



2009 LETTER TO SHAREHOLDERS



Gary Butler, ADP President & CEO

Fiscal 2009 was in many ways the most challenging year of my nearly 35 years at ADP. As we began the fiscal year, we anticipated some level of economic headwinds continuing from the prior year. However, early in fiscal 2009, extreme volatility in the financial markets

sparked what became the deepest recession in decades. Businesses across all industries and geographies were impacted in some way by the extraordinary stress in the economy over the past year. As a result, fiscal 2009 was not business as usual for ADP.

- Rising unemployment reduced the number of employees on our clients' payrolls.
- Frozen credit markets and economic uncertainty hindered business spending and fewer new businesses were formed, impacting Employer Services' ability to sell new services. Prospects were still in the pipeline, but spending at many companies, especially larger companies, was virtually frozen and outsourcing decisions were deferred or in many cases just weren't being made at all.
- Historically low interest rates resulted in a lower yield earned on ADP's client fund balances, although our extended investment strategy mitigated the impact.
- Economic contraction resulted in an increase in client losses due to competitive pricing pressure and clients going out of business. As expected, revenues from clients who use multiple ADP solutions were retained at higher rates.

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- The level of new car sales in the U.S. dropped to lows not seen in over 20 years, resulting in a spike in auto dealership closings and bankruptcies. Less traffic through dealer showrooms also resulted in lower transaction-based revenues for Dealer Services. Additionally, as many businesses struggled to stay afloat, general uncertainty about the length and depth of the recession resulted in dealerships looking for ways to reduce costs, including dropping non-essential applications.
 - As the U.S. dollar strengthened during the year, foreign exchange rates worked against us, reducing revenue growth by about 2 percentage points.

During the year, we took the difficult but necessary actions to right-size the organization and align our expense structure with lower revenue growth.

All that being said, ADP delivered both top and bottom line growth for the year through focused execution on our five-point strategic growth agenda, which consists of:

- Strengthening our core business;
- Growing our differentiated HR Business Process Outsourcing (“BPO”) offerings;
- Focusing on international expansion by growing share and improving margins;
- Entering adjacent markets that leverage our core; and
- Expanding pretax margins through increased operating efficiency.

Employer Services

The markets we serve are large and there is still abundant opportunity for ADP to grow and gain market share. The beauty of ADP's recurring revenue business model is that it allows us to continue to invest in strategic platforms, client service resources, and our large direct salesforce even during an economic downturn. As a result of this ongoing investment we have a highly competitive portfolio of solutions to serve any size employer, in nearly any geography, with a breadth of service offerings that is unique in the industry. ADP recently celebrated its sixtieth anniversary but we are far from our golden years. Investments in leading technologies and new platforms have resulted in solutions that are fueling our growth now and well into the future:

- **RUN POWERED BY ADP®** gives small businesses and accountants, or their clients, the ability to access and process their payroll anytime, anywhere via web access. This solution is already rolled out to over half of our small business distribution network.
- **ADP Workforce Now™** and our HR BPO offering have recently been launched in the mid-market and address the market need for integrated, bundled services which include payroll, HR, benefits, and time and labor management.
- **Health & Welfare Service Engine** for larger organizations, coupled with self-service and state-of-the-art employee call centers, simplifies the ever-complex benefits enrollment process with seamless integration to benefit carriers and payroll records.
- **GlobalView®** and **ADP Streamline®** address international employers' needs for standardized payroll reporting and human resource administration worldwide, from a single system, in a common language. We continued our investments in GlobalView in fiscal 2009 with improved implementation and increased geographic presence. To serve

multinational companies with small and mid-sized operations we developed ADP Streamline. ADP Streamline leverages our international in-country best-of-breed payroll offerings and provides a single point of contact and data flow for payroll and human resource administration services. We integrated GlobalView and ADP Streamline into a unified ADP offering to provide the benefits of standardized, global reporting to multinational companies with operations of varying sizes around the world.

Additionally, we now offer money movement and tax filing services for our clients in the U.K. and the Netherlands and are in the process of expanding to other European countries. We also grew our presence in China beyond servicing GlobalView client employees by entering the Chinese market, via acquisition, with an in-country offering for both domestic and foreign subsidiary companies.

We sell solutions that businesses of every size need to improve their day-to-day performance. Longer-term, our goal is to grow new sales from 8% to over 10% each year through expansion and increased productivity of our direct salesforce along with continued penetration of alternate distribution channels – telesales, and CPA and banking relationships. The tenure in our salesforce increased during fiscal 2009 and we have maintained previous staffing levels in our salesforce with the exception of reductions related to lower productivity in the small business market.

Dealer Services

Our Dealer Services business also felt the impact of the recession and resulting slowdown in the automotive industry. Dealer Services executed extremely well during a year when new vehicle sales volumes hit 20+ year lows and the pace of dealership closings and consolidations greatly accelerated. Fiscal 2009 was also marked by two of the “Big 3” U.S. auto manufacturers declaring and emerging from bankruptcy. This does not change our positive

long-term outlook for Dealer Services as we believe what will emerge is an overall healthier automotive industry – one with fewer North American dealer sites that transact more business per site. We expect Dealer Services will compete very successfully, as it has continued to gain share within the consolidating market and the larger surviving dealerships will need more sophisticated applications to run their businesses. Dealer Services did an excellent job in fiscal 2009 to align their cost structure with current revenue trends while continuing to invest for future growth. We launched the next evolution of our dealer management system, “ADP Drive”, which is the technological centerpiece of our solutions portfolio for the future. We continued to expand and gain traction with layered applications, including our front-end retail solutions, and we are the only provider that offers a full suite of retail solutions. Our value proposition and strong manufacturer relationships will enable us to effectively execute this “share of wallet” strategy where we offer services beyond just the dealer management system in order to capture more of a dealer’s spend. Additionally, via acquisition we expanded into Russia, Finland, and Eastern Europe, helping to solidify our global footprint and our ability to be a true global provider to large dealer groups and manufacturers.

Management & Board of Directors

ADP’s leadership team is strong. During fiscal 2009, we promoted Mike Capone to the new position of corporate vice president and chief information officer, and Ed Flynn to executive vice president Employer Services sales.

During fiscal 2009, Linda R. Gooden was elected to the board of directors. In August 2009, Henry Taub, founder of ADP, and Fred Malek both retired from the board. We thank Fred for his 31 years of guidance and contributions to ADP’s success. We are especially grateful for Henry’s vision, support, and counsel over these many years and for creating the culture that defines ADP to this day.

The Future

Relative to the pressures on the global economy, I believe ADP is performing quite well. Importantly, our business model is strong and remains intact:

- Our revenues are highly recurring;
- Client revenue life cycles are strong at 9+ years;
- The ability to generate consistent, strong cash flows, high levels of client retention, and low capital expenditure requirements results in excellent margins and the ability to continue to return cash to shareholders; and
- Our prudent and conservative client funds extended investment strategy serves us well during periods of extreme interest rate volatility.

Additionally, ADP is one of a handful of U.S. industrial companies rated AAA by both major credit rating agencies, reflecting the strength of our business model and our financial stability.

I remain optimistic about our longer-term objective to achieve high single-digit annual organic revenue growth, supplemented by acquisitions, with at least 15% earnings per share growth. These longer-term goals are dependent upon growth in new business sales, along with stabilization in the economy. We have positioned ourselves well with a highly competitive solution set and we will continue to invest in market-leading solutions to grow our business. Most importantly, we have highly engaged associates providing excellent service to our clients and a large, tenured salesforce that is well-positioned to leverage the inevitable economic recovery.



Gary C. Butler
President & Chief Executive Officer

September 30, 2009

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