.7	204.7
Deferred income taxes	46.4	9.0	55.4
Changes in operating assets and liabilities, net of effects from acquisitions:			
Increase in other assets	(259.5)	(201.2)	(460.7)
Decrease in accrued expenses and other liabilities	4.6	(23.6)	(19.0)
Net cash flows provided by operating activities	$244.7	$ —	$244.7

Recently Issued Accounting Pronouncements

The following table summarizes recent ASU's issued by the Financial Accounting Standards Board ("FASB") that could have a material impact on the Company's consolidated results of operations, financial condition, or cash flows.

Standard	Description	Effective Date	Effect on Financial Statements or Other Significant Matters
ASU 2018-15 Intangibles - Goodwill and Other-Internal-Use Software	This update clarifies the accounting and capitalization of implementation costs in cloud computing arrangements that are service arrangements. The amendments in ASU 2018-15 are required to be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.	For fiscal years beginning after December 15, 2019. Early adoption is permitted.	The Company has not yet determined the impact of this ASU on its consolidated results of operations, financial condition, or cash flows.
ASU 2018-14 Compensation-Retirement Benefits-Defined Benefit Plans	This update modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans by removing and adding certain disclosures for these plans. The eliminated disclosures include (a) the amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit costs over the next fiscal year, and (b) the effects of a one percentage point change in assumed health care cost trend rates on the net periodic benefit costs and the benefit obligation for post-retirement health care benefits. Additional disclosures include descriptions of significant gains and losses affecting the benefit obligation for the period. The amendments in ASU 2018-14 would need to be applied on a retrospective basis.	For fiscal years beginning after December 15, 2020. Early adoption is permitted.	The adoption of this guidance will modify disclosures but will not have an impact on the Company's consolidated results of operations, financial condition, or cash flows.

Standard	Description	Effective Date	Effect on Financial Statements or Other Significant Matters
ASU 2018-13 Fair Value Measurement	This update modifies the disclosure requirements on fair value measurements. Certain disclosures in ASU 2018-13 would need to be applied on a retrospective basis and others on a prospective basis.	For fiscal years beginning after December 15, 2019. Early adoption is permitted.	The adoption of this guidance will modify disclosures but will not have an impact on the Company's consolidated results of operations, financial condition, or cash flows.
ASU 2018-09 Codification Improvements	This amendment makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The transition guidance is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and will be effective immediately. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018.	The transition and effective date guidance is based on the facts and circumstances of each amendment.	Clarifications which were effective immediately were not applicable and for other amendments the Company has not yet determined the impact of this ASU on its consolidated results of operations, financial condition, or cash flows.
ASU 2016-02 Leases (Topic 842)	This update amends the existing accounting standards for lease accounting, and requires lessees to recognize most lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. This ASU requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application.	For fiscal years beginning after December 15, 2018. Early adoption is permitted.	The Company will adopt ASU 2016-02 beginning on July 1, 2019. The Company has not yet determined the impact of this ASU on its consolidated results of operations, financial condition, or cash flows.

Note 3. Revenue

Based upon similar operational and economic characteristics, the Company’s revenues are disaggregated by its three strategic pillars: U.S. Integrated HCM (“HCM”), HR Outsourcing ("HRO"), and Global with separate disaggregation for PEO benefits pass-through revenues and Client Fund Interest revenues. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors.

HCM provides a suite of product offerings that assist employers of all types and sizes in all stages of the employment cycle, from recruitment to retirement. Global is generally consistent with the types of services provided within HCM but represent geographies outside of the United States and includes our multinational offerings. HCM and Global revenues are primarily attributable to fees for providing solutions for payroll, benefits, talent, retirement services and HR processing and fees charged to implement the Company's solutions for clients.

HRO provides a comprehensive human resources outsourcing solution, including offering benefits, providing workers’ compensation insurance, and administering state unemployment insurance, among other human resources functions. This revenue is primarily driven by the Professional Employer Organization Services (“PEO”). Amounts collected from PEO worksite employers include payroll, fees for benefits, and an administrative fee that also includes payroll taxes, fees for workers’ compensation and state unemployment taxes. The payroll and payroll taxes collected from the worksite employers are presented in revenue net, as the Company does not retain risk and acts as an agent with respect to this aspect of the PEO arrangement. With respect to the payroll and payroll taxes, the worksite employer is primarily responsible for providing the service and has discretion in establishing wages. The fees collected from the worksite employers for benefits (i.e., PEO benefits pass-throughs), workers' compensation and state unemployment taxes are presented in revenues and the associated costs of benefits, workers' compensation and state unemployment taxes are included in operating expenses, as the Company does retain risk and acts as a principal with respect to this aspect of the arrangement. With respect to these fees, the Company is primarily responsible for fulfilling the service and has discretion in establishing price. The Company has further disaggregated HRO to separate out its PEO benefits pass-through revenues.

The Company enters into service agreements with clients that include anywhere from one service to a full suite of services. The Company's agreements vary in duration having a legally enforceable term of 30 days to 5 years. The performance obligations in the agreements are generally combined into one performance obligation, as they are considered a series of distinct services, and are satisfied over time because the client simultaneously receives and consumes the benefits provided as the Company performs the services. The Company uses the output method based on a fixed fee per employee serviced to recognize revenue, as the value to the client of the goods or services transferred to date (e.g., number of payees or number of payrolls processed) appropriately depicts our performance towards complete satisfaction of the performance obligation. The fees are typically billed in the period in which services are performed.

The Company recognizes client fund interest revenues on collected but not yet remitted funds held for clients in revenues as earned, as the collection, holding and remittance of these funds are critical components of providing these services.

Collection of consideration the Company expects to receive typically occurs within 30 to 60 days of billing. We assess the collectability of revenues based primarily on the creditworthiness of the client as determined by credit checks and analysis, as well as the client's payment history.

The following tables provide details of revenue by our strategic pillars with disaggregation for PEO benefits pass-throughs and client fund interest, and includes a reconciliation to the Company's reportable segments (in millions):

	Three Months Ended September 30,	
Types of Revenues	2018	2017
HCM	$1,520.3	$1,424.1
HRO, excluding PEO benefits pass-throughs	557.5	509.1
PEO benefits pass-throughs	653.4	595.3
Global	473.5	449.3
Client Fund Interest	118.5	99.4
Total Revenues	$3,323.2	$3,077.2

Reconciliation of disaggregated revenue to our reportable segments for September 30, 2018:

Types of Revenues	Employer Services	PEO	Other	Total
HCM	$1,521.8	$—	$(1.5)	$1,520.3
HRO, excluding PEO benefits pass-throughs	226.1	332.7	(1.3)	557.5
PEO benefits pass-throughs	—	653.4	—	653.4
Global	473.5	—	—	473.5
Client Fund Interest	116.8	1.7	—	118.5
Total Segment Revenues	$2,338.2	$987.8	$(2.8)	$3,323.2

Reconciliation of disaggregated revenue to our reportable segments for September 30, 2017:

Types of Revenues	Employer Services	PEO	Other	Total
HCM	$1,425.0	$—	$(0.9)	$1,424.1

HRO, excluding PEO benefits pass-throughs	206.6	303.6	(1.1)	509.1
PEO benefits pass-throughs	—	595.3	—	595.3
Global	449.3	—	—	449.3
Client Fund Interest	98.5	0.9	—	99.4
Total Segment Revenues	$2,179.4	$899.8	$(2.0)	$3,077.2

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Contract Balances

The timing of revenue recognition for our HCM, Global and HRO services is consistent with the invoicing of clients, as invoicing occurs in the period the services are provided. Therefore, the Company does not recognize a contract asset or liability resulting from the timing of revenue recognition and invoicing.

Set up fees received from certain clients to implement the Company's solutions are considered a material right. Therefore, the Company defers revenue associated with these set up fees and records them over the period in which such clients are expected to benefit from the material right, which is approximately five to seven years.

Changes in deferred revenue related to set up fees for the three months ended September 30, 2018 were as follows:

Contract Liability	
Contract liability, July 1, 2018	$607.5
Recognition of revenue included in beginning of year contract liability	(47.4)
Contract liability, net of revenue recognized on contracts during the period	30.8
Currency adjustments	(5.8)
Contract liability, September 30, 2018	$585.1

Deferred costs

Incremental Costs of Obtaining a Contract

Incremental costs of obtaining a contract (e.g., sales commissions) that are expected to be recovered are capitalized and amortized on a straight-line basis over a period of three to eight years, depending on the Company's business unit. The Company has previously expensed these costs as incurred. Expected renewal periods are only included in the expected client relationship period if commission amounts paid upon renewal are not commensurate with amounts paid on the initial contract. Incremental costs of obtaining a contract include only those costs the Company incurs to obtain a contract that it would not have incurred if the contract had not been obtained. These costs are included in selling, general and administrative expenses.

Costs to fulfill a Contract

The Company capitalizes costs incurred to fulfill its contracts that i) relate directly to the contract ii) are expected to generate resources that will be used to satisfy the Company’s performance obligations under the contract and iii) are expected to be recovered through revenue generated under the contract. Costs incurred to implement clients on our solutions (e.g. direct labor) are capitalized and amortized on a straight-line basis over the expected client relationship period if the Company expects to recover those costs. The expected client relationship period ranges from three to eight years. These costs are included in operating expenses.

The Company has estimated the amortization periods for the deferred costs by using its historical retention by business unit to estimate the pattern during which the service transfers.

Deferred costs are periodically reviewed for impairment. There were no impairment losses incurred during the period.

The balance is as follows:

	September 30, 2018

Deferred costs to obtain a contract	$ 1,445.7
Deferred costs to fulfill a contract	906.6
Total deferred contract costs (1)	$ 2,352.3

(1) The amount of total deferred costs amortized during the three months ended September 30, 2018 and for the three months ended September 30, 2017 were $216.9 million and $204.7 million, respectively.

Note 4. Acquisitions

In October 2017, the Company acquired 100% of the outstanding shares of Global Cash Card, Inc. ("GCC"), a leader in digital payments, including paycards and other electronic accounts, for approximately $490 million in cash, net of cash acquired. The acquisition of GCC makes ADP the only human capital management provider with a proprietary digital payments processing platform. The results of GCC are reported within the Company’s Employer Services segment.

The final purchase price allocation for GCC is as follows:

Goodwill	$406.1
Identifiable intangible assets	132.5
Other assets	0.8
Total assets acquired	$539.4
Total liabilities assumed	$48.4

The Company determined the purchase price allocations for this acquisition based on estimates of the fair value of tangible and intangible assets acquired and liabilities assumed, utilizing recognized valuation techniques, including the income and market approaches. The goodwill recorded as a result of the GCC transaction represents future economic benefits we expect to achieve as a result of the acquisition and expected cost synergies. None of the goodwill resulting from the acquisition is tax deductible. Intangible assets for GCC, which totaled $132.5 million, included technology and software, and customer contracts and lists which are being amortized over a weighted average life of approximately 8 years.

In January 2018, the Company acquired 100% of the outstanding shares of Work Market, Inc. ("WorkMarket"), a leading provider of cloud-based freelance management solutions, for approximately $125 million in cash.

In July 2018, the Company acquired 100% of outstanding shares of Celergo Holdings, Inc. ("Celergo"), a leading provider of multi-country payroll management services.

These acquisitions, individually or in aggregate, were not material to the Company's results of operations, financial position, or cash flows and, therefore, the pro forma impact of these acquisitions is not presented. The results of these acquisitions are reported within the Company’s Employer Services segment.

Note 5. Service Alignment Initiative

On July 28, 2016, the Company announced a Service Alignment Initiative that simplified the Company's service organization by aligning the Company's service operations to its strategic platforms and locations. In fiscal 2016, the Company entered into leases in Norfolk, Virginia and Maitland, Florida, and in fiscal 2017, the Company entered into a lease in Tempe, Arizona as part of this effort. The Company began incurring charges during the first quarter of fiscal 2017. The charges primarily relate to employee separation benefits recognized under Accounting Standards Codification ("ASC") 712, and also include charges for the relocation of certain current Company employees, lease termination costs, and accelerated depreciation of fixed assets. The Company does not expect to recognize significant pre-tax restructuring charges related to the Service Alignment Initiative for the remainder of fiscal 2019.

The table below summarizes the composition of the Company's Service Alignment Initiative (reversals)/charges:

	Three Months Ended	Cumulative amount from

	September 30, 2018	2017	inception through September 30, 2018
Employee separation benefits (a)	$(5.2)	$(5.2)	$ 94.3
Other initiative costs (b)	0.8	1.9	11.8
Total (c)	$(4.4)	$(3.3)	$ 106.1

(a) - (Reversals)/charges are recorded in selling, general and administrative expenses on the Statements of Consolidated Earnings.
(b) - Other initiative costs include costs to relocate certain current Company employees to new locations, lease termination charges (both included within selling, general and administrative expenses on the Statements of Consolidated Earnings), and accelerated depreciation on fixed assets (included within depreciation and amortization on the Statements of Consolidated Earnings).
(c) - All charges are included within the Other segment.

Activity for the Service Alignment Initiative liability for the three months ended September 30, 2018 and September 30, 2017, respectively, was as follows:

	Employee separation benefits	Other initiative costs	Total
Balance at June 30, 2018	$ 54.0	$ 0.5	$54.5
Charged to expense	4.1	0.8	4.9
Reversals	(9.3)	—	(9.3)
Cash payments	(11.1)	(0.4)	(11.5)
Non-cash utilization	—	(0.3)	(0.3)
Balance at September 30, 2018	$ 37.7	$ 0.6	$38.3
Balance at June 30, 2017	$ 73.9	$ 0.5	$74.4
Charged to expense	0.8	1.9	2.7
Reversals	(6.0)	—	(6.0)
Cash payments	(9.4)	(1.2)	(10.6)
Non-cash utilization	—	(0.6)	(0.6)
Balance at September 30, 2017	$ 59.3	$ 0.6	$59.9

Note 6. Earnings per Share ("EPS")

	Basic	Effect of Employee Stock Option Shares	Effect of Employee Restricted Stock Shares	Diluted
Three Months Ended September 30, 2018				
Net earnings	$505.4			$505.4
Weighted average shares (in millions)	436.8	1.4	1.7	439.9
EPS	$1.16			$1.15
Three Months Ended September 30, 2017				
Net earnings	$412.6			$412.6
Weighted average shares (in millions)	442.2	1.0	1.8	445.0
EPS	$0.93			$0.93

Options to purchase 0.3 million and 0.4 million shares of common stock for the three months ended September 30, 2018 and 2017, respectively, were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

Note 7. Other Income, Net

	Three Months Ended September 30,	
	2018	2017
Interest income on corporate funds	$(28.5)	$(25.8)
Realized gains on available-for-sale securities	(0.4)	(0.3)
Realized losses on available-for-sale securities	1.3	0.3
Impairment of intangible assets	12.1	—
Gain on sale of assets	—	(0.4)
Non-service components of pension expense, net (see Note 2)	1.6	(16.4)

Other income, net	$(13.9)	$(42.6)

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The charges within non-service components of pension expense, net includes $14.0 million of non-cash settlement charges and $1.3 million of special termination benefits related to the Voluntary Early Retirement Program ("VERP"), partially offset by $13.7 million related to other components of net periodic pension cost. Refer to Note 2 and Note 12 for further information.

The Company wrote down $12.1 million of internally developed software which was determined to have no future use due to redundant software identified as part of a recent acquisition.

Note 8. Corporate Investments and Funds Held for Clients

Corporate investments and funds held for clients at September 30, 2018 and June 30, 2018 were as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value (A)
Type of issue:				
Money market securities, cash and other cash equivalents	$4,408.3	$ —	$ —	$4,408.3
Available-for-sale securities:				
Corporate bonds	9,999.1	15.2	(167.2)	9,847.1
Asset-backed securities	4,540.6	0.1	(66.2)	4,474.5
U.S. government agency securities	2,738.9	2.6	(53.2)	2,688.3
U.S. Treasury securities	2,741.8	0.1	(90.4)	2,651.5
Canadian government obligations and Canadian government agency obligations	1,132.0	0.3	(24.7)	1,107.6
Canadian provincial bonds	767.2	3.6	(9.4)	761.4
Municipal bonds	579.2	1.7	(6.3)	574.6
Other securities	854.0	1.8	(13.2)	842.6
Total available-for-sale securities	23,352.8	25.4	(430.6)	22,947.6
Total corporate investments and funds held for clients	$			