



**2010 LETTER TO SHAREHOLDERS**

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*Gary Butler, ADP President & CEO*

For fiscal 2010, ADP® reported 1% growth in revenues to \$8.9 billion, and \$2.40 in earnings per share from continuing operations. ADP benefited from favorable tax items in fiscal years 2010 and 2009, and excluding these items, earnings per share from continuing operations declined \$0.01 to \$2.37. While these

results are not up to historical ADP standards, they certainly are respectable results given the economic environment we faced. I am pleased that our financial results improved as we proceeded through the year, and, most importantly, I believe we turned the corner during the fourth fiscal quarter as we reached positive inflection points in most of our key business metrics.

## **Inflection Points**

We exited the year with strong momentum in new business sales growth, which is the key to growing future revenues. Sales were robust in the small and medium-size business markets and capital spending at multi-national companies started to rebound. In addition to growing our recurring revenue base through new sales, retaining our existing clients remains critical. Revenues from existing clients are significantly more profitable than from new clients where there are offsetting selling and implementation expenses. Our investments in client service, fewer companies going out of business, and less pricing pressure led to a significant improvement in client revenues retained in fiscal 2010. For the year, we retained just slightly less than 90% of our recurring Employer Services revenues, and I am quite pleased that we ended the year with fourth quarter retention that was close to the record levels we achieved before the period of economic decline over the last several years.

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Revenue growth in our beyond payroll solutions was positive all year, and I am particularly pleased that, despite nagging unemployment, the revenue declines in our traditional payroll and payroll tax filing business abated as growth turned slightly positive in the fourth quarter. Payroll is our most profitable business and it creates additional opportunities for our salesforce to cross-sell our beyond payroll products.

We reached an important inflection point in our PEO business segment with 8.5% growth in average worksite employees for the fourth quarter, which exceeded the full year growth of 5%. We continue to be the largest PEO in terms of worksite employees, exiting the year with 210,000 paid worksite employees.

We also generated good momentum in our Dealer Services business. We achieved strong double-digit sales growth in the fourth quarter resulting in positive growth for the year. Dealer Services continued to gain market share in a consolidating marketplace due to our strong competitive win position and continued investments in solutions beyond the core dealer management system.

## **Strategic Acquisitions**

This year, we performed particularly well against the third and fourth prongs of our five-point growth strategy – international expansion and entering adjacent markets beyond our core business that leverage the ADP franchise. Put in place four years ago, our management team is committed to continued successful execution of this growth strategy:

- 1.** Strengthen and grow the core;
- 2.** Grow our differentiated HR BPO solutions;
- 3.** Focus on international expansion;
- 4.** Enter adjacent markets that leverage the core, thus widening our breadth of offerings; and
- 5.** Expand margins through increased efficiencies.

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Fiscal 2010 was ADP's best year for acquisition activity since 2003. We signed 10 transactions in fiscal 2010 that are expected to add over \$350 million to our annualized recurring revenue base.

In Employer Services, we added four market-leading solutions to our portfolio of solutions.

- Workscope® is a leading provider of benefits administration and compensation solutions. Workscope's average client has over 20,000 employees and will complement our National Account offerings and enable us to compete more successfully for large and more complex deals.
- Vizual® is a market-leading HR services and benefits administration solutions provider in the U.K. aimed at medium-sized businesses. Its scalable, web-based platform is also multi-lingual with rich functionality.
- HR411® is a web-based, on-demand, HR support and information portal for small businesses. HR411 is designed to meet and address day-to-day HR and compliance requirements.
- DO2 Technologies is a leading accounts payable provider and expands our CFO suite of service offerings. This solution fits well within ADP's extensive money movement capabilities and will benefit larger companies looking to ADP to provide assistance in the procure-to-pay market. The offerings in the CFO suite also include tax credit services, expense management, and tax and compliance solutions.

Fiscal 2010 was an acquisitive year in Dealer Services as well. The most significant transaction was the acquisition of The Cobalt Group, the market leader for digital marketing solutions for auto manufacturers. The joining of Cobalt® with ADP's extensive dealer management solutions gives Dealer Services the opportunity to deliver true "closed loop" integration from lead generation to actual cars sold. With this new, unique solution, manufacturers and dealers will be able to more efficiently manage, measure, and align their marketing spend.

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Dealer Services also signed an agreement to acquire Kuwaiti based PACC, a long-time distributor of our international dealer management system, Autoline, in the Gulf States region. PACC serves clients in Kuwait, Saudi Arabia, UAE, Oman, Qatar, Bahrain, Lebanon, and Jordan. This important acquisition expands Dealer Services' global geographic footprint.

## **Investments in Market-leading Solutions**

ADP continued to invest in solutions that we believe will enhance our sales success well into the future.

In the small business marketplace, RUN Powered by ADP® is our new web-based, real-time payroll application that was released to our salesforce in fiscal 2010. RUN Powered by ADP is easy to implement, easy to learn, and easy to use. Most importantly, RUN Powered by ADP has been hitting the mark with small business owners and accountants, and the next release of RUN Powered by ADP — due out early in fiscal 2011 — is aimed at helping the accountant community better serve their small business clients. We are also excited to be enhancing RUN Powered by ADP with a mobile application that will give small business owners and their accountants full control of their payroll needs wherever they might be.

ADP's new solution for the mid-market space for companies with 50 up to 1,000 employees is ADP Workforce Now™. Launched in fiscal 2010, ADP Workforce Now combines ADP's market-leading HR, payroll, benefits administration, time and attendance, and talent management solutions into one integrated workforce management solution. To our clients, integrated means single sign-on, common user interface, data integration, and common reporting. The value proposition is clear for our clients: they get administrative and compliance support combined with a world class service experience from a single provider. ADP Workforce Now is offered in both a historical outsourcing arrangement, and as a full HR BPO model which

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includes employee call center services. This complete bundle of solutions spans the entire employee lifecycle from recruitment to retirement, and is gaining considerable traction in the market.

## **Financial Strength**

ADP is one of only four companies rated AAA by both of the leading rating agencies, which to our clients and prospects means that ADP is at the highest level of financial soundness and a solid partner for payroll and money movement. ADP's business model with its large recurring revenue base, continued to generate strong, consistent cash flows, and our return on equity was a healthy 22% for fiscal 2010.

In fiscal 2010, we also bought back over \$765 million of ADP stock and paid nearly \$675 million in cash dividends to our shareholders.

## **ADP in the Workplace**

I am also proud that ADP was recognized with a number of prestigious awards during fiscal 2010 including:

- Fortune Most Admired - ADP was ranked #1 in our business category, Financial Data Services sector;
- Working Mother - ADP was recognized within the top 100;
- Diversity – ADP ranked in the top 50 for the first time;
- Computer World – ADP was recognized within the top 100 as one of the best places to work in IT; and
- Training Top 125 – ADP ranked #2.

## **Management and Board of Directors**

Our leadership team is strong. This year, we announced the promotions of Michael A. Bonarti and Michael C. Eberhard to corporate vice president in recognition of their contributions to ADP's success.

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During fiscal 2010, Enrique Salem, President and Chief Executive Officer of Symantec Corporation, joined ADP's board of directors.

## **Outlook**

Today, ADP is moving forward from a position of strength. As fiscal 2010 concluded, we reached positive inflection points on most of our key business metrics and exited the year with excellent momentum in new business sales. ADP's business model is resilient and highly scalable, and most importantly, remains intact. Employees need to get paid and employers need the right tools for payroll and HR to efficiently manage their employees. ADP's recurring revenue model, with strong and consistent cash flow generation, enabled us to continue to invest during the economic downturn. As a result, ADP's value proposition is strong and our innovative new solutions are hitting the right marks with prospects and clients in the marketplace. Additionally, fiscal 2010 was a year of successful execution on strategic acquisitions that expanded our solution set and geographic footprint, and the pipeline of prospective transactions is healthy.

We have a team of 47,000 talented and motivated associates who are committed to excellence in helping ADP win in the marketplace. I am excited about ADP's longer-term growth opportunities and look forward to the future with increasing optimism.



Gary C. Butler  
President & Chief Executive Officer

September 24, 2010

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