

AUTOMATIC DATA PROCESSING INC

FORM 10-K (Annual Report)

Filed 08/28/09 for the Period Ending 06/30/09

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Symbol ADP
SIC Code 7374 - Computer Processing and Data Preparation and Processing Services
Industry Business Services
Sector Services
Fiscal Year 06/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-5397

AUTOMATIC DATA PROCESSING, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

22-1467904
(I.R.S. Employer Identification No.)

One ADP Boulevard, Roseland, New Jersey
(Address of principal executive offices)

07068
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange which registered |
|---|---|
| Common Stock, \$.10 Par Value (voting) | NASDAQ Global Select Market Chicago Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 the filing requirements for the past 90 days. Yes No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein and will not be contained, to the best of 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.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$19,826,340,386. On August 21, 2009 there were 502,151,920 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2009 Annual Meeting of Stockholders.

Part III

Item 1. Business

Automatic Data Processing, Inc., incorporated in Delaware in 1961 (together with its subsidiaries, “ADP” or the “Company”), is one of the world’s largest providers of business outsourcing solutions. Leveraging 60 years of experience, ADP offers a wide range of human resource (HR), payroll, tax and benefits administration solutions from a single source. ADP is also a leading provider of integrated computing solutions to automotive, heavy truck, motorcycle, marine, recreational vehicle and heavy machinery dealers throughout the world. For financial information by segment and by geographic area, see Note 18 of the “Notes to Consolidated Financial Statements” contained in this Annual Report on Form 10-K. *The Company’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and the Proxy Statement for its Annual Meeting of Stockholders are made available, free of charge, on its website at www.adp.com as soon as reasonably practicable after such reports have been filed with or furnished to the Securities and Exchange Commission.* The following summary describes ADP’s activities.

Employer Services

Employer Services offers a comprehensive range of HR information, payroll processing, tax and benefits administration solutions and services, including traditional and Web-based outsourcing solutions, that assist approximately 540,000 employers in the United States, Canada, Europe, South America (primarily Brazil), Australia and Asia to staff, manage, pay and retain their employees. Employer Services markets these solutions and services through its direct marketing salesforce and, on a limited basis, through indirect sales channels, such as marketing relationships with banks and accountants, among others. In fiscal 2009, 80% of Employer Services’ revenues were from the United States, 13% were from Europe, 5% were from Canada and 2% were from South America (primarily Brazil), Australia and Asia.

United States

Employer Services’ approach to the market is to match clients’ needs to the solutions and services that will best meet their expectations. To facilitate this approach, in the United States, Employer Services is comprised of the following market-facing groups: Small Business Services (SBS) (serving primarily organizations with fewer than 50 employees); Major Account Services (serving primarily organizations with between 50 and 999 employees); and National Account Services (serving primarily organizations with 1,000 or more employees). In addition, Employer Services’ Added Value Services division provides services to clients across all three of these groups.

ADP provides payroll services that include the preparation of client employee paychecks, electronic direct deposits and stored value payroll cards, along with supporting journals, summaries and management reports. ADP also supplies the quarterly and annual social security, medicare and federal, state and local income tax withholding reports required to be filed by employers. ADP enables its largest clients to interface their major enterprise resource planning (ERP) applications with ADP’s outsourced payroll services. For those companies that choose to process payroll in-house, ADP delivers stand-alone services such as payroll tax filing, check printing and distribution, year-end tax statements (*i.e.* , Form W-2), wage garnishment services, health and welfare administration and flexible spending account (FSA) administration.

In order to address the growing business process outsourcing (BPO) market for clients seeking human resource information systems and benefit outsourcing solutions, ADP offers its integrated comprehensive outsourcing services (COS) solution that allows larger clients to outsource HR, payroll, payroll administration, employee service center, benefits administration, and time and labor management functions to ADP. For mid-sized clients, ADP Workforce Now™ HR Services provides integrated tools and technology to support payroll, benefits administration, HR guidance and HR administration needs from recruitment to retirement. ADP also offers ADP Resource® , an integrated, flexible HR and payroll service offering for smaller clients that provides a menu of optional services, such as 401(k), FSA and a comprehensive Pay-by-Pay® workers’ compensation payment program.

ADP’s Added Value Services division includes the following businesses: Tax and Financial Services, Insurance Services and Tax Credit Services. These businesses primarily support SBS, Major Account Services and/or National Account Services, and their services are sold through those businesses, as well as by dedicated sales teams and via marketing arrangements with alliance partners.

- Tax and Financial Services processes and collects federal, state and local payroll taxes on behalf of, and from, ADP clients and remits these taxes to the appropriate taxing authorities. This business is also responsible for the efficient movement of information and funds from clients to third parties through service offerings such as new hire reporting, TotalPay® payroll check (ADPCheck™), full service direct deposit (FSDD) and stored value payroll card (TotalPay® Card) products, and the collection and payment of wage garnishments. Tax and Financial Services also offers wage verification, unemployment claims processing and sales and use tax services. This business provides an electronic interface between ADP clients and over 7,600 federal, state and local tax agencies in the United States, from the Internal Revenue Service to local governments. In fiscal 2009, Tax and Financial Services in the United States processed and delivered over 51 million year-end tax statements (*i.e.* , Form W-2) to its clients’ employees and over 39 million employer payroll tax returns and deposits, and moved over \$1 trillion in client funds to taxing authorities and its clients’ employees via electronic transfer, direct deposit and ADPCheck.
- Insurance Services provides a comprehensive Pay-by-Pay workers’ compensation payment program and, through Automatic Data Processing Insurance Agency, Inc., offers workers compensation and group health insurance to small and mid-sized clients.

- Tax Credit Services provides job tax credit services that assist employers in the identification of, and filing for, federal, state and local tax credits and other incentives based on geography, demographics and other criteria, and includes negotiation of incentive packages with applicable governmental agencies.

Employer Services also provides the following solutions and services:

- Retirement Services provides recordkeeping and/or related administrative services with respect to various types of retirement (primarily 401(k) and SIMPLE IRA) plans, deferred compensation plans and “premium only” cafeteria plans.
- Pre-Employment Services includes Screening and Selection Services and Applicant Management Services. Screening and Selection Services provides background checks, reference verifications and an HR help desk. Applicant Management Services provides employers with a web-based solution to manage their talent throughout their lifecycle.
- ADP’s Benefit Services provides benefits administration across all market segments, including management of open enrollment and ongoing enrollment of benefits, and leave of absence, COBRA and FSA administration.
- ADP’s Time and Labor Management Services provides solutions for employers to capture, calculate and report employee time and attendance.
- ADP’s Talent Management solutions include Performance Management, Compensation Management and Learning Management.

International

Employer Services has a growing presence outside of the United States, where it offers solutions on the basis of both geographic and specific client business needs. ADP offers in-country “best of breed” payroll and human resource outsourcing solutions to small and large clients alike in over a dozen countries outside of the United States. In each of Canada and Europe, ADP is the leading provider of payroll processing (including full departmental outsourcing) and human resource administration services. Within Europe, Employer Services has business operations supporting its in-country solutions in eight countries: France, Germany, Italy, the Netherlands, Poland, Spain, Switzerland and the United Kingdom. It also offers services in Ireland (from the United Kingdom) and in Portugal (from Spain). In South America (primarily Brazil), Australia and Asia, ADP provides traditional service bureau payroll and also offers full departmental outsourcing of payroll services. ADP expanded its presence in China in fiscal year 2009 with the acquisition of a majority interest in a leading Chinese provider of human resources outsourcing services. ADP also offers wage and tax collection and remittance services in Canada, the United Kingdom and the Netherlands.

There is a steadily increasing demand from multinational companies for global payroll and human resource management services. In fiscal 2009, ADP continued to expand its GlobalView[®] offering, making it available in 40 countries. GlobalView is built on the SAP[®] ERP Human Capital Management and the SAP NetWeaver[®] platform and offers multinational and global companies an end-to-end outsourcing solution enabling standardized payroll processing and human resource administration. As of the end of fiscal 2009, 87 clients had contracted for GlobalView services, with approximately 490,000 employees being processed. Upon completing the implementation for all these clients, ADP expects to be providing GlobalView services to nearly one million employees in 41 countries. Further, through its ADP Streamline[®] offering, ADP now also provides a single point of contact for payroll processing and human resource administration services for multinational companies with small and mid-sized operations in 54 countries. At the end of fiscal 2009, ADP Streamline was used by 201 multinational companies with approximately 24,000 employees being processed.

Professional Employer Organization Services

In the United States, ADP TotalSource[®], ADP’s professional employer organization (PEO) business, provides approximately 5,300 clients with comprehensive employment administration outsourcing solutions through a co-employment relationship, including payroll, payroll tax filing, HR guidance, 401(k) plan administration, benefits administration, compliance services, health and workers’ compensation coverage and other supplemental benefits for employees. ADP TotalSource is the largest PEO in the United States based on the number of total paid worksite employees. ADP TotalSource has 46 offices located in 22 states and serves approximately 193,000 worksite employees in all 50 states.

Dealer Services

Dealer Services provides integrated dealer management systems (such a system is also known in the industry as a “DMS”) and other business management solutions to automotive, heavy truck, motorcycle, marine, recreational vehicle (RV) and heavy machinery retailers in North America, Europe, Africa and the Asia Pacific region. Approximately 27,000 automotive, heavy truck, motorcycle, marine, RV and heavy machinery retailers in over 90 countries use ADP’s DMS solutions, other software solutions, networking solutions, data integration, consulting and/or digital marketing solutions and services.

Clients use ADP’s DMS solutions to manage core business activities such as accounting, inventory management, factory communications, appointment scheduling, vehicle financing and insurance, sales and service. In addition to its DMS solutions, Dealer Services offers its clients a full

suite of additional integrated applications to address each department and functional area of the dealership, including Customer Relationship Management (CRM) applications, front-end sales and marketing/advertising solutions, and an IP Telephony phone system fully-integrated into the DMS to help dealerships drive sales processes and business development initiatives. Dealer Services also provides its dealership clients computer hardware, hardware maintenance services, software support, system design and network consulting services.

Dealer Services also designs, establishes and maintains communications networks for its dealership clients that allow interactive communications among multiple site locations as well as links between franchised dealers and their vehicle manufacturer franchisors. These networks are used for activities such as new vehicle ordering and status inquiry, warranty submission and validation, parts and vehicle locating, dealership customer credit application submission and decision-making, vehicle repair estimation and acquisition of vehicle registration and lien holder information.

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All of Dealer Services' solutions are supported by comprehensive training offerings and business process consulting services. ADP's DMS and other software solutions are available as "on-site" applications installed at the dealership or as application service provider (ASP) managed services solutions (in which clients outsource their information technology management activities to Dealer Services).

Markets and Marketing Methods

Employer Services offers services in the United States, Canada, Europe, South America (primarily Brazil), Australia and Asia. PEO Services are offered exclusively in the United States. Dealer Services has offerings in North America, Europe, Africa and the Asia Pacific region. In select emerging markets, Dealer Services uses distributors to sell, implement and support ADP's solutions.

None of ADP's major business groups have a single homogenous client base or market. Employer Services and PEO Services have clients from a large variety of industries and markets. Within this client base are concentrations of clients in specific industries. Dealer Services primarily serves automobile dealers, which in turn may be dependent on a relatively small number of automobile manufacturers, but also serves heavy truck, powersports (*i.e.* , motorcycle, marine and recreational) and heavy machinery dealers, auto repair shops, used car lots, state departments of motor vehicles and manufacturers of automobiles and trucks. Employer Services also sells to automobile dealers. While concentrations of clients exist, no one client or industry group is material to ADP's overall revenues.

Historically ADP's businesses have not been overly sensitive to price changes, although in the current economic conditions we have observed, among some clients and groups of clients, an impact on sensitivity to pricing and demand for ADP's services. In fiscal 2009, Employer Services continued to grow, primarily due to new business started in the period and the impact of price increases, partially offset by a decrease in average client funds balances and a decrease in the number of employees on our clients' payrolls; Dealer Services was negatively impacted by the difficulties facing the automotive industry due to dealership consolidations and closings, lower transactional revenue and dealerships reducing services in order to cut their discretionary expenses; and PEO Services grew primarily due to an increase in the average number of worksite employees and a related increase in administrative revenues.

ADP enjoys a leadership position in each of its major service offerings and does not believe any major service or business unit in ADP is subject to unique market risk.

Competition

The industries in which ADP operates are highly competitive. ADP knows of no reliable statistics by which it can determine the number of its competitors, but it believes that it is one of the largest providers of business outsourcing solutions in the world. Employer Services and PEO Services compete with other independent business outsourcing companies, companies providing enterprise resource planning services, software companies and financial institutions. Captive in-house functions, whereby a company installs and operates its own business processing systems, are another competitive factor in the industries in which Employer Services and PEO Services operate. Dealer Services' competitors include full service DMS providers such as The Reynolds & Reynolds Company, Dealer Services' largest DMS competitor in the United States and Canada, and companies providing applications and services that compete with Dealer Services' non-DMS applications and services.

Competition in ADP's industries is primarily based on service responsiveness, product quality and price. ADP believes that it is very competitive in each of these areas and that there are no material negative factors impacting ADP's competitive position.

Clients and Client Contracts

ADP provides its services to about 570,000 clients. In fiscal 2009, no single client or group of affiliated clients accounted for revenues in excess of 2% of annual consolidated revenues.

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Our business is typically characterized by long-term client relationships that result in recurring revenue. ADP is continuously in the process of performing implementation services for new clients. Depending on the service agreement and/or the size of the client, the installation or conversion period for new clients could vary from a short period of time (as little as 24 hours) for an SBS client to a longer period (generally six to twelve months) for a National Account Services or Dealer Services client with multiple deliverables, and in some cases may exceed two years for a large GlobalView client or other large, complicated implementation. Although we monitor sales that have not yet been billed or installed, we do not view this metric as material in light of the recurring nature of our business. This is not a reported number, but it is used by management as a planning tool relating to resources needed to install services, and a means of assessing our performance against the installation timing expectations of our clients.

ADP's average client retention is estimated at just under 10 years in Employer Services, approximately 5 years in PEO Services and 10 or more years in Dealer Services, and has not varied significantly from period to period.

ADP's services are provided under written price quotations or service agreements having varying terms and conditions. No one price quotation or service agreement is material to ADP.

Systems Development and Programming

During the fiscal years ended June 30, 2009, 2008 and 2007, ADP invested \$588 million, \$611 million and \$609 million, respectively, from continuing operations, in systems development and programming, migration to new computing technologies and the development of new products and maintenance of our existing technologies, including purchases of new software and software licenses.

Product Development

ADP continually upgrades, enhances and expands its existing solutions and services. Generally, no new solution or service has a significant effect on ADP's revenues or negatively impacts its existing solutions and services, and ADP's solutions and services have significant remaining life cycles.

Licenses

ADP is the licensee under a number of agreements for computer programs and databases. ADP's business is not dependent upon a single license or group of licenses. Third-party licenses, patents, trademarks and franchises are not material to ADP's business as a whole.

Number of Employees

ADP employed approximately 45,000 persons as of June 30, 2009.

Item 1A. Risk Factors

Our businesses routinely encounter and address risks, some of which may cause our future results to be different than we currently anticipate. Risk factors described below represent our current view of some of the most important risks facing our businesses and are important to understanding our business. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and the consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion includes a number of forward-looking statements. You should refer to the description of the qualifications and limitations on forward-looking statements in the first paragraph under Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K. Unless otherwise indicated or the context otherwise requires, reference in this section to "we," "ours," "us" or similar terms means ADP, together with its subsidiaries. The level of importance of each of the following risks may vary from time to time.

Changes in laws and regulations may decrease our revenues and earnings

Portions of ADP's business are subject to governmental regulations. Changes in governmental regulations may decrease our revenues and earnings and may require us to change the manner in which we conduct some aspects of our business. For example, a change in regulations either decreasing the amount of taxes to be withheld or allowing less time to remit taxes to government authorities would adversely impact interest income from investing funds that we collect from clients but have not yet remitted to the applicable taxing authorities or client employees, thus reducing our revenues and income from this source. In addition, changes in taxation requirements in the United States or in other countries could adversely affect our effective tax rate and our net income.

Security and privacy breaches may hurt our business

We store electronically personal information about our clients and employees of our clients. In addition, our retirement services systems maintain investor account information for retirement plans. There is no guarantee that the systems and procedures that we maintain to protect

against unauthorized access to such information are adequate to protect against all security breaches. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and the growth of our business could be materially adversely affected.

Our systems may be subject to disruptions that could adversely affect our business and reputation

Many of our businesses are highly dependent on our ability to process, on a daily basis, a large number of complicated transactions. We rely heavily on our payroll, financial, accounting and other data processing systems. If any of these systems fail to operate properly or become disabled even for a brief period of time, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or damage to our reputation. We have disaster recovery plans in place to protect our businesses against natural disasters, security breaches, military or terrorist actions, power or communication failures or similar events. Despite our preparations, in the event of a catastrophic occurrence, our disaster recovery plans may not be successful in preventing the loss of client data, service interruptions, disruptions to our operations, or damage to our important facilities.

If we fail to adapt our technology to meet client needs and preferences, the demand for our services may diminish

Our businesses operate in industries that are subject to rapid technological advances and changing client needs and preferences. In order to remain competitive and responsive to client demands, we continually upgrade, enhance and expand our existing solutions and services. If we fail to respond successfully to the technology challenges, the demand for our services may diminish.

Political and economic factors may adversely affect our business and financial results

Trade, monetary and fiscal policies, and political and economic conditions may substantially change, and credit markets may experience periods of constriction and volatility. When there is a slowdown in the economy, employment levels and interest rates may decrease with a corresponding impact on our businesses. Clients may react to worsening conditions by reducing their spending on payroll and other outsourcing services or renegotiating their contracts with us. The availability of financing, even to borrowers with the highest credit ratings, may limit our flexibility to access short-term debt markets to meet liquidity needs required by our Employer Services business. In addition, certain types of investments may not be available to us or become too risky for us to invest in, which may reduce the interest we earn on client funds. If any of these circumstances remain in effect for an extended period of time, there could be a material adverse effect on our financial results and liquidity. We are dependent upon various large banks to execute Automated Clearing House and wire transfers as part of our client payroll and tax services. While we have contingency plans in place for bank failures, a systemic shut-down of the banking industry would impede our ability to process funds on behalf of our payroll and tax services clients and could have a material adverse impact on our financial results and liquidity.

Change in our credit ratings could adversely impact our operations and lower our profitability

The major credit rating agencies periodically evaluate our creditworthiness and have consistently given us their highest long-term debt and commercial paper ratings. Failure to maintain high credit ratings on long-term and short-term debt could increase our cost of borrowing, reduce our ability to obtain intra-day borrowing required by our Employer Services business, and ultimately reduce our client interest revenue.

We may be unable to attract and retain qualified personnel

Our ability to grow and provide our clients with competitive services is partially dependent on our ability to attract and retain highly motivated people with the skills to serve our clients. Competition for skilled employees in the outsourcing and other markets in which we operate is intense and if we are unable to attract and retain highly skilled and motivated personnel, expected results from our operations may suffer.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

ADP owns 43 of its processing centers, other operational offices, sales offices and its corporate headquarters complex in Roseland, New Jersey, which aggregate approximately 4,153,066 square feet. None of ADP's owned facilities is subject to any material encumbrances. ADP leases space for some of its processing centers, other operational offices and sales offices. All of these leases, which aggregate approximately 5,793,581 square feet in North America, Europe, South America (primarily Brazil), Asia, Australia and South Africa, expire at various times up to the year 2036. ADP believes its facilities are currently adequate for their intended purposes and are adequately maintained.

Item 3. Legal Proceedings

In the normal course of business, the Company is subject to various claims and litigation. While the outcome of any litigation is inherently

unpredictable, the Company believes it has valid defenses with respect to the legal matters pending against it and the Company believes that the ultimate resolution of these matters will not have a material adverse impact on its financial condition, results of operations or cash flows.

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

None

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Part II

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

Market for the Registrant's Common Equity

The principal market for the Company's common stock (symbol: ADP) is the NASDAQ Global Select Market. The following table sets forth the reported high and low sales prices of the Company's common stock and the cash dividends per share of common stock declared, during the past two fiscal years. The sales prices reported are from the NASDAQ Global Select Market beginning with the fiscal quarter ended December 31, 2008 and are based on the New York Stock Exchange composite transactions prior thereto. As of June 30, 2009, there were 41,939 holders of record of the Company's common stock. As of such date, 295,731 additional holders held their common stock in "street name."

| | Price Per Share | | Dividends |
|----------------------------|-----------------|---------|-----------|
| | High | Low | Per Share |
| Fiscal 2009 quarter ended: | | | |
| June 30 | \$39.08 | \$34.08 | \$0.330 |
| March 31 | \$40.99 | \$32.03 | \$0.330 |
| December 31 | \$42.93 | \$30.83 | \$0.330 |
| September 30 | \$45.97 | \$40.26 | \$0.290 |
| Fiscal 2008 quarter ended: | | | |
| June 30 | \$45.23 | \$41.25 | \$0.290 |
| March 31 | \$44.66 | \$37.74 | \$0.290 |
| December 31 | \$49.81 | \$44.25 | \$0.290 |
| September 30 | \$49.38 | \$43.91 | \$0.230 |

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Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares Purchased (1) | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of the Publicly Announced Common Stock Repurchase Plan (2) | (d) Maximum Number of Shares that may yet be Purchased under the Common Stock Repurchase Plan (2) |
|------------------------------------|--|--|--|--|
| April 1, 2009 to April 30, 2009 | 1,206 | \$34.61 | -- | 47,023,533 |
| May 1, 2009 to May 31, 2009 | -- | -- | -- | 47,023,533 |

| | | | | |
|----------------------------------|-------|---------|----|------------|
| June 1, 2009 to June 30, 2009 | 5,201 | \$36.50 | -- | 47,023,533 |
| Total | 6,407 | | -- | |

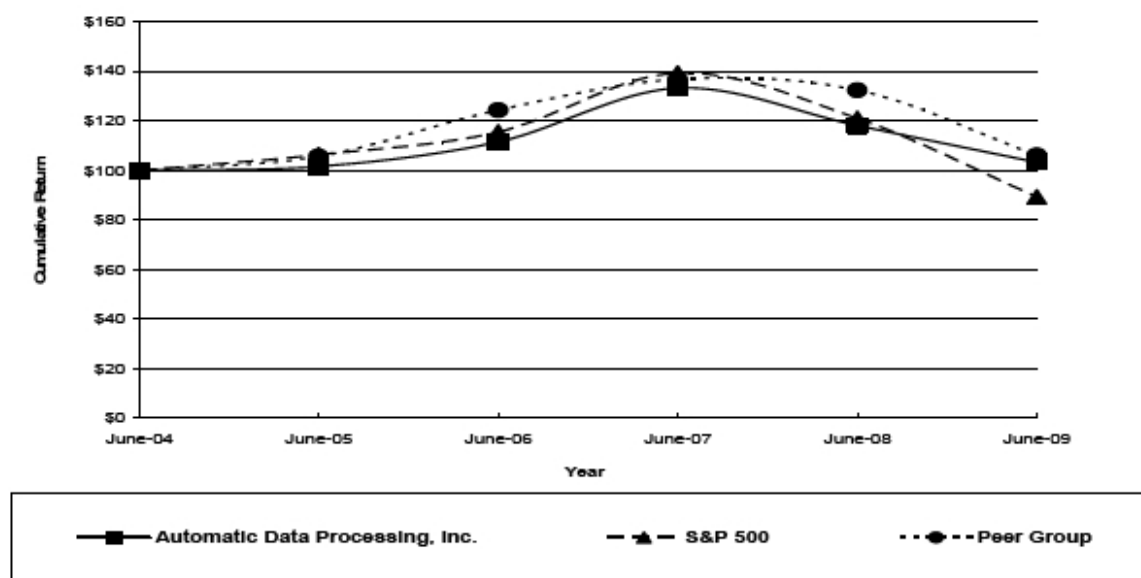
- (1) Pursuant to the terms of the Company's restricted stock program, the Company made purchases of 1,206 shares during April 2009 and 5,201 shares during June 2009 at the then market value of the shares in connection with the exercise by employees of their option under such program to satisfy certain tax withholding requirements through the delivery of shares to the Company instead of cash.
- (2) The Company received the Board of Directors' approval to repurchase shares of the Company's common stock as follows:

| Date of Approval | Shares |
|------------------|------------|
| March 2001 | 50 million |
| November 2002 | 35 million |
| November 2005 | 50 million |
| August 2006 | 50 million |
| August 2008 | 50 million |

There is no expiration date for the common stock repurchase plan.

Performance Graph

The following graph compares the cumulative return on the Company's common stock ^(a) for the most recent five years with the cumulative return on the S&P 500 Index and a Peer Group Index ^(b), assuming an initial investment of \$100 on June 30, 2004, with all dividends reinvested.



- (a) On March 30, 2007, the Company completed the spin-off of its former Brokerage Services Group business, comprised of Brokerage Services and Securities Clearing and Outsourcing Services, into an independent publicly traded company called Broadridge Financial Solutions, Inc. The cumulative returns of the Company's common stock have been adjusted to reflect the spin-off.
- (b) The Peer Group Index is comprised of the following companies:

| | |
|-------------------------------|-----------------------------------|
| Administaff, Inc. | Paychex, Inc. |
| Computer Sciences Corporation | The Ultimate Software Group, Inc. |
| Global Payments Inc. | Total System Services, Inc. |
| Hewitt Associates, Inc. | The Western Union Company |
| Intuit Inc. | |

Gevity HR, Inc. was acquired in 2009 and was removed from the Peer Group Index.

Item 6. Selected Financial Data

The following selected financial data is derived from our consolidated financial statements and should be read in conjunction with the consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Quantitative and Qualitative Disclosures About Market Risk included in this Annual Report on Form 10-K.

(Dollars and shares in millions, except per share amounts)

| Years ended June 30, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|-------------|-------------|-------------|-------------|-------------|
| Total revenues | \$ 8,867.1 | \$ 8,776.5 | \$ 7,800.0 | \$ 6,835.6 | \$ 6,131.3 |
| Total costs of revenues | \$ 4,839.5 | \$ 4,680.1 | \$ 4,087.3 | \$ 3,603.7 | \$ 3,165.3 |
| Gross profit | \$ 4,027.6 | \$ 4,096.4 | \$ 3,712.7 | \$ 3,231.9 | \$ 2,966.0 |
| Earnings from continuing operations before income taxes | \$ 1,904.7 | \$ 1,812.0 | \$ 1,623.5 | \$ 1,361.2 | \$ 1,237.8 |
| Net earnings from continuing operations | \$ 1,328.2 | \$ 1,161.7 | \$ 1,021.2 | \$ 841.9 | \$ 780.6 |
| Basic earnings per share from continuing operations | \$ 2.64 | \$ 2.23 | \$ 1.86 | \$ 1.46 | \$ 1.34 |
| Diluted earnings per share from continuing operations | \$ 2.63 | \$ 2.20 | \$ 1.83 | \$ 1.45 | \$ 1.32 |
| Basic weighted average shares outstanding | 503.2 | 521.5 | 549.7 | 574.8 | 583.2 |
| Diluted weighted average shares outstanding | 505.8 | 527.2 | 557.9 | 580.3 | 590.0 |
| Cash dividends declared per share | \$ 1.2800 | \$ 1.1000 | \$ 0.8750 | \$ 0.7100 | \$ 0.6050 |
| Return on equity from continuing operations (Note 1) | 25.5% | 22.7% | 18.3% | 14.3% | 13.9% |
| At year end: | | | | | |
| Cash, cash equivalents and marketable securities | \$ 2,388.5 | \$ 1,660.3 | \$ 1,884.6 | \$ 2,461.3 | \$ 1,716.0 |
| Total assets | \$ 25,351.7 | \$ 23,734.4 | \$ 26,648.9 | \$ 27,490.1 | \$ 27,615.4 |
| Obligation under commercial paper borrowing | \$ 730.0 | \$ - | \$ - | \$ - | \$ - |
| Long-term debt | \$ 42.7 | \$ 52.1 | \$ 43.5 | \$ 74.3 | \$ 75.7 |
| Stockholders' equity | \$ 5,322.6 | \$ 5,087.2 | \$ 5,147.9 | \$ 6,011.6 | \$ 5,783.9 |

Note 1. Return on equity from continuing operations has been calculated as net earnings from continuing operations divided by average total stockholders' equity.

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

FORWARD-LOOKING STATEMENTS

This report and other written or oral statements made from time to time by ADP may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, and which may be identified by the use of words like "expects," "assumes," "projects," "anticipates," "estimates," "we believe," "could be" and other words of similar meaning, are forward-looking statements. These statements are based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of services and products; changes in laws regulating payroll taxes, professional employer organizations and employee benefits; overall market and economic conditions, including interest rate and foreign currency trends; competitive conditions; auto sales and related industry changes; employment and wage levels; changes in technology; availability of skilled technical associates and the impact of new acquisitions and divestitures. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. These risks and uncertainties, along with the risk factors discussed above under "Item 1A.-Risk Factors," should be considered in evaluating any forward-looking statements contained herein.

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

ADP is one of the world's largest providers of business outsourcing solutions. Leveraging 60 years of experience, ADP offers a wide range of human resource ("HR"), payroll, tax and benefits administration solutions from a single source. ADP is also a leading provider of integrated computing solutions to automotive, heavy truck, motorcycle, marine, recreational vehicle ("RV") and heavy machinery dealers throughout the world. The Company's reportable segments are: Employer Services, PEO Services and Dealer Services. A brief description of each segment's

operations is provided below.

Employer Services

Employer Services offers a comprehensive range of HR information, payroll processing, tax and benefits administration solutions and services, including traditional and Web-based outsourcing solutions, that assist approximately 540,000 employers in the United States, Canada, Europe, South America (primarily Brazil), Australia and Asia to staff, manage, pay and retain their employees. Employer Services categorizes its services as payroll and payroll tax, and “beyond payroll.” The payroll and payroll tax business represents the Company’s core payroll processing and payroll tax filing business. The “beyond payroll” business represents the services that extend beyond the payroll and payroll tax filing services, such as time and labor management, benefits administration, retirement recordkeeping and administration, and HR administration services. Within Employer Services, the Company collects client funds and remits such funds to tax authorities for payroll tax filing and payment services, and to employees of payroll services clients.

PEO Services

PEO Services provides approximately 5,300 small and medium sized businesses with comprehensive employment administration outsourcing solutions through a co-employment relationship, including payroll, payroll tax filing, HR guidance, 401(k) plan administration, benefits administration, compliance services, health and workers’ compensation coverage and other supplemental benefits for employees.

Dealer Services

Dealer Services provides integrated dealer management systems (such a system is also known in the industry as a “DMS”) and other business management solutions to automotive, heavy truck, motorcycle, marine, RV and heavy machinery retailers in North America, Europe, South Africa and the Asia Pacific region. Approximately 27,000 automotive, heavy truck, motorcycle, marine, RV and heavy machinery retailers in over 90 countries use our DMS products, other software applications, networking solutions, data integration, consulting and/or digital marketing services.

EXECUTIVE OVERVIEW

During the fiscal year ended June 30, 2009 (“fiscal 2009”), we maintained focus on the execution of our five-point strategic growth program, which consists of:

- Strengthening the core business;
- Growing our differentiated HR Business Process Outsourcing (“BPO”) offerings;
- Focusing on international expansion;
- Entering adjacent markets that leverage the core; and
- Expanding pretax margins.

ADP’s fiscal 2009 results were clearly impacted by the severe economic conditions, including rising unemployment, declining automobile sales, low interest rates, and volatile financial markets. However, we are meeting the challenge of this recessionary environment by continuing to focus on our five-point strategy and taking the actions necessary for the Company to be stronger and even better positioned for when the economy improves.

The headwinds from the global recession impacted our growth during fiscal 2009. Consolidated revenues from continuing operations in fiscal 2009 grew 1%, to \$8,867.1 million, as compared to \$8,776.5 million in the fiscal year ended June 30, 2008 (“fiscal 2008”) due to increases in revenues in Employer Services of 4%, or \$225.3 million, to \$6,587.7 million, and PEO Services of 12%, or \$125.3 million, to \$1,185.8 million. Such increases were partially offset by fluctuations in foreign currency rates, which reduced our revenue by \$188.0 million, or 2%, a decrease in the consolidated interest on funds held for clients of \$74.7 million and a decrease in Dealer Services revenue of 3%, or \$42.8 million. Earnings from continuing operations before income taxes and net earnings from continuing operations increased 5% and 14%, respectively. Diluted earnings per share from continuing operations increased 20%, to \$2.63 in fiscal 2009, from \$2.20 per share in fiscal 2008, on fewer weighted average diluted shares outstanding.

Employer Services’ revenues increased 4% and PEO Services revenues increased 12% in fiscal 2009. Employer Services’ and PEO Services’ new business sales, which represent annualized recurring revenues anticipated from sales orders to new and existing clients, declined 15% worldwide, to approximately \$982.3 million in fiscal 2009. In fiscal 2009, average client funds balances declined 3% due to lower bonuses, lower wage growth, and a decline in pays per control. Our key business metrics for Employer Services showed year-over-year declines in fiscal 2009. “Pays per control,” which represents the number of employees on our clients’ payrolls as measured on a same-store-sales basis utilizing a subset of

approximately 137,000 payrolls of small to large businesses that are reflective of a broad range of U.S. geographic regions, decreased 2.5% in fiscal 2009. Client retention decreased 1.2 percentage points worldwide over last year's record level. PEO Services' revenues grew 12% in fiscal 2009 due to a 10% increase in the average number of worksite employees. Dealer Services' revenues, which were negatively impacted by the difficulties facing the automotive industry, decreased 3% in fiscal 2009 due to dealership consolidations and closings, lower transactional revenue and dealerships reducing services in order to cut their discretionary expenses.

We have a strong focus on strengthening our business model, which has approximately 90% recurring revenues, excellent margins from the ability to generate consistent, strong cash flows, strong client retention and low capital expenditure requirements. We believe we have right-sized the organization for the expected near-term lower revenue growth. Additionally, ADP has continued to return excess cash to our shareholders. We have bought back approximately 20% of the Company's common stock that was outstanding at the beginning of the fiscal year ended June 30, 2006. We have also raised the dividend payout for 34 consecutive years while still maintaining our AAA credit rating.

We are especially pleased with the performance of our investment portfolio and the investment choices we made throughout the year. Our investment portfolio does not contain any asset-backed securities with underlying collateral of sub-prime mortgages, alternative-A mortgages, sub-prime auto loans or home equity loans, collateralized debt obligations, collateralized loan obligations, credit default swaps, asset-backed commercial paper, derivatives, auction rate securities, structured investment vehicles or non-investment-grade fixed-income securities. We own senior tranches of fixed rate credit card, rate reduction, auto loan and other asset-backed securities, secured predominately by prime collateral. All collateral on asset-backed securities is performing as expected. In addition, we own senior debt directly issued by Federal Home Loan Banks, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). We do not own subordinated debt, preferred stock or common stock of any of these agencies. We do own AAA rated mortgage-backed securities, which represent an undivided beneficial ownership interest in a group or pool of one or more residential mortgages. These securities are collateralized by the cash flows of 15-year and 30-year residential mortgages and are guaranteed by Fannie Mae and Freddie Mac as to the timely payment of principal and interest. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering investments out to five years (in the case of the extended portfolio) and out to ten years (in the case of the long portfolio). This investment strategy is supported by our short-term financing arrangements necessary to satisfy short-term funding requirements relating to client funds obligations. In addition, our AAA credit rating has helped us maintain uninterrupted access to the commercial paper market.

Our financial condition and balance sheet remain solid at June 30, 2009, with cash and marketable securities of \$2,388.5 million. The cash and marketable securities balance included \$730.0 million of cash related to the outstanding commercial paper borrowing as of June 30, 2009, which was repaid on July 1, 2009. This borrowing was a normal part of our client funds extended investment strategy. Our net cash flows provided by operating activities were \$1,562.6 million in fiscal 2009, as compared to \$1,772.2 million in fiscal 2008. This decrease in cash flows from fiscal 2008 to fiscal 2009 was due to the timing of collections of accounts receivable and the timing of funding of our employee benefits program, partially offset by a decrease in pension plan contributions as compared to the prior year.

RESULTS OF OPERATIONS ANALYSIS OF CONSOLIDATED OPERATIONS

Fiscal 2009 Compared to Fiscal 2008

(Dollars in millions, except per share amounts)

| | Years ended June 30, | | \$ Change | % Change |
|--|----------------------|------------|-----------|----------|
| | 2009 | 2008 | | |
| Total revenues | \$ 8,867.1 | \$ 8,776.5 | \$ 90.6 | 1% |
| Costs of revenues: | | | | |
| Operating expenses | 4,102.0 | 3,915.7 | 186.3 | 5% |
| Systems development and programming costs | 499.7 | 525.9 | (26.2) | (5)% |
| Depreciation and amortization | 237.8 | 238.5 | (0.7) | 0% |
| Total costs of revenues | 4,839.5 | 4,680.1 | 159.4 | 3% |
| Selling, general and administrative expenses | 2,197.6 | 2,370.4 | (172.8) | (7)% |
| Interest expense | 33.3 | 80.5 | (47.2) | (59)% |
| Total expenses | 7,070.4 | 7,131.0 | (60.6) | (1)% |
| Other income, net | 108.0 | 166.5 | (58.5) | (35)% |

| | | | | |
|---|------------|------------|-----------|-------|
| Earnings from continuing operations before income taxes | \$ 1,904.7 | \$ 1,812.0 | \$ 92.7 | 5% |
| Margin | 21.5% | 20.6% | | |
| Provision for income taxes | \$ 576.5 | \$ 650.3 | \$ (73.8) | (11)% |
| Effective tax rate | 30.3% | 35.9% | | |
| Net earnings from continuing operations | \$ 1,328.2 | \$ 1,161.7 | \$ 166.5 | 14% |
| Diluted earnings per share from continuing operations | \$ 2.63 | \$ 2.20 | \$ 0.43 | 20% |

Total Revenues

Our consolidated revenues grew 1%, to \$8,867.1 million in fiscal 2009, from \$8,776.5 in fiscal 2008, due to increases in revenues in Employer Services of 4%, or \$225.3 million, to \$6,587.7 million, and PEO Services of 12%, or \$125.3 million, to \$1,185.8 million. Such increases were partially offset by fluctuations in foreign currency rates, which reduced our revenue by \$188.0 million, or 2%, a decrease in the consolidated interest on funds held for clients of \$74.7 million and a decrease in Dealer Services of 3%, or \$42.8 million. The decrease in the consolidated interest earned on funds held for clients resulted from the decrease in the average interest rate earned to 4.0% in fiscal 2009 as compared to 4.4% in fiscal 2008, and a decrease in our average client funds balances for fiscal 2009 of 3.1%, to \$15.2 billion.

Total Expenses

Our consolidated expenses decreased 1%, to \$7,070.4 million in fiscal 2009, from \$7,131.0 million in fiscal 2008. The decrease in our consolidated expenses was due to a decrease of \$161.3 million, or 2%, related to foreign currency fluctuations and a decrease in selling, general and administrative expenses of \$172.8 million, which was attributable to lower selling expenses and cost saving initiatives that commenced in fiscal 2008 and continued in fiscal 2009. These decreases were partially offset by an increase in operating expenses of \$186.3 million attributable to the increase in our revenues discussed above. In addition, there was an increase in pass-through costs in our PEO business including those costs associated with providing benefits coverage for worksite employees of \$102.7 million and costs associated with workers' compensation and payment of state unemployment taxes for worksite employees of \$16.8 million.

Our total costs of revenues increased \$159.4 million, to \$4,839.5 million in fiscal 2009, from \$4,680.1 million in fiscal 2008, due to an increase in our operating expenses of \$186.3 million, partially offset by a decrease in our systems development and programming costs of \$26.2 million.

Operating expenses increased \$186.3 million, or 5%, in fiscal 2009 compared to fiscal 2008 due to the increase in revenues described above, including the increases in PEO Services, which have pass-through costs including those costs for benefits coverage, workers' compensation coverage and state unemployment taxes for worksite employees that are re-billable. These pass-through costs were \$874.8 million in fiscal 2009, which included costs for benefits coverage of \$724.3 million and costs for workers compensation and payment of state unemployment taxes of \$150.5 million. These costs were \$755.3 million in fiscal 2008, which included costs for benefits coverage of \$621.6 million and costs for workers compensation and payment of state unemployment taxes of \$133.7 million. The increase in operating expenses is also due to higher expenses in Employer Services of \$64.5 million related to increased service costs for investment in client-facing resources. Such increases were partially offset by a decrease in operating expenses of approximately \$84.0 million due to foreign currency fluctuations.

Systems development and programming expenses decreased \$26.2 million, or 5%, in fiscal 2009 compared to fiscal 2008 due to decreases related to the impact of foreign currency fluctuations of \$15.8 million, a decrease in stock-based compensation expenses of \$6.5 million and a decrease in programming expenses related to our systems of \$3.9 million. The decrease in programming expenses was a result of a decrease in the average cost per associate as a larger percentage of our associates are located in off-shore and smart-shore locations. In addition, depreciation and amortization expenses decreased \$0.7 million in fiscal 2009 compared to fiscal 2008 due to decreases related to the impact of foreign currency fluctuations of \$5.4 million, which were partially offset by increased amortization expenses of \$4.7 million resulting from the intangible assets acquired with new businesses and the purchases of software and software licenses.

Selling, general and administrative expenses decreased \$172.8 million, or 7%, in fiscal 2009 compared to fiscal 2008, which was attributable to decreases related to the impact of foreign currency fluctuations of \$55.7 million, a decrease in selling expenses related to a decline in our new client sales of \$45.6 million and a reversal of \$23.3 million in expenses due to a favorable ruling related to an international business capital tax. In addition, the decrease is attributable to our cost saving initiatives that commenced in fiscal 2008 and continued in fiscal 2009, which included a reduction in payroll and payroll related expenses of \$32.3 million and a decrease in stock-based compensation expenses of \$16.3 million. Such

decreases were partially offset by an increase in restructuring charges, primarily related to severance, of \$67.6 million and an increase in the provision for our allowance for doubtful accounts of \$15.5 million due to losses related to our notes receivable from automotive, heavy truck and powersports dealers.

Interest expense decreased \$47.2 million in fiscal 2009 as a result of a decrease of \$40.6 million related to our short-term commercial paper program and a decrease of \$6.6 million related to our reverse repurchase program. In the aggregate, interest expense decreased by approximately \$68.4 million related to decreases in interest rates and increased approximately \$21.2 million related to increases in borrowings. In fiscal 2009 and 2008, the Company's average borrowings under the commercial paper program were \$1.9 billion and \$1.4 billion, respectively, at weighted average interest rates of 1.0% and 4.2%, respectively. In fiscal 2009 and 2008, the Company's average borrowings under the reverse repurchase program were approximately \$425.9 million and \$360.4 million, respectively, at weighted average interest rates of 1.3% and 3.4%, respectively.

Other Income, net

| Years ended June 30, (Dollars in millions) | 2009 | 2008 | \$ Change |
|--|-------------------|-------------------|------------------|
| Interest income on corporate funds | \$ (134.2) | \$ (149.5) | \$ (15.3) |
| Gain on sale of building | (2.2) | (16.0) | (13.8) |
| Realized gains on available-for-sale securities | (11.4) | (10.1) | 1.3 |
| Realized losses on available-for-sale securities | 23.8 | 11.4 | (12.4) |
| Realized loss on investment in Reserve Fund | 18.3 | - | (18.3) |
| Other, net | (2.3) | (2.3) | - |
| Other income, net | \$ (108.0) | \$ (166.5) | \$ (58.5) |

Other income, net, decreased \$58.5 million in fiscal 2009 as compared to fiscal 2008 due to a loss of \$18.3 million related to investment in the Primary Fund of the Reserve Fund (the "Reserve Fund"), a decrease in interest income on corporate funds of \$15.3 million, a reduction in income of \$13.8 million from the sale of buildings and an increase in net realized losses on available-for-sale securities of \$11.1 million. In the aggregate, interest income on corporate funds decreased by approximately \$30.9 million related to decreases in interest rates and increased approximately \$15.6 million related to increases in average daily balances. Average interest rates decreased from 4.4% in fiscal 2008 to 3.6% in fiscal 2009. Average daily balances increased from \$3.4 billion in fiscal 2008 to \$3.7 billion in fiscal 2009.

Earnings from Continuing Operations before Income Taxes

Earnings from continuing operations before income taxes increased 5%, to \$1,904.7 million in fiscal 2009, from \$1,812.0 million in fiscal 2008, due to the increase in revenues and the decrease in expenses discussed above. Overall margin increased 80 basis points in fiscal 2009.

Provision for Income Taxes

The effective tax rate in fiscal 2009 was 30.3%, as compared to 35.9% in fiscal 2008. The decrease in the effective tax rate is due to a reduction in the provision for income taxes of \$120.0 million related to favorable tax settlements, including an Internal Revenue Service ("IRS") audit settlement and the settlement of a state tax matter. These settlements decreased the effective tax rate by approximately 6.3 percentage points in fiscal 2009. Lastly, during fiscal 2008, there was a reduction in the provision for income taxes of \$12.4 million related to the settlement of a state tax matter. This decreased the effective tax rate by approximately 0.7 percentage points in fiscal 2008.

Net Earnings from Continuing Operations and Diluted Earnings per Share from Continuing Operations

Net earnings from continuing operations increased 14%, to \$1,328.2 million, in fiscal 2009, from \$1,161.7 million in fiscal 2008, and the related diluted earnings per share from continuing operations increased 20%, to \$2.63 in fiscal 2009. The increase in net earnings from continuing operations in fiscal 2009 reflects the increased revenues, lower expenses and lower effective tax rate as described above. The increase in diluted earnings per share from continuing operations in fiscal 2009 reflects the increase in net earnings from continuing operations and the impact of fewer weighted average diluted shares outstanding due to the repurchase of 13.8 million shares in fiscal 2009 and 32.9 million shares in fiscal 2008.

(Dollars in millions, except per share amounts)

| | Years ended June 30, | | \$ Change | % Change |
|---|----------------------|------------|-----------|----------|
| | 2008 | 2007 | | |
| Total revenues | \$ 8,776.5 | \$ 7,800.0 | \$ 976.5 | 13% |
| Costs of revenues: | | | | |
| Operating expenses | 3,915.7 | 3,392.3 | 523.4 | 15% |
| Systems development and programming costs | 525.9 | 486.1 | 39.8 | 8% |
| Depreciation and amortization | 238.5 | 208.9 | 29.6 | 14% |
| Total costs of revenues | 4,680.1 | 4,087.3 | 592.8 | 15% |
| Selling, general and administrative expenses | 2,370.4 | 2,206.2 | 164.2 | 7% |
| Interest expense | 80.5 | 94.9 | (14.4) | (15)% |
| Total expenses | 7,131.0 | 6,388.4 | 742.6 | 12% |
| Other income, net | 166.5 | 211.9 | (45.4) | (21)% |
| Earnings from continuing operations before income taxes | \$ 1,812.0 | \$ 1,623.5 | \$ 188.5 | 12% |
| Margin | 20.6% | 20.8% | | |
| Provision for income taxes | \$ 650.3 | \$ 602.3 | \$ 48.0 | 8% |
| Effective tax rate | 35.9% | 37.1% | | |
| Net earnings from continuing operations | \$ 1,161.7 | \$ 1,021.2 | \$ 140.5 | 14% |
| Diluted earnings per share from continuing operations | \$ 2.20 | \$ 1.83 | \$ 0.37 | 20% |

Total Revenues

Our consolidated revenues in fiscal 2008 grew 13%, to \$8,776.5 million, due to increases in revenues in Employer Services of 9%, or \$546.1 million, to \$6,362.4 million, PEO Services of 20%, or \$175.7 million, to \$1,060.5 million, and Dealer Services of 9%, or \$110.8 million, to \$1,391.4 million. Our consolidated internal revenue growth, which represents revenue growth excluding the impact of acquisitions and divestitures, was 11% in fiscal 2008. Revenue growth was favorably impacted by \$167.8 million, or 2%, due to fluctuations in foreign currency exchange rates.

Our consolidated revenues in fiscal 2008 include interest on funds held for clients of \$684.5 million as compared to \$653.6 million in the year ended June 30, 2007 ("fiscal 2007"). The increase in the consolidated interest earned on funds held for clients resulted from the increase of 6.6% in our average client funds balances to \$15.7 billion, offset by the decrease in the average interest rate earned to 4.4% in fiscal 2008 as compared to 4.5% in fiscal 2007.

Total Expenses

Our consolidated expenses increased \$742.6 million, to \$7,131.0 million in fiscal 2008, from \$6,388.4 million in fiscal 2007. The increase in our consolidated expenses is due to the increase in our revenues, higher pass-through costs associated with our PEO business, an increase in our salesforce and implementation personnel, and higher expenses associated with Employer Services' new business sales and implementation. In addition, consolidated expenses increased \$142.1 million, or 2%, in fiscal 2008 due to fluctuations in foreign currency exchange rates.

Our total costs of revenues increased \$592.8 million, to \$4,680.1 million in fiscal 2008, from \$4,087.3 million in fiscal 2007, due to increases in our operating expenses.

Operating expenses increased \$523.4 million, or 15%, in fiscal 2008 due to the increase in revenues described above, including the increases in PEO services, which has pass-through costs including those costs for benefits coverage, workers' compensation coverage and state unemployment taxes for worksite employees that are re-billable. These costs were \$755.3 million in fiscal 2008, which included costs for benefits coverage of \$621.6 million and costs for workers compensation and payment of state unemployment taxes of \$133.7 million. These costs were \$633.7 million in fiscal 2007, which included costs for benefits coverage of \$505.5 million and costs for workers compensation and payment of state unemployment taxes of \$128.2 million. The increase in operating expenses is also due to an increase of approximately \$131.7 million relating to compensation expenses associated with implementation and service personnel in Employer Services. Operating expenses also increased approximately \$28.0 million due to the operating costs of acquired businesses and approximately \$73.6 million due to foreign currency fluctuations.

Systems development and programming costs increased \$39.8 million, or 8%, in fiscal 2008 compared to fiscal 2007 due to an increase in expenses of \$5.1 million for acquired businesses. Systems development and programming expenses also increased approximately \$15.0 million due to foreign currency fluctuations. In addition, depreciation and amortization expenses increased \$29.6 million, or 14%, in fiscal 2008 compared to fiscal 2007 due to increased amortization expenses of \$10.2 million resulting from the intangible assets acquired with new businesses and the purchases of software and software licenses in fiscal 2008.

Selling, general and administrative expenses increased \$164.2 million, or 7%, in fiscal 2008 as compared to fiscal 2007, which was attributable to the increase in salesforce personnel to support our new domestic business sales in Employer Services. This increase in salesforce personnel resulted in an increase of approximately \$32.0 million of expenses. Selling, general and administrative expenses also increased approximately \$34.5 million due to the selling, general and administrative costs of acquired businesses and approximately \$48.8 million due to foreign currency fluctuations. These increases were partially offset by a decrease in stock-based compensation expense of \$8.0 million.

Interest expense decreased \$14.4 million in fiscal 2008 as a result of lower average borrowings and lower average interest rates on our short-term commercial paper program. In fiscal 2008 and 2007, the Company's average borrowings under the commercial paper program were \$1.4 billion and \$1.5 billion, respectively, at weighted average interest rates of 4.2% and 5.3%, respectively.

Other Income, net

| Years ended June 30, (Dollars in millions) | 2008 | 2007 | \$ Change |
|--|-------------------|-------------------|------------------|
| Interest income on corporate funds | \$ (149.5) | \$ (165.0) | \$ (15.5) |
| Gain on sale of building | (16.0) | - | 16.0 |
| Gain on sale of investment | - | (38.6) | (38.6) |
| Realized gains on available-for-sale securities | (10.1) | (20.8) | (10.7) |
| Realized losses on available-for-sale securities | 11.4 | 12.5 | 1.1 |
| Other, net | (2.3) | - | 2.3 |
| Other income, net | \$ (166.5) | \$ (211.9) | \$ (45.4) |

Other income, net, decreased \$45.4 million in fiscal 2008 as compared to fiscal 2007. The Company recorded a gain on the sale of a building in fiscal 2008 of \$16.0 million and a gain on the sale of a minority investment during fiscal 2007 of \$38.6 million. Other income, net, also decreased \$9.6 million due to net realized losses on available-for-sale securities of \$1.3 million in fiscal 2008 as compared to net realized gains on available-for-sale securities of \$8.3 million in fiscal 2007. Lastly, interest income on corporate funds decreased \$15.5 million as a result of lower average daily balances and lower interest rates. Average daily balances declined from \$3.6 billion in fiscal 2007 to \$3.4 billion in fiscal 2008 due to the use of corporate funds for repurchases of common stock during fiscal 2008. The average interest rate earned on our corporate funds decreased from 4.6% in fiscal 2007 to 4.4% in fiscal 2008.

Earnings from Continuing Operations before Income Taxes

Earnings from continuing operations before income taxes increased \$188.5 million, or 12%, from \$1,623.5 million in fiscal 2007 to \$1,812.0 million in fiscal 2008 due to the increase in revenues and corresponding expenses discussed above. Overall margin decreased 20 basis points in fiscal 2008.

Provision for Income Taxes

The effective tax rate in fiscal 2008 was 35.9%, as compared to 37.1% in fiscal 2007. The decrease in the effective tax rate is due to a favorable mix in income among state tax jurisdictions, as well as tax rate decreases in certain foreign tax jurisdictions. Additionally, during fiscal 2008, there was a reduction in the provision for income taxes of \$12.4 million related to the settlement of a state tax matter. This decreased the effective tax rate by approximately 0.7 percentage points in fiscal 2008. These decreases were partially offset by an increase in the provision for income taxes

relating to the recording of the interest liability associated with unrecognized tax benefits as required under Financial Accounting Standards Board (“FASB”) Interpretation No. 48 (“FIN 48”). This increased the effective tax rate by approximately 0.6 percentage points in fiscal 2008.

Net Earnings from Continuing Operations and Diluted Earnings per Share from Continuing Operations

Net earnings from continuing operations increased 14%, to \$1,161.7 million, for fiscal 2008, from \$1,021.2 million in fiscal 2007, and the related diluted earnings per share from continuing operations increased 20%, to \$2.20, in fiscal 2008. The increase in net earnings from continuing operations in fiscal 2008 reflects the increase in earnings from continuing operations before income taxes and a lower effective tax rate. These increases were offset by the decline in other income, net, of \$45.4 million in fiscal 2008. This decrease was a result of lower transactional gains reported in fiscal 2008 of \$22.6 million, lower net realized gains/losses on available-for-sale securities of \$9.6 million and lower interest income on corporate funds of \$15.5 million. The decrease in transactional gains in fiscal 2008 of \$22.6 million was a result of a gain on the sale of a building of \$16.0 million during fiscal 2008 and a gain on the sale of a minority investment of \$38.6 million during fiscal 2007. The decrease in interest income on corporate funds was a result of lower average daily balances and lower interest rates. Average daily balances declined from \$3.6 billion in fiscal 2007 to \$3.4 billion in fiscal 2008 due to the use of corporate funds for repurchases of common stock during fiscal 2008. The average interest rate earned on our corporate funds decreased from 4.6% in fiscal 2007 to 4.4% in fiscal 2008.

The increase in diluted earnings per share from continuing operations in fiscal 2008 reflects the increase in net earnings from continuing operations and the impact of fewer weighted average diluted shares outstanding due to the repurchase of 32.9 million shares in fiscal 2008 and 40.2 million shares in fiscal 2007.

ANALYSIS OF REPORTABLE SEGMENTS

Revenues

(Dollars in millions)

| | Years ended June 30, | | | \$ Change | | % Change | |
|---------------------------|----------------------|-------------------|-------------------|----------------|-----------------|-----------|------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2009 | 2008 |
| Employer Services | \$ 6,587.7 | \$ 6,362.4 | \$ 5,816.3 | \$ 225.3 | \$ 546.1 | 4% | 9% |
| PEO Services | 1,185.8 | 1,060.5 | 884.8 | 125.3 | 175.7 | 12% | 20% |
| Dealer Services | 1,348.6 | 1,391.4 | 1,280.6 | (42.8) | 110.8 | (3)% | 9% |
| Other | 19.5 | 5.1 | (1.4) | 14.4 | 6.5 | 100+% | 100+% |
| Reconciling items: | | | | | | | |
| Foreign exchange | (208.2) | (27.8) | (177.3) | | | | |
| Client funds interest | (66.3) | (15.1) | (3.0) | | | | |
| Total revenues | \$ 8,867.1 | \$ 8,776.5 | \$ 7,800.0 | \$ 90.6 | \$ 976.5 | 1% | 13% |

Earnings from Continuing Operations before Income Taxes

(Dollars in millions)

| | Years ended June 30, | | | \$ Change | | % Change | |
|--|----------------------|-------------------|-------------------|----------------|-----------------|-----------|------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2009 | 2008 |
| Employer Services | \$ 1,775.4 | \$ 1,615.4 | \$ 1,417.7 | \$ 160.0 | \$ 197.7 | 10% | 14% |
| PEO Services | 118.7 | 104.8 | 80.4 | 13.9 | 24.4 | 13% | 30% |
| Dealer Services | 224.1 | 233.8 | 207.2 | (9.7) | 26.6 | (4)% | 13% |
| Other | (239.6) | (245.2) | (180.9) | 5.6 | (64.3) | 2% | (36)% |
| Reconciling items: | | | | | | | |
| Foreign exchange | (19.2) | 4.1 | (18.5) | | | | |
| Client funds interest | (66.3) | (15.1) | (3.0) | | | | |
| Cost of capital charge | 111.6 | 114.2 | 120.6 | | | | |
| Total earnings from continuing operations before income taxes | \$ 1,904.7 | \$ 1,812.0 | \$ 1,623.5 | \$ 92.7 | \$ 188.5 | 5% | 12% |

The fiscal 2008 and 2007 reportable segments' revenues and earnings from continuing operations before income taxes have been adjusted to reflect updated fiscal 2009 budgeted foreign exchange rates. This adjustment is made for management purposes so that the reportable segments' revenues are presented on a consistent basis without the impact of fluctuations in foreign currency exchange rates. This adjustment is a reconciling item to revenues and earnings from continuing operations before income taxes and results in the elimination of this adjustment in consolidation.

Certain revenues and expenses are charged to the reportable segments at a standard rate for management reasons. Other costs are charged to the reportable segments based on management's responsibility for the applicable costs. The primary components of the "Other" segment are miscellaneous processing services, such as customer financing transactions, non-recurring gains and losses and certain expenses that have not been charged to the reportable segments, such as stock-based compensation expense.

In addition, the reconciling items include an adjustment for the difference between actual interest income earned on invested funds held for clients and interest credited to Employer Services and PEO Services at a standard rate of 4.5%. This allocation is made for management reasons so that the reportable segments' results are presented on a consistent basis without the impact of fluctuations in interest rates. This allocation is a reconciling item to our reportable segments' revenues and earnings from continuing operations before income taxes and results in the elimination of this adjustment in consolidation.

Finally, the reportable segments' results include a cost of capital charge related to the funding of acquisitions and other investments. This charge is a reconciling item to earnings from continuing operations before income taxes and results in the elimination of this charge in consolidation.

Employer Services

Fiscal 2009 Compared to Fiscal 2008

Revenues

Employer Services' revenues increased \$225.3 million, or 4%, to \$6,587.7 million in fiscal 2009. Revenues from our payroll and payroll tax filing business were flat for fiscal 2009. Our payroll and payroll tax filing revenues were adversely impacted in fiscal 2009 due to the reduced number of payrolls processed, a decline in pays per control and a reduction in the average daily balances held, but these declines were offset by pricing increases. Our worldwide client retention decreased by 1.2 percentage points during fiscal 2009. Lost business due to clients' pricing sensitivity and clients going out of business increased during fiscal 2009 as a result of economic pressures. "Pays per control," which represents the number of employees on our clients' payrolls as measured on a same-store-sales basis utilizing a subset of approximately 137,000 payrolls of small to large businesses that are reflective of a broad range of U.S. geographic regions, decreased 2.5% in fiscal 2009. We credit Employer Services with interest on client funds at a standard rate of 4.5%; therefore, Employer Services' results are not influenced by changes in interest rates. Interest on client funds recorded within the Employer Services segment decreased \$25.0 million, or 3.4% in fiscal 2009, as a result of a decrease in average daily balances from \$15.5 billion for fiscal 2008 to \$15.0 billion for fiscal 2009, related to lower bonuses, lower wage growth, and a decline in pays per control. The impact of pricing increases was an increase of approximately 2% to our revenue for fiscal 2009. Revenues from our "beyond payroll" services increased 8% in fiscal 2009 due to an increase in our Time and Labor Management and HR Benefits services revenues, due to an increase in the number of clients utilizing these services, partially offset by a decline in our Retirement Services revenues due to a decrease in the market value of the assets under management.

Earnings from Continuing Operations before Income Taxes

Employer Services' earnings from continuing operations before income taxes increased \$160.0 million, or 10%, to \$1,775.4 million in fiscal 2009. Earnings from continuing operations before income taxes for fiscal 2009 grew at a faster rate than revenues due to a decrease of \$57.7 million related to management incentive compensation expenses, slower growth in selling expenses of \$36.2 million as compared to revenues due to a decline in our new client sales and our cost saving initiatives that commenced in fiscal 2008 and continued in fiscal 2009, including headcount reductions and curtailment of non-essential travel and entertainment expenses. These decreases in expenses were offset, in part, by higher expenses of \$64.5 million related to increased service costs for investment in client-facing resources.

Fiscal 2008 Compared to Fiscal 2007

Revenues

Employer Services' revenues increased \$546.1 million, or 9%, to \$6,362.4 million in fiscal 2008 due to new business started in the period, an increase in the number of employees on our clients' payrolls, the impact of price increases, which contributed approximately 2% to our revenue growth, and an increase in average client funds balances, which increased interest revenues. Internal revenue growth, which represents revenue growth excluding the impact of acquisitions and divestitures, was approximately 8% for fiscal 2008. Revenue from our payroll and payroll tax filing business grew 7%. "Pays per control," which represents the number of employees on our clients' payrolls as measured on a same-store-sales basis utilizing a subset of approximately 141,000 payrolls of small to large businesses that are reflective of a broad range of U.S. geographic regions, increased 1.3% in fiscal 2008. Our worldwide client retention increased 0.2 percentage points in fiscal 2008, as compared to fiscal 2007. Revenues from our "beyond payroll" services increased 16% in fiscal 2008 due to an increase in our Time and Labor Management services

revenues of 17% and due to the impact of business acquisitions. The increase in revenues related to our Time and Labor Management services was due to an increase in the number of clients utilizing these services. We credit Employer Services with interest on client funds at a standard rate of 4.5%; therefore, Employer Services' results are not influenced by changes in interest rates. Interest on client funds recorded within the Employer Services segment increased \$41.4 million in fiscal 2008, which accounted for 1% growth in Employer Services' revenues. This increase was due to the increase in the average client funds balances as a result of new business started in the period, growth in our existing client base and growth in wages. The average client funds balances were \$15.5 billion in fiscal 2008 and \$14.6 billion in fiscal 2007, representing an increase of 6.4%.

Earnings from Continuing Operations before Income Taxes

Employer Services' earnings from continuing operations before income taxes increased \$197.7 million, or 14%, to \$1,615.4 million in fiscal 2008. Earnings from continuing operations before income taxes for fiscal 2008 grew at a faster rate than revenues due to the improvement in margins for our services resulting from the leveraging of our expense structure with increased revenues. This was offset, in part, by higher compensation expenses of \$131.7 million for implementation and service personnel, as well as higher selling expenses of \$38.0 million attributable to the increase in salesforce personnel in Employer Services. Lastly, our expenses increased by approximately \$42.2 million as a result of acquisitions of businesses in Employer Services.

PEO Services

Fiscal 2009 Compared to Fiscal 2008

Revenues

PEO Services' revenues increased \$125.3 million, or 12%, to \$1,185.8 million in fiscal 2009 due to a 10% increase in the average number of worksite employees. The increase in the average number of worksite employees was due to new client sales. Revenues associated with benefits coverage, workers' compensation coverage and state unemployment taxes for worksite employees that were billed to our clients increased \$119.5 million due to the increase in the average number of worksite employees, as well as increases in health care costs. Administrative revenues, which represent the fees for our services and are billed based upon a percentage of wages related to worksite employees, increased \$15.3 million, or 7%, due to the increase in the number of average worksite employees. We credit PEO Services with interest on client funds at a standard rate of 4.5%; therefore, PEO Services' results are not influenced by changes in interest rates. Interest on client funds recorded within the PEO Services segment increased \$1.5 million in fiscal 2009 due to the increase in the average client funds balances as a result of increased PEO Services' new business and growth in our existing client base. The average client funds balances were \$0.2 billion in both fiscal 2009 and fiscal 2008.

Earnings from Continuing Operations before Income Taxes

PEO Services' earnings from continuing operations before income taxes increased \$13.9 million, or 13%, to \$118.7 million in fiscal 2009. This increase was primarily attributable to the increase in revenues described above, net of the related cost of providing benefits coverage, workers' compensation coverage and payment of state unemployment taxes for worksite employees, which are included in costs of revenues. In fiscal 2009, there was an increase in costs associated with our PEO business related to costs associated with providing benefits coverage for worksite employees of \$102.7 million and costs associated with workers' compensation and payment of state unemployment taxes for worksite employees of \$16.8 million. In addition, there was an increase in expenses related to new business sales of \$2.0 million in fiscal 2009.

Fiscal 2008 Compared to Fiscal 2007

Revenues

PEO Services' revenues increased \$175.7 million, or 20%, to \$1,060.5 million in fiscal 2008 due to an 18% increase in the average number of worksite employees. The increase in the average number of worksite employees was due to new client sales and the net increase in the number of worksite employees at existing clients. Additionally, benefits related revenues, which are billed to our clients and have an equal amount of cost in operating expenses, increased \$115.8 million, or 23%, due to the increase in the average number of worksite employees, as well as increases in health care costs. Administrative revenues, which represent the fees for our services that are billed based upon a percentage of wages related to worksite employees, increased \$29.4 million, or 17%, due to the increase in the number of average worksite employees and price increases. We credit PEO Services with interest on client funds at a standard rate of 4.5%; therefore, PEO Services' results are not influenced by changes in interest rates. Interest on client funds recorded within the PEO Services segment increased \$1.7 million in fiscal 2008 due to the increase in the average client funds balances as a result of increased PEO Services' new business and growth in our existing client base. The average client funds balances were \$0.2 billion in fiscal 2008 and \$0.1 billion in fiscal 2007.

Earnings from Continuing Operations before Income Taxes

PEO Services' earnings from continuing operations before income taxes increased \$24.4 million, or 30%, to \$104.8 million in fiscal 2008. This increase was primarily attributable to the increase in revenues described above, net of the related cost of providing benefits coverage, workers

compensation coverage and payment of state unemployment taxes for worksite employees, which are included in costs of revenues. This increase was partially offset by an increase in our operating costs and selling expenses. In fiscal 2008, our cost of providing benefits to worksite employees increased \$116.1 million over fiscal 2007. Our expenses associated with new business sales increased \$12.2 million as a result of growth in our salesforce and an increase in sales over fiscal 2007. In addition, the costs of providing our services increased \$14.0 million in fiscal 2008.

Dealer Services

Fiscal 2009 Compared to Fiscal 2008

Revenues

Dealer Services' revenues decreased \$42.8 million, or 3%, to \$1,348.6 million in fiscal 2009. Revenues for our Dealer Services business would have declined approximately 4% for fiscal 2009 without the impact of acquisitions. The decrease in revenues was due to client losses and cancellation of services resulting from the consolidation and closing of dealerships and continued pressure on dealerships to reduce costs, all of which resulted in a decrease to revenues of \$72.9 million for fiscal 2009. In addition, revenues decreased \$23.9 million due to lower Credit Check, Laser Printing, and Computerized Vehicle Registration ("CVR") transaction volume and \$9.5 million due to a decrease in revenues from consulting services and forms and supplies. These decreases in revenues were offset by a \$67.8 million increase in revenues from new clients and growth in our key products during fiscal 2009. The growth in our key products was driven by increased users for Application Service Provider ("ASP") managed services, growth in our Customer Relationship Management applications and new network and hosted IP telephony installations.

Earnings from Continuing Operations before Income Taxes

Dealer Services' earnings from continuing operations before income taxes decreased \$9.7 million, or 4%, to \$224.1 million in fiscal 2009 due to the decrease of \$42.8 million in revenues discussed above, which was partially offset by a decrease in expenses of \$33.1 million. The decrease in expenses was due to lower selling expenses of \$11.4 million related to a decline in new client sales and a decrease of \$13.2 million in expenses due to certain cost saving initiatives, including headcount reductions and curtailment of non-essential travel and entertainment expenses, and a decrease of \$7.1 million related to management incentive compensation expenses.

Fiscal 2008 Compared to Fiscal 2007

Revenues

Dealer Services' revenues increased \$110.8 million, or 9%, to \$1,391.4 million in fiscal 2008. The increase in revenues in fiscal 2008 was driven by both internal revenue growth and by acquisitions. Internal revenue growth, which represents the revenue growth excluding the impact of acquisitions and divestitures, was approximately 6% in fiscal 2008. Revenues increased for our dealer business systems in North America by \$59.1 million, to \$1,012.9 million in fiscal 2008 due to growth in our key products. The growth in our key products was driven by the increased users for ASP managed services, growth in our Digital Marketing strategic initiatives, increased Credit Check and CVR transaction volume, and new network and hosted IP telephony installations. In addition, revenues increased \$39.9 million due to business acquisitions in the fourth quarter of the fiscal year 2007 as well as in fiscal 2008.

Earnings from Continuing Operations before Income Taxes

Dealer Services' earnings from continuing operations before income taxes increased \$26.6 million, or 13%, to \$233.8 million in fiscal 2008 due to the increase in revenues of our dealer business systems and contributions from recent acquisitions. These increases were offset by an increase in operating expenses as a result of an increase in headcount to support new business sales and the timing of installations during the year. Lastly, our expenses increased by approximately \$37.0 million as a result of acquisitions of businesses during fiscal 2008.

Other

The primary components of the "Other" segment are miscellaneous processing services, such as customer financing transactions, non-recurring gains and losses and certain expenses that have not been charged to the reportable segments, such as stock-based compensation expense. Stock-based compensation expense was \$96.0 million, \$123.6 million and \$130.5 million in fiscal 2009, 2008 and 2007, respectively. Lastly, a gain on the sale of a building of \$2.2 million in fiscal 2009 and a gain on sale of a building of \$16.0 million in fiscal 2008 are included in "Other."

The global financial markets experienced much volatility during fiscal 2009. Despite this volatility in the financial markets, we believe that our liquidity position remains strong. We expect our existing sources of liquidity to remain sufficient to meet our anticipated obligations. However, it is not possible to predict the impact of future events on our financial results or liquidity.

At June 30, 2009, cash and marketable securities were \$2,388.5 million, stockholders' equity was \$5,322.6 million and the ratio of long-term debt-to-equity was 0.8%. Working capital before funds held for clients and client funds obligations was \$1,521.0 million, as compared to \$1,343.1 million at June 30, 2008. This increase is due to cash generated from operations, partially offset by the use of cash to repurchase common stock and the use of cash for dividend payments.

Our principal sources of liquidity for operations are derived from cash generated through operations and through corporate cash and marketable securities on hand. We continued to generate positive cash flows from operations during fiscal 2009, and we held approximately \$2.3 billion of cash, which included \$730.0 million of cash related to the outstanding commercial paper borrowing as of June 30, 2009, which was repaid on July 1, 2009, and approximately \$0.1 billion of marketable securities at June 30, 2009. The commercial paper borrowing is a normal part of our client funds extended investment strategy. We also have the ability to generate cash through our financing arrangements under our U.S. short-term commercial paper program and our U.S. and Canadian short-term repurchase agreements to meet short-term funding requirements related to client funds obligations.

Net cash flows provided by operating activities totaled \$1,562.6 million in fiscal 2009, as compared to \$1,772.2 million in fiscal 2008. The decrease in net cash flows provided by operating activities was due to the timing of funding of our employee benefits program, which reduced cash flows from operating activities by \$45.0 million. In addition, there was an increase in accounts receivable due to the timing of cash collections, which reduced our cash flows from operating activities by \$183.9 million. These decreases in net cash flows provided by operating activities were partially offset by the timing of pension plan contributions as compared to the prior year, which increased cash flows from operating activities by \$49.3 million.

Net cash flows used in investing activities in fiscal 2009 totaled \$644.1 million, as compared to net cash flows provided by investing activities of \$2,613.9 million in fiscal 2008. The decrease in net cash flows from investing activities of \$3,258.0 million was due to the timing of receipts and payments of our cash held to satisfy client funds obligations, which resulted in the use of cash of \$4,851.3 million during fiscal 2009. In addition, we received proceeds of \$112.4 million from the sale of businesses during fiscal 2008. Lastly, during fiscal 2009, there was a reclassification from cash and cash equivalents to short-term marketable securities of \$211.1 million related to the Reserve Fund discussed below. The proceeds received related to the Reserve Fund have been included in proceeds from the sales and maturities of corporate and client funds marketable securities. These decreases in cash flows were partially offset by a reduction in cash paid for acquisitions of \$30.3 million, cash received from the sale of property, plant and equipment of \$25.7 million and the timing of purchases of and proceeds from the sales or maturities of marketable securities that resulted in an increase in cash flows of \$1,850.5 million.

Net cash flows provided by financing activities in fiscal 2009 totaled \$468.4 million as compared to net cash flows used in financing activities of \$5,270.7 million in fiscal 2008. The increase in net cash flows from financing activities of \$5,739.1 million was due to the net change in the client funds obligations of \$4,365.5 million as a result of timing of cash received and payments made related to client funds obligations, proceeds received from the issuance of commercial paper of \$730.0 million and a decrease in the repurchases of common stock of \$924.4 million. We purchased 13.8 million shares of our common stock at an average price per share of \$39.72 during fiscal 2009 as compared to purchases of 32.9 million shares of our common stock at an average price per share of \$44.44 during fiscal 2008. Such increases in cash flows of financing activities were partially offset by an increase in dividends paid of \$80.5 million and a decrease in the proceeds from stock purchase plan and exercises of stock options of \$157.0 million.

Our U.S. short-term funding requirements related to client funds are sometimes obtained through a short-term commercial paper program, which provides for the issuance of up to \$6.0 billion in aggregate maturity value of commercial paper. Our commercial paper program is rated A-1+ by Standard and Poor's and Prime-1 by Moody's. These ratings denote the highest quality commercial paper securities. Maturities of commercial paper can range from overnight to up to 364 days. At June 30, 2009, we had \$730.0 million in commercial paper outstanding. Such amount was repaid on July 1, 2009. At June 30, 2008, there was no commercial paper outstanding. In fiscal 2009 and 2008, our average borrowings were \$1.9 billion and \$1.4 billion, respectively, at a weighted average interest rate of 1.0% and 4.2%, respectively. The weighted average maturity of our commercial paper was less than two days in both fiscal 2009 and fiscal 2008. Throughout fiscal 2009, we had full access to our U.S. short-term funding requirements related to client funds obligations.

Our U.S. and Canadian short-term funding requirements related to client funds obligations are sometimes obtained on a secured basis through the use of reverse repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight to up to five business days. At June 30, 2009, there were no outstanding obligations under reverse repurchase agreements. At June 30, 2008, we had an \$11.8 million obligation outstanding related to reverse repurchase agreements that matured on July 2, 2008 and was repaid. In fiscal 2009 and 2008, we had average outstanding balances under reverse repurchase agreements of \$425.9 million and \$360.4 million, respectively, at a weighted average interest rate of 1.3% and 3.4%, respectively. We have successfully borrowed through the use of reverse repurchase agreements on an as needed basis to meet short-term funding requirements related to client funds obligations.

In June 2009, we entered into a \$2.25 billion, 364-day credit agreement with a group of lenders. The 364-day facility replaced our prior \$2.25

billion 364-day facility. In addition, we also have a \$1.5 billion credit facility and a \$2.25 billion credit facility that mature in June 2010 and June 2011, respectively. The credit facilities maturing in June 2010 and June 2011 are five-year facilities that contain accordion features under which the aggregate commitments can each be increased by \$500.0 million, subject to the availability of additional commitments. The interest rate applicable to committed borrowings is tied to LIBOR, the federal funds effective rate or the prime rate depending on the notification provided by us to the syndicated financial institutions prior to borrowing. We are also required to pay facility fees on the credit agreements. The primary uses of the credit facilities are to provide liquidity to the commercial paper program and funding for general corporate purposes, if necessary. We had no borrowings through June 30, 2009 under the credit agreements. We believe that we currently meet all conditions set forth in the credit agreements to borrow thereunder and we are not aware of any conditions that would prevent us from borrowing part or all of the \$6.0 billion available to us under the credit agreements.

Our investment portfolio does not contain any asset-backed securities with underlying collateral of sub-prime mortgages, alternative-A mortgages, sub-prime auto loans or home equity loans, collateralized debt obligations, collateralized loan obligations, credit default swaps, asset-backed commercial paper, derivatives, auction rate securities, structured investment vehicles or non-investment-grade fixed-income securities. We own senior tranches of fixed rate credit card, rate reduction, auto loan and other asset-backed securities, secured predominately by prime collateral. All collateral on asset-backed securities is performing as expected. In addition, we own senior debt directly issued by Federal Home Loan Banks, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). We do not own subordinated debt, preferred stock or common stock of any of these agencies. We do own AAA rated mortgage-backed securities, which represent an undivided beneficial ownership interest in a group or pool of one or more residential mortgages. These securities are collateralized by the cash flows of 15-year and 30-year residential mortgages and are guaranteed by Fannie Mae and Freddie Mac as to the timely payment of principal and interest. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering investments out to five years (in the case of the extended portfolio) and out to ten years (in the case of the long portfolio). This investment strategy is supported by our short-term financing arrangements necessary to satisfy short-term funding requirements relating to client funds obligations.

We have an investment in a money market fund called the Reserve Fund. During the quarter ended September 30, 2008, the net asset value of the Reserve Fund decreased below \$1 per share as a result of the full write-off of the Reserve Fund's holdings in debt securities issued by Lehman Brothers Holdings, Inc., which filed for bankruptcy protection on September 15, 2008. The Reserve Fund has suspended redemptions and is in the process of being liquidated. At September 30, 2008, we reclassified \$211.1 million of our investment from cash and cash equivalents to short-term marketable securities on the Consolidated Balance Sheet due to the fact that these assets no longer met the definition of a cash equivalent. Additionally, we have reflected the impact of such reclassification on the Statements of Consolidated Cash Flows for fiscal 2009 as a reclassification from cash equivalents to short-term marketable securities. During fiscal 2009, we recorded an \$18.3 million loss to other income, net, on the Statement of Consolidated Earnings to recognize our pro-rata share of the estimated losses of the Reserve Fund. As of June 30, 2009, we had received approximately \$198.5 million in distributions from the Reserve Fund. Subsequent to the distributions received from the Reserve Fund and the charges recorded during fiscal 2009, we have a remaining balance of \$3.9 million in short-term marketable securities related to the Reserve Fund as of June 30, 2009.

During fiscal 2009, the number of automotive dealerships in the United States to which we provide services has continued to decline primarily due to the consolidation of dealerships and dealerships going out of business. In April 2009, Chrysler LLC ("Chrysler") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code to reorganize its business and subsequently emerged from bankruptcy in June 2009. In June 2009, General Motors Corporation ("GM") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code to reorganize its business and subsequently emerged from bankruptcy in July 2009. We expect the total number of GM and Chrysler dealerships in the United States to decline by about 1,800 over the next 12 to 18 months. Given our share of the market, the impact of these dealership closings to our revenues in Dealer Services is expected to be up to \$50 million on an annualized basis. At June 30, 2009, our notes receivable and accounts receivable balances on the Consolidated Balance Sheets include gross receivables of \$73 million and \$35 million, respectively, due from automobile dealerships that sell GM or Chrysler products in the United States. At June 30, 2009, we do not have any significant amounts due to us directly from GM or Chrysler.

Capital expenditures for continuing operations in fiscal 2009 were \$167.7 million, as compared to \$186.4 million in fiscal 2008 and \$169.7 million in fiscal 2007. The capital expenditures in fiscal 2009 related to our data center and other facility improvements to support our operations. We expect capital expenditures in the year ended June 30, 2010 ("fiscal 2010") to be between \$130 million and \$150 million.

The following table provides a summary of our contractual obligations as of June 30, 2009:

(In millions)

| | Payments due by period | | | | | Total |
|------------------------------|------------------------|--------------|--------------|----------------------|---------|---------|
| | Less than 1 year | 1-3 years | 3-5 years | More than 5 years | Unknown | |
| Contractual Obligations | | | | | | |
| Debt Obligations (1) | \$ 2.8 | \$ 13.3 | \$ 13.3 | \$ 16.1 | \$ - | \$ 45.5 |
| Operating Lease and Software | | | | | | |
| License Obligations (2) | 246.1 | 386.3 | 148.6 | 39.7 | - | 820.7 |

| | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Purchase Obligations (3) | 124.8 | 119.3 | 30.0 | - | - | 274.1 |
| Obligations related to Unrecognized Tax Benefits (4) | - | - | - | - | 92.8 | 92.8 |
| Other long-term liabilities reflected on our Consolidated Balance Sheets: | | | | | | |
| Compensation and Benefits (5) | 55.2 | 108.6 | 78.1 | 146.0 | 11.8 | 399.7 |
| Acquisition-related obligations (6) | 8.0 | - | - | - | - | 8.0 |
| Total | <u>\$ 436.9</u> | <u>\$ 627.5</u> | <u>\$ 270.0</u> | <u>\$ 201.8</u> | <u>\$ 104.6</u> | <u>\$ 1,640.8</u> |

- (1) These amounts represent the principal repayments of our debt and are included on our Consolidated Balance Sheets. See Note 12 to the consolidated financial statements for additional information about our debt and related matters. The estimated interest payments due by corresponding period above are \$1.5 million, \$3.0 million, \$2.9 million, and \$5.8 million, respectively, which have been excluded.
- (2) Included in these amounts are various facilities and equipment leases and software license agreements. We enter into operating leases in the normal course of business relating to facilities and equipment, as well as the licensing of software. The majority of our lease agreements have fixed payment terms based on the passage of time. Certain facility and equipment leases require payment of maintenance and real estate taxes and contain escalation provisions based on future adjustments in price indices. Our future operating lease obligations could change if we exit certain contracts or if we enter into additional operating lease agreements.
- (3) Purchase obligations primarily relate to purchase and maintenance agreements on our software, equipment and other assets.
- (4) We made the determination that net cash payments expected to be paid within the next 12 months, related to unrecognized tax benefits of \$92.8 million at June 30, 2009, are expected to be zero. We are unable to make reasonably reliable estimates as to the period beyond the next 12 months in which cash payments related to unrecognized tax benefits are expected to be paid.
- (5) Compensation and benefits primarily relates to amounts associated with our employee benefit plans and other compensation arrangements.
- (6) Acquisition-related obligations relate to contingent consideration for business acquisitions for which the amount of contingent consideration was determinable at the date of acquisition and therefore included on the Consolidated Balance Sheet as a liability.

In addition to the obligations quantified in the table above, we had obligations for the remittance of funds relating to our payroll and payroll tax filing services. As of June 30, 2009, the obligations relating to these matters, which are expected to be paid in fiscal 2010, total \$15,992.6 million and were recorded in client funds obligations on our Consolidated Balance Sheets. We had \$16,419.2 million of cash and marketable securities that have been impounded from our clients to satisfy such obligations recorded in funds held for clients on our Consolidated Balance Sheets as of June 30, 2009.

The Company's wholly-owned subsidiary, ADP Indemnity, Inc., provides workers' compensation and employer liability insurance coverage for our PEO worksite employees. We have secured specific per occurrence and aggregate stop loss reinsurance from third-party carriers that cap losses that reach a certain level in each policy year. We utilize historical loss experience and actuarial judgment to determine the estimated claim liability for the PEO business. In fiscal 2009 and 2008, the net premium was \$60.8 million and \$51.4 million, respectively. In fiscal 2009 and 2008, we paid claims of \$43.6 million and \$38.1 million, respectively. At June 30, 2009, our cash and marketable securities included balances totaling approximately \$181.6 million to cover the actuarially-estimated cost of workers' compensation claims for the policy years that the PEO worksite employees were covered by ADP Indemnity, Inc.

In the normal course of business, we also enter into contracts in which we make representations and warranties that relate to the performance of our services and products. We do not expect any material losses related to such representations and warranties.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our overall investment portfolio is comprised of corporate investments (cash and cash equivalents, short-term marketable securities, and long-term marketable securities) and client funds assets (funds that have been collected from clients but not yet remitted to the applicable tax authorities or client employees).

Our corporate investments are invested in cash equivalents and highly liquid, investment-grade securities. These assets are available for repurchases of common stock for treasury and/or acquisitions, as well as other corporate operating purposes. All of our short-term and long-term fixed-income securities are classified as available-for-sale securities.

Our client funds assets are invested with safety of principal, liquidity, and diversification as the primary goals. Consistent with those goals, we also seek to maximize interest income and to minimize the volatility of interest income. Client funds assets are invested in highly liquid, investment-grade marketable securities with a maximum maturity of 10 years at time of purchase and money market securities and other cash equivalents. At June 30, 2009, approximately 85% of the available-for-sale securities categorized as U.S. Treasury and direct obligations of U.S. government agencies were invested in senior, unsecured, non-callable debt directly issued by the Federal Home Loan Banks, Fannie Mae and Freddie Mac.

We utilize a strategy by which we extend the maturities of our investment portfolio for funds held for clients and employ short-term financing arrangements to satisfy our short-term funding requirements related to client funds obligations. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering investments out to five years (in the case of the extended portfolio) and out to ten years (in the case of the long portfolio). As part of our client funds investment strategy, we use the daily collection of funds from our clients to satisfy other unrelated client fund obligations, rather than liquidating previously-collected client funds that have already been invested in available-for-sale securities. We minimize the risk of not having funds collected from a client available at the time such client's obligation becomes due by impounding, in virtually all instances, the client's funds in advance of the timing of payment of such client's obligation. As a result of this practice, we have consistently maintained the required level of client fund assets to satisfy all of our client funds obligations.

There are inherent risks and uncertainties involving our investment strategy relating to our client fund assets. Such risks include liquidity risk, including the risk associated with our ability to liquidate, if necessary, our available-for-sale securities in a timely manner in order to satisfy our client funds obligations. However, our investments are made with the safety of principal, liquidity and diversification as the primary goals to minimize the risk of not having sufficient funds to satisfy all of our client funds obligations. We also believe we have significantly reduced the risk of not having sufficient funds to satisfy our client funds obligations by consistently maintaining access to other sources of liquidity, including our corporate cash balances, available borrowings under our \$6 billion commercial paper program (rated A-1+ by Standard and Poor's and Prime-1 by Moody's, the highest possible credit rating), our ability to execute reverse repurchase transactions and available borrowings under our \$6 billion committed revolving credit facilities. However, the availability of financing during periods of economic turmoil, even to borrowers with the highest credit ratings, may limit our flexibility to access short-term debt markets to meet the liquidity needs of our business. In addition to liquidity risk, our investments are subject to interest rate risk and credit risk, as discussed below.

We have established credit quality, maturity, and exposure limits for our investments. The minimum allowed credit rating at time of purchase for corporate bonds is BBB and for asset-backed and commercial mortgage-backed securities is AAA. The maximum maturity at time of purchase for BBB rated securities is 5 years, for single A rated securities is 7 years, and for AA rated and AAA rated securities is 10 years. Commercial paper must be rated A1/P1 and, for time deposits, banks must have a Financial Strength Rating of C or better.

Details regarding our overall investment portfolio are as follows:

(Dollars in millions)

| Years ended June 30, | 2009 | 2008 | 2007 |
|---|--------------------|--------------------|--------------------|
| Average investment balances at cost: | | | |
| Corporate investments | \$ 3,744.7 | \$ 3,387.0 | \$ 3,556.8 |
| Funds held for clients | 15,162.4 | 15,654.3 | 14,682.9 |
| Total | \$ 18,907.1 | \$ 19,041.3 | \$ 18,239.7 |
| Average interest rates earned exclusive of realized gains/(losses) on: | | | |
| Corporate investments | 3.6% | 4.4% | 4.6% |
| Funds held for clients | 4.0% | 4.4% | 4.5% |
| Total | 3.9% | 4.4% | 4.5% |
| Realized gains on available-for-sale securities | \$ 11.4 | \$ 10.1 | \$ 20.8 |
| Realized losses on available-for-sale securities | (23.8) | (11.4) | (12.5) |
| Net realized (losses)/gains on available-for-sale securities | \$ (12.4) | \$ (1.3) | \$ 8.3 |

As of June 30:

| | | | |
|---|--------------------|--------------------|--------------------|
| Net unrealized pre-tax gains/(losses) on available-for-sale securities | \$ 436.6 | \$ 142.1 | \$ (184.9) |
| Total available-for-sale securities at fair value | \$ 14,730.2 | \$ 15,066.4 | \$ 13,369.4 |

Our laddering strategy exposes us to interest rate risk in relation to securities that mature, as the proceeds from maturing securities are reinvested. Factors that influence the earnings impact of the interest rate changes include, among others, the amount of invested funds and the overall portfolio mix between short-term and long-term investments. This mix varies during the fiscal year and is impacted by daily interest rate changes. The annualized interest rates earned on our entire portfolio decreased by 50 basis points, from 4.4% for fiscal 2008 to 3.9% for fiscal 2009. A hypothetical change in both short-term interest rates (e.g., overnight interest rates or the federal funds rate) and intermediate-term interest rates of 25 basis points applied to the estimated average investment balances and any related short-term borrowings would result in approximately a \$6 million impact to earnings before income taxes over the ensuing twelve-month period ending June 30, 2010. A hypothetical change in only short-term interest rates of 25 basis points applied to the estimated average short-term investment balances and any related short-term borrowings would result in approximately a \$3 million impact to earnings before income taxes over the ensuing twelve-month period ending June 30, 2010.

We are exposed to credit risk in connection with our available-for-sale securities through the possible inability of the borrowers to meet the terms of the securities. We limit credit risk by investing in investment-grade securities, primarily AAA and AA rated securities, as rated by Moody's, Standard & Poor's, and for Canadian securities, Dominion Bond Rating Service. At June 30, 2009, approximately 83% of our available-for-sale securities held an AAA or AA rating. In addition, we limit amounts that can be invested in any security other than US and Canadian government or government agency securities.

We are exposed to market risk from changes in foreign currency exchange rates that could impact our financial position, results of operations and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We use derivative financial instruments as risk management tools and not for trading purposes. There were no derivative financial instruments outstanding at June 30, 2009 or 2008.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued including the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. On June 30, 2009, we adopted SFAS No. 165 and the adoption did not have a material impact on our results of operations, cash flows or financial condition.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for determining the fair value of assets and liabilities when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate an observed transaction used to determine fair value is not orderly and, therefore, is not indicative of fair value. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. On April 1, 2009, we adopted FSP FAS 157-4 and the adoption did not have a material impact on our results of operations, cash flows or financial condition.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"). FSP FAS 115-2 and FAS 124-2 changes the method for determining whether an other-than-temporary impairment exists for debt securities by requiring a company to assess whether it is probable that it will not be able to recover the cost basis of a security utilizing several factors, including the length of time and the extent to which fair value has been less than the cost basis, adverse conditions related to a particular security and volatility of a particular security. FSP FAS 115-2 and FAS 124-2 also requires that an other-than-temporary impairment charge for debt securities be recorded in earnings if it is more-likely-than-not that the entity will sell or be required to sell a debt security before anticipated recovery of the cost basis. In addition, if any portion of a decline in fair value below the cost basis of a security is related to credit losses, such amount should be recorded in earnings. Lastly, FSP FAS 115-2 and FAS 124-2 expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities to all interim and annual periods. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. On April 1, 2009, we adopted FSP FAS 115-2 and FAS 124-2 and the adoption did not have a material impact on our results of operations, cash flows or financial condition.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 increases the frequency of certain fair value disclosures from annual to quarterly. Such disclosures include the fair value of all financial instruments within the scope of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," as well as the methods and significant assumptions used to estimate fair value. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009. On April 1, 2009, we adopted FSP FAS 107-1 and APB 28-1 and the adoption did not have a material impact on our results of operations, cash flows or financial condition.

In December 2008, the FASB issued FSP FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets” (“FSP FAS 132(R)-1”). FSP FAS 132(R)-1 requires additional disclosures in relation to plan assets of defined benefit pension or other postretirement plans. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 with early application permitted. We do not anticipate the adoption of this FSP will have a material impact on our results of operations, cash flows or financial condition.

In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities” (“FSP EITF 03-6-1”). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Upon adoption, companies are required to retrospectively adjust earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to provisions of FSP EITF 03-6-1. We determined the adoption of FSP EITF 03-6-1 will not have a material impact on our results of operations or financial condition.

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In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets”. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact that the adoption of FSP FAS 142-3 will have on our results of operations, cash flows or financial condition.

In December 2007, the FASB issued Statement No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). SFAS No. 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any controlling interest in the business and the goodwill acquired. SFAS No. 141R further requires that acquisition-related costs and costs associated with restructuring or exiting activities of an acquired entity will be expensed as incurred. SFAS No. 141R also establishes disclosure requirements that will require disclosure on the nature and financial effects of the business combination. Additionally, in April 2009, the FASB issued FSP FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP FAS 141(R)-1”). FSP FAS 141(R)-1 amends and clarifies SFAS No. 141R to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS 141R and FSP FAS 141(R)-1 will impact business combinations that may be completed by the Company on or after July 1, 2009. We do not know if the adoption of SFAS No. 141R and FSP FAS 141(R)-1 will have a material impact on our results of operations and financial condition as the impact depends solely on whether we complete any business combinations after July 1, 2009 and the terms of such transactions.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, for which the effective date is fiscal years beginning after November 15, 2008. On July 1, 2008, we adopted SFAS No. 157 for assets and liabilities recognized or disclosed at fair value on a recurring basis. The adoption of SFAS No. 157 did not have an impact on our consolidated results of operations, cash flows or financial condition. We will adopt SFAS No. 157 for non-financial assets that are recognized or disclosed on a non-recurring basis on July 1, 2009 and do not anticipate it will have a material impact on our results of operations, cash flows or financial condition.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed below.

Revenue Recognition . Our revenues are primarily attributable to fees for providing services (*e.g.* , Employer Services’ payroll processing fees) as well as investment income on payroll funds, payroll tax filing funds and other Employer Services’ client-related funds. We enter into agreements for a fixed fee per transaction (*e.g.* , number of payees or number of payrolls processed). Fees associated with services are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectibility is reasonably assured. Our service fees are determined based on written price quotations or service agreements having stipulated terms and conditions that do not require management to make any significant judgments or assumptions regarding any potential uncertainties. Interest income on collected but not yet remitted funds held for clients is recognized in revenues as earned, as the collection, holding and remittance of these funds are critical components of providing these services.

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We also recognize revenues associated with the sale of software systems and associated software licenses (e.g. Dealer Services' dealer management systems). For a majority of our software sales arrangements, which provide hardware, software licenses, installation and post-contract customer support, revenues are recognized ratably over the software license term as vendor-specific objective evidence of the fair values of the individual elements in the sales arrangement does not exist. Changes to the elements in an arrangement and the ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition.

We assess collectibility of our revenues based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history. We do not believe that a change in our assumptions utilized in the collectibility determination would result in a material change to revenues as no single customer accounts for a significant portion of our revenues.

Goodwill. We account for goodwill and other intangible assets with indefinite useful lives in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which states that goodwill and intangible assets with indefinite useful lives should not be amortized, but instead tested for impairment at least annually at the reporting unit level. We perform this impairment test by first comparing the fair value of our reporting units to their carrying amount. If an indicator of impairment exists based upon comparing the fair value of our reporting units to their carrying amount, we would then compare the implied fair value of our goodwill to the carrying amount in order to determine the amount of the impairment, if any. We use discounted cash flows to determine fair values. We had \$2,375.5 million of goodwill as of June 30, 2009. Given the significance of our goodwill, an adverse change to the fair value could result in an impairment charge, which could be material to our consolidated earnings.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns (e.g., realization of deferred tax assets, changes in tax laws or interpretations thereof). In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact our consolidated financial statements.

The Company accounts for tax positions taken or expected to be taken in a tax return in accordance with the provisions of FIN 48, which was adopted by the Company on July 1, 2007. FIN 48 prescribes a financial statement recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. Specifically, it clarifies that an entity's tax benefits must be "more likely than not" of being sustained assuming that those positions will be examined by taxing authorities with full knowledge of all relevant information prior to recording the related tax benefit in the financial statements. If a tax position drops below the "more likely than not" standard, the benefit can no longer be recognized. Assumptions, judgment and the use of estimates are required in determining if the "more likely than not" standard has been met when developing the provision for income taxes. A change in the assessment of the "more likely than not" standard could materially impact our consolidated financial statements. As of June 30, 2009 and 2008, the Company's liabilities for unrecognized tax benefits, which include interest and penalties, were \$92.8 million and \$404.2 million, respectively.

If certain pending tax matters settle within the next twelve months, the total amount of unrecognized tax benefits may increase or decrease for all open tax years and jurisdictions. Based on current estimates, settlements related to various jurisdictions and tax periods could increase earnings up to \$20.5 million in the next twelve months. We do not expect any cash payments related to unrecognized tax benefits in the next twelve months. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Stock-Based Compensation. SFAS No. 123R requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. We determine the fair value of stock options issued by using a binomial option-pricing model. The binomial option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial option-pricing model are based on a combination of implied market volatilities, historical volatility of our stock price and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The binomial option-pricing model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock option grants is derived from the output of the binomial model and represents the period of time that options granted are expected to be outstanding. Determining these assumptions is subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of our stock options.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information called for by this item is provided under the caption "Quantitative and Qualitative Disclosures About Market Risk" under "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Automatic Data Processing, Inc.
Roseland, New Jersey

We have audited the accompanying consolidated balance sheets of Automatic Data Processing, Inc. and subsidiaries (the "Company") as of June 30, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2009. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a) 2. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Automatic Data Processing, Inc. and subsidiaries as of June 30, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 15 to the consolidated financial statements, the company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109," effective July 1, 2007. As discussed in Note 14 to the consolidated financial statements, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)," effective June 30, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 28, 2009, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
August 28, 2009

Statements of Consolidated Earnings

(In millions, except per share amounts)

| Years ended June 30, | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| REVENUES: | | | |
| Revenues, other than interest on funds held for clients and PEO revenues | \$ 7,080.4 | \$ 7,038.9 | \$ 6,267.4 |
| Interest on funds held for clients | 609.8 | 684.5 | 653.6 |
| PEO revenues (A) | 1,176.9 | 1,053.1 | 879.0 |
| TOTAL REVENUES | 8,867.1 | 8,776.5 | 7,800.0 |
| EXPENSES: | | | |
| Costs of revenues | | | |
| Operating expenses | 4,102.0 | 3,915.7 | 3,392.3 |
| Systems development and programming costs | 499.7 | 525.9 | 486.1 |
| Depreciation and amortization | 237.8 | 238.5 | 208.9 |
| TOTAL COSTS OF REVENUES | 4,839.5 | 4,680.1 | 4,087.3 |

| | | | |
|---|-------------------|-------------------|-------------------|
| Selling, general and administrative expenses | 2,197.6 | 2,370.4 | 2,206.2 |
| Interest expense | 33.3 | 80.5 | 94.9 |
| TOTAL EXPENSES | 7,070.4 | 7,131.0 | 6,388.4 |
| Other income, net | (108.0) | (166.5) | (211.9) |
| EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 1,904.7 | 1,812.0 | 1,623.5 |
| Provision for income taxes | 576.5 | 650.3 | 602.3 |
| NET EARNINGS FROM CONTINUING OPERATIONS | 1,328.2 | 1,161.7 | 1,021.2 |
| Earnings from discontinued operations, net of (benefit) provision for income taxes of \$(0.8), \$23.2 and \$110.6 for the fiscal years ended June 30, 2009, 2008 and 2007, respectively | 4.4 | 74.0 | 117.5 |
| NET EARNINGS | \$ 1,332.6 | \$ 1,235.7 | \$ 1,138.7 |
| Basic earnings per share from continuing operations | \$ 2.64 | \$ 2.23 | \$ 1.86 |
| Basic earnings per share from discontinued operations | 0.01 | 0.14 | 0.21 |
| BASIC EARNINGS PER SHARE | \$ 2.65 | \$ 2.37 | \$ 2.07 |
| Diluted earnings per share from continuing operations | \$ 2.63 | \$ 2.20 | \$ 1.83 |
| Diluted earnings per share from discontinued operations | 0.01 | 0.14 | 0.21 |
| DILUTED EARNINGS PER SHARE | \$ 2.63 | \$ 2.34 | \$ 2.04 |
| Basic weighted average shares outstanding | 503.2 | 521.5 | 549.7 |
| Diluted weighted average shares outstanding | 505.8 | 527.2 | 557.9 |

(A) Professional Employer Organization (“PEO”) revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of \$12,310.4, \$11,247.4 and \$9,082.5, respectively.

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In millions, except per share amounts)

| June 30, | 2009 | 2008 |
|--|------------|----------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,265.3 | \$ 917.5 |
| Short-term marketable securities | 30.8 | 666.3 |
| Accounts receivable, net | 1,055.4 | 1,034.6 |
| Other current assets | 921.1 | 771.6 |
| Assets held for sale | 12.1 | - |
| Total current assets before funds held for clients | 4,284.7 | 3,390.0 |
| Funds held for clients | 16,419.2 | 15,418.9 |
| Total current assets | 20,703.9 | 18,808.9 |
| Long-term marketable securities (A) | 92.4 | 76.5 |
| Long-term receivables, net | 162.6 | 234.0 |
| Property, plant and equipment, net | 734.5 | 742.9 |

| | | | | | | | | |
|--|-------|---------|----------|------|-------------|--------------|-------------------|-----------|
| Net earnings | - | - | - | - | 1,138.7 | - | \$ 1,138.7 | - |
| Foreign currency translation adjustments | | | | | | | 76.4 | 76.4 |
| Unrealized net gain on securities, net of tax | | | | | | | 81.9 | 81.9 |
| Minimum pension liability adjustment, net of tax | | | | | | | (2.3) | (2.3) |
| Comprehensive income | | | | | | | <u>\$ 1,294.7</u> | |
| Stock-based compensation expense | - | - | 148.7 | - | - | - | | - |
| Issuances relating to stock compensation plans | - | - | 25.6 | - | - | 464.4 | | |
| Tax benefits from stock compensation plans | - | - | 29.8 | - | - | - | | - |
| Treasury stock acquired (40.2 shares) | - | - | - | - | - | (1,920.3) | | - |
| Adoption of Staff Accounting Bulletin No. 108, net of tax | - | - | (3.2) | - | 44.3 | - | | - |
| Brokerage Services Group spin-off | - | - | - | - | (1,125.2) | - | | - |
| Brokerage Services Group dividend | - | - | - | - | 690.0 | - | | - |
| Debt conversion (1.1 shares) | - | - | (6.5) | - | - | 37.8 | | - |
| Dividends (\$0.8750 per share) | - | - | - | - | (480.7) | - | | - |
| Balance at June 30, 2007 | 638.7 | \$ 63.9 | \$ 351.8 | \$ - | \$ 9,378.5 | \$ (4,612.9) | | \$ (33.4) |
| Net earnings | - | - | - | - | 1,235.7 | - | \$ 1,235.7 | - |
| Foreign currency translation adjustments | | | | | | | 127.9 | 127.9 |
| Unrealized net gain on securities, net of tax | | | | | | | 209.7 | 209.7 |
| Pension liability adjustment, net of tax | | | | | | | (28.0) | (28.0) |
| Comprehensive income | | | | | | | <u>\$ 1,545.3</u> | |
| Stock-based compensation expense | - | - | 123.6 | - | - | - | | - |
| Issuances relating to stock compensation plans | - | - | (29.5) | - | - | 271.7 | | |
| Tax benefits from stock compensation plans | - | - | 34.0 | - | - | - | | - |
| Treasury stock acquired (32.9 shares) | - | - | - | - | - | (1,463.5) | | - |
| Adoption of Financial Accounting Standards Board Interpretation No. 48 | - | - | - | - | (11.7) | - | | - |
| Tax basis adjustment related to pooling of interest (see Note 14) | - | - | 42.1 | - | - | - | | - |
| Dividends (\$1.1000 per share) | - | - | - | - | (572.7) | - | | - |
| Balance at June 30, 2008 | 638.7 | \$ 63.9 | \$ 522.0 | \$ - | \$ 10,029.8 | \$ (5,804.7) | | \$ 276.2 |
| Net earnings | - | - | - | - | 1,332.6 | - | \$ 1,332.6 | - |
| Foreign currency translation adjustments | | | | | | | (192.1) | (192.1) |
| Unrealized net gain on securities, net of tax | | | | | | | 191.1 | 191.1 |
| Pension liability adjustment, net of tax | | | | | | | (119.2) | (119.2) |
| Comprehensive income | | | | | | | <u>\$ 1,212.4</u> | |
| Stock-based compensation expense | - | - | 96.0 | - | - | - | | - |
| Issuances relating to stock compensation plans | - | - | (105.8) | - | - | 219.7 | | - |
| Tax benefits from stock compensation plans | - | - | 7.8 | - | - | - | | - |
| Treasury stock acquired (13.8 shares) | - | - | - | - | - | (548.9) | | - |
| Dividends (\$1.2800 per share) | - | - | - | - | (645.8) | - | | - |
| Balance at June 30, 2009 | 638.7 | \$ 63.9 | \$ 520.0 | \$ - | \$ 10,716.6 | \$ (6,133.9) | | \$ 156.0 |

See notes to consolidated financial statements.

| Years ended June 30, | 2009 | 2008 | 2007 |
|---|------------|------------|------------|
| Cash Flows From Operating Activities | | | |
| Net earnings | \$ 1,332.6 | \$ 1,235.7 | \$ 1,138.7 |
| Adjustments to reconcile net earnings to cash flows provided by operating activities: | | | |
| Gain on sale of cost-based investment | - | - | (38.6) |
| Gain on sale of building | (2.2) | (16.0) | - |
| Depreciation and amortization | 308.1 | 319.1 | 288.8 |
| Deferred income taxes | (47.9) | (92.7) | 15.1 |
| Excess tax benefit related to exercises of stock options | (1.5) | (0.7) | (0.2) |
| Stock-based compensation expense | 96.0 | 123.6 | 130.5 |
| Net pension expense | 33.8 | 40.0 | 40.3 |
| Net realized loss (gain) from the sales of marketable securities | 12.4 | 1.3 | (8.3) |
| Net amortization of premiums and accretion of discounts on available-for-sale securities | 58.3 | 42.7 | 40.5 |
| Gain on sale of discontinued businesses, net of tax | (4.4) | (74.0) | (20.9) |
| Other | 36.1 | 100.6 | 40.8 |
| Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses: | | | |
| (Increase) decrease in accounts receivable | (149.7) | 34.2 | (255.6) |
| (Increase) in other assets | (85.7) | (40.5) | (88.0) |
| (Decrease) increase in accounts payable | (9.7) | 9.7 | (1.5) |
| (Decrease) increase in accrued expenses and other liabilities | (13.6) | 89.2 | (43.3) |
| Operating activities of discontinued operations | - | - | 59.7 |
| Net cash flows provided by operating activities | 1,562.6 | 1,772.2 | 1,298.0 |
| Cash Flows From Investing Activities | | | |
| Purchases of corporate and client funds marketable securities | (2,736.5) | (6,407.2) | (4,449.1) |
| Proceeds from the sales and maturities of corporate and client funds marketable securities | 3,320.4 | 5,140.6 | 4,840.0 |
| Net (increase) decrease in restricted cash and cash equivalents and other restricted assets held to satisfy client funds obligations | (731.7) | 4,119.6 | (598.0) |
| Capital expenditures | (157.9) | (181.0) | (172.8) |
| Additions to intangibles | (96.0) | (96.6) | (150.0) |
| Acquisitions of businesses, net of cash acquired | (67.0) | (97.3) | (446.9) |
| Reclassification from cash and cash equivalents to short-term marketable securities | (211.1) | - | - |
| Proceeds from the sale of cost-based investment | - | - | 38.6 |
| Dividend received from Broadridge Financial Solutions, Inc., net of \$29.9 million in cash retained by Broadridge Financial Solutions, Inc. | - | - | 660.1 |
| Proceeds from the sale of property, plant and equipment | 25.7 | - | - |
| Proceeds from the sale of businesses included in discontinued operations, net of cash divested | - | 112.4 | 17.2 |
| Other | 10.0 | 23.4 | 14.5 |
| Investing activities of discontinued operations | - | - | (30.5) |
| Net cash flows (used in) provided by investing activities | (644.1) | 2,613.9 | (276.9) |
| Cash Flows From Financing Activities | | | |
| Net increase (decrease) in client funds obligations | 885.2 | (3,480.3) | 707.7 |
| Proceeds from issuance of debt | 12.5 | 21.2 | 0.6 |
| Payments of debt | (21.9) | (10.1) | (1.8) |
| Repurchases of common stock | (580.4) | (1,504.8) | (1,900.4) |
| Proceeds from stock purchase plan and exercises of stock options | 82.7 | 239.7 | 344.2 |
| Excess tax benefit related to exercises of stock options | 1.5 | 0.7 | 0.2 |
| Dividends paid | (629.4) | (548.9) | (461.3) |
| Net (purchases of) proceeds from reverse repurchase agreements | (11.8) | 11.8 | - |
| Net proceeds from issuance of commercial paper | 730.0 | - | - |
| Financing activities of discontinued operations | - | - | 134.1 |
| Net cash flows provided by (used in) financing activities | 468.4 | (5,270.7) | (1,176.7) |
| Effect of exchange rate changes on cash and cash equivalents | (39.1) | 41.3 | 15.7 |
| Net change in cash and cash equivalents | 1,347.8 | (843.3) | (139.9) |
| Cash and cash equivalents of continuing operations, beginning of year | 917.5 | 1,746.1 | 1,800.1 |
| Cash and cash equivalents of discontinued operations, beginning of year | - | 14.7 | 100.6 |
| Cash and cash equivalents, end of year | 2,265.3 | 917.5 | 1,760.8 |

| | | | |
|--|------------|----------|------------|
| Less cash and cash equivalents of discontinued operations, end of year | - | - | 14.7 |
| Cash and cash equivalents of continuing operations, end of year | \$ 2,265.3 | \$ 917.5 | \$ 1,746.1 |

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollars in millions, except per share amounts)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Consolidation and Basis of Preparation. The consolidated financial statements include the financial results of Automatic Data Processing, Inc. and its majority-owned subsidiaries (the “Company” or “ADP”). Intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

B. Description of Business. The Company is a provider of technology-based outsourcing solutions to employers and vehicle retailers and manufacturers. The Company classifies its operations into the following reportable segments: Employer Services, Professional Employer Organization (“PEO”) Services, and Dealer Services. The primary components of the “Other” segment are miscellaneous processing services, such as customer financing transactions, non-recurring gains and losses and certain expenses that have not been charged to the reportable segments, such as stock-based compensation expense.

C. Revenue Recognition. Revenues are primarily attributable to fees for providing services (e.g., Employer Services’ payroll processing fees) as well as investment income on payroll funds, payroll tax filing funds and other Employer Services’ client-related funds. The Company enters into agreements for a fixed fee per transaction (e.g., number of payees or number of payrolls processed). Fees associated with services are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectibility is reasonably assured. Service fees are determined based on written price quotations or service agreements having stipulated terms and conditions that do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

Interest income on collected but not yet remitted funds held for clients is recognized in revenues as earned, as the collection, holding and remittance of these funds are critical components of providing these services.

The Company also recognizes revenues associated with the sale of software systems and associated software licenses (e.g., Dealer Services’ dealer management systems). For a majority of our software sales arrangements, which provide hardware, software licenses, installation and post-contract customer support, revenues are recognized ratably over the software license term as vendor-specific objective evidence of the fair values of the individual elements in the sales arrangement does not exist.

The Company assesses collectibility of our revenues based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer’s payment history.

PEO revenues are reported on the Statements of Consolidated Earnings and are reported net of direct pass-through costs, which are costs billed and incurred for PEO worksite employees, primarily consisting of payroll wages and payroll taxes. Benefits, workers’ compensation and state unemployment tax fees for PEO worksite employees are included in PEO revenues and the associated costs are included in operating expenses.

D. Cash and Cash Equivalents. Investment securities with a maturity of ninety days or less at the time of purchase are considered cash equivalents. The fair value of our cash and cash equivalents approximates carrying value.

E. Corporate Investments and Funds Held for Clients. All of the Company’s marketable securities are considered to be “available-for-sale” and, accordingly, are carried on the Consolidated Balance Sheets at fair value. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) on the Consolidated Balance Sheets until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis and are included in other income, net on the Statements of Consolidated Earnings.

If the fair value of an available-for-sale debt security is below its amortized cost, the Company assesses whether it intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery. If either of those two conditions is met, the Company would recognize a charge in earnings equal to the entire difference between the security’s amortized cost basis and its fair value. If the Company

does not intend to sell a security or it is not more likely than not that it will be required to sell the security before recovery, the unrealized loss is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in accumulated other comprehensive income (loss).

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

F. Long-term Receivables. Long-term receivables relate to notes receivable from the sale of computer systems, primarily to automotive, heavy truck and powersports and truck dealers. Unearned income from finance receivables represents the excess of gross receivables over the sales price of the computer systems financed. Unearned income is amortized using the effective-interest method to maintain a constant rate of return over the term of each contract.

The allowance for doubtful accounts on long-term receivables is the Company's best estimate of the amount of probable credit losses related to the Company's existing note receivables.

G. Property, Plant and Equipment. Property, plant and equipment is stated at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful lives of the improvements. The estimated useful lives of assets are primarily as follows:

| | |
|---------------------------|----------------|
| Data processing equipment | 2 to 5 years |
| Buildings | 20 to 40 years |
| Furniture and fixtures | 3 to 7 years |

H. Goodwill and Other Intangible Assets. The Company accounts for goodwill and other intangible assets with indefinite useful lives in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which states that goodwill and intangible assets with indefinite useful lives should not be amortized, but instead tested for impairment at least annually at the reporting unit level. The Company performs this impairment test by first comparing the fair value of our reporting units to their carrying amount. If an indicator of impairment exists based upon comparing the fair value of our reporting units to their carrying amount, the Company would then compare the implied fair value of our goodwill to the carrying amount in order to determine the amount of the impairment, if any. The Company uses discounted cash flows to determine fair values.

I. Impairment of Long-Lived Assets. In accordance with SFAS No. 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

J. Foreign Currency Translation. The net assets of the Company's foreign subsidiaries are translated into U.S. dollars based on exchange rates in effect for each period, and revenues and expenses are translated at average exchange rates in the periods. Gains or losses from balance sheet translation are included in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. Currency transaction gains or losses, which are included in the results of operations, are immaterial for all periods presented.

K. Derivative Financial Instruments. Derivative financial instruments are measured at fair value and are recognized as assets or liabilities on the Consolidated Balance Sheets with changes in the fair value of the derivatives recognized in either net earnings from continuing operations or accumulated other comprehensive income (loss), depending on the timing and designated purpose of the derivative, in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities."

There were no derivative financial instruments outstanding at June 30, 2009 or June 30, 2008.

L. Earnings per Share ("EPS"). The calculations of basic and diluted EPS are as follows:

| Years ended June 30, | Basic | Effect of Zero Coupon Subordinated Notes | Effect of Employee Stock Option Shares | Effect of Employee Stock Purchase Plan Shares | Effect of Employee Restricted Stock Shares | Diluted |
|----------------------|-------|---|---|--|---|---------|
|----------------------|-------|---|---|--|---|---------|

| 2009 | | | | | | | | | | |
|---|------------|----|---|----|-----|----|---|----|-----|------------|
| Net earnings from continuing operations | \$ 1,328.2 | \$ | - | \$ | - | \$ | - | \$ | - | \$ 1,328.2 |
| Weighted average shares (in millions) | 503.2 | | | | 1.2 | | - | | 1.4 | 505.8 |
| EPS from continuing operations | \$ 2.64 | | | | | | | | | \$ 2.63 |

| 2008 | | | | | | | | | | |
|---|------------|----|---|----|-----|----|-----|----|-----|------------|
| Net earnings from continuing operations | \$ 1,161.7 | \$ | - | \$ | - | \$ | - | \$ | - | \$ 1,161.7 |
| Weighted average shares (in millions) | 521.5 | | | | 4.3 | | 0.3 | | 1.1 | 527.2 |
| EPS from continuing operations | \$ 2.23 | | | | | | | | | \$ 2.20 |

| 2007 | | | | | | | | | | |
|---|------------|----|-----|----|-----|----|-----|----|-----|------------|
| Net earnings from continuing operations | \$ 1,021.2 | \$ | 1.1 | \$ | - | \$ | - | \$ | - | \$ 1,022.3 |
| Weighted average shares (in millions) | 549.7 | | 0.8 | | 4.8 | | 1.0 | | 1.6 | 557.9 |
| EPS from continuing operations | \$ 1.86 | | | | | | | | | \$ 1.83 |

Options to purchase 32.9 million, 12.6 million, and 16.9 million shares of common stock for fiscal 2009, 2008 and 2007, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices exceeded the average market price of outstanding common shares for the respective fiscal year.

M. Stock-Based Compensation. The Company accounts for stock-based compensation under SFAS No. 123R, "Share-Based Payment," which requires stock-based compensation expense to be recognized in net earnings based on the fair value of the award on the date of the grant. The Company determines the fair value of stock options issued using a binomial option-pricing model. The binomial option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial option-pricing model are based on a combination of implied market volatilities, historical volatility of the Company's stock price and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The binomial option-pricing model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of a stock option grant is derived from the output of the binomial model and represents the period of time that options granted are expected to be outstanding.

N. Internal Use Software. Expenditures for major software purchases and software developed or obtained for internal use are capitalized and amortized over a three- to five-year period on a straight-line basis. For software developed or obtained for internal use, the Company capitalizes costs in accordance with the provisions of Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company's policy provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal use computer software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred. The Company also expenses internal costs related to minor upgrades and enhancements, as it is impractical to separate these costs from normal maintenance activities.

O. Computer Software to be Sold, Leased or Otherwise Marketed. The Company capitalizes certain costs of computer software to be sold, leased or otherwise marketed in accordance with the provisions of SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." The Company's policy provides for the capitalization of all software production costs upon reaching technological feasibility for a specific product. Technological feasibility is attained when software products have a completed working model whose consistency with the overall product design has been confirmed by testing. Costs incurred prior to the establishment of technological feasibility are expensed as incurred. The establishment of technological feasibility requires judgment by management and in many instances is only attained a short time prior to the general release of the software. Upon the general release of the software product to customers, capitalization ceases and such costs are amortized over a three-year period on a straight-line basis. Maintenance-related costs are expensed as incurred.

P. Income Taxes. The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company is subject to the continuous examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities.

The Company accounts for tax positions taken or expected to be taken in a tax return in accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), which was adopted by the Company on July 1, 2007. As a result of the adoption, the Company recorded a net decrease to retained earnings of \$11.7 million, as well as a corresponding increase to other liabilities on the Consolidated Balance Sheets. FIN 48 prescribes a financial statement recognition threshold and measurement attribute for tax positions taken or expected to be

taken in a tax return. Specifically, it clarifies that an entity's tax benefits must be "more likely than not" of being sustained assuming that these positions will be examined by taxing authorities with full knowledge of all relevant information prior to recording the related tax benefit in the financial statements. If a tax position drops below the "more likely than not" standard, the benefit can no longer be recognized. Assumptions, judgment and the use of estimates are required in determining if the "more likely than not" standard has been met when developing the provision for income taxes. As of June 30, 2009 and 2008, the Company's liabilities for unrecognized tax benefits, which include interest and penalties, were \$92.8 million and \$404.2 million, respectively.

If certain pending tax matters settle within the next twelve months, the total amount of unrecognized tax benefits may increase or decrease for all open tax years and jurisdictions. Based on current estimates, settlements related to various jurisdictions and tax periods could increase earnings up to \$20.5 million. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Q. Recently Issued Accounting Pronouncements. In May 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued including the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. On June 30, 2009, the Company adopted SFAS No. 165 and the adoption did not have a material impact on its results of operations, cash flows or financial condition.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for determining the fair value of assets and liabilities when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate an observed transaction used to determine fair value is not orderly and, therefore, is not indicative of fair value. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. On April 1, 2009, the Company adopted FSP FAS 157-4 and the adoption did not have a material impact on its results of operations, cash flows or financial condition.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"). FSP FAS 115-2 and FAS 124-2 changes the method for determining whether an other-than-temporary impairment exists for debt securities by requiring a company to assess whether it is probable that it will not be able to recover the cost basis of a security utilizing several factors, including the length of time and the extent to which fair value has been less than the cost basis, adverse conditions related to a particular security and volatility of a particular security. FSP FAS 115-2 and FAS 124-2 also requires that an other-than-temporary impairment charge for debt securities be recorded in earnings if it is more-likely-than-not that the entity will sell or be required to sell a debt security before anticipated recovery of the cost basis. In addition, if any portion of a decline in fair value below the cost basis of a security is related to credit losses, such amount should be recorded in earnings. Lastly, FSP FAS 115-2 and FAS 124-2 expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities to all interim and annual periods. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. On April 1, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2 and the adoption did not have a material impact on its results of operations, cash flows or financial condition.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 increases the frequency of certain fair value disclosures from annual to quarterly. Such disclosures include the fair value of all financial instruments within the scope of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," as well as the methods and significant assumptions used to estimate fair value. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009. On April 1, 2009, the Company adopted FSP FAS 107-1 and APB 28-1 and the adoption did not have a material impact on its results of operations, cash flows or financial condition.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 requires additional disclosures in relation to plan assets of defined benefit pension or other postretirement plans. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 with early application permitted. The Company does not anticipate the adoption of this FSP will have a material impact on its results of operations, cash flows or financial condition.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Upon adoption, companies are required to retrospectively adjust earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to provisions of FSP EITF 03-6-1. The Company determined the adoption of FSP EITF 03-6-1 will not have a material impact on its results of operations or financial condition.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized

intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets". FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of FSP FAS 142-3 will have on its results of operations, cash flows or financial condition.

In December 2007, the FASB issued Statement No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any controlling interest in the business and the goodwill acquired. SFAS No. 141R further requires that acquisition-related costs and costs associated with restructuring or exiting activities of an acquired entity will be expensed as incurred. SFAS No. 141R also establishes disclosure requirements that will require disclosure on the nature and financial effects of the business combination. Additionally, in April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP FAS 141(R)-1"). FSP FAS 141(R)-1 amends and clarifies SFAS No. 141R to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS 141R and FSP FAS 141(R)-1 will impact business combinations that may be completed by the Company on or after July 1, 2009. The Company does not know if the adoption of SFAS No. 141R and FSP FAS 141(R)-1 will have a material impact on its results of operations and financial condition as the impact depends solely on whether the Company completes any business combinations after July 1, 2009 and the terms of such transactions.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, for which the effective date is fiscal years beginning after November 15, 2008. On July 1, 2008, the Company adopted SFAS No. 157 for assets and liabilities recognized or disclosed at fair value on a recurring basis. The adoption of SFAS No. 157 did not have an impact on its consolidated results of operations, cash flows or financial condition. The Company will adopt SFAS No. 157 for non-financial assets that are recognized or disclosed on a non-recurring basis on July 1, 2009 and it does not anticipate such adoption will have a material impact on its results of operations, cash flows or financial condition.

NOTE 2. OTHER INCOME, NET

Other income, net consists of the following:

| Years ended June 30, | 2009 | 2008 | 2007 |
|--|-------------------|-------------------|-------------------|
| Interest income on corporate funds | \$ (134.2) | \$ (149.5) | \$ (165.0) |
| Gain on sale of building | (2.2) | (16.0) | - |
| Gain on sale of investment | - | - | (38.6) |
| Realized gains on available-for-sale securities | (11.4) | (10.1) | (20.8) |
| Realized losses on available-for-sale securities | 23.8 | 11.4 | 12.5 |
| Realized loss on investment in Reserve Fund | 18.3 | - | - |
| Other, net | (2.3) | (2.3) | - |
| Other income, net | \$ (108.0) | \$ (166.5) | \$ (211.9) |

Proceeds from sales and maturities of available-for-sale securities were \$3,320.4 million, \$5,140.6 million and \$4,840.0 million for fiscal 2009, 2008 and 2007, respectively.

In fiscal 2009, the Company recorded an \$18.3 million loss to other income, net on the Statements of Consolidated Earnings related to the Primary Fund of the Reserve Fund (the "Reserve Fund"). In fiscal 2009, the Company also sold a building for \$5.8 million, which resulted in a net gain of \$2.2 million in other income, net, on the Statements of Consolidated Earnings.

In fiscal 2008, the Company sold a building for \$20.7 million, which resulted in a net gain of \$16.0 million in other income, net, on the Statements of Consolidated Earnings.

In fiscal 2007, the Company sold a minority investment that was previously accounted for using the cost basis. The Company's sale of this investment resulted in a gain of \$38.6 million.

The Company has an outsourcing agreement with Broadridge Financial Solutions, Inc. ("Broadridge") pursuant to which the Company will continue to provide data center outsourcing services, principally information technology services and service delivery network services, to Broadridge in the same capacity post-spin as it had been pre-spin. As a result of the outsourcing agreement, the Company recognized income of \$103.5 million and \$107.8 million in fiscal 2009 and fiscal 2008, respectively, which is offset by expenses associated with providing such services

of \$101.3 million and \$105.5 million, respectively, both of which were recorded in other income, net on the Statements of Consolidated Earnings. The Company had a receivable on the Consolidated Balance Sheets from Broadridge for the services under this agreement of \$8.7 million and \$9.7 million on June 30, 2009 and 2008, respectively.

NOTE 3. ACQUISITIONS

Assets acquired and liabilities assumed in business combinations were recorded on the Company's Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Statements of Consolidated Earnings since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill. In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions. Accordingly, the allocations are subject to revision when the Company receives final information, including appraisals and other analyses, which typically occurs within one year from the date of acquisition.

The Company acquired four businesses in fiscal 2009 for approximately \$62.7 million, which includes \$6.4 million in accrued contingent payments expected to be paid in future periods and which is net of cash acquired. These acquisitions resulted in approximately \$60.3 million of goodwill. Intangible assets acquired, which totaled approximately \$20.8 million, consist of software, customer contracts and lists and trademarks that are being amortized over a weighted average life of 9 years. In addition, the Company made \$10.7 million of contingent payments in fiscal 2009 relating to previously consummated acquisitions. As of June 30, 2009, the Company had contingent consideration remaining for all transactions of approximately \$6.3 million.

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The Company acquired four businesses in fiscal 2008 for approximately \$45.9 million, net of cash acquired. These acquisitions resulted in approximately \$37.7 million of goodwill. Intangible assets acquired, which totaled approximately \$11.6 million, consist primarily of software and customer contracts and lists that are being amortized over a weighted average life of 9 years. In addition, the Company made \$51.4 million of contingent payments in fiscal 2008 relating to previously consummated acquisitions.

The Company acquired eleven businesses in fiscal 2007 for approximately \$434.4 million, net of cash acquired. These acquisitions resulted in approximately \$327.2 million of goodwill. Intangible assets acquired, which totaled approximately \$157.9 million, consist primarily of software and customer contracts and lists that are being amortized over a weighted average life of 9 years. In addition, the Company made \$12.5 million of contingent payments in fiscal 2007 relating to previously consummated acquisitions.

The acquisitions discussed above for fiscal 2009, 2008 and 2007 were not material, either individually or in the aggregate, to the Company's operations, financial position or cash flows.

NOTE 4. DIVESTITURES

During fiscal 2009, the Company recorded a net gain of \$2.8 million, net of taxes, within earnings from discontinued operations related to a change in estimated taxes on the divestitures of business of \$2.6 million and a change in professional fees incurred in connection with the divestitures of businesses of \$0.2 million. During fiscal 2008, the Company recorded a net gain of \$10.2 million, net of taxes, within earnings from discontinued operations related to a change in estimated taxes on the divestitures of businesses of \$11.3 million, partially offset by professional fees incurred in connection with the divestitures of businesses of \$1.1 million.

On June 30, 2007, the Company entered into a definitive agreement to sell its Travel Clearing business for approximately \$116.0 million in cash. The Company completed the sale of its Travel Clearing business on July 6, 2007. The Travel Clearing business was previously reported in the "Other" segment. In connection with the disposal of this business, the Company classified the results of this business as discontinued operations for all periods presented. During fiscal 2008, the Company reported a gain of \$95.8 million, or \$62.2 million after taxes, within earnings from discontinued operations on the Statements of Consolidated Earnings.

On March 30, 2007, the Company completed the tax-free spin-off of its former Brokerage Services Group business, comprised of Brokerage Services and Securities Clearing and Outsourcing Services, into an independent publicly traded company. As a result of the spin-off, ADP stockholders of record on March 23, 2007 (the "record date") received one share of Broadridge common stock for every four shares of ADP common stock held by them on the record date and cash for any fractional shares of Broadridge common stock. ADP distributed approximately 138.8 million shares of Broadridge common stock in the distribution. The spin-off was made without the payment of any consideration or the exchange of any shares by ADP stockholders. The Company classified the results of operations of the spun-off business as discontinued operations for all periods presented.

On January 23, 2007, the Company completed the sale of Sandy Corporation, a business within the Dealer Services segment, which specializes in sales and marketing training, for approximately \$4.0 million in cash and the assumption of certain liabilities by the buyer, plus additional earn-out payments if certain revenue targets are achieved. The Company classified the results of operations of this business as discontinued operations for all periods presented. Additionally, during fiscal 2007, the Company reported a gain of \$11.2 million, or \$6.9 million after tax, within earnings from discontinued operations on the Statements of Consolidated Earnings. In March 2008 and April 2009, the Company received two additional payments of \$2.5 million during each period, which represented purchase price adjustments for the sale of Sandy Corporation. The Company recorded additional gains of \$2.5 million, or \$1.6 million net of tax, within earnings from discontinued operations during both fiscal 2008 and fiscal

On April 13, 2006, the Company completed the sale of its Claims Services business to Solera, Inc. In fiscal 2007, the Company received an additional payment of \$13.2 million, or \$12.6 million after tax, from Solera, Inc., which represented the final purchase price adjustment for the sale of the Claims Services business. The Company reported the final purchase price adjustment within earnings from discontinued operations on the Statements of Consolidated Earnings. The Claims Services business was a separate operating segment of the Company and was reported in the "Other" segment. In connection with the disposal of this business, the Company classified the results of operations of this business as discontinued operations for all periods presented.

Operating results for all discontinued operations were as follows:

| Years ended June 30, | 2009 | 2008 | 2007 |
|--|--------|---------|------------|
| Revenues | \$ - | \$ - | \$ 1,518.7 |
| Earnings from discontinued operations before income taxes | - | - | 201.4 |
| Provision for income taxes | - | - | 104.8 |
| Net earnings from discontinued operations before gain on disposal of discontinued operations | - | - | 96.6 |
| Gain on disposal of discontinued operations, net of (benefit) provision for income taxes of \$(0.8), \$23.2 and \$5.8 for fiscal 2009, 2008 and 2007, respectively | 4.4 | 74.0 | 20.9 |
| Net earnings from discontinued operations | \$ 4.4 | \$ 74.0 | \$ 117.5 |

There were no assets or liabilities of discontinued operations as of June 30, 2009 or 2008.

NOTE 5. CORPORATE INVESTMENTS AND FUNDS HELD FOR CLIENTS

Corporate investments and funds held for clients at June 30, 2009 and 2008 are as follows:

| Type of issue: | June 30, 2009 | | | Fair Value |
|--|----------------|------------------------|-------------------------|-------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| Money market securities and other cash equivalents | \$ 4,077.5 | \$ - | \$ - | \$ 4,077.5 |
| Available-for-sale securities: | | | | |
| U.S. Treasury and direct obligations of U.S. government agencies | 5,273.0 | 268.3 | (1.4) | 5,539.9 |
| Corporate bonds | 4,647.6 | 135.9 | (35.3) | 4,748.2 |
| Asset-backed securities | 1,482.2 | 44.2 | (4.7) | 1,521.7 |
| Canadian government obligations and Canadian government agency obligations | 929.2 | 41.4 | (0.1) | 970.5 |
| Other securities | 1,961.6 | 48.2 | (59.9) | 1,949.9 |
| Total available-for-sale securities | 14,293.6 | 538.0 | (101.4) | 14,730.2 |
| Total corporate investments and funds held for clients | \$ 18,371.1 | \$ 538.0 | \$ (101.4) | \$ 18,807.7 |

| | June 30, 2008 | | | |
|--|--------------------|------------------------------|-------------------------------|--------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Type of issue: | | | | |
| Money market securities and other cash equivalents | \$ 2,012.8 | \$ - | \$ - | \$ 2,012.8 |
| Available-for-sale securities: | | | | |
| U.S. Treasury and direct obligations of U.S. government agencies | 6,138.5 | 109.6 | (14.2) | 6,233.9 |
| Corporate bonds | 4,343.5 | 42.0 | (28.8) | 4,356.7 |
| Asset-backed securities | 1,821.8 | 18.4 | (3.7) | 1,836.5 |
| Canadian government obligations and Canadian government agency obligations | 1,009.1 | 15.1 | (0.5) | 1,023.7 |
| Other securities | 1,611.4 | 21.9 | (17.7) | 1,615.6 |
| Total available-for-sale securities | 14,924.3 | 207.0 | (64.9) | 15,066.4 |
| Total corporate investments and funds held for clients | | | | |
| | \$ 16,937.1 | \$ 207.0 | \$ (64.9) | \$ 17,079.2 |

At June 30, 2009, U.S. Treasury and direct obligations of U.S. government agencies primarily include debt directly issued by Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Federal National Mortgage Association (“Fannie Mae”) with fair values of \$1,906.4 million, \$1,463.6 million and \$1,352.5 million, respectively. At June 30, 2008, U.S. Treasury and direct obligations of U.S. government agencies primarily include debt directly issued by Federal Home Loan Banks, Freddie Mac and Fannie Mae with fair values of \$2,344.7 million, \$1,611.2 million and \$1,471.3 million, respectively. U.S. Treasury and direct obligations of U.S. government agencies represent senior, unsecured, non-callable debt that carries a credit rating of AAA and has maturities ranging from July 2009 through February 2019.

At June 30, 2009, asset-backed securities include senior tranches of securities with predominately prime collateral of fixed rate credit card, rate reduction, auto loan, student loan and equipment lease receivables with fair values of \$808.4 million, \$384.2 million, \$244.9 million, \$49.8 million and \$34.4 million, respectively. At June 30, 2008, asset-backed securities include senior tranches of securities with predominately prime collateral of fixed rate credit card, rate reduction, auto loan, student loan and equipment lease receivables with fair values of \$954.8 million, \$448.1 million, \$315.9 million, \$55.3 million and \$62.4 million, respectively. These securities are collateralized by the cash flows of the underlying pools of receivables. The primary risk associated with these securities is the collection risk of the underlying receivables. All collateral on such asset-backed securities has performed as expected through June 30, 2009.

At June 30, 2009, other securities and their fair value primarily represent AAA rated commercial mortgage-backed securities of \$759.3 million, municipal bonds of \$462.0 million, AAA rated mortgage-backed securities of \$186.8 million that are guaranteed by Fannie Mae and Freddie Mac, Canadian provincial bonds of \$170.2 million, corporate bonds backed by the Federal Deposit Insurance Corporation’s Temporary Liquidity Guarantee Program of \$137.6 million and supranational bonds of \$160.0 million. At June 30, 2008, other securities and their fair value primarily represent AAA rated commercial mortgage-backed securities of \$737.3 million, municipal bonds of \$423.5 million, AAA rated mortgage-backed securities of \$186.7 million that are guaranteed by Fannie Mae and Freddie Mac, Canadian provincial bonds of \$153.0 million and supranational bonds of \$57.1 million. The Company’s AAA rated mortgage-backed securities represent an undivided beneficial ownership interest in a group or pool of one or more residential mortgages. These securities are collateralized by the cash flows of 15-year and 30-year residential mortgages and are guaranteed by Fannie Mae and Freddie Mac as to the timely payment of principal and interest.

Classification of corporate investments on the Consolidated Balance Sheets is as follows:

| June 30, | 2009 | 2008 |
|------------------------------------|-------------------|-------------------|
| Corporate investments: | | |
| Cash and cash equivalents | \$ 2,265.3 | \$ 917.5 |
| Short-term marketable securities | 30.8 | 666.3 |
| Long-term marketable securities | 92.4 | 76.5 |
| Total corporate investments | \$ 2,388.5 | \$ 1,660.3 |

Funds held for clients represent assets that, based upon the Company's intent, are restricted for use solely for the purposes of satisfying the obligations to remit funds relating to our payroll and payroll tax filing services, which are classified as client funds obligations on our Consolidated Balance Sheets. Funds held for clients have been invested in the following categories:

| June 30, | 2009 | 2008 |
|--|--------------------|--------------------|
| Funds held for clients: | | |
| Restricted cash and cash equivalents held to satisfy client funds obligations | \$ 1,575.6 | \$ 955.7 |
| Restricted short-term marketable securities held to satisfy client funds obligations | 2,564.6 | 1,666.7 |
| Restricted long-term marketable securities held to satisfy client funds obligations | 12,042.4 | 12,656.9 |
| Other restricted assets held to satisfy client funds obligations | 236.6 | 139.6 |
| Total funds held for clients | \$ 16,419.2 | \$ 15,418.9 |

Client funds obligations represent the Company's contractual obligations to remit funds to satisfy clients' payroll and tax payment obligations and are recorded on the Consolidated Balance Sheets at the time that the Company impounds funds from clients. The client funds obligations represent liabilities that will be repaid within one year of the balance sheet date. The Company has reported client funds obligations as a current liability on the Consolidated Balance Sheets totaling \$15,992.6 million and \$15,294.7 million as of June 30, 2009 and 2008, respectively. The Company has classified funds held for clients as a current asset since these funds are held solely for the purposes of satisfying the client funds obligations.

The Company has reported the cash flows related to the purchases of corporate and client funds marketable securities and related to the proceeds from the sales and maturities of corporate and client funds marketable securities on a gross basis in the investing section of the Statements of Consolidated Cash Flows. The Company has reported the cash inflows and outflows related to client funds investments with original maturities of 90 days or less on a net basis within net increase in restricted cash and cash equivalents and other restricted assets held to satisfy client funds obligations in the investing section of the Statements of Consolidated Cash Flows. The Company has reported the cash flows related to the cash received from and paid on behalf of clients on a net basis within net increase in client funds obligations in the financing section of the Statements of Consolidated Cash Flows.

At June 30, 2009, approximately 83% of the available-for-sale securities held an AAA or AA rating, as rated by Moody's, Standard & Poor's and, for Canadian securities, Dominion Bond Rating Service. All available-for-sale securities were rated as investment grade at June 30, 2009 with the exception of the Reserve Fund investment discussed below.

The amount of collected but not yet remitted funds for the Company's payroll and payroll tax filing and other services varies significantly during the fiscal year, and averaged approximately \$15,162.4 million, \$15,654.3 million and \$14,682.9 million in fiscal 2009, 2008 and 2007, respectively.

Available-for-sale securities that have been in an unrealized loss position for a period of less than and greater than 12 months as of June 30, 2009 are as follows:

| | Unrealized losses less than 12 months | Fair market value less than 12 months | Unrealized losses greater than 12 months | Fair market value greater than 12 months | Total gross unrealized losses | Total fair market value |
|--|---------------------------------------|---------------------------------------|--|--|-------------------------------|-------------------------|
| U.S. Treasury and direct obligations of U.S. government agencies | \$ (1.4) | \$ 59.2 | \$ - | \$ - | \$ (1.4) | \$ 59.2 |
| Corporate bonds | (12.7) | 586.5 | (22.6) | 354.8 | (35.3) | 941.3 |
| Asset backed securities | (2.6) | 69.0 | (2.1) | 35.0 | (4.7) | 104.0 |
| Canadian government obligations and Canadian government agency obligations | (0.1) | 28.9 | - | - | (0.1) | 28.9 |
| Other securities | (7.3) | 319.2 | (52.6) | 467.6 | (59.9) | 786.8 |
| | \$ (24.1) | \$ 1,062.8 | \$ (77.3) | \$ 857.4 | \$ (101.4) | \$ 1,920.2 |

Expected maturities of available-for-sale securities at June 30, 2009 are as follows:

| Maturity Dates: | |
|--|---------------------------|
| Due in one year or less | \$ 2,595.5 |
| Due after one year up to two years | 3,159.6 |
| Due after two years up to three years | 3,314.7 |
| Due after three years up to four years | 3,231.6 |
| Due after four years | <u>2,428.8</u> |
| Total available-for-sale securities | \$ <u>14,730.2</u> |

The Company has an investment in a money market fund called the Reserve Fund. During the quarter ended September 30, 2008, the net asset value of the Reserve Fund decreased below \$1 per share as a result of the full write-off of the Reserve Fund's holdings in debt securities issued by Lehman Brothers Holdings, Inc., which filed for bankruptcy protection on September 15, 2008. The Reserve Fund has suspended redemptions and is in the process of being liquidated. In fiscal 2009, the Company reclassified \$211.1 million of its investment from cash and cash equivalents to short-term marketable securities on the Consolidated Balance Sheet due to the fact that these assets no longer met the definition of a cash equivalent. Additionally, the Company reflected the impact of such reclassification on the Statements of Consolidated Cash Flows for fiscal 2009 as reclassification from cash equivalents to short-term marketable securities. During fiscal 2009, the Company recorded an \$18.3 million loss to other income, net, on the Statement of Consolidated Earnings to recognize its pro-rata share of the estimated losses of the Reserve Fund. As of June 30, 2009, the Company had received approximately \$198.5 million in distributions from the Reserve Fund. Subsequent to the distributions received from the Reserve Fund and the charges recorded during fiscal 2009, the Company has a remaining balance of \$3.9 million in short-term marketable securities related to the Reserve Fund as of June 30, 2009.

On April 1, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"). FSP FAS 115-2 and FAS 124-2 states that an other-than-temporary impairment of debt securities, where fair value is below amortized cost, is triggered by one of the following: an entity has the intent to sell a security, it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis or the entity does not expect to recover the entire amortized cost basis of the security (also known as a credit loss). If an entity intends to sell a security or if it is more likely than not that the entity will be required to sell the security before recovery, the entity would recognize a charge in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If an entity does not intend to sell a security or it is not more likely than not that it will be required to sell the security before recovery, the unrealized loss is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in accumulated other comprehensive income (loss).

At June 30, 2009, the Company evaluated whether the losses related to any of its debt securities in an unrealized loss position, which were primarily comprised of corporate bonds and commercial mortgage backed securities, were due to credit losses utilizing a variety of quantitative and qualitative factors including whether the Company will be able to collect all amounts due under the contractual terms of the security, information about current and past events of the issuer, and the length of time and the extent to which fair value has been less than the cost basis. At June 30, 2009, other than the \$18.3 million in losses that were recorded during the first and third quarters of fiscal 2009 related to the investment in the Reserve Fund, the Company concluded that unrealized losses of \$101.4 million for available-for-sale securities held at June 30, 2009 were not credit losses and were attributable to other factors, including changes in interest rates. Additionally, the Company concluded that it did not have the intent to sell any securities in an unrealized loss position at June 30, 2009 and that it was not more likely than not that the Company would be required to sell a security in an unrealized loss position at June 30, 2009 before recovery. As a result, the \$101.4 million in unrealized losses were recorded in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets at June 30, 2009.

NOTE 6. FAIR VALUE MEASUREMENTS

On July 1, 2008, the Company adopted SFAS No. 157 for assets and liabilities recognized or disclosed at fair value on a recurring basis. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes market or observable inputs as the preferred source of fair value, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described below with Level 1 having the highest priority and Level 3 having the lowest priority.

Level 1 Fair value is determined based upon closing prices for identical instruments that are traded on active exchanges.

Level 2 Fair value is determined based upon quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Fair value is determined based upon significant inputs to the valuation model that are unobservable.

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service. To determine the fair value of our Level 2 investments, a variety of inputs are utilized, including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, new issue data, and monthly payment information. Over 99% of our Level 2 investments are valued utilizing inputs obtained from a pricing service. The Company reviews the values generated by the independent pricing service for reasonableness by comparing the valuations received from the independent pricing service to valuations from at least one other observable source. The Company has not adjusted the prices obtained from the independent pricing service. The Company has no available-for-sale securities included in Level 3.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy. In certain instances, the inputs used to measure fair value may meet the definition of more than one level of the fair value hierarchy. The significant input with the lowest level priority is used to determine the applicable level in the fair value hierarchy.

The following table presents the Company's assets measured at fair value on a recurring basis at June 30, 2009. Included in the table are available-for-sale securities within corporate investments of \$123.2 million and funds held for clients of \$14,607.0 million. Refer to Note 5 for additional disclosure in relation to corporate investments and funds held for clients.

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------|--------------------|-------------|--------------------|
| U.S Treasury and direct obligations of U.S. government agencies | \$ - | \$ 5,539.9 | \$ - | \$ 5,539.9 |
| Corporate bonds | - | 4,748.2 | - | 4,748.2 |
| Asset-backed securities | - | 1,521.7 | - | 1,521.7 |
| Canadian government obligations and Canadian government agency obligations | - | 970.5 | - | 970.5 |
| Other securities | 7.5 | 1,942.4 | - | 1,949.9 |
| Total available-for-sale securities | <u>\$ 7.5</u> | <u>\$ 14,722.7</u> | <u>\$ -</u> | <u>\$ 14,730.2</u> |

NOTE 7. RECEIVABLES

The Company's receivables include notes receivable for the financing of the sale of computer systems, most of which are due from automotive, heavy truck and powersports dealers. These notes receivable are reflected on the Consolidated Balance Sheets as follows:

| June 30, | 2009 | | 2008 | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | Current | Long-term | Current | Long-term |
| Receivables | \$ 136.8 | \$ 193.4 | \$ 177.7 | \$ 259.7 |
| Less: | | | | |
| Allowance for doubtful accounts | (9.9) | (18.0) | (4.5) | (7.9) |
| Unearned income | (13.3) | (12.8) | (18.1) | (17.8) |
| | <u>\$ 113.6</u> | <u>\$ 162.6</u> | <u>\$ 155.1</u> | <u>\$ 234.0</u> |

Long-term receivables at June 30, 2009 mature as follows:

| | |
|------|---------|
| 2011 | \$ 91.9 |
| 2012 | 54.8 |
| 2013 | 33.9 |
| 2014 | 12.4 |
| 2015 | 0.4 |

Accounts receivable is recorded based upon the gross amount the Company expects to receive from its clients, which is net of an allowance for doubtful accounts of \$47.8 million and \$38.4 million at June 30, 2009 and 2008, respectively. Long-term receivables represent our notes receivable that are recorded based upon the gross amount the Company expects to receive from its clients, which is net of an allowance for doubtful accounts of \$18.0 million and \$7.9 million at June 30, 2009 and 2008, respectively, and unearned income of \$12.8 million and \$17.8 million at June 30, 2009 and 2008, respectively, and represents the excess of the gross receivables over the sales price of the computer systems financed. The unearned income is amortized using the effective interest method. The carrying value of notes receivable approximates fair value.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost and accumulated depreciation at June 30, 2009 and 2008 are as follows:

| June 30, | 2009 | 2008 |
|------------------------------------|------------------|------------------|
| Property, plant and equipment: | | |
| Land and buildings | \$ 721.1 | \$ 714.3 |
| Data processing equipment | 771.3 | 747.3 |
| Furniture, leaseholds and other | 417.9 | 407.8 |
| | <u>1,910.3</u> | <u>1,869.4</u> |
| Less: accumulated depreciation | <u>(1,175.8)</u> | <u>(1,126.5)</u> |
| Property, plant and equipment, net | <u>\$ 734.5</u> | <u>\$ 742.9</u> |

NOTE 9. ASSETS HELD FOR SALE

During fiscal 2009, the Company reclassified assets related to three buildings as assets held for sale on the Consolidated Balance Sheets. Such assets were previously reported in property, plant and equipment, net on the Consolidated Balance Sheets. At June 30, 2009, the Company had \$12.1 million classified as assets held for sale on the Consolidated Balance Sheets.

In fiscal 2009, the Company sold a building and realized a gain of \$2.2 million in other income, net, on the Statements of Consolidated Earnings. In July 2009, the Company sold a building and expects to realize a gain of \$1.5 million during the three months ended September 30, 2009. The Company currently expects to complete the sale of the remaining building during fiscal 2010.

NOTE 10. GOODWILL AND INTANGIBLE ASSETS, NET

Changes in goodwill for the fiscal year ended June 30, 2009 and 2008 are as follows :

| | Employer Services | PEO Services | Dealer Services | Total |
|--------------------------------------|----------------------|-----------------|--------------------|-------------------|
| Balance as of June 30, 2007 | \$ 1,576.6 | \$ 4.8 | \$ 772.2 | \$ 2,353.6 |
| Additions and other adjustments, net | (19.1) | - | 25.5 | 6.4 |
| Currency translation adjustments | 58.2 | - | 8.5 | 66.7 |
| Balance as of June 30, 2008 | \$ 1,615.7 | \$ 4.8 | \$ 806.2 | \$ 2,426.7 |
| Additions and other adjustments, net | 4.5 | - | 67.0 | 71.5 |
| Currency translation adjustments | (53.2) | - | (69.5) | (122.7) |
| Balance as of June 30, 2009 | <u>\$ 1,567.0</u> | <u>\$ 4.8</u> | <u>\$ 803.7</u> | <u>\$ 2,375.5</u> |

In fiscal 2009, 2008 and 2007, the Company performed the required annual impairment tests of goodwill and determined that there was no impairment.

Components of intangible assets are as follows:

| June 30, | 2009 | 2008 |
|---------------------------------------|------------------|------------------|
| Intangibles: | | |
| Software and software licenses | \$ 1,085.2 | \$ 1,004.5 |
| Customer contracts and lists | 623.1 | 627.0 |
| Other intangibles | 197.3 | 197.2 |
| | <u>1,905.6</u> | <u>1,828.7</u> |
| Less accumulated amortization: | | |
| Software and software licenses | (858.5) | (805.4) |
| Customer contracts and lists | (328.6) | (293.5) |
| Other intangibles | (138.4) | (92.7) |
| | <u>(1,325.5)</u> | <u>(1,191.6)</u> |
| Intangible assets, net | <u>\$ 580.1</u> | <u>\$ 637.1</u> |

Other intangibles consist primarily of purchased rights, covenants, patents and trademarks (acquired directly or through acquisitions). All of the intangible assets have finite lives and, as such, are subject to amortization. The weighted average remaining useful life of the intangible assets is 7 years (3 years for software and software licenses, 10 years for customer contracts and lists, and 8 years for other intangibles). Amortization of intangible assets was \$151.9 million, \$152.0 million and \$145.5 million for fiscal 2009, 2008 and 2007, respectively.

Estimated amortization expenses of the Company's existing intangible assets for the next five fiscal years are as follows:

| | |
|------|----------|
| 2010 | \$ 157.7 |
| 2011 | \$ 116.1 |
| 2012 | \$ 83.7 |
| 2013 | \$ 49.9 |
| 2014 | \$ 37.4 |

NOTE 11. SHORT-TERM FINANCING

In June 2009, the Company entered into a \$2.25 billion, 364-day credit agreement with a group of lenders. The 364-day facility replaced the Company's prior \$2.25 billion 364-day facility. In addition, the Company has a \$1.5 billion credit facility and a \$2.25 billion credit facility that mature in June 2010 and June 2011, respectively. The credit facilities maturing in June 2010 and June 2011 are five-year facilities that contain accordion features under which the aggregate commitments can each be increased by \$500.0 million, subject to the availability of additional commitments. The interest rate applicable to the committed borrowings is tied to LIBOR, the federal funds effective rate or the prime rate depending on the notification provided by the Company to the syndicated financial institutions prior to borrowing. The Company is also required to pay facility fees on the credit agreements. The primary uses of the credit facilities are to provide liquidity to the commercial paper program and to provide funding for general corporate purposes, if necessary. The Company had no borrowings through June 30, 2009 under the credit agreements.

The Company's U.S. short-term funding requirements related to client funds are sometimes obtained through a short-term commercial paper program, which provides for the issuance of up to \$6.0 billion in aggregate maturity value of commercial paper. The Company's commercial paper program is rated A-1+ by Standard and Poor's and Prime-1 by Moody's. These ratings denote the highest quality commercial paper securities. Maturities of commercial paper can range from overnight to up to 364 days. At June 30, 2009, the Company had \$0.7 billion in commercial paper outstanding. Such amount was repaid on July 1, 2009. At June 30, 2008, there was no commercial paper outstanding. In fiscal 2009 and 2008, the Company's average borrowings were \$1.9 billion and \$1.4 billion, respectively, at a weighted average interest rate of 1.0% and 4.2%, respectively. The weighted average maturity of the Company's commercial paper in fiscal 2009 and 2008 was less than two days for both fiscal years.

The Company's U.S. and Canadian short-term funding requirements related to client funds obligations are sometimes obtained on a secured basis through the use of reverse repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight to up to five business days. At June 30, 2009, there were no outstanding obligations under reverse repurchase agreements. At June 30, 2008, the Company had an \$11.8 million obligation outstanding related to reverse repurchase agreements that matured on July 2, 2008 and was repaid. In fiscal 2009 and 2008, the Company had average outstanding balances under reverse repurchase agreements of \$425.9 million and \$360.4 million, respectively, at weighted average interest rates of 1.3% and 3.4%, respectively.

NOTE 12. DEBT

Components of long-term debt are as follows:

| June 30, | 2009 | 2008 |
|--|----------------|----------------|
| Industrial revenue bonds | | |
| (with variable interest rates from 1.6% to 2.4%) | \$ 26.5 | \$ 34.1 |
| Secured financing | 19.0 | 20.7 |
| Other | - | - |
| | <u>45.5</u> | <u>54.8</u> |
| Less: current portion | <u>(2.8)</u> | <u>(2.7)</u> |
| | <u>\$ 42.7</u> | <u>\$ 52.1</u> |

During fiscal 2008, the Company entered into a secured financing agreement, whereby the Company borrowed \$21.1 million from a third party in exchange for a security interest in a single client's unbilled accounts receivable, which is billable over a ten-year period. The Company will continue to collect amounts due from the client as they are billed. The security interest in the receivables retained by the third party is without recourse against the Company in the event that the client does not make the appropriate payments to the Company. As of June 30, 2009, the Company has recorded approximately \$2.8 million within accrued expenses and other current liabilities and approximately \$16.2 million within long-term debt on the Company's Consolidated Balance Sheets related to the secured financing arrangement.

The fair value of the industrial revenue bonds and other debt, included above, approximates carrying value.

Long-term debt repayments at June 30, 2009 are due as follows:

| | |
|------------|----------------|
| 2011 | \$ 2.8 |
| 2012 | 10.5 |
| 2013 | 10.5 |
| 2014 | 2.8 |
| 2015 | 2.8 |
| Thereafter | <u>13.3</u> |
| | <u>\$ 42.7</u> |

Cash payments relating to interest on long-term debt and the short-term financing arrangements described in Note 11 were approximately \$40.1 million, \$82.1 million, and \$93.5 million in fiscal 2009, 2008 and 2007, respectively.

NOTE 13. FOREIGN CURRENCY RISK MANAGEMENT PROGRAMS

There were no derivative financial instruments outstanding at June 30, 2009, 2008 or 2007.

NOTE 14. EMPLOYEE BENEFIT PLANS

A. Stock Plans. The Company accounts for stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which requires the measurement of stock-based compensation expense to be recognized in net earnings based on the fair value of the award on the date of grant. Stock-based compensation consists of the following:

- **Stock Options.** Stock options are granted to employees at exercise prices equal to the fair market value of the Company's common stock on the dates of grant. Stock options are issued under a grade vesting schedule. Options granted prior to July 1, 2008 generally vest ratably over five years and have a term of 10 years. Options granted after July 1, 2008 generally vest ratably over four years and have a term of 10 years. Compensation expense for stock options is recognized over the requisite service period for each separately vesting portion of the stock option award.
- **Employee Stock Purchase Plan.** Prior to January 1, 2009, the Company offered an employee stock purchase plan that allowed eligible employees to purchase shares of common stock at a price equal to 85% of the market value for the common stock at the date the purchase

price for the offering is determined. Compensation expense related to an offering that has not been completed will continue to be recognized on a straight-line basis over the vesting period of 24 months that concludes on December 31, 2009.

• **Restricted Stock.**

- **Time-Based Restricted Stock.** The Company has issued time-based restricted stock to certain key employees. These shares are restricted as to transfer and in certain circumstances must be returned to the Company at the original purchase price. The Company records stock compensation expense relating to the issuance of restricted stock over the period in which the transfer restrictions exist, which is up to five years from the date of grant. The value of the Company's time-based restricted stock, based on market prices on the date of grant, is recognized as compensation expense over the restriction period on a straight-line basis.
- **Performance-Based Restricted Stock.** The performance-based restricted stock program contains a two-year performance period and a subsequent six-month service period. Under this program, the Company communicates "target awards" to employees at the beginning of a performance period and, as such, dividends are not paid in respect of the "target awards" during the performance period. After the two-year performance period, if the performance targets are achieved, associates are eligible to receive dividends on any shares awarded under the program. The performance target is based on EPS growth over the performance period with possible payouts ranging from 0% to 125% of the "target awards". SFAS No. 123R requires the measurement of stock-based compensation based upon the fair value of the award on the grant date. Compensation expense is recognized on a straight-line basis over the vesting term of approximately 30 months based upon the probable performance target that will be met.

The Company currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan and restricted stock awards. Stock-based compensation expense of \$96.0 million, \$123.6 million and \$130.5 million was recognized in earnings from continuing operations in fiscal 2009, 2008 and 2007, respectively, as well as related tax benefits on such stock compensation expense of \$27.6 million, \$37.0 million and \$38.9 million, respectively.

| Years ended June 30, | 2009 | 2008 | 2007 |
|---|---------|----------|----------|
| Operating expenses | \$ 20.6 | \$ 25.4 | \$ 23.3 |
| Selling, general and administrative expenses | 60.4 | 76.7 | 84.7 |
| System development and programming costs | 15.0 | 21.5 | 22.5 |
| Total pretax stock-based compensation expense included in continuing operations | \$ 96.0 | \$ 123.6 | \$ 130.5 |
| Total pretax stock-based compensation expense included in discontinued operations | - | - | 18.2 |
| Total pretax stock-based compensation expense | \$ 96.0 | \$ 123.6 | \$ 148.7 |

As of June 30, 2009, the total remaining unrecognized compensation cost related to non-vested stock options, the employee stock purchase plan and restricted stock awards amounted to \$24.8 million, \$7.7 million and \$39.2 million, respectively, which will be amortized over the weighted average periods of 1.7 years, 0.5 years and 2.3 years, respectively.

In fiscal 2009, the following activity occurred under our existing plans:

Stock Options:

| Years ended June 30, | Number of Options (in thousands) | | | Weighted Average Price (in dollars) | | |
|---|-------------------------------------|---------|----------|--|-------|-------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Options outstanding, beginning of year | 49,127 | 53,786 | 73,189 | \$ 41 | \$ 40 | \$ 49 |
| Options granted | 1,390 | 2,047 | 3,449 | \$ 39 | \$ 41 | \$ 43 |
| Options exercised | (2,502) | (5,068) | (11,740) | \$ 36 | \$ 34 | \$ 34 |
| Options canceled (a) | (2,695) | (1,638) | (11,112) | \$ 41 | \$ 43 | \$ 41 |
| Options outstanding, end of year | 45,320 | 49,127 | 53,786 | \$ 41 | \$ 41 | \$ 40 |
| Options exercisable, end of year | 37,318 | 36,653 | 35,529 | \$ 41 | \$ 41 | \$ 40 |
| Shares available for future grants, end of year | 24,104 | 22,799 | 23,208 | | | |

| | | | |
|--|--------|--------|--------|
| Shares reserved for issuance under stock option plans, end of year | 69,424 | 71,926 | 76,994 |
|--|--------|--------|--------|

(a) Options cancelled for the year ended June 30, 2007 includes 7.8 million options held by Brokerage Services Group business employees that were canceled or forfeited on March 30, 2007.

Performance-Based Restricted Stock:

| Years ended June 30, | Number of Shares (in thousands) | | |
|---------------------------------------|------------------------------------|-------|-------|
| | 2009 | 2008 | 2007 |
| Shares outstanding, beginning of year | 2,928 | 1,711 | 238 |
| Shares granted | 1,850 | 1,487 | 2,021 |
| Shares vested | (1,988) | (122) | (79) |
| Shares forfeited (a) | (158) | (148) | (469) |
| Shares outstanding, end of year | 2,632 | 2,928 | 1,711 |

(a) Shares forfeited for the year ended June 30, 2007 includes 431,200 shares held by Brokerage Services Group business employees that were forfeited on March 30, 2007.

The aggregate intrinsic value of stock options both outstanding and exercisable as of June 30, 2009 was \$14.7 million and the aggregate intrinsic value for stock options exercised in fiscal 2009 was \$19.7 million.

Summarized information about stock options outstanding as of June 30, 2009 is as follows:

| Exercise Price Range | Outstanding | | | Exercisable | | |
|----------------------|----------------------------------|---------------------------|-------------------------------------|----------------------------------|---------------------------|-------------------------------------|
| | Number of Options (in thousands) | Remaining Life (in years) | Weighted Average Price (in dollars) | Number of Options (in thousands) | Remaining Life (in years) | Weighted Average Price (in dollars) |
| Under \$15 | - | - | \$ - | - | - | \$ - |
| \$15 to \$25 | 1 | 0.4 | \$ 21 | 1 | 0.4 | \$ 21 |
| \$25 to \$35 | 3,674 | 3.6 | \$ 31 | 3,630 | 3.6 | \$ 31 |
| \$35 to \$45 | 33,065 | 5.0 | \$ 40 | 25,638 | 4.3 | \$ 40 |
| \$45 to \$55 | 8,580 | 2.1 | \$ 50 | 8,049 | 1.7 | \$ 50 |
| | <u>45,320</u> | 4.3 | \$ 41 | <u>37,318</u> | 3.7 | \$ 41 |

In fiscal 2009, the Company issued 1.5 million shares in connection with the employee stock purchase plan offering that vested on December 31, 2008. The Company expects to issue approximately 1.8 million shares for the employee stock purchase plan offering that vests on December 31, 2009. In addition, in fiscal 2009, the Company issued 2.2 million shares of restricted stock.

The fair value of each stock option issued prior to January 1, 2005 was estimated on the date of grant using a Black-Scholes option pricing model. For stock options issued on or after January 1, 2005, the fair value of each stock option was estimated on the date of grant using a binomial option pricing model. The binomial model considers a range of assumptions related to volatility, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial model are based on a combination of implied market volatilities, historical volatility of the Company's stock price and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The binomial model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock option grant is derived from the output of the binomial model and represents the period of time that options granted are expected to be outstanding.

The fair value for stock options granted was estimated at the date of grant with the following assumptions:

| | | | |
|----------------------|------|------|------|
| Years ended June 30, | 2009 | 2008 | 2007 |
|----------------------|------|------|------|

| | | | |
|---|---------------|---------------|---------------|
| Risk-free interest rate | 1.8% - 3.1% | 2.8% - 4.6% | 4.6% - 5.0% |
| Dividend yield | 2.6% - 3.5% | 1.7% - 2.7% | 1.6% - 1.7% |
| Weighted average volatility factor | 25.3% - 31.3% | 22.8% - 25.6% | 18.4% - 24.7% |
| Weighted average expected life (in years) | 5.0 | 5.0 | 4.9 - 5.6 |
| Weighted average fair value (in dollars): | | | |
| Stock options | \$ 7.54 | \$ 8.31 | \$ 10.77 |
| Stock purchase plan | \$ - | \$ 11.99 | \$ 11.24 |
| Performance-based restricted stock | \$ 39.04 | \$ 44.61 | \$ 40.99 |

B. Pension Plans. The Company has a defined benefit cash balance pension plan covering substantially all U.S. employees, under which employees are credited with a percentage of base pay plus interest. The plan interest credit rate will vary from year-to-year based on the ten-year U.S. Treasury rate. Employees are fully vested on completion of three years of service. The Company's policy is to make contributions within the range determined by generally accepted actuarial principles. In addition, the Company has various retirement plans for its non-U.S. employees and maintains a Supplemental Officer Retirement Plan ("SORP"). The SORP is a defined benefit plan pursuant to which the Company will pay supplemental pension benefits to certain key officers upon retirement based upon the officers' years of service and compensation.

A June 30 measurement date was used in determining the Company's benefit obligations and fair value of plan assets.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS No. 158"). This statement requires a company to (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status, (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (c) recognize changes in the funded status of a defined benefit plan in the year in which the changes occur in accumulated other comprehensive income (loss). The requirement to recognize the funded status of a benefit plan and the related disclosure requirements were effective for the Company as of the end of fiscal 2007 and the Company adopted SFAS No. 158 at that time. The adoption of SFAS No. 158 resulted in a \$63.1 million reduction, net of income taxes, in stockholders' equity.

The Company's pension plans funded status as of June 30, 2009 and 2008 is as follows :

| June 30, | 2009 | 2008 |
|--|-------------------|-----------------|
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | \$ 952.2 | \$ 976.2 |
| Actual return on plan assets | (144.3) | (49.9) |
| Employer contributions | 6.3 | 55.6 |
| Benefits paid | (27.2) | (29.7) |
| Fair value of plan assets at end of year | <u>\$ 787.0</u> | <u>\$ 952.2</u> |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 842.8 | \$ 830.3 |
| Service cost | 46.2 | 46.1 |
| Interest cost | 56.7 | 50.7 |
| Actuarial and other gains | (23.6) | (54.6) |
| Benefits paid | (27.2) | (29.7) |
| Projected benefit obligation at end of year | <u>\$ 894.9</u> | <u>\$ 842.8</u> |
| Funded status - plan assets less benefit obligations | <u>\$ (107.9)</u> | <u>\$ 109.4</u> |

The impact of the adoption of SFAS No. 158 resulted in a reduction to stockholders' equity of \$63.1 million, which consists of the following adjustments to the Consolidated Balance Sheet as of June 30, 2007:

| | |
|----------------|--------|
| Current assets | \$ 1.6 |
|----------------|--------|

| | |
|--------------------------------|------------------|
| Noncurrent assets | (51.3) |
| Current liabilities | (2.8) |
| Noncurrent liabilities | (10.6) |
| Impact to stockholders' equity | <u>\$ (63.1)</u> |

After the adoption of SFAS No. 158, the amounts recognized on the Consolidated Balance Sheets as of June 30, 2009 and 2008 consisted of:

| June 30, | 2009 | 2008 |
|------------------------|-------------------|-----------------|
| Noncurrent assets | \$ 1.0 | \$ 180.6 |
| Current liabilities | (4.4) | (3.6) |
| Noncurrent liabilities | (104.5) | (67.6) |
| Net amount recognized | <u>\$ (107.9)</u> | <u>\$ 109.4</u> |

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As a result of the adoption of SFAS No. 158, the \$63.1 million that is recognized in accumulated other comprehensive income (loss) consists of:

| Year ended June 30, | 2007 |
|--|------------------|
| Net actuarial and other loss, net of tax | \$ (61.6) |
| Prior service cost, net of tax | (0.5) |
| Transition obligation, net of tax | (1.0) |
| | <u>\$ (63.1)</u> |

The accumulated benefit obligation for all defined benefit pension plans was \$887.4 million and \$831.9 million at June 30, 2009 and 2008, respectively.

The Company's pension plans with accumulated benefit obligations in excess of plan assets as of June 30, 2009 and 2008 had the following projected benefit obligation, accumulated benefit obligation and fair value of plan assets:

| June 30, | 2009 | 2008 |
|--------------------------------|----------|----------|
| Projected benefit obligation | \$ 870.8 | \$ 110.3 |
| Accumulated benefit obligation | \$ 865.7 | \$ 103.4 |
| Fair value of plan assets | \$ 762.0 | \$ 39.1 |

The components of net pension expense were as follows:

| Years ended June 30, | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| Service cost - benefits earned during the period | \$ 46.2 | \$ 46.1 | \$ 42.2 |
| Interest cost on projected benefits | 56.7 | 50.7 | 49.0 |
| Expected return on plan assets | (70.3) | (67.2) | (62.0) |
| Net amortization and deferral | 1.2 | 10.4 | 14.6 |
| | <u>\$ 33.8</u> | <u>\$ 40.0</u> | <u>\$ 43.8</u> |

Net pension expense for fiscal 2007 includes \$3.5 million reported within earnings from discontinued operations on the Statements of Consolidated Earnings.

The net actuarial and other loss, transition obligation and prior service cost for the defined benefit pension plans that are included in accumulated other comprehensive income (loss) and that have not yet been recognized as components of net periodic benefit cost are \$330.5 million, \$1.2 million and \$8.0 million, respectively, at June 30, 2009. The estimated net actuarial and other loss, transition obligation and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$3.9 million, \$0.2 million and \$0.3 million, respectively, at June 30, 2009.

Assumptions used to determine the actuarial present value of benefit obligations were:

| Years ended June 30, | 2009 | 2008 |
|---------------------------------|-------|-------|
| Discount rate | 6.80% | 6.95% |
| Increase in compensation levels | 5.50% | 5.50% |

Assumptions used to determine the net pension expense generally were:

| Years ended June 30, | 2009 | 2008 | 2007 |
|---|-------|-------|-------|
| Discount rate | 6.95% | 6.25% | 6.25% |
| Expected long-term rate of return on assets | 7.25% | 7.25% | 7.25% |
| Increase in compensation levels | 5.50% | 5.50% | 5.50% |

The discount rate is based upon published rates for high-quality fixed-income investments that produce cash flows that approximate the timing and amount of expected future benefit payments.

The long-term expected rate of return on assets assumption is 7.25%. This percentage has been determined based on historical and expected future rates of return on plan assets considering the target asset mix and the long-term investment strategy.

Plan Assets

The Company's pension plans' asset allocations at June 30, 2009 and 2008 by asset category were as follows:

| | 2009 | 2008 |
|---------------------------------------|------|------|
| United States Fixed Income Securities | 37% | 42% |
| United States Equity Securities | 47% | 41% |
| International Equity Securities | 16% | 17% |
| Total | 100% | 100% |

The Company's pension plans' asset investment strategy is designed to ensure prudent management of assets, consistent with long-term return objectives and the prompt fulfillment of all pension plan obligations. The investment strategy and asset mix were developed in coordination with an asset liability study conducted by external consultants to maximize the funded ratio with the least amount of volatility.

The pension plans' assets are currently invested in various asset classes with differing expected rates of return, correlations and volatilities, including large capitalization and small capitalization U.S. equities, international equities, and U.S. fixed income securities and cash.

The target asset allocation ranges are as follows:

| | |
|---------------------------------------|---------|
| United States Fixed Income Securities | 35– 45% |
| United States Equity Securities | 37– 50% |
| International Equity Securities | 12– 20% |

The pension plans' fixed income portfolio is designed to match the duration and liquidity characteristics of the pension plans' liabilities. In addition, the pension plans invest only in investment-grade debt securities to ensure preservation of capital. The pension plans' equity portfolios are subject to diversification guidelines to reduce the impact of losses in single investments. Investment managers are prohibited from buying or selling commodities and from the short selling of securities.

None of the pension plans' assets are directly invested in the Company's stock, although the pension plans may hold a minimal amount of Company stock to the extent of the Company's participation in the S&P 500 Index.

Contributions

On July 10, 2009, the Company contributed \$100.0 million to the pension plans. In addition to the July 10, 2009 contribution, the Company expects to contribute approximately \$10 million to the pension plans during fiscal 2010.

Estimated Future Benefit Payments

The benefits expected to be paid in each year from fiscal 2010 to 2014 are \$48.3 million, \$49.3 million, \$53.7 million, \$61.6 million and \$68.2 million, respectively. The aggregate benefits expected to be paid in the five fiscal years from 2015 to 2019 are \$479.0 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's pension plans' benefit obligation at June 30, 2009 and includes estimated future employee service.

C. Retirement and Savings Plan. The Company has a 401(k) retirement and savings plan, which allows eligible employees to contribute up to 35% of their compensation annually and allows highly compensated employees to contribute up to 10% of their compensation annually. The Company matches a portion of employee contributions, which amounted to approximately \$52.1 million, \$49.0 million, and \$47.5 million for calendar years ended December 31, 2008, 2007 and 2006, respectively.

NOTE 15. INCOME TAXES

Earnings (loss) from continuing operations before income taxes shown below are based on the geographic location to which such earnings are attributable.

| Years ended June 30, | 2009 | 2008 | 2007 |
|---|-------------------|-------------------|-------------------|
| Earnings (loss) from continuing operations before income taxes: | | | |
| United States | \$ 1,908.6 | \$ 1,618.6 | \$ 1,457.4 |
| Foreign | (3.9) | 193.4 | 166.1 |
| | <u>\$ 1,904.7</u> | <u>\$ 1,812.0</u> | <u>\$ 1,623.5</u> |

The provision (benefit) for income taxes consists of the following components:

| Years ended June 30, | 2009 | 2008 | 2007 |
|----------------------------------|-----------------|-----------------|-----------------|
| Current: | | | |
| Federal | \$ 708.9 | \$ 632.3 | \$ 482.0 |
| Foreign | (119.7) | 79.2 | 70.3 |
| State | <u>35.2</u> | <u>31.5</u> | <u>34.9</u> |
| Total current | 624.4 | 743.0 | 587.2 |
| Deferred: | | | |
| Federal | (63.3) | (75.7) | 18.4 |
| Foreign | 26.2 | (10.8) | (7.9) |
| State | <u>(10.8)</u> | <u>(6.2)</u> | <u>4.6</u> |
| Total deferred | (47.9) | (92.7) | 15.1 |
| Total provision for income taxes | <u>\$ 576.5</u> | <u>\$ 650.3</u> | <u>\$ 602.3</u> |

A reconciliation between the Company's effective tax rate and the U.S. federal statutory rate is as follows:

| Years ended June 30, | 2009 | % | 2008 | % | 2007 | % |
|--|----------|------|----------|------|----------|------|
| Provision for taxes at U.S. statutory rate | \$ 666.6 | 35.0 | \$ 634.2 | 35.0 | \$ 568.2 | 35.0 |

| Increase (decrease) in provision from: | | | | | | |
|---|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| State taxes, net of federal tax | 37.8 | 2.0 | 28.8 | 1.6 | 25.7 | 1.6 |
| Non-deductible stock-based compensation expense | 5.5 | 0.3 | 5.5 | 0.3 | 9.7 | 0.6 |
| Tax on repatriated earnings | 43.0 | 2.2 | - | - | 34.4 | 2.1 |
| Utilization of foreign tax credits | (46.6) | (2.4) | - | - | (26.5) | (1.6) |
| Tax settlements | (120.0) | (6.3) | (12.4) | (0.7) | - | - |
| Other | (9.8) | (0.5) | (5.8) | (0.3) | (9.2) | (0.6) |
| | <u>\$ 576.5</u> | <u>30.3</u> | <u>\$ 650.3</u> | <u>35.9</u> | <u>\$ 602.3</u> | <u>37.1</u> |

The significant components of deferred income tax assets and liabilities and their balance sheet classifications are as follows:

| Years ended June 30, | 2009 | 2008 |
|---|-----------------|-----------------|
| Deferred tax assets: | | |
| Accrued expenses not currently deductible | \$ 270.6 | \$ 190.1 |
| Stock-based compensation expense | 123.1 | 99.7 |
| Accrued retirement benefits | 41.7 | - |
| Net operating losses | 53.0 | 84.8 |
| Other | <u>6.1</u> | <u>25.7</u> |
| | 494.5 | 400.3 |
| Less: valuation allowances | <u>(51.7)</u> | <u>(44.4)</u> |
| Deferred tax assets, net | <u>\$ 442.8</u> | <u>\$ 355.9</u> |
| Deferred tax liabilities: | | |
| Prepaid retirement benefits | \$ - | \$ 44.1 |
| Deferred revenue | 103.4 | 86.3 |
| Fixed and intangible assets | 186.1 | 141.0 |
| Prepaid expenses | 40.2 | 27.4 |
| Unrealized investment gains, net | 154.6 | 46.2 |
| Tax on unrepatriated earnings | 30.4 | 42.1 |
| Other | <u>4.1</u> | <u>9.3</u> |
| Deferred tax liabilities | <u>\$ 518.8</u> | <u>\$ 396.4</u> |
| Net deferred tax liabilities | <u>\$ 76.0</u> | <u>\$ 40.5</u> |

There are \$157.4 million and \$92.3 million of current deferred tax assets included in other current assets on the Consolidated Balance Sheets at June 30, 2009 and 2008, respectively. There are \$44.1 million and \$44.8 million of long-term deferred tax assets included in other assets on the Consolidated Balance Sheets at June 30, 2009 and 2008, respectively. There are \$23.0 million and \$7.6 million of current deferred tax liabilities included in accrued expenses and other current liabilities on the Consolidated Balance Sheets at June 30, 2009 and 2008, respectively.

Income taxes have not been provided on undistributed earnings of certain foreign subsidiaries in an aggregate amount of approximately \$793.0 million as of June 30, 2009, as the Company considers such earnings to be permanently reinvested outside of the United States. The additional U.S. income tax that would arise on repatriation of the remaining undistributed earnings could be offset, in part, by foreign tax credits on such repatriation. However, it is impractical to estimate the amount of net income and withholding tax that might be payable.

annual limitation pursuant to Internal Revenue Code section 382 on the utilization of the Federal net operating loss carry-forwards of approximately \$17.4 million per year. The Company has estimated state net operating loss carry-forwards of approximately \$235.6 million as of June 30, 2009, which expire in 2010 through 2028.

The Company has recorded valuation allowances of \$51.7 million and \$44.4 million at June 30, 2009 and 2008, respectively, to reflect the estimated amount of domestic and foreign deferred tax assets that may not be realized. A portion of the valuation allowances in the amounts of approximately \$2.9 million and \$4.7 million at June 30, 2009 and 2008, respectively, relate to net deferred tax assets which were recorded in purchase accounting. Any recognition of net deferred tax assets in future years will be a reduction to goodwill until the adoption of SFAS No. 141R. Subsequent to the adoption of SFAS No. 141R, any such adjustments in future years will be recorded to our provision for income taxes on the Statements of Consolidated Earnings.

Income tax payments were approximately \$719.1 million, \$755.7 million, and \$718.2 million for fiscal 2009, 2008 and 2007, respectively.

As of June 30, 2009 and 2008, the Company's liabilities for unrecognized tax benefits, which include interest and penalties, were \$92.8 million and \$404.2 million, respectively. The amount that, if recognized, would impact the effective tax rate is \$42.0 million and \$171.2 million, respectively. The remainder, if recognized, would principally affect deferred taxes.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

| | |
|--|-----------------|
| Unrecognized tax benefits at July 1, 2007 | \$ 350.2 |
| Additions for tax positions of the fiscal year ended June 30, 2008 | 23.6 |
| Reductions for tax positions of the fiscal year ended June 30, 2008 | - |
| Additions for tax positions of periods prior to the fiscal year ended June 30, 2008 | 43.2 |
| Reductions for tax positions of periods prior to the fiscal year ended June 30, 2008 | (11.5) |
| Settlements with tax authorities | (1.1) |
| Expiration of the statute of limitations | (4.0) |
| Impact of foreign exchange rate fluctuations | 3.8 |
| Unrecognized tax benefits at June 30, 2008 | <u>\$ 404.2</u> |
| Unrecognized tax benefits at July 1, 2008 | \$ 404.2 |
| Additions for tax positions of the fiscal year ended June 30, 2009 | 19.0 |
| Reductions for tax positions of the fiscal year ended June 30, 2009 | (6.4) |
| Additions for tax positions of periods prior to the fiscal year ended June 30, 2009 | 111.4 |
| Reductions for tax positions of periods prior to the fiscal year ended June 30, 2009 | (207.7) |
| Settlements with tax authorities | (216.9) |
| Expiration of the statute of limitations | (3.5) |
| Impact of foreign exchange rate fluctuations | (7.3) |
| Unrecognized tax benefits at June 30, 2009 | <u>\$ 92.8</u> |

Subsequent to the adoption of FIN 48 on July 1, 2007, interest expense and penalties associated with uncertain tax positions have been recorded in the provision for income taxes on the Statements of Consolidated Earnings. Prior to the adoption of FIN 48 on July 1, 2007, interest expense was recorded in selling, general and administrative expenses. During the fiscal years ended June 30, 2009, 2008 and 2007, the Company recorded interest expense of \$15.5 million, \$18.4 million and \$11.5 million, respectively. At June 30, 2009, the Company had accrued interest of \$29.4 million recorded on the Consolidated Balance Sheets, all of which was recorded within other liabilities. At June 30, 2008, the Company had accrued interest of \$117.6 million recorded on the Consolidated Balance Sheets, of which \$53.5 million was recorded within income taxes payable, and the remainder was recorded within other liabilities. At June 30, 2009, the Company had accrued penalties of \$0.5 million recorded on the Consolidated Balance Sheets, all of which was recorded within other liabilities. At June 30, 2008, the Company had accrued penalties of \$26.9 million, of which \$23.8 million was recorded within income taxes payable, and the remainder was recorded within other liabilities on the Consolidated Balance Sheets.

The Company is routinely examined by the IRS and tax authorities in foreign countries in which it conducts business, as well as tax authorities in states in which it has significant business operations, such as California, Illinois, Minnesota and New Jersey. The tax years currently under examination vary by jurisdiction. Such examinations currently in progress are as follows:

| Taxing Jurisdiction | Fiscal Years under Examination |
|---------------------|--------------------------------|
| U.S. (IRS) | 2007 - 2009 |

| | |
|------------|-------------|
| California | 2004 - 2005 |
| Illinois | 2004 - 2005 |
| Minnesota | 1998 - 2004 |
| New Jersey | 2002 - 2006 |
| France | 2006 - 2008 |

Additionally, Canada has commenced a joint audit with the Province of Ontario for the fiscal years ended June 30, 2005 through June 30, 2007 in the fiscal year ending June 30, 2009 and the Province of Alberta is examining the 2007 tax return.

In June 2009, the Company reached an agreement with the IRS regarding all outstanding tax audit issues with the IRS in dispute for the tax years 1998 through 2006. As a result of the agreement, the Company expects to receive \$264.2 million in refunds from the IRS and other tax jurisdictions and expects to pay \$211.7 million to the IRS and other tax jurisdictions. Consequently, the agreement with the IRS will result in net cash receipts from the IRS and other tax jurisdictions of approximately \$52.5 million during fiscal 2010. The Company had previously recorded a liability for unrecognized tax benefits of \$317.6 million. During fiscal 2009, the Company recorded a benefit to the provision for income taxes of \$99.7 million. The foreign loss from continuing operations before income taxes of \$3.9 million for the fiscal year ended June 30, 2009 includes a cumulative adjustment between domestic and foreign earnings as a result of the IRS audit settlement described above and a related agreement with a foreign tax authority. The foreign benefit for income taxes of \$119.7 million for the fiscal year ended June 30, 2009 reflects the corresponding income tax benefit due to the cumulative adjustment.

In April 2009, the Company settled a state tax matter, for which the Company had previously recorded a liability for unrecognized tax benefits of \$14.2 million and a related deferred tax asset of \$5.1 million. Accordingly, the Company recorded a reduction in the provision for income taxes of \$9.2 million during the fourth quarter of fiscal 2009 related to the reversal of the liability for unrecognized tax benefits and the related deferred tax asset. In addition, the Company received a tax credit of \$11.1 million related to the same matter, which further reduced the provision for income taxes during the fourth quarter of fiscal 2009.

During the fiscal year ended June 30, 2008, the Company recorded a reduction in the provision for income taxes of \$12.4 million, which was primarily related to the settlement of a state tax matter, for which the Company had previously recorded a liability for unrecognized tax benefits of \$7.9 million and a related deferred tax asset of \$2.9 million.

The Company regularly considers the likelihood of assessments resulting from examinations in each of the jurisdictions. The resolution of tax matters is not expected to have a material effect on the consolidated financial condition of the Company, although a resolution could have a material impact on the Company's Statements of Consolidated Earnings for a particular future period and on the Company's effective tax rate.

If certain pending tax matters settle within the next twelve months, the total amount of unrecognized tax benefits may increase or decrease for all open tax years and jurisdictions. Based on current estimates, settlements related to various jurisdictions and tax periods could increase earnings up to \$20.5 million in the next twelve months. We do not expect any cash payments related to unrecognized tax benefits in the next twelve months. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

The Company acquired a business in May 1999 in a stock for stock transaction that was accounted for by the Company as a pooling of interests under Accounting Principles Board Opinion No. 16 "Business Combinations." During fiscal 2008, the Company recorded a tax-basis adjustment to capital in excess of par value on the Statements of Consolidated Stockholders' Equity.

NOTE 16. CONTRACTUAL COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

The Company has obligations under various facilities and equipment leases and software license agreements. Total expense under these agreements was approximately \$293.8 million, \$247.4 million, and \$281.0 million in fiscal 2009, 2008 and 2007, respectively, with minimum commitments at June 30, 2009 as follows:

| | |
|-----------------------|-----------------|
| Years ending June 30, | |
| 2010 | \$ 246.1 |
| 2011 | 207.4 |
| 2012 | 178.9 |
| 2013 | 102.1 |
| 2014 | 46.5 |
| Thereafter | 39.7 |
| | <u>\$ 820.7</u> |

| | | | | | | | | |
|---|------------|------------|------------|----------|------------|-----------|---------|------------|
| for continuing operations | 47.4 | 0.2 | 27.1 | 93.0 | - | - | - | 167.7 |
| Depreciation and amortization | 213.9 | 1.3 | 82.5 | 122.0 | - | - | (111.6) | 308.1 (a) |
| Year ended June 30, 2008 | | | | | | | | |
| Revenues from continuing operations | \$ 6,362.4 | \$ 1,060.5 | \$ 1,391.4 | \$ 5.1 | \$ (27.8) | \$ (15.1) | \$ - | \$ 8,776.5 |
| Earnings from continuing operations before income taxes | 1,615.4 | 104.8 | 233.8 | (245.2) | 4.1 | (15.1) | 114.2 | 1,812.0 |
| Assets from continuing operations | 18,197.8 | 45.3 | 658.2 | 4,833.1 | - | - | - | 23,734.4 |
| Capital expenditures for continuing operations | 87.4 | 1.0 | 38.1 | 59.9 | - | - | - | 186.4 |
| Depreciation and amortization | 251.0 | 1.5 | 86.8 | 94.0 | - | - | (114.2) | 319.1 (a) |
| Year ended June 30, 2007 | | | | | | | | |
| Revenues from continuing operations | \$ 5,816.3 | \$ 884.8 | \$ 1,280.6 | \$ (1.4) | \$ (177.3) | \$ (3.0) | \$ - | \$ 7,800.0 |
| Earnings from continuing operations before income taxes | 1,417.7 | 80.4 | 207.2 | (180.9) | (18.5) | (3.0) | 120.6 | 1,623.5 |
| Assets from continuing operations | 20,406.4 | 115.5 | 619.4 | 5,449.9 | - | - | - | 26,591.2 |
| Capital expenditures for continuing operations | 79.0 | 1.6 | 36.1 | 53.0 | - | - | - | 169.7 |
| Depreciation and amortization | 246.7 | 1.6 | 81.7 | 79.4 | - | - | (120.6) | 288.8 (a) |

(a) Includes \$70.3 million, \$80.6 million and \$79.9 million for the years ended June 30, 2009, 2008 and 2007, respectively, of depreciation and amortization that does not relate to our services and products.

Revenues and assets from continuing operations by geographic area are as follows:

| | United States | Europe | Canada | Other | Total |
|-------------------------------------|---------------|------------|------------|----------|-------------|
| Year ended June 30, 2009 | | | | | |
| Revenues from continuing operations | \$ 7,222.8 | \$ 1,076.5 | \$ 343.4 | \$ 224.4 | \$ 8,867.1 |
| Assets from continuing operations | \$ 21,577.8 | \$ 1,621.8 | \$ 1,851.8 | \$ 300.3 | \$ 25,351.7 |
| Year ended June 30, 2008 | | | | | |
| Revenues from continuing operations | \$ 7,072.7 | \$ 1,119.9 | \$ 388.7 | \$ 195.2 | \$ 8,776.5 |
| Assets from continuing operations | \$ 19,813.4 | \$ 1,951.3 | \$ 1,668.7 | \$ 301.0 | \$ 23,734.4 |
| Year ended June 30, 2007 | | | | | |
| Revenues from continuing operations | \$ 6,422.0 | \$ 919.6 | \$ 323.0 | \$ 135.4 | \$ 7,800.0 |
| Assets from continuing operations | \$ 22,591.8 | \$ 1,815.5 | \$ 1,963.9 | \$ 220.0 | \$ 26,591.2 |

NOTE 19. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Summarized quarterly results of our continuing operations for the two fiscal years ended June 30, 2009 are as follows:

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---------------|----------------|---------------|----------------|
| Year ended June 30, 2009 | | | | |
| Revenues | \$ 2,181.5 | \$ 2,203.3 | \$ 2,374.7 | \$ 2,107.7 |
| Costs of revenues | \$ 1,236.7 | \$ 1,187.5 | \$ 1,218.6 | \$ 1,196.6 |
| Gross profit | \$ 944.8 | \$ 1,015.8 | \$ 1,156.1 | \$ 911.1 |
| Net earnings from continuing operations | \$ 278.0 | \$ 300.4 | \$ 402.5 | \$ 347.4 |

| | | | | |
|---|------------|------------|------------|------------|
| Basic earnings per share from continuing operations | \$ 0.55 | \$ 0.60 | \$ 0.80 | \$ 0.69 |
| Diluted earnings per share from continuing operations | \$ 0.54 | \$ 0.59 | \$ 0.80 | \$ 0.69 |
| Year ended June 30, 2008 | | | | |
| Revenues | \$ 1,992.0 | \$ 2,150.1 | \$ 2,427.2 | \$ 2,207.1 |
| Costs of revenues | \$ 1,092.1 | \$ 1,168.2 | \$ 1,224.4 | \$ 1,195.5 |
| Gross profit | \$ 899.9 | \$ 981.9 | \$ 1,202.8 | \$ 1,011.6 |
| Net earnings from continuing operations | \$ 240.4 | \$ 291.6 | \$ 403.6 | \$ 226.0 |
| Basic earnings per share from continuing operations | \$ 0.45 | \$ 0.56 | \$ 0.78 | \$ 0.44 |
| Diluted earnings per share from continuing operations | \$ 0.45 | \$ 0.55 | \$ 0.77 | \$ 0.43 |

NOTE 20. SUBSEQUENT EVENT (UNAUDITED)

The Company has evaluated subsequent events through August 28, 2009, which is the date the Company filed its Annual Report on Form 10-K for fiscal 2009 with the Securities and Exchange Commission. With the exception of those listed in Notes 9, 11, 14 and below, there are no further subsequent events for disclosure.

On July 1, 2009, a Canadian subsidiary of the Company entered into a foreign exchange forward contract to hedge against foreign exchange fluctuations on a U.S. Dollar denominated short term intercompany amount payable by the Canadian subsidiary to a U.S. subsidiary of the Company. Such amount payable arose as part of the IRS audit settlement and a related agreement with a foreign tax authority, as described in Note 15. The foreign exchange forward contract obligates the Canadian subsidiary to buy \$178.6 million U.S. Dollars at a rate of 1.15 Canadian Dollars to each U.S. Dollar on December 1, 2009.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Attached as Exhibits 31.1 and 31.2 to this Form 10-K are certifications of ADP's Chief Executive Officer and Chief Financial Officer, which are required by Rule 13a-14(a) of the Securities Exchange Act of 1934. This "Controls and Procedures" section should be read in conjunction with the report of Deloitte & Touche LLP that appears on page 69 of this Form 10-K and is hereby incorporated herein by reference.

Management's Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation (the "evaluation"), under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2009 in ensuring that (i) information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

It is the responsibility of Automatic Data Processing, Inc.'s ("ADP") management to establish and maintain effective internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Internal control over financial reporting is designed to

provide reasonable assurance to ADP's management and board of directors regarding the preparation of reliable financial statements for external purposes in accordance with generally accepted accounting principles.

ADP's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADP; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of ADP are being made only in accordance with authorizations of management and directors of ADP; and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of ADP's assets that could have a material effect on the financial statements of ADP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has performed an assessment of the effectiveness of ADP's internal control over financial reporting as of June 30, 2009 based upon criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that ADP's internal control over financial reporting was effective as of June 30, 2009.

Deloitte & Touche LLP, the independent registered public accounting firm that audited and reported on the consolidated financial statements of ADP included in this Annual Report on Form 10-K, has issued an attestation report on the operating effectiveness of ADP's internal control over financial reporting. The Deloitte & Touche LLP attestation report is set forth below.

/s/ Gary C. Butler

Gary C. Butler

President and Chief Executive Officer

/s/ Christopher R. Reidy

Christopher R. Reidy

Chief Financial Officer

Roseland, New Jersey

August 28, 2009

Changes in Internal Control over Financial Reporting

There were no changes in ADP's internal control over financial reporting that occurred during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, ADP's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Automatic Data Processing, Inc.
Roseland, New Jersey

We have audited the internal control over financial reporting of Automatic Data Processing, Inc. and subsidiaries (the "Company") as of June 30, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our

opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended June 30, 2009 of the Company and our report dated August 28, 2009, expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule and includes an explanatory paragraph regarding the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109," effective July 1, 2007, and the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)," effective June 30, 2007.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
August 28, 2009

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers

The executive officers of the Company, their ages, positions and the period during which they have been employed by ADP are as follows:

| Name | Age | Position | Employed by ADP Since |
|----------------------|-----|---|-----------------------|
| Steven J. Anenen | 56 | <i>President, Dealer Services</i> | 1975 |
| James B. Benson | 64 | <i>Vice President, General Counsel and Secretary</i> | 1977 |
| Gary C. Butler | 62 | <i>President and Chief Executive Officer</i> | 1975 |
| Benito Cachinero | 51 | <i>Vice President, Human Resources</i> | 2007 |
| Michael L. Capone | 43 | <i>Vice President and Chief Information Officer</i> | 1988 |
| Raymond L. Colotti | 63 | <i>Vice President and Treasurer</i> | 1995 |
| Edward B. Flynn, III | 49 | <i>Vice President, Employer Services–Sales</i> | 1988 |
| Campbell B. Langdon | 48 | <i>President, Employer Services–Major Accounts Division</i> | 2000 |
| Regina R. Lee | 52 | <i>President, Employer Services–National</i> | 1982 |

| <i>Accounts Division and Employer Services—International</i> | | | |
|--|----|--|------|
| Anish Rajparia | 38 | <i>President, Employer Services—International</i> | 2002 |
| Christopher R. Reidy | 52 | <i>Chief Financial Officer</i> | 2006 |
| Carlos Rodriguez | 45 | <i>President, Employer Services—Small Business Services Division</i> | 1999 |
| Alan Sheiness | 51 | <i>Corporate Controller and Principal Accounting Officer</i> | 1984 |
| Jan Siegmund | 45 | <i>President, Added Value Services and Chief Strategy Officer</i> | 1999 |

Messrs. Benson, Butler and Colotti have each been employed by ADP in senior executive positions for more than the past five years.

Steven J. Anenen joined ADP in 1975. Prior to his promotion to President, Dealer Services in 2004, he served as Senior Vice President, Dealer Services from 1998 to 2004.

Benito Cachinero joined ADP in 2007 as Vice President, Human Resources. Prior to joining ADP, he was Vice President, Human Resources for the Medical Devices & Diagnostics Group of Johnson & Johnson from 2004 to 2007, and Worldwide Vice President, Human Resources for Ethicon, a Johnson & Johnson company, from 2001 to 2004.

Michael L. Capone joined ADP in 1988. Prior to his promotion to Vice President and Chief Information Officer in 2008, he served as Senior Vice President and General Manager of GlobalView from 2005 to 2008, and as Vice President, Corporate Information Systems from 1999 to 2005.

Edward B. Flynn, III joined ADP in 1988. Prior to his promotion to Vice President, Employer Services—Sales in 2009, he served as President, Employer Services – International from 2008 to 2009, as Senior Vice President of Sales for Employer Services, International, from 2004 to 2008, and as Senior Vice President of Sales, Small Business Services, Employer Services from 1988 to 2004.

Campbell B. Langdon joined ADP in 2000. Prior to his promotion to President – Major Account Services Division in 2007, he served as President, Tax, Retirement and Pre-Employment Services from 2003 to 2007.

Regina R. Lee joined ADP in 1982. Prior to her promotion to President, Employer Services – National Account Services and Employer Services – International in 2008, she served as President, National Account Services, Employer Services from 2005 to 2008, as President, Small Business Services, Employer Services from 2004 to 2005, and as Senior Vice President, Service, Small Business Services, Employer Services from 2001 to 2004.

Anish Rajparia joined ADP in 2002. Prior to his promotion to President, Employer Services – International in 2009, he served as President, Employer Services – Europe from 2006 to 2009, as General Manager, Retirement Services, from 2004 to 2006, and as Senior Vice President, Group Marketing and Strategy, Employer Services from 2002 to 2004.

Christopher R. Reidy joined ADP in 2006 as Vice President and Chief Financial Officer. Prior to joining ADP, he was Vice President, Controller and Chief Accounting Officer of the AT&T Corporation from 2003 to 2006.

Carlos Rodriguez joined ADP in 1999. Prior to his promotion in 2007 to President, Small Business Services, Employer Services, he served as President of TotalSource, Employer Services from 2000 to 2007.

Alan Sheiness joined ADP in 1984. Prior to his promotion to Corporate Controller and Principal Accounting Officer, he served as President, Small Business Services, Employer Services, from 2006 to 2007, as Chief Financial Officer, Employer Services, from 2004 to 2005, and as General Manager of Tax, Retirement and Pre-Employment Services, Employer Services, from 2003 to 2004.

Jan Siegmund joined ADP in 1999. Prior to his promotion to President, Added Value Services and Chief Strategy Officer in 2009, he served as President, Added Value Services from 2007 to 2009, as Vice President, Strategic Development from 2004 to 2007, and as Senior Vice President of Strategic Development, Brokerage Services from 2000 to 2004.

Each of ADP's executive officers is elected for a term of one year and until their successors are chosen and qualified or until their death, resignation or removal.

Directors

See "Election of Directors" in the Proxy Statement for the Company's 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

See “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement for the Company’s 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

Code of Ethics

ADP has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The code of ethics may be viewed online on ADP’s website at www.adp.com under “Ethics” in the “About ADP” section. Any amendment to or waivers from the code of ethics will be disclosed on our website within four business days following the date of the amendment or waiver.

Audit Committee

See “Audit Committee Report” in the Proxy Statement for the Company’s 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

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Item 11. Executive Compensation

See “Compensation of Executive Officers” and “Election of Directors – Compensation of Non-Employee Directors” in the Proxy Statement for the Company’s 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See “Election of Directors – Security Ownership of Certain Beneficial Owners and Managers” and “Election of Directors – Equity Compensation Plan Information” in the Proxy Statement for the Company’s 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

See “Election of Directors – Corporate Governance” in the Proxy Statement for the Company’s 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

See “Independent Registered Public Accounting Firm’s Fees” in the Proxy Statement for the Company’s 2009 Annual Meeting of Stockholders, which information is incorporated herein by reference.

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Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

1. Financial Statements

The following report and consolidated financial statements of the Company are contained in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm

Statements of Consolidated Earnings - years ended June 30, 2009, 2008 and 2007

Consolidated Balance Sheets - June 30, 2009 and 2008

2. Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Page in Form 10-K

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All other Schedules have been omitted because they are inapplicable or are not required or the information is included elsewhere in the financial statements or notes thereto.

(b) Exhibits

The following exhibits are filed with this Form 10-K or incorporated herein by reference to the document set forth next to the exhibit in the list below:

- 3.1 - Amended and Restated Certificate of Incorporation dated November 11, 1998 - incorporated by reference to Exhibit 3.1 to Company's Registration Statement No. 333-72023 on Form S-4 filed with the Commission on February 9, 1999
 - 3.2 - Amended and Restated By-laws of the Company - incorporated by reference to Exhibit 3.2 to Company's Current Report on Form 8-K, dated November 13, 2007
 - 10.1 - Separation and Distribution Agreement, dated as of March 20, 2007, between Automatic Data Processing, Inc. and Broadridge Financial Solutions, LLC - incorporated by reference to Exhibit 10.1 to Company's Current Report on Form 8-K, dated March 21, 2007
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- 10.2 - Letter Agreement dated as of June 28, 2006 between Automatic Data Processing, Inc. and Gary C. Butler - incorporated by reference to Exhibit 10.2 to Company's Current Report on Form 8-K, dated June 28, 2006 (Management Contract)
 - 10.3 - Key Employees' Restricted Stock Plan - incorporated by reference to Company's Registration Statement No. 33-25290 on Form S-8 (Management Compensatory Plan)
 - 10.4 - Amended and Restated Supplemental Officers Retirement Plan - incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008 (Management Compensatory Plan)
 - 10.5 - 1989 Non-Employee Director Stock Option Plan - incorporated by reference to Exhibit 10(iii)(A)-#7 to Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Compensatory Plan)
 - 10.6 - Amendment to 1989 Non-Employee Director Stock Option Plan - incorporated by reference to Exhibit 10.6(a) to Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (Management Compensatory Plan)
 - 10.7 - 1994 Directors' Pension Arrangement - incorporated by reference to Exhibit 10(iii)(A)-#10 to Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994 (Management Compensatory Plan)
 - 10.8 - 2000 Stock Option Plan - incorporated by reference to Exhibit 10.8 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2006 (Management Compensatory Plan)
 - 10.9 - Amended and Restated Executive Incentive Compensation Plan - incorporated by reference to Exhibit 10.9 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2006 (Management Compensatory Plan)
 - 10.9(a) - Form of Performance-Based Restricted Stock Award Agreement under the Amended and Restated Executive Incentive Compensation Plan - incorporated by reference to Exhibit 10.9(a) to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2006 (Management Compensatory Plan)
 - 10.10 - Change in Control Severance Plan for Corporate Officers, as amended - incorporated by reference to Company's Current Report on Form 8-K, dated June 16, 2006 (Management Compensatory Plan)

- 10.11 - Amended and Restated Employees' Saving-Stock Option Plan - incorporated by reference to Exhibit 10.11 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2005 (Management Compensatory Plan)
- 10.12 - 2003 Director Stock Plan - incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-147377 on Form S-8 filed with the Commission on November 14, 2007 (Management Compensatory Plan)
- 10.13 - Amended and Restated Employees' Savings-Stock Purchase Plan (Management Compensatory Plan)

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- 10.14 - 364-Day Credit Agreement, dated as of June 24, 2009, among Automatic Data Processing, Inc., the Lenders Party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, Wells Fargo Bank, N.A. as Senior Documentation Agent, and Barclays Bank PLC, BNP Paribas, Citicorp USA, Inc., Deutsche Bank AG New York Branch and Intesa SanPaolo S.p.A, as Documentation Agents - incorporated by reference to Exhibit 10.14 to Company's Current Report on Form 8-K, dated June 24, 2009
 - 10.15 - Five-Year Credit Agreement, dated as of June 28, 2006, among Automatic Data Processing, Inc., the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Barclays Bank PLC, BNP Paribas, Citicorp USA, Inc., Deutsche Bank AG New York Branch and Wachovia Bank National Association, as Documentation Agents - incorporated by reference to Exhibit 10.15 to Company's Current Report on Form 8-K, dated June 30, 2006
 - 10.16 - Five-Year Credit Agreement, dated as of June 29, 2005, among Automatic Data Processing, Inc., the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Barclays Bank PLC, BNP Paribas, Citicorp USA, Inc., Deutsche Bank Securities Inc. and Wachovia Bank, National Association, as Documentation Agents - incorporated by reference to Exhibit 10.16 to Company's Current Report on Form 8-K, dated June 29, 2005
 - 10.17 - 2000 Stock Option Grant Agreement (Form for Employees) used prior to August 14, 2008 – incorporated by reference to Exhibit 10.1 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004 (Management Compensatory Plan)
 - 10.18 - 2000 Stock Option Grant Agreement (Form for French Associates) used prior to August 14, 2008 – incorporated by reference to Exhibit 10.2 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004 (Management Compensatory Plan)
 - 10.19 - 2000 Stock Option Grant Agreement (Form for Non-Employee Directors) used prior to August 14, 2008 – incorporated by reference to Exhibit 10.3 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004 (Management Compensatory Plan)
 - 10.20 - Directors Compensation Summary Sheet – incorporated by reference to Exhibit 10.20 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2007 (Management Compensatory Plan)
 - 10.21 - Letter Agreement, dated as of March 23, 2007, between Automatic Date Processing, Inc. and Benito Cachinero (Management Contract)
 - 10.22 - Letter Agreement, dated as of August 1, 2006, between Automatic Data Processing, Inc. and Christopher R. Reidy – incorporated by reference to Exhibit 10.22 to Company's Current Report on Form 8-K, dated August 2, 2006 (Management Contract)
 - 10.23 - Termination Agreement and Release by and between S. Michael Martone and Automatic Data Processing, Inc. dated November 24, 2008 – incorporated by reference to Exhibit 10.27 to Company's Current Report on Form 8-K, dated November 24, 2008 (Management Contract)
 - 10.24 - 2000 Stock Option Grant Agreement (Form for Employees) for use beginning August 14, 2008 – incorporated by reference to Exhibit 10.25 to Company's Current Report on Form 8-K, dated August 13, 2008 (Management Compensatory Plan)

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- 10.25 - 2008 Omnibus Award Plan - incorporated by reference to Appendix A to the Company's Proxy Statement for its 2008 Annual Meeting of Stockholders filed with the Commission on September 26, 2008 (Management Compensatory Plan)
 - 10.26 - Form of Restricted Stock Award Agreement under the 2008 Omnibus Award Plan – incorporated by reference to Exhibit 10.31 to Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008 (Management Compensatory Plan)
 - 10.27 - Form of Stock Option Grant Agreement under the 2008 Omnibus Award Plan (Form for Non-Employee Directors) used on November

11, 2008 – incorporated by reference to Exhibit 10.27 to Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008 (Management Compensatory Plan)

- 10.28 - Form of Stock Option Grant Agreement under the 2008 Omnibus Award Plan (Form for Non-Employee Directors) for grants after November 11, 2008 – incorporated by reference to Exhibit 10.28 to Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008 (Management Compensatory Plan)
- 10.29 - Form of Stock Option Grant Agreement under the 2008 Omnibus Award Plan (Form for Employees) – incorporated by reference to Exhibit 10.29 to Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008 (Management Compensatory Plan)
- 10.30 - Form of Stock Option Grant Agreement under the 2008 Omnibus Award Plan (Form for French Employees) – incorporated by reference to Exhibit 10.30 to Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008 (Management Compensatory Plan)
- 21 - Subsidiaries of the Company
- 23 - Consent of Independent Registered Public Accounting Firm
- 31.1 - Certification by Gary C. Butler pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2 - Certification by Christopher R. Reidy pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.1 - Certification by Gary C. Butler pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 - Certification by Christopher R. Reidy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

AUTOMATIC DATA PROCESSING, INC.

AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| <u>Column A</u> | (In thousands) | | | | <u>Column E</u> |
|----------------------------------|--------------------------------------|--|--|-----------------|-----------------|
| | <u>Column B</u> | <u>Column C</u> | | <u>Column D</u> | |
| | | Additions | | | |
| | Balance at beginning of period | (1) Charged to costs and expenses | (2) Charged to other accounts | Deductions | |
| Year ended June 30, 2009: | | | | | |
| Allowance for doubtful accounts: | | | | | |
| Current | \$ 38,407 | \$ 48,232 | \$ -- | \$ (38,808)(A) | \$ 47,831 |
| Long-term | \$ 7,938 | \$ 17,949 | \$ -- | \$ (7,853)(A) | \$ 18,034 |
| Deferred tax valuation allowance | \$ 44,430 | \$ 21,243 | \$ (4,563)(B) | \$ (9,420) | \$ 51,690 |
| Year ended June 30, 2008: | | | | | |
| Allowance for doubtful accounts: | | | | | |
| Current | \$ 30,802 | \$ 27,693 | \$ -- | \$ (20,088)(A) | \$ 38,407 |
| Long-term | \$ 8,297 | \$ 2,062 | \$ -- | \$ (2,421)(A) | \$ 7,938 |
| Deferred tax valuation allowance | \$ 31,241 | \$ 4,116 | \$ 15,463(B)(C) | \$ (6,390)(D) | \$ 44,430 |

Year ended June 30, 2007:

Allowance for doubtful accounts:

| | | | | | |
|----------------------------------|-----------|-----------|--------|----------------|-----------|
| Current | \$ 39,210 | \$ 14,095 | \$ -- | \$ (22,503)(A) | \$ 30,802 |
| Long-term | \$ 7,696 | \$ 1,057 | \$ -- | \$ (456)(A) | \$ 8,297 |
| Deferred tax valuation allowance | \$ 21,262 | \$ 9,716 | \$ 263 | \$ -- | \$ 31,241 |

(A) Doubtful accounts written off, less recoveries on accounts previously written off.

(B) Includes amounts related to foreign exchange fluctuation.

(C) Related to state deferred tax assets pertaining to net operating loss carryforwards.

(D) Related to surrender in disposition of subsidiaries, mergers and liquidations.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUTOMATIC DATA PROCESSING, INC.
(Registrant)

August 28, 2009

By /s/ Gary C. Butler
Gary C. Butler
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|--|-----------------|
| <u>/s/ Gary C. Butler</u> (Gary C. Butler) | President and Chief Executive Officer, Director (Principal Executive Officer) | August 28, 2009 |
| <u>/s/ Christopher R. Reidy</u> (Christopher R. Reidy) | Chief Financial Officer (Principal Financial Officer) | August 28, 2009 |
| <u>/s/ Alan Sheiness</u> (Alan Sheiness) | Corporate Controller (Principal Accounting Officer) | August 28, 2009 |
| <u>/s/ Gregory D. Brenneman</u> (Gregory D. Brenneman) | Director | August 28, 2009 |
| <u>/s/ Leslie A. Brun</u> (Leslie A. Brun) | Director | August 28, 2009 |
| <u>/s/ Leon G. Cooperman</u> (Leon G. Cooperman) | Director | August 28, 2009 |
| <u>/s/ Eric C. Fast</u> (Eric C. Fast) | Director | August 28, 2009 |
| <u>/s/ Linda R. Gooden</u> (Linda R. Gooden) | Director | August 28, 2009 |

| | | |
|---|----------|-----------------|
| <u>/s/ R. Glenn Hubbard</u> (R. Glenn Hubbard) | Director | August 28, 2009 |
| <u>/s/ John P. Jones</u> (John P. Jones) | Director | August 28, 2009 |
| <u>/s/ Charles H. Noski</u> (Charles H. Noski) | Director | August 28, 2009 |
| <u>/s/ Sharon T. Rowlands</u> (Sharon T. Rowlands) | Director | August 28, 2009 |
| <u>/s/ Gregory L. Summe</u> (Gregory L. Summe) | Director | August 28, 2009 |

AUTOMATIC DATA PROCESSING, INC.

**AMENDED AND RESTATED EMPLOYEES'
SAVINGS-STOCK PURCHASE PLAN**

The following is an amendment and restatement of the Employees' Savings-Stock Purchase Plan of Automatic Data Processing, Inc., originally adopted on May 2, 1968 and approved by stockholders on October 31, 1968, as amended effective April 30, 2009.

1. **Purpose.** The purpose of the Plan is to provide eligible employees of the Company and its Designated Subsidiaries with a convenient opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. **Definitions.**

(a) "**Administration Committee**" means a committee appointed by the Board. In the absence of a contrary designation by the Board, the Administration Committee shall be the Compensation Committee of the Board.

(b) "**Board**" means the Board of Directors of the Company.

(c) "**Code**" means the United States Internal Revenue Code of 1986, as amended.

(d) "**Common Stock**" means the Common Stock of the Company, par value \$.10 per share.

(e) "**Company**" means Automatic Data Processing, Inc., a Delaware corporation.

(f) "**Compensation**" means the base salary (determined on such date as may be established by the Administration Committee) received by an Employee from the Company or a Designated Subsidiary; provided, however, that for sales Employees "Compensation" may be established using the Company's "sales benefits earnings calculation" in effect from time to time, or such other method as may be determined by the Administration Committee.

(g) "**Continuous Status as an Employee**" means the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of: (i) sick leave, military leave, or other bona fide leave of absence which is required by law to be considered uninterrupted service or which is otherwise approved by the Administration Committee if the period of such leave does not exceed 90 days, or if longer, so long as the individual's right to reemployment as an Employee is guaranteed either by contract or statute; or (ii) transfers between locations of the Company or between and among the Company and its Designated Subsidiaries. For purposes of clarification, the disposition of a Designated Subsidiary shall constitute a termination of the Continuous Status as an Employee of any Employee employed by such Designated Subsidiary.

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(h) "**Contributions**" means all amounts credited to the account of a Participant pursuant to the Plan.

(i) "**Corporate Transaction**" means a sale of all or substantially all of the Company's assets, or a merger, consolidation or other capital reorganization of the Company with or into another corporation, or any other transaction or series of related transactions in which the Company's stockholders immediately prior thereto own less than 50% of the voting stock of the Company (or its successor or parent) immediately thereafter.

(j) "**Designated Broker**" shall mean Smith Barney, or such other institution selected by the Administration Committee.

(k) "**Designated Subsidiaries**" means all Subsidiaries organized under the laws of any state of the United States of America, except with respect to any of such Subsidiaries which the Board or the Administration Committee has determined is not eligible to participate in the Plan; provided, however, that Subsidiaries employing as a service for clients any worksite, leased, or similar type employees under a professional employer, employee leasing, or similar type of employment relationship shall not be Designated Subsidiaries.

(l) "**Employee**" means any person who is an employee of the Company or one of its Designated Subsidiaries for tax purposes and who is customarily employed thereby for at least twenty hours per week.

(m) "**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended.

(n) "**Fair Market Value**" means, for any date, the closing sales price of a Share on the primary exchange on which the Common Stock is traded on such date or, in the event that the Common Stock is not traded on such date, then the immediately preceding trading date.

(o) “ **Maximum Number of Shares** ” means an amount of Shares equal to the quotient of (x) \$12,500 divided by (y) the Fair Market Value of a Share on the first day of the applicable Offering Period.

(p) “ **New Purchase Date** ” shall have the meaning ascribed to it in Section 16(b).

(q) “ **Offering Date** ” means the first day of each Offering Period, as determined in accordance with Section 3.

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(r) “ **Offering Period** ” means the period described in Section 3.

(s) “ **Plan** ” means this Automatic Data Processing, Inc. Amended and Restated Employees’ Savings–Stock Purchase Plan.

(t) “ **Participant** ” means an eligible Employee who has elected to participate in the Plan in accordance with Section 5.

(u) “ **Purchase Date** ” means the last day of each Offering Period.

(v) “ **Purchase Price** ” means an amount equal to 95% of the Fair Market Value of a Share on the Purchase Date for an Offering Period.

(w) “ **Reserves** ” shall have the meaning ascribed to it in Section 16(a).

(x) “ **Rule 16b-3** ” means Rule 16b-3 adopted under Section 16 of the Exchange Act.

(y) “ **Share** ” means a share of Common Stock, as adjusted in accordance with Section 16.

(z) “ **Subsidiary** ” means a corporation which is a “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code.

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3. Offering Periods . The Plan shall be implemented by a series of consecutive Offering Periods commencing on July 2 and January 2 of each calendar year and ending on the following January 1 and July 1, respectively; provided, however, that the Administration Committee may determine that any Offering Period shall commence on a different date and/or be of a different duration.

4. Eligibility . Subject to the requirements of Section 5 and the limitations imposed by Section 423(b) of the Code (and unless different dates are established by the Administration Committee in respect of any Offering Period), a person shall be eligible to participate in an Offering Period if such person is (i) with respect to Offering Periods that commence on July 2, an Employee of the Company or a Designated Subsidiary from the immediately preceding May 25th (or, if such date is not a business day, the next following business day) through and including the Offering Date for such Offering Period and (ii) with respect to Offering Periods that commence on January 2, an Employee of the Company or a Designated Subsidiary from the immediately preceding November 25th (or, if such date is not a business day, the next following business day) through and including the Offering Date for such Offering Period.

5. Participation .

(a) An eligible Employee may become a Participant in respect of an Offering Period by electing to participate in the manner approved by the Administration Committee. An Employee that elects to participate in an Offering Period shall do so prior to the tenth day preceding the first day of the applicable Offering Period (or, if such date is not a business day, the next following business day), unless a different time for electing to participate is set by the Administration Committee.

(b) A Participant’s election shall indicate either a fixed dollar amount or a non-fractional percentage of such Participant’s Compensation, in either case, as may be determined by the Administration Committee, to be contributed during the applicable Offering Period; provided, however, that (i) a Participant’s election shall be subject to the limitations of Section 7(b), and (ii) a Participant shall not be entitled to elect more than 5% of such Participant’s Compensation.

6. Method of Payment of Contributions .

(a) Payroll deductions shall be made from a Participant’s Compensation during an Offering Period in an aggregate amount equal to the Participant’s contribution election for such Offering Period. All payroll deductions made by a Participant shall be credited to his or her account under the Plan. Participant may not make a prepayment or any additional payments into such account. Payroll deductions in respect of any Offering

Period shall commence on the first full payroll following the first day of the associated Offering Period and shall end on the last payroll paid on or prior to the Purchase Date of such Offering Period, unless sooner terminated by the Participant as provided in Section 10.

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(b) A Participant may elect at any time during an Offering Period (but with prospective effect only) to reduce (but not increase) the payroll deduction percentage he or she has elected in respect of such Offering Period in accordance with such procedures as may be established by the Administration Committee.

(c) Participants on an authorized leave of absence during an Offering Period may continue to participate in such Offering Period; provided, however, that a Participant on an authorized leave of absence will have contributions suspended during such leave of absence and, absent any other instruction from such Participant, such contributions will resume upon the next payroll following such Participant's return from such leave of absence.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 7(b) herein, a Participant's payroll deductions may be decreased by the Company to zero during any Offering Period.

7. Grant of Option .

(a) On each Offering Date, each Participant shall be deemed to have been granted an option to purchase as many Shares (rounded down to the nearest whole Share) as may be purchased with his or her Contributions during the related Offering Period at the Purchase Price; provided, however, that such option shall be subject to the limitations set forth in Section 7(b) below, Section 11, and may be reduced pursuant to Section 6, in each case, if applicable.

(b) Notwithstanding any contrary provisions of the Plan, each option to purchase Shares under the Plan shall be limited as necessary to prevent any Employee from (i) immediately after the grant, owning capital stock of the Company and holding outstanding options to purchase capital stock of the Company possessing, in the aggregate, more than five percent of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary, including for this purpose any stock attributed to such Employee pursuant to Section 424(d) of the Code, (ii) acquiring rights to purchase stock under all employee stock purchase plans (as described in Section 423 of the Code or any other similar arrangements maintained by the Company or any of its Subsidiaries) of the Company and its Subsidiaries which accrue at a rate that exceeds \$25,000 of the Fair Market Value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding and exercisable at any time or (iii) purchasing, in respect of any Offering Period, more than the Maximum Number of Shares.

8. Exercise of Option; Interest .

(a) Unless a Participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of Shares will be exercised automatically on each Purchase Date, and the number of full Shares subject to the option will be purchased at the applicable Purchase Price with the accumulated Contributions in his or her account. No fractional Shares shall be issued. Interest on Contributions (as calculated in accordance with Section 8(c)) and any amounts accumulated in a Participant's account that are not used to purchase Shares (including any amount that is not sufficient to purchase a full Share) shall be refunded to the Participant in cash. Notwithstanding Section 9 below, the Shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the Participant as of the Purchase Date. During his or her lifetime, a Participant's option to purchase Shares hereunder is exercisable only by him or her.

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(b) At the time an option granted under the Plan is exercised, in whole or in part, or at the time some or all of the Common Stock issued to a Participant under the Plan is disposed of, the Participant must make adequate provisions for any applicable federal, state or other tax withholding obligations, if any, which arise upon the Purchase Date or the disposition of the Common Stock. At any time, the Company or a Designated Subsidiary may, but will not be obligated to, withhold from the Participant's compensation the amount necessary to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to the sale or disposition of Common Stock by the Participant earlier than as described in Section 423(a)(1) of the Code.

(c) Each Participant's account shall be credited daily with interest at an annual rate determined by the Administration Committee and such interest shall be compounded daily.

9. Delivery . As promptly as practicable after each Purchase Date, the number of Shares purchased by each Participant upon exercise of his or her option shall be deposited into an account established in the Participant's name with the Designated Broker. The Administration Committee may determine that, for eighteen months following each Purchase Date, no Share purchased on such Purchase Date may be transferred out of such Participant's account with the Designated Broker other than in connection with the "disposition," as such term is used in Section 423(a)(1) of the Code, of such Share.

10. Voluntary Withdrawal; Termination of Employment .

(a) A Participant may withdraw all but not less than all the Contributions credited to his or her account under the Plan at any time prior to each Purchase Date by giving written notice to the Company in the manner directed by the Company. All of the Participant's Contributions, plus any interest, credited to his or her account with respect to an Offering Period will be paid to him or her as soon as administratively practicable after receipt of his or her notice of withdrawal, his or her option for the current Offering Period will be automatically terminated, and no further Contributions for the purchase of Shares may be made by the Participant with respect to such Offering Period. A Participant's withdrawal from the Plan during an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding Offering Period or in any similar plan that may hereafter be adopted by the Company.

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(b) Upon termination of the Participant's Continuous Status as an Employee prior to a Purchase Date for any reason, including retirement or death, the Contributions, plus any interest, credited to his or her account will be returned to him or her and his or her option will be automatically terminated; provided, however, that in the event of the death of a Participant, the Company shall deliver the Contributions, plus any interest, to the executor or administrator of the estate of the Participant or, if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such amounts to the spouse or to any one or more dependents or relatives of the Participant.

11. Shares .

(a) Subject to adjustment as provided in Section 16, the maximum number of Shares which shall be made available for sale under the Plan shall be 60,000,000. If the Administration Committee determines at any time that, on a given Purchase Date, the number of Shares with respect to which options are to be exercised may exceed the number of Shares that are available for sale under the Plan on such Purchase Date, the Board or the Administration Committee may in its discretion provide (x) that the Company shall make a pro rata allocation of the Shares available for purchase on such Purchase Date, in as uniform a manner as shall be practicable and as it shall determine to be equitable among all Participants exercising options to purchase Common Stock on such Purchase Date, and continue all Offering Periods then in effect, or (y) that the Company shall make a pro rata allocation of the Shares available for purchase on such Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine to be equitable among all Participants exercising options to purchase Common Stock on such Purchase Date, and terminate any or all Offering Periods then in effect pursuant to Section 17 below.

(b) The Participant shall have no interest or voting right in Shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a Participant under the Plan will be registered in the name of the Participant.

12. Administration .

(a) Subject to the express provisions of the Plan, the Administration Committee shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The authority of the Administration Committee includes, without limitation, the authority to (i) determine procedures for setting or changing payroll deduction percentages, and obtaining necessary tax withholdings, and (ii) adopt amendments to the Plan in accordance with Section 17. The determinations of the Administration Committee shall be final, binding, and conclusive.

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(b) The Board and the Administration Committee may delegate any or all of their authority and obligations under this Plan to such committee or committees (including without limitation, a committee of the Board) or officer(s) of the Company as they may designate. Notwithstanding any such delegation of authority, the Board may itself take any action under the Plan in its discretion at any time, and any reference in this Plan document to the rights and obligations of the Administration Committee shall be construed to apply equally to the Board. Any references to the Board mean only the Board.

13. Transferability . Neither amounts accumulated in a Participant's account nor any rights with regard to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 10) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

14. Use of Funds . All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

15. Reports . Statements of account will be made available to Participants by the Company or the Designated Broker in the form and manner designated by the Administration Committee.

16. Adjustments Upon Changes in Capitalization; Corporate Transactions.

(a) Adjustment. Subject to any required action by the stockholders of the Company, (i) the number of Shares covered by each option under the Plan that has not yet been exercised, (ii) the number of Shares that have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the “**Reserves**”), and (iii) the number of Shares set forth in Section 11 above, shall, if applicable, be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, subdivision, combination or reclassification of the Common Stock (including any such change in the number of shares of Common Stock effected in connection with a change in domicile of the Company), or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company, or any increase or decrease in the value of a Share resulting from a spin-off or split-up; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Administration Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an option.

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(b) Corporate Transactions. In the event of a dissolution or liquidation of the Company, any Offering Period then in progress will terminate immediately prior to the consummation of such action, unless otherwise provided by the Board. In the event of a Corporate Transaction, each option outstanding under the Plan shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or subsidiary of such successor corporation. In the event that the successor corporation refuses to assume or substitute for outstanding options, each Offering Period then in progress shall be shortened and a new Purchase Date shall be set (the “**New Purchase Date**”), as of which date any Offering Period then in progress will terminate. The New Purchase Date shall be on or before the date of consummation of the Corporate Transaction and the Board shall notify each Participant in writing, at least ten days prior to the New Purchase Date, that the Purchase Date for his or her option has been changed to the New Purchase Date and that his or her option will be exercised automatically on the New Purchase Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 10. For purposes of this Section 16, an option granted under the Plan shall be deemed to be assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Corporate Transaction, each holder of an option under the Plan would be entitled to receive upon exercise of the option the same number and kind of Shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to the transaction, the holder of the number of shares of Common Stock covered by the option at such time (after giving effect to any adjustments in the number of Shares covered by the option as provided for in this Section 16); provided, however, that if the consideration received in the transaction is not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in Fair Market Value to the per Share consideration received by holders of Common Stock in the transaction.

(c) Sales of Designated Subsidiaries and Business Units. In the event the Company consummates the sale or transfer of a Designated Subsidiary, business unit or division to an unaffiliated person or entity, or the spin-off of a Designated Subsidiary, business unit or division to shareholders during an Offering Period, the Contributions, plus any interest thereon (if any), credited to the account of each Participant employed by such Designated Subsidiary, business unit or division, as applicable, as of the time of such sale, transfer or spin-off with respect to the offering to which such Offering Period relates, will be returned to the Participant and the Participant’s option will be automatically terminated.

(d) Other Adjustments. The Administration Committee may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per Share covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company’s being consolidated with or merged into any other corporation.

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17. Amendment or Termination.

(a) The Board may at any time and for any reason terminate the Plan. Except as provided in Section 16, no such termination of the Plan may affect options previously granted, provided that the Plan or an Offering Period may be terminated by the Board on a Purchase Date or by the Board’s setting a new Purchase Date with respect to an Offering Period then in progress if the Board determines that termination of the Plan and/or the Offering Period is in the best interests of the Company and the stockholders or if continuation of the Plan and/or the Offering Period would cause the Company to incur adverse accounting charges as a result of a change after the effective date of the Plan in the generally accepted accounting principles applicable to the Plan. Either the Board or the Administration Committee may amend the Plan, provided, however, that the Administration Committee may amend the Plan only to the extent required to comply with applicable law. Except as provided in Section 16 and in this Section 17, no amendment to the Plan shall make any change in any option previously granted that adversely affects the rights of any Participant. In addition, to the extent necessary to comply with Rule 16b-3 or Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as so required.

(b) Without stockholder consent and without regard to whether any Participant rights may be considered to have been adversely affected, the

Board or the Administration Committee shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Board or the Administration Committee determines in its sole discretion advisable that are consistent with the Plan.

18. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

19. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable state securities laws and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

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As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

20. Term of Plan; Effective Date. The Plan was originally adopted by the Board on May 2, 1968, and approved by the Company's stockholders on October 31, 1968, and has been amended and approved by stockholders from time to time since then. The Plan, as amended and restated herein, is effective as of April 30, 2009 and shall continue in force and effect until terminated under Section 17.

21. Additional Restrictions of Rule 16b-3. The terms and conditions of options granted hereunder to, and the purchase of Shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such options shall contain, and the Shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

March 23, 2007

Benito Cachinero-Sanchez
140 Top of the World Way
Green Brook, NJ 08812

Dear Benito:

This employment agreement outlines our understandings concerning your position as the Corporate Vice President of Human Resources of Automatic Data Processing, Inc. ("ADP").

ADP and you agree as follows:

1. **Employment and Term**

a. Effective April 4, 2007 (hereinafter "Effective Date"), you shall be employed by ADP as its Corporate Vice President of Human Resources reporting to Gary Butler, ADP's Chief Executive Officer. The position will be graded as an Executive Grade Level B.

b. You shall devote your full business time, energy and skill, on an exclusive basis, to the business and affairs of ADP and will use your business time, energy and skill to promote the business and interests of ADP and any and all of the ADP divisions, subsidiaries and affiliates.

c. As a condition of your employment, you agree to abide by and be bound by the terms, conditions and provisions of Exhibit A ("the Restrictive Covenant") which are incorporated by reference into this employment agreement. This obligation survives the term of this employment agreement.

2. **Compensation and Benefits**

a. As of the Effective Date, ADP shall initially pay you a salary of \$375,000 per annum. You can anticipate a merit salary review on or before April 2008. Your salary will be paid on a monthly basis.

b. Your initial target bonus for each fiscal year (i.e. July 1 to June 30) shall be 60% of your salary. Your Fiscal Year '07 bonus shall be 25% of your targeted Fiscal Year '07 bonus.

c. ADP shall pay you a one-time sign-on bonus of \$100,000 within 30 days of the Effective Date. If you voluntarily leave ADP before the end of your 2nd year of employment (other than for disability or death), you must repay to ADP such bonus payment of \$100,000.



d. As of the Effective Date, you shall also be entitled to participate in all of ADP's pension, 401(k), medical and health, life, accident, disability and other insurance programs, stock purchase plans, ADP's Executive Fleet Program and other plans and arrangements that are generally available to other ADP Grade Level B executives in accordance with their terms.

e. You will receive four weeks of paid vacation per year during your first five years of employment. To accommodate your desire to take time off before beginning work at ADP, you will be on paid vacation for no more than ten (10) working days from Effective Date and this paid vacation will not be counted against your four week annual paid vacation entitlement.

3. Restricted Stock.

a. You shall receive the following grants of ADP time-based restricted stock within 30 days of the Effective Date: (i) the number of shares whose total value based upon the price of ADP shares on the Effective Date (i.e. the average of the high and low stock price) equals \$400,000. The restrictions on these shares will lapse on January 1, 2008; (ii) the number of shares whose total value based upon the price of ADP shares on the Effective Date equals \$600,000. The restrictions on these shares will lapse as follows: (a) 50% on January 1, 2009 and (b) 50% on January 1, 2010. The above and any subsequent grants of restricted stock that may be made to you from time-to-time shall be subject to the terms and policies governing ADP's Key Employees' Restricted Stock Plan.

b. You are eligible to participate in the FY'07 Performance Based Restricted Stock Plan which is effective July 1, 2006. Grants will be made under this plan based on ADP achieving 2-year performance objectives. If the 2-year performance objectives are achieved then you will receive 8,000 shares of Restricted Stock in September 2008. The performance range on this plan is 75 - 125% of target (a zero grant is possible with below threshold ADP performance). These restricted shares will vest in March 2009. These shares are not subject to adjustment after the spin-off of Broadridge.

4. Stock Options.

a. You shall be offered an initial stock option grant of 40,000 shares after the first meeting of the Compensation Committee of the Board of Directors following the Effective Date. If the grant, along with the restrictive covenants, is accepted, such options will vest in accordance with the terms of the grant (including a six-year vesting schedule with no options vesting in the first year). Additional grants are currently forecasted to be approximately 17,000 options per year. Such grants are presently made in January. Accordingly, a second grant shall be made to you in January 2008.



5. **SORP**

a. As an officer of ADP, you shall be eligible to participate in the Automatic Data Processing, Inc. Supplemental Officers Retirement Plan (the "SORP") in accordance with the provisions of the SORP.

b. In the event ADP terminates your employment for any reason other than "for cause" before your 55th birthday, ADP shall pay you, in addition to any amounts owed under any benefit plan (including but not limited to the SORP) or otherwise, an amount as follows:

- (i) if the date is while you are 50 years old, the amount of \$47,998;
- (ii) if the date is while you are 51 years old, the amount of \$96,713;
- (iii) if the date is while you are 52 years old, the amount of \$147,367;
- (iv) if the date is while you are 53 years old, the amount of \$202,094;
- (v) if the date is while you are 54 years old, the amount of \$53,312; and
- (vi) no payment is due if the date is after you have reached the age of 55.

6. **Termination and Severance Payments.**

If your employment with ADP is terminated, you will receive the following compensation:

a. If you are discharged for cause, ADP's obligation to make future payments to you shall cease on the date of such discharge. As used herein, the term "for cause" shall cover circumstances where ADP elects to terminate your employment because you have (i) been convicted of a or pled nolo contendere to a criminal act for which the punishment under applicable law may be death or imprisonment for more than one year, (ii) willfully or recklessly failed or refused to perform your material obligations as Corporate Vice President of Human Resources and such failure or refusal shall continue during the 30 day period following the receipt by you of written notice from ADP of such failure or refusal, (iii) committed any act or omission of gross negligence in the performance of your material duties hereunder and failed to take appropriate corrective action, if such act or omission is susceptible of correction, during the 30 day period following the receipt by you of written notice from ADP of such act or omission of gross negligence, (iv) committed any act of willful or reckless misconduct, or (v) violated ADP's Code of Business Conduct and Ethics, a copy of which can be found at www.adp.com under "About ADP", Ethics, Code of Business Conduct and Ethics. Notwithstanding anything in this paragraph, if you are discharged "for cause," ADP will pay all vested or accrued wages, vacation, sick pay, expense reimbursement, bonuses, and dividends to you on the date of such discharge.



b. Without restriction to the provisions of sections 6d or 6e below, if your death occurs while you are actively employed by ADP, ADP's obligation to make future payments to you shall cease on the date of your death. Notwithstanding the foregoing, if your death occurs while you are actively employed by ADP, the following shall occur:

- (i) ADP will pay all vested or accrued wages, vacation, sick pay, expense reimbursement, bonuses, and dividends to your estate;
- (ii) the restrictions on your time-based restricted stock shall lapse;
- (iii) your estate shall have one year to exercise stock options that have vested by the date of your death;
- (iv) depending upon your age and length of service, your spouse and eligible dependents may be eligible to participate in the Executive Retiree Medical Plan pursuant to the terms of that Plan; and
- (v) your beneficiary will receive the amount due, if any, under paragraph 5b by treating the date of your death as the date ADP terminated your employment for a reason other than "for cause."

c. If, within three years of the Effective Date, you elect to resign your employment with ADP in response to a Change of Control¹ or material change in your job duties or responsibilities (including but not limited to a negative change in your Executive Grade Level or a change in your reporting relationship to ADP's Chief Executive Officer) you will be paid the amount set forth in paragraph 6d below. If, at a point in time more than three years from full execution of this letter, you elect to resign your employment with ADP in response to a material change in your job duties or responsibilities (including but not limited to a Change of Control or negative change in your Executive Grade Level or a change in your reporting relationship to ADP's Chief Executive Officer) you will be paid the amount set forth in paragraph 6e below. If you elect to resign from ADP for a reason other than in response to a Change of Control or material change in your job duties or responsibilities (including but not limited to a negative change in your Executive Grade Level or a change in your reporting relationship to ADP's Chief Executive Officer), ADP's obligation to make future payments to you shall cease on the date your employment ends. Nothing in this paragraph shall be deemed to affect your rights to any vested or accrued wages, vacation, sick pay, expense reimbursement, bonuses, dividends, stock, or stock options upon your resignation.

d. If, within three years of the Effective Date, ADP terminates your employment for any reason other than "for cause" as described in paragraph 6a or upon your death as set forth in paragraph 6b, you will be paid an amount totaling

¹ "Change of Control" as used herein shall mean the sale or transfer of all or substantially all of the assets of ADP to any other person, corporation, firm or entity, or the merger or consolidation of ADP with any other corporation or entity



two times your then annual salary, target bonus and the cash value of performance based shares that would have otherwise been earned during the 12 month severance period. ADP will calculate the value of those shares based on the performance metrics for the performance period then ending. You shall also be able to keep (and all restrictions will lapse) the time-based restricted stock described in paragraph 3a.

e. If, at a point in time more than three years from the Effective Date, ADP terminates your employment for any reason other than "for cause" as described in paragraph 6a or upon your death as set forth in paragraph 6b, you will be paid an amount totaling your then annual salary, target bonus and the cash value of performance based shares that would have otherwise been earned during the 12 month severance period. ADP will calculate the value of those shares based on the performance metrics for the performance period then ending.

7. **Miscellaneous**

a. All notices shall be sent to the parties by hand delivery or by certified or registered mail at the addresses set forth above or to any changed address which may be given in writing hereafter. All notices to ADP shall include two copies to ADP at One ADP Boulevard, Roseland, New Jersey 07068 (one copy to the attention of its General Counsel and the other copy to the attention of its Chief Executive Officer). Unless hand delivered, notices shall be deemed given three business days following the date deposited in the U.S. mails or one business day following the date of delivery to a nationally recognized overnight courier service.

b. In the event that this employment agreement or any provision hereof is declared invalid, unenforceable or illegal by any court, agency, commission or arbitrator(s) having jurisdiction hereof or thereof, neither party shall have any cause of action or claim against the other by reason of such declaration of invalidity, unenforceability or illegality; and any such declaration concerning any provision hereof shall not affect, impair or invalidate the remainder of this employment agreement, but shall be confined in its operation to that provision hereof only and the remainder of this employment agreement shall remain in full force and effect.

c. This employment agreement may not be changed, modified or amended in any manner except by an instrument in writing signed by all parties hereto.

d. This employment agreement is personal to each of the parties hereto and no party hereto may assign or delegate any of its rights or obligations hereunder without first obtaining the written consent of the other party.

e. The headings contained in this employment agreement are for reference purposes only and shall not affect the meaning or interpretation of this employment agreement.




f. No failure or delay on the part of any party hereto in the exercise of any right hereunder in enforcing or requiring the compliance or performance by the other party of any of the terms and conditions of this employment agreement shall operate as a waiver of any such right, or constitute a waiver of a breach of any such terms and conditions, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right, nor shall any of the aforementioned failures or delays affect or impair such rights generally in any way. The waiver by any party of a breach of any term or condition of this employment agreement by the other party shall neither operate as nor be construed as a waiver of any subsequent breach thereof.

g. This employment agreement and its validity, construction and performance shall be governed in all respects by the laws of the State of New Jersey, without giving effect to its conflicts of laws principles. Any lawsuits arising out of or in connection with this employment agreement shall be brought in the Superior Court of New Jersey, Morris County, or the Federal District Court of the District of New Jersey. You and ADP hereby consent to the jurisdiction and venue of such courts you and ADP waive any right to a trial by jury of any such lawsuit.

If the foregoing correctly sets forth our understandings, please sign this employment agreement where indicated, whereupon it will become a binding agreement between us.

Automatic Data Processing, Inc.

By:


Gary Butler, Chief Executive Officer

Accepted and Agreed:

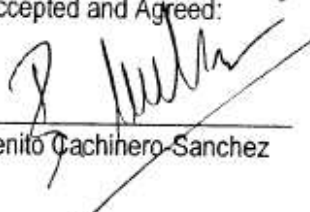

Benito Cachinero-Sanchez



EXHIBIT A



Self
BL

Restrictive Covenant

In my position(s) with Automatic Data Processing, Inc., its subsidiaries and affiliates (collectively "ADP"), I participate in policy decisions and have access to ADP's confidential information and trade secrets. I enjoy substantial compensation and benefits from ADP and am participating substantially in its 2000 Stock Option Plan. Since it is in ADP's best interests that all employees in executive positions execute restrictive covenants, I agree as follows:

1. During the period that I am an ADP employee and ending twelve months after the date I cease to be an ADP employee for any reason whatsoever (the "Non-Competition Period"), I will not, provided that I have been an ADP employee for at least six months, directly or indirectly, become or be interested in, employed by, or associated with in any capacity, any person, corporation, partnership or other entity whatsoever (a "Person") engaged in any aspect of ADP's businesses or businesses ADP has formal plans to enter on the date I cease to be an ADP employee (the "Termination Date"), in a capacity which is the same or similar to any capacity in which I was involved during the last two years of my employment by ADP. The restrictions set forth in this paragraph 1 shall apply only to the businesses or businesses that ADP has formal plans to enter with which I was involved. After the Termination Date, however, nothing shall prevent me from owning, as an inactive investor, securities of any competitor of ADP which is listed on a national securities exchange. Furthermore, after the Termination Date, I may become employed in a separate, autonomous division of a corporation provided such division is not a competitor of ADP.
2. During and after my employment by ADP, I will not use, or disclose to any Person any confidential information, trade secrets and proprietary information of ADP, its vendors, licensors, marketing partners or clients, learned by me during my employment and/or any of the names and addresses of clients of ADP. I acknowledge that I am prohibited from taking any confidential, proprietary or other materials or property of ADP with me upon termination of my employment. Upon termination of my employment, I shall return all ADP materials (including, without limitation, all memoranda and notes containing the names, addresses and/or needs of ADP clients and bona fide prospective clients) in my possession or over which I exercise control, regardless of whether such materials were prepared by ADP, me or a third party.
3. During the Non-Competition Period, I shall not, on my behalf or on behalf of any other Person, directly or indirectly, solicit, contact, call upon, communicate with or attempt to communicate with any Person which was a client or a bona fide prospective client of ADP before the Termination Date to sell (license or lease) any software or service competitive or potentially competitive with any software or services sold, licensed, leased, provided or under development by ADP during the two-year period prior to the Termination Date, provided that the restrictions set forth in this paragraph 3 shall only apply to clients or bona fide prospective clients of businesses of ADP with which I was involved.
4. During the Non-Competition Period, I will not, directly or indirectly, hire, contract with, solicit, or encourage to leave ADP's employ any ADP employee, or hire or contract with any former ADP employee within one year after the date such person ceases to be an ADP employee.
5. During my employment by ADP, I shall not accept any position (unless such position is to commence after my employment ceases), compensation, reimbursement or funds, or their equivalent, from any Person engaged in any business in which ADP is engaged.
6. A violation of the foregoing covenants not to compete, not to disclose, not to solicit and not to hire will cause irreparable injury to ADP. ADP shall be entitled, in addition to any other rights and remedies it may have at law or in equity, to an injunction enjoining and restraining me from performing, and continuing in the performance of, any such violation.
7. I understand and acknowledge that ADP shall have the sole and exclusive rights to anything



relating to its actual or prospective business which I conceive or work on, either in whole or in part, while employed by ADP and that all such work product may be property of ADP as "works for hire" under federal copyright law and may also constitute ADP confidential and proprietary information. Accordingly, I:

- (a) will promptly and fully disclose all such items to ADP and will not disclose such items to any other person or entity without ADP's prior consent;
- (b) will maintain on ADP's behalf and surrender to ADP upon termination of my employment appropriate written records regarding all such items;
- (c) will, but without personal expense, fully cooperate with ADP, execute all papers and perform all acts requested by ADP to establish, confirm or protect its exclusive rights in such items or to enable it to transfer legal title to such items, together with any patents that may be issued;
- (d) will, but without personal expense, provide such information and true testimony as ADP may request regarding such items including, without limitation, items which I neither conceived nor worked on but regarding which I have knowledge because of my employment with ADP;
- (e) hereby assign to ADP, its successors and assigns, exclusive right, title and interest in and to all such items, including any patents which have been or may be issued; and
- (f) state that only such items in which I personally hold or claim an interest and which are not subject to this Agreement are listed on the Ownership Schedule attached hereto. The absence of an Ownership Schedule means that no such items exist.

8. My obligations under this Agreement shall be binding upon me regardless of which office(s) of ADP I am employed at or position(s) I hold and shall inure to the benefit of any successors or assigns of ADP. This Agreement supplements and does not supersede any prior agreement(s) on the subject matter addressed herein.

9. If any provision of this Agreement is invalid or unenforceable, the balance of this Agreement shall remain in effect. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New Jersey. I acknowledge that the terms of this Agreement are reasonable and that I have had a reasonable opportunity to consult with an attorney before agreeing to the terms of this Agreement.





| <u>Name of Subsidiary</u> | <u>Jurisdiction of Incorporation</u> |
|--|--------------------------------------|
| 71 Hanover Florham Park Associates LLC | New Jersey |
| ADP Atlantic, LLC | Delaware |
| ADP Belgium CVA | Belgium |
| ADP Brasil Ltda | Brazil |
| ADP Broker-Dealer, Inc. | New Jersey |
| ADP Business Services (Shanghai) Co., Ltd. | China |
| ADP Canada Co. | Canada |
| ADP Canada Holding Co. | Canada |
| ADP Commercial Leasing, LLC | Delaware |
| ADP Dealer Services Denmark ApS | Denmark |
| ADP Dealer Services Deutschland GmbH | Germany |
| ADP Dealer Services France SAS | France |
| ADP Dealer Services Italia s.r.l. | Italy |
| ADP Dealer Services UK Limited | United Kingdom |
| ADP Employer Services GmbH | Germany |
| ADP Europe SARL | France |
| ADP Europe S.A. | France |
| ADP France SAS | France |
| ADP GlobalView B.V. | Netherlands |
| ADP Group UK Limited | United Kingdom |
| ADP GSI France SAS | France |
| ADP Holding B.V. | Netherlands |
| ADP, Inc. | Delaware |
| ADP Indemnity, Inc. | Vermont |
| ADP Nederland B.V. | Netherlands |
| ADP Network Services International, Inc. | Delaware |
| ADP Network Services Limited | United Kingdom |
| ADP of Roseland, Inc. | Delaware |
| ADP Pacific, Inc. | Delaware |
| ADP Payroll Services, Inc. | Delaware |
| ADP Pleasanton National Service Center, Inc. | Delaware |
| ADP Screening and Selection Services, Inc. | Colorado |
| ADP Tax Services, Inc. | Delaware |
| ADP Tesoft Automocion Spain | Spain |
| ADP TotalSource Group, Inc. | Florida |
| ADP Vehicle Information Technology (Shanghai) Co., Ltd | China |
| Automatic Data Processing Limited | Australia |
| Automatic Data Processing Limited (UK) | United Kingdom |
| Automotive Directions, Inc. | Wisconsin |
| Autosys GmbH | Germany |
| Business Management Software Limited | United Kingdom |
| Digital Motorworks, Inc. | Texas |
| Employease, Inc. | Delaware |
| VirtualEdge, Inc. | Delaware |

In accordance with Item 601(b)(21) of Regulation S-K, the Company has omitted the names of particular subsidiaries because the unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not have constituted a significant subsidiary as of June 30, 2009.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-46168, 333-10281, 333-10277, 333-110393, 333-146565, 333-147377, and 333-155382 on Form S-8 of our report dated August 28, 2009, relating to the consolidated financial statements and consolidated financial statement schedule of Automatic Data Processing, Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting (which expresses an unqualified opinion and includes an explanatory paragraph regarding the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--An Interpretation of FASB Statement No. 109," effective July 1, 2007 and the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statement No. 87, 88, 106, and 132 (R)," effective June 30, 2007) appearing in this Annual Report on Form 10-K of Automatic Data Processing, Inc. for the year ended June 30, 2009.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
August 28, 2009

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Gary C. Butler, certify that:

1. I have reviewed this annual report on Form 10-K of Automatic Data Processing, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2009

/s/ Gary C. Butler
Gary C. Butler
President and Chief Executive Officer

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Christopher R. Reidy, certify that:

1. I have reviewed this annual report on Form 10-K of Automatic Data Processing, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2009

/s/ Christopher R. Reidy
Christopher R. Reidy
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Automatic Data Processing, Inc. (the "Company") on Form 10-K for the fiscal year ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary C. Butler, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gary C. Butler

Gary C. Butler

President and Chief Executive Officer

Date: August 28, 2009

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Automatic Data Processing, Inc. (the "Company") on Form 10-K for the fiscal year ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher R. Reidy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher R. Reidy
Christopher R. Reidy
Chief Financial Officer
August 28, 2009
