

# AUTOMATIC DATA PROCESSING INC

## FORM 10-K (Annual Report)

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Address	ONE ADP BOULVARD ROSELAND, New Jersey 07068
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CIK	0000008670
Industry	Business Services
Sector	Services
Fiscal Year	06/30

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# FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the fiscal year ended June 30, 2002

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 on which registered
Common Stock, \$.10 Par Value (voting)	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange
Liquid Yield Option Notes due 2012	New York Stock Exchange

#### Securities registered pursuant to Section 12(g) of the Act: NONE

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 x No \_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) 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.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of August 31, 2002 was approximately \$22,815,638,729. On August 31, 2002, there were 604,067,745 shares of Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 2002 Annual Report to Shareholders.Parts I, II & IV Portions of the Registrant's Proxy Statement for Annual



## Part I

### Item 1. Business

Automatic Data Processing, Inc., incorporated in Delaware in 1961 (together with its subsidiaries "ADP" or the "Registrant"), is one of the largest providers of computerized transaction processing, data communication, and information services in the world. For financial information by segment and by geographic area, see Note 13 of the "Notes to Consolidated Financial Statements" contained in ADP's 2002 Annual Report to Shareholders, which information is incorporated herein by reference. The Registrant's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, Proxy Statement for its Annual Meeting of Stockholders and Annual Report to Shareholders are made available, free of charge, on its website at [www.adp.com](http://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 payroll processing, Total Pay(TM) products (ADP's payroll check and full service direct deposit products), human resource information systems ("HR"), benefits administration, including 401(k), COBRA and flexible spending account administration, time and labor management, payroll and business tax filing and reporting, professional employer organization ("PEO"), pre-employment screening and selection and regulatory compliance management (i.e., new hire reporting and wage garnishment processing) to approximately 450,000 employers in North America, Europe, South America (primarily Brazil), Australia, and Asia. These services are marketed through Employer Services' direct marketing sales forces and through indirect sales channels such as marketing relationships with banks, accountants, and online companies that market Employer Services' services to their customers. In fiscal 2002, 89% of Employer Services' revenues were from North America, 9% were from Europe, and 2% were from South America (primarily Brazil), Australia and Asia.

Employer Services' approach to the market is to match a client's needs with the product that will best meet expectations. As a result, in North America, Employer Services is comprised of the following groups: Emerging Business Services ("EBS") (primarily companies with fewer than 50 employees); Major Accounts (primarily companies with between 50 and 999 employees); and National Accounts Services (primarily companies with 1,000 or more employees).

EBS processes payroll for the aforementioned smaller companies and provides them with leading solutions, including a range of value-added services that are specifically designed for small business clients. Major Accounts and National Account Services offer a full suite of best-of-breed employer services solutions, including full database and other functional integration between payroll and HR for clients ranging from mid-sized through many of the world's largest corporations.

In many cases, ADP provides system solutions for its clients' entire human resource, payroll and benefits needs. Through ADP Connection (TM), ADP can enable its largest clients to interface their major enterprise resource planning applications with ADP's outsourced payroll services. For those companies who choose to process these applications in-house, ADP delivers stand-alone services such as payroll tax filing, check printing and distribution, and year-end statements (i.e., W-2's). Other large clients rely on ADP to design and deliver their own customized human resource information systems and benefits outsourcing solutions.

In North America, ADP provides payroll services that include the preparation of client employee paychecks and electronic direct deposits, 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 and employees. In Europe, South America (primarily Brazil), Australia and Asia, Employer Services provides full departmental outsourcing of payroll services.

ADP's Tax and Financial Service Center processes and collects federal, state and local payroll taxes on behalf of, and from, ADP clients and remits such taxes to the appropriate taxing authorities. Through service offerings such as new hire reporting, ADP's Total Pay(TM) payroll check and full service direct deposit products (in conjunction with major bank partners) and the collection and payment of wage garnishments, the ADP Tax and Financial Services Center is also responsible for the efficient movement of funds and information from clients to third parties. The ADP Tax and Financial Services Center supports large, mid-sized and small clients. It provides an electronic interface between approximately 354,000 ADP clients in the United States and Canada and about 2,000 federal, state and local tax agencies, from the Internal Revenue Service to local town governments. In fiscal 2002, the ADP Tax and Financial Services Center printed and delivered approximately 42 million year-end tax statements in North America, and moved over \$580 billion in client funds to tax authorities and its clients' employees via electronic transfer, direct deposit and ADP Check.

ADP's HR services, operating in conjunction with a client's payroll database, provide comprehensive HR recordkeeping services, including benefits administration and outsourcing, applicant tracking, employee history and position control. ADP's Benefits Services provides benefits administration across all market segments, including management of the open enrollment of benefits, COBRA and flexible spending account administration, Section 529 College Savings Plan administrative services and 401(k) recordkeeping. In fiscal 2002, ADP grew revenues in its retirement services business 11% and is among the ten largest providers of 401(k) retirement plans. In fiscal 2002, ADP grew revenues in its COBRA administration services business by over 19%.

ADP TotalSource, ADP's PEO business, provides clients with comprehensive employment administration outsourcing solutions, including payroll, HR, benefits administration and workers' compensation insurance. ADP TotalSource, the third largest PEO in the U.S., has 21 offices located in twelve states and serves over 3,000 PEO clients and over 75,000 work-site employees in all 50 states. ADP TotalSource revenues increased by 14% in fiscal 2002 over the previous fiscal year.

ADP complements its payroll and HR services with additional employer services that include products such as time and labor management and unemployment compensation management. In fiscal 2002, ADP expanded its time and labor management business by 20%. ADP's unemployment compensation services aid clients in managing and reducing unemployment insurance costs. In fiscal 2002, ADP acquired Avert, Inc., a leading provider of pre-employment screening (i.e., employee background checking) and selection services. Prior to the acquisition, Avert had provided these services to ADP clients through a marketing alliance with ADP. In fiscal 2002, ADP launched its "Pay-by-Pay" Workers' Compensation Insurance Service that allows employers using ADP's payroll services to pay for workers' compensation insurance on a payroll by payroll basis.

During fiscal 2002, ADP continued the process of Internet-enabling existing product offerings, while at the same time creating new products expressly designed for the Internet. ADP's Internet offerings now include its EasyPayNet(sm) Internet-based payroll solution for EBS clients, Pay eXpert(R) Internet-based payroll solution for Major Accounts clients, and its Enterprise HRMS integrated HR,

payroll and benefits solution for National Accounts Services clients, all of which feature Internet-based employer self-service capabilities. Further, in fiscal 2002, ADP launched its Total Choice Solutions(sm)Internet-based payroll solution, a fully-integrated, web-native human resource and payroll management solution hosted by ADP. For benefits administration, ADP offers Benefits eXpert(sm), an Internet-based benefits administration and employee self-service solution that allows mid-market companies in Major Accounts to manage more efficiently their employees' health and welfare benefits. For large clients, ADP Benefit Services offers an Internet-based COBRA administrative solution, as well as employee self-service applications for open-enrollment, flexible spending account administration and other employee-administered benefit options.

The continued increase in the number of multi-national companies makes payroll and human resource management services a global opportunity. In fiscal 2002, ADP increased payroll sales to multi-national employers throughout Europe by nearly 40% over the previous fiscal year. ADP constantly seeks to further enhance its presence in the global market through alliances, such as its partnership with Exult, Inc. in which it offers its services for large companies to the "Global 500" market using a new technology outsourcing model.

## **Brokerage Services**

Brokerage Services provides transaction processing systems, desktop productivity applications and investor communication services to financial services firms and public corporations worldwide. ADP's products and services include: (i) global order entry, trade processing and settlement systems including automated inquiry, reporting and record keeping services for trading virtually any financial instrument (including equities, fixed income, foreign currency, commodities and derivatives), in any market, at any time; (ii) full-service investor communications services including convenient electronic delivery and Internet solutions, financial and sophisticated on-demand printing, proxy distribution and vote processing, householding, regulatory mailings and fulfillment services; (iii) real-time order entry and processing services for Internet-based brokerage firms; (iv) automated, browser-based, desktop productivity tools for financial consultants, institutional investors and corporate secretaries; and (v) integrated delivery of multiple products and services through ADP's Global Processing Solution(sm).

In fiscal 2002, Brokerage Services processed a significant portion of U.S. and Canadian securities transactions, with an average daily volume of 1.4 million trades processed. In addition, ADP served the North American securities transaction processing needs of most large global banks. In fiscal 2002, Brokerage Services received ISO 9001:2000 certification, an international standard for the highest quality, for its Brokerage Processing Services system.

Brokerage Services also provides computerized proxy vote tabulation and shareholder communication, distribution and fulfillment services, including Internet-enabled products and services. ADP served approximately 14,000 publicly traded companies and 450 mutual funds on behalf of more than 800 brokerage firms and banks in fiscal 2002. In fiscal 2002, Brokerage Services distributed more than 870 million investor communications on behalf of its clients worldwide and processed over 475 billion shares. In fiscal 2002, Brokerage Services delivered more than 14 million investor communications via the Internet, which is 172% more than the prior fiscal year. Brokerage Services consolidated or electronically delivered approximately 24% of all shareholder positions, saving clients approximately \$300 million in printing and postage costs. In addition, Brokerage Services printed over 6.4 billion document pages for the financial services industry in fiscal 2002.

Brokerage Services serves a diverse client base, including: full-service, discount and online brokerage firms; global banks; mutual funds; institutional investors; specialty trading firms; clearing

firms; and publicly traded corporations. Brokerage Services provides securities transaction processing, printing and electronic distribution of shareholder communications and other services to clients in more than 25 countries in North America, Europe, Asia, South America and Australia.

In fiscal 2002, Brokerage Services acquired the output services business of IBM Global Services, significantly enhancing ADP's distributive printing capabilities. In fiscal 2002, Brokerage Services also acquired the Argus Group, an acquisition that supplemented ADP's current investor delivery and fulfillment service capabilities and provided ADP with a state-of-the-art, online content management system.

### **Dealer Services**

Dealer Services provides integrated dealer management systems ("DMS") and business performance solutions for motor vehicle (automobile and heavy truck) dealers and their manufacturers worldwide. More than 16,000 automobile and truck dealers throughout North America and Europe and more than 30 vehicle manufacturers use ADP's DMS, networking solutions, data integration, consulting and/or marketing services. As a result of its acquisition of Digital Motorworks Holdings, Inc. ("DMI") in fiscal 2002, Dealer Services now has the ability to extract, transform and standardize data from varied sources to client specifications. These DMS-independent solutions from DMI help drive improved decision-making by automotive manufacturers, dealers and related businesses.

Dealer Services offers its dealership clients a service solution that includes computer hardware, hardware maintenance services, licensed software, software support, system design and network consulting services. Dealer Services also offers such clients "front-end" dealership sales process and business development training services, consulting services, software products and customer relationship management solutions. Clients use an ADP DMS to manage business activities such as accounting, inventory, factory communications, scheduling, vehicle financing, insurance, sales and service. Dealer Services also designs, establishes and maintains communications networks for its dealership clients that allow interactive communications among multiple site locations (for larger dealers) 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 decisioning, vehicle repair estimating and obtaining vehicle registration and lien holder information. Dealer Services also offers an Application Service Provider (ASP) Managed Services solution to its dealership clients pursuant to which such clients outsource all information technology management, computing and network infrastructure, technology decisions and system support to Dealer Services.

### **Claims Services**

Claims Services offers a broad line of automated information tools to property and casualty insurance companies, claims adjusters, repair shops and auto parts recycling facilities. These tools help insurers to improve their performance by accelerating the claims review and settlement process and streamlining workflow. The products and services include the following: (i) automated vehicle repair estimating applications and total loss vehicle valuation applications and related databases for the property and casualty and collision repair industries; (ii) medical cost management applications and services for the auto casualty and workers' compensation markets; (iii) auto body shop management systems; (iv) parts locator systems; and (v) workflow applications to streamline the end-to-end claims process and other applications, databases and services that enhance and optimize the claims process.

## **Markets and Marketing Methods**

All of ADP's services are offered broadly across North America and Europe. Some employer services and brokerage services are also offered in South America (primarily Brazil), Australia and Asia.

None of ADP's major business groups have a single homogenous client base or market. For example, while Brokerage Services primarily serves the retail brokerage market, it also serves banks, commodity dealers, the institutional brokerage market and individual non-brokerage corporations. Dealer Services primarily serves automobile dealers, but also serves truck and agricultural equipment dealers, auto repair shops, used car lots, state departments of motor vehicles and manufacturers of automobiles, trucks and agricultural equipment. Claims Services has many clients who are insurance companies, but it also provides services to automobile manufacturers, body repair shops, salvage yards, distributors of new and used automobile parts and other non-insurance clients. Employer Services has clients from a large variety of industries and markets. Within this client base are concentrations of clients in specific industries. Employer Services also sells to auto dealers, brokerage clients and insurance clients. While concentrations of clients exist, no one client or business group is material to ADP's overall revenues.

None of ADP's businesses are overly sensitive to price changes. Economic conditions among selected clients and groups of clients may and do have a temporary impact on demand for ADP's services. In fiscal 2002, in Employer Services, the continued weak economic conditions resulted in slower sales, lower client retention due primarily to bankruptcies, and fewer employees on our clients' payrolls; in Brokerage Services, weakness in the brokerage and financial services industry significantly reduced discretionary spending and investments in new initiatives, and the change in the mix of retail versus institutional transactions lowered revenue per trade; and interest rates in the U.S. declined precipitously last year significantly impacting interest earnings on our client funds.

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 computing services industry is 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 computerized transaction processing, data communication and information services in the world.

ADP's competitors include other independent computing services companies, divisions of diversified enterprises and banks. Another competitive factor in the computing services industry is the in-house computing function, whereby a company installs and operates its own computing systems.

Competition in the computing services industry 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 in the computing services industry. No one competitor or group of competitors is dominant in the computing services industry.

## **Clients and Client Contracts**

ADP provides its services to over 500,000 clients. In fiscal 2002, no single client or group of affiliated clients accounted for revenues in excess of 2% of annual consolidated revenues.



ADP has no material "backlog" because the period between the time a client agrees to use ADP's services and the time the service begins is generally very short and because no sale is considered firm until it is installed and begins producing revenue.

ADP's average client retention is more than 8 years in Employer Services and is 10 or more years in Brokerage Services and Dealer Services, and does not vary 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. Discounts, rebates and promotions offered by ADP to clients are not material.

ADP offers a service warranty to its clients that if any errors or omissions occur in its service offerings, ADP will correct them as soon as possible. In addition, ADP provides, either directly or through third parties, maintenance and support for the ADP provided equipment and software that facilitates the delivery of its services to clients.

### **Systems Development and Programming**

During the fiscal years ended June 30, 2002, 2001 and 2000, ADP invested \$475 million, \$514 million and \$460 million, respectively, in systems development and programming, migration to new computing technologies and the development of new products.

### **Product Development**

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

### **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 40,000 persons as of June 30, 2002.

### **Item 2. Properties**

ADP leases space for 45 of its principal processing centers. In addition, ADP leases numerous other small processing centers and sales offices. All of these leases, which aggregate approximately 6,100,000 square feet in North America, Europe, South America (primarily Brazil), Asia, Australia and South Africa, expire at various times up to the year 2018. ADP owns 31 of its processing facilities and its corporate headquarters complex in Roseland, New Jersey, which aggregate approximately 3,000,000 square feet. None of ADP's owned facilities is subject to any material encumbrances. 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 Registrant is subject to various claims and litigation. While the outcome of any litigation is inherently unpredictable, we believe we have valid defenses with respect to the legal matters pending against us and we believe that the ultimate resolution of these matters will not have a material adverse impact on our financial condition, results of operations or cash flows. Among the various claims and litigation pending against the Registrant is the following:

The Registrant and its indirect wholly-owned subsidiaries Dealer Solutions, L.L.C. and Dealer Solutions Holdings, Inc. ("DSI") are named as defendants in a lawsuit filed on March 4, 1999 in the 133rd Judicial District Court of Harris County, Texas by Universal Computer systems, Inc., Universal Computer Consulting, Ltd., Universal Computer Services, Inc., and Dealer Computer Services, Inc. (collectively, "UCS"), which lawsuit has since been referred by the Court to arbitration. This lawsuit alleges trade secret violations by DSI in the creation by DSI of the CARMan automobile dealership software product. UCS is seeking injunctive relief and unspecified damages. We believe we have valid defenses with respect to the above matter and should prevail.

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

None

## Part II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

See "Market Price, Dividend Data and Other" contained in the Registrant's 2002 Annual Report to Shareholders, which information is incorporated herein by reference. As of August 31, 2002, the Registrant had 34,536 registered holders of its Common Stock, par value \$.10 per share. The Registrant's Common Stock is traded on the New York, Chicago and Pacific Stock Exchanges.

On May 23, 2002, the Registrant issued 8,774 shares of its Common Stock in respect of an earnout paid to a company in accordance with an asset purchase agreement dated November 30, 2000 pursuant to which the Registrant acquired substantially all of the assets of such company. The Registrant issued the foregoing shares of Common Stock without registration under the Securities Act of 1933, as amended, in reliance upon the exemption therefrom set forth in Section 4(2) of such Act relating to sales by an issuer not involving a public offering.

### Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	50,656,776	\$40.94	17,210,779 (1)
Equity compensation plans not approved by security holders (2)	186,000	\$27.43	2,115,330 (3), (4), (5)
Total	50,842,776	\$40.89	19,326,109

(1) Includes 3,318,779 shares of Common Stock remaining available for future issuance under the Registrant's Employees' Stock Purchase Plan, which such shares and weighted average exercise prices are not reflected in Columns (a) and (b) of this table.

(2) Represents (i) the Registrant's 1989 Non-Employee Director Stock Option Plan, as amended, (ii) the Key Employees' Restricted Stock Plan, and

(iii) the French Employees' Saving-Stock Option Plan, as amended, none of which have been approved by the Registrant's stockholders. The terms of the 1989 Non-Employee Director Stock Option Plan are described under "Corporate Governance" in the Proxy Statement for Registrant's 2002 Annual Meeting of Stockholders, the terms of the Key Employees' Restricted Stock Plan are described in Note 10 to the Registrant's Consolidated Financial Statements included in the Registrant's 2002 Annual Report to Shareholders and the terms of the French Employees' Saving-Stock Option Plan are described in footnote (5) below.

(3) The number of shares of Common Stock reserved for issuance pursuant to the terms of the Registrant's 1989 Non-Employee Director Stock Option Plan adjust to equal the number of shares of Common Stock issuable under such plan. At June 30, 2002, there were 280,500 shares of Common Stock reserved for issuance pursuant to the terms of the 1989 Non-Employee Director Stock Option Plan, as amended.

(4) Includes 768,672 shares of Common Stock reserved for issuance pursuant to the Key Employees' Restricted Stock Plan.

(5) Includes 1,066,158 shares of Common Stock reserved for issuance pursuant to the French Employees' Saving-Stock Option Plan. In January 1996, the Board of Directors adopted the French Employees' Saving-Stock Option Plan (the "French Plan"). Employees of the Registrant based in France are entitled to purchase shares of Common Stock (such rights referred to as "Stock Options") under the French Plan under annual offerings that commence on January 1 of each calendar year and close on December 31 of the following calendar year (each, an "Offering"). Each eligible employee is granted Stock Options in each Offering that would generally entitle such employee to purchase a whole number of shares of Common Stock equivalent in value to 10% of his or her base salary, based upon a price per share (in U.S. dollars) determined in advance of such Offering by the French Employees' Saving-Stock Option Plan Committee (appointed by the Board of Directors), subject to adjustment for currency rate changes over the term of the Offering. Participating employees pay for the exercise of the Stock Options through monthly payroll deductions taken during the two-year period of each Offering, and have the opportunity upon the close of the Offering to exercise their Stock Options (or any portion thereof) and purchase the associated number of shares of Common Stock. To the extent a participating employee elects to purchase fewer shares of Common Stock than would be available under his or her full allotment of Stock Options, such employee would receive the cash remaining from the aggregate payroll deductions after taking into account his or her purchase of shares of Common Stock.

## **Item 6. Selected Financial Data**

See "Selected Financial Data" contained in the Registrant's 2002 Annual Report to Shareholders, which information is incorporated herein by reference.

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

See "Management's Discussion and Analysis" contained in the Registrant's 2002 Annual Report to Shareholders, which information is incorporated herein by reference.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Approximately 30% of the Registrant's overall investment portfolio is invested in overnight interest-bearing instruments, which are therefore impacted immediately by changes in interest rates. The other 70% of the Registrant's investment portfolio is invested in fixed-income securities, with maturities of up to ten years, which are also subject to interest rate risk, including reinvestment risk. The Registrant has historically had the ability to hold these investments until maturity, and therefore this has not had an adverse impact on income or cash flows.

The earnings impact of future rate changes is not precisely predictable because many factors influence the return on the Registrant's portfolio. These factors include, among others, the overall portfolio mix between short-term and long-term investments. The mix varies during the year and is impacted by daily interest rate changes. A hypothetical change in interest rates of 25 basis points applied to the forecasted average balances in fiscal 2003 would result in approximately a \$9 million pre-tax earnings impact over the twelve-month period.

**Item 8. Financial Statements and Supplementary Data**

The financial statements described in Item 15(a)1. hereof are incorporated herein.

The following supplementary data is incorporated herein by reference:

Quarterly Financial Results (unaudited) for the two years ended June 30, 2002 (see Note 14 of the "Notes to Consolidated Financial Statements" contained in ADP's 2002 Annual Report to Shareholders)

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

None

### Part III

#### Item 10. Directors and Executive Officers of the Registrant

##### Executive Officers of the Registrant

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

Name	Age	Position	Employed by ADP Since
John D. Barfitt	49	President, Employer Services - International	1979
James B. Benson	57	Vice President, General Counsel and Secretary	1977
Richard C. Berke	57	Vice President, Human Resources	1989
Gary C. Butler	55	President and Chief Operating Officer	1975
Raymond L. Colotti	56	Vice President and Treasurer	1995
Richard J. Daly	49	Group President, Brokerage Services	1989
Richard A. Douville	47	Vice President, Finance	1999
G. Harry Durity	55	Vice President, Worldwide Business Development	1994
Karen E. Dykstra	43	Vice President, Finance (Principal Financial Officer)	1981
Russell P. Fradin	47	Group President, Employer Services - North America	1996
Eugene A. Hall	46	Senior Vice President, and President of Financial and Technology Services, Employer Services - North America	1998

John Hogan	54	Group President, Brokerage Services	1993
Campbell Langdon	41	Vice President, Strategic Development	2000
S. Michael Martone	54	Group President, Dealer Services	1987
Peter Op de Beeck	46	Group President, Claims Solutions Group	1998
Arthur F. Weinbach	59	Chairman and Chief Executive Officer	1980

Messrs. Benson, Berke, Butler, Daly, Durity, Fradin, Hogan, Martone and Weinbach have each been employed by ADP in senior executive positions for more than the past five years.

John D. Barfitt joined ADP in 1979. Prior to his promotion to President, Employer Services -International he served as President, Claims Services at ADP from 1998 to 2000 and Senior Vice President - Automotive Claims Services at ADP from 1996 to 1998.

Raymond L. Colotti joined ADP in 1995. Prior to his promotion to Vice President and Treasurer, he served as President of ADP Atlantic, Inc. and its related companies from 1995 to 1997.

Richard A. Douville joined ADP in 1999 as Vice President, Finance. Prior to joining ADP, he served as Senior Vice President and Chief Financial Officer from 1996 to 1999 and as Vice President and Treasurer from 1993 to 1996 at United States Surgical Corporation.

Karen E. Dykstra joined ADP in 1981. Prior to her promotion to Vice President, Finance (Principal Financial Officer) in 2001, she served as Vice President and Controller from 1998 to 2001, Assistant Corporate Controller from 1996 to 1998 and as Chief Financial Officer of Dealer Services from 1995 to 1996.

Eugene A. Hall joined ADP in 1998 as Senior Vice President. In 2000, he also became President of Financial and Technology Services of Employer Services - North America. Prior to joining ADP, he was a senior partner of McKinsey & Company and had been associated with that firm for 16 years.

Campbell Langdon joined ADP in 2000 as Vice President, Strategic Development. Prior to joining ADP, he was a partner of McKinsey & Company and had been associated with that firm for 11 years.

Peter Op de Beeck joined ADP in 1998 as Managing Director of Claims Solutions Group's Audatex. In 2001, he became President of ADP Claims Solutions Group. Prior to joining ADP, he was Chairman and Chief Executive Officer of Online Internet from 1996 to 1998.

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 of the Registrant**

See "Election of Directors" in the Proxy Statement for Registrant's 2002 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 Registrant's 2002 Annual Meeting of Stockholders, which information is incorporated herein by reference.

## **Item 11. Executive Compensation**

See "Compensation of Executive Officers" in the Proxy Statement for Registrant's 2002 Annual Meeting of Stockholders, which information is incorporated herein by reference. See Item 5 of this Annual Report on Form 10-K for information concerning the Registrant's equity compensation plans.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management**

See "Election of Directors - Security Ownership of Certain Beneficial Owners and Managers" in the Proxy Statement for Registrant's 2002 Annual Meeting of Stockholders, which information is incorporated herein by reference.

## **Item 13. Certain Relationships and Related Transactions**

See "Compensation of Executive Officers - Certain Transactions" in the Proxy Statement for Registrant's 2002 Annual Meeting of Stockholders, which information is incorporated herein by reference.

## **Item 14. Controls and Procedures**

There have been no significant changes in the Registrant's internal controls or other factors that could significantly affect those controls since the date of the Registrant's last evaluation of its internal controls, and there have been no corrective actions with regard to significant deficiencies and material weaknesses in such controls.



## Part IV

### Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

#### (a)1. Financial Statements

The following reports and consolidated financial statements of the Registrant contained in the Registrant's 2002 Annual Report to Shareholders are also included in Part II, Item 8:

Statements of Consolidated Earnings - years ended June 30, 2002, 2001 and 2000

#### Consolidated Balance Sheets - June 30, 2002 and 2001

Statements of Consolidated Shareholders' Equity - years ended June 30, 2002, 2001 and 2000

Statements of Consolidated Cash Flows - years ended June 30, 2002, 2001 and 2000

#### Notes to Consolidated Financial Statements

#### Report of Management

#### Independent Auditors' Report

Financial information of the Registrant is omitted because the Registrant is primarily a holding company. The Registrant's subsidiaries, which are listed on Exhibit 21 attached hereto, are wholly owned.

#### 2. Financial Statement Schedules

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Independent Auditors' Report on Schedule	18
Schedule II - Valuation and Qualifying Accounts	19

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.

#### 3. 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 Registrant's
-----	---	--

registration statement on Form S-4 filed with the Commission on February 9, 1999

- 3.2 - Amended and Restated By-laws of the Registrant
- 4 - Indenture dated as of February 20, 1992 between Automatic Data Processing, Inc. and Bankers Trust Company, as trustee, regarding the Liquid Yield Option Notes due 2012 of the Registrant - incorporated by reference to Exhibit (4)-#1 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1992
- 10.1 - Letter Agreement dated as of August 13, 2001 between Automatic Data Processing, Inc. and Arthur F. Weinbach - incorporated by reference to Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001 (Management Contract)
- 10.2 - Letter Agreement dated September 14, 1998 between Automatic Data Processing, Inc. and Gary Butler - incorporated by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (Management Contract)
- 10.3 - Key Employees' Restricted Stock Plan - incorporated by reference to Registrant's Registration Statement No. 33-25290 on Form S-8 (Management Compensatory Plan)
- 10.4 - Supplemental Officers' Retirement Plan, as amended (Management Compensatory Plan)
- 10.5 - 1989 Non-Employee Director Stock Option Plan - incorporated by reference to Exhibit 10(iii)(A)-#7 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Compensatory Plan)
- 10.5(a) - Amendment to 1989 Non-Employee Director Stock Option Plan - incorporated by reference to Exhibit 10(6)(a) to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (Management Compensatory Plan)
- 10.6 - 1990 Key Employees' Stock Option Plan - incorporated by reference to Exhibit 10(iii)(A)-#8 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Compensatory Plan)
- 10.6(a) - Amendment to 1990 Key Employees' Stock Option Plan - incorporated by reference to Exhibit 10(7)(a) to Registrant'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 Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994 (Management Compensatory Plan)

- 10.8 - 2000 Key Employees' Stock Option Plan, as amended  
(Management Compensatory Plan)
- 10.9 - 2001 Executive Incentive Compensation Plan - incorporated  
by reference to Exhibit 10.9 to Registrant's Annual Report  
on Form 10-K for the fiscal year ended June 30, 2001  
(Management Compensatory Plan)
- 10.10 - Change in Control Severance Plan for Corporate Officers -  
incorporated by reference to Exhibit 10.3 to Registrant's  
Quarterly Report on Form 10-Q for the fiscal quarter ended  
March 31, 2001 (Management Compensatory Plan)
- 10.11 - Employees' Saving-Stock Option Plan - incorporated by  
reference to Registrant's Registration Statement No.  
333-10281 on Form S-8 (Management Compensatory Plan)
- 11 - Schedule of Calculation of Earnings Per Share
- 13 - Pages 22 to 39 of the 2002 Annual Report to Shareholders  
(with the exception of the pages incorporated by reference  
herein, the Annual Report is not a part of this filing)
- 21 - Subsidiaries of the Registrant
- 23 - Independent Auditors' Consent
- 99.1 - Certification by Arthur F. Weinbach pursuant to 18 U.S.C.  
Section 1350, as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002
- 99.2 - Certification by Karen E. Dykstra pursuant to 18 U.S.C.  
Section 1350, as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002
- (b) None.

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

We have audited the consolidated financial statements of Automatic Data Processing, Inc. and subsidiaries as of June 30, 2002 and 2001, and for each of the three years in the period ended June 30, 2002, and have issued our report thereon dated August 12, 2002; such consolidated financial statements and report are included in your 2002 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Automatic Data Processing, Inc., listed in Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such 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.

*/s/ Deloitte & Touche LLP*

-----  
*New York, New York*

*August 12, 2002*

AUTOMATIC DATA PROCESSING, INC.

AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Column A -----	Column B -----	Column C -----		Column D -----	Column E -----
		----- Additions -----			
		(1)	(2)		
	Balance at beginning of period -----	Charged to costs and expenses -----	Charged to other accounts- describe -----	Deductions- describe -----	Balance at end of period -----
Year ended June 30, 2002:					
Allowance for doubtful accounts:					
Current	\$41,996	\$ 27,703	\$ 743 (B)	\$ (17,569) (A)	\$ 52,873
Long-term	\$16,666	\$ 1,176	\$ --	\$ (1,823) (A)	\$ 16,019
Deferred tax valuation allowance	\$41,930	\$ 3,179	\$ 313 (C)	\$ (5,282) (D)	\$ 40,140
Year ended June 30, 2001:					
Allowance for doubtful accounts:					
Current	\$48,448	\$ 16,431	\$ 114 (B)	\$ (22,997) (A)	\$ 41,996
Long-term	\$16,946	\$ 1,369	\$ --	\$ (1,649) (A)	\$ 16,666
Deferred tax valuation allowance	\$43,700	\$ 6,145	\$ (165) (C)	\$ (7,750) (D)	\$ 41,930
Year ended June 30, 2000:					
Allowance for doubtful accounts:					
Current	\$46,357	\$ 25,020	\$1,663 (B)	\$ (24,592) (A)	\$ 48,448
Long-term	\$16,556	\$ 1,942	\$ --	\$ (1,552) (A)	\$ 16,946
Deferred tax valuation allowance	\$38,804	\$ 5,229	\$ (333) (C)	\$ --	\$ 43,700

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

(B) Acquired in purchase transactions.

(C) Related to foreign exchange fluctuation. (D) Related to the net deferred tax assets recorded in purchase accounting. The recognition of this allowance is allocated to reduce the excess purchase price over the net assets acquired.

## 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)

September 16, 2002

By: /s/ Arthur F. Weinbach

-----  
Arthur F. Weinbach  
Chairman 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 ----
/s/ Arthur F. Weinbach ----- (Arthur F. Weinbach)	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	September 16, 2002
/s/ Karen E. Dykstra ----- (Karen E. Dykstra)	Vice President, Finance  (Principal Financial Officer and Controller)	September 16, 2002
/s/ Gregory D. Brenneman ----- (Gregory D. Brenneman)	Director	September 16, 2002
/s/ Gary C. Butler ----- (Gary C. Butler)	Director	September 16, 2002
/s/ Joseph A. Califano, Jr. ----- (Joseph A. Califano, Jr.)	Director	September 16, 2002
/s/ Leon G. Cooperman ----- (Leon G. Cooperman)	Director	September 16, 2002
/s/ George H. Heilmeyer ----- (George H. Heilmeyer)	Director	September 16, 2002

Signature -----	Title -----	Date -----
/s/ Ann Dibble Jordan ----- (Ann Dibble Jordan)	Director	September 16, 2002
/s/ Harvey M. Krueger ----- (Harvey M. Krueger)	Director	September 16, 2002
/s/ Frederic V. Malek ----- (Frederic V. Malek)	Director	September 16, 2002
/s/ Henry Taub ----- (Henry Taub)	Director	September 16, 2002
/s/ Laurence A. Tisch ----- (Laurence A. Tisch)	Director	September 16, 2002
/s/ Josh S. Weston ----- (Josh S. Weston)	Director	September 16, 2002

**CERTIFICATIONS**

I, Arthur F. Weinbach, certify that:

1. I have reviewed this annual report on Form 10-K of Automatic Data Processing, Inc.;
2. Based on my knowledge, this annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

*Date: September 16, 2002*

\_\_\_\_\_/s/ Arthur F. Weinbach\_\_\_\_\_  
-----  
Arthur F. Weinbach  
Chairman and Chief Executive Officer

I, Karen E. Dykstra, certify that:

1. I have reviewed this annual report on Form 10-K of Automatic Data Processing, Inc.;
2. Based on my knowledge, this annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

*Date: September 16, 2002*

\_\_\_\_\_/s/ Karen E. Dykstra\_\_\_\_\_  
-----  
Karen E. Dykstra  
Vice President, Finance (Principal Financial Officer)



**AUTOMATIC DATA PROCESSING, INC.**

**BY-LAWS**

**As Amended and Restated on March 24, 1997**

(further amended on May 15, 2000, November 14, 2000 and August 12, 2002)

# AUTOMATIC DATA PROCESSING, INC.

## BY-LAWS

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**AUTOMATIC DATA PROCESSING, INC.**

**BY-LAWS**

**As Amended and Restated on March 24, 1997**

(further amended on May 15, 2000, November 14, 2000 and August 12, 2002)

**ARTICLE I**

**STOCKHOLDERS**

Section 1.01. Annual Meetings. The annual meeting of the stockholders of the Corporation for the election of directors and for the transaction of such other business as properly may come before such meeting shall be held at such place, either within or without the State of Delaware, and at such date and hour, as may be fixed from time to time by resolution of the Board of Directors and set forth in the notice or waiver of notice of the meeting.

[Sections 211(a), (b).]1

Section 1.02. Special Meetings. Special meetings of the stockholders may be called at any time by the Chief Executive Officer or the Secretary or by the Board of Directors. A special meeting shall be called by the Chief Executive Officer or by the Secretary immediately upon receipt of a written request therefor by stockholders holding in the aggregate not less than one-third in number of the outstanding shares of the Corporation at the time entitled to vote at any meeting of the stockholders. Such special meetings of the stockholders shall be held at such places, within or without the State of Delaware, as shall be specified in the respective notices or waivers of notice thereof. [Section 211(d).]

Section 1.03. Notice of Meetings; Waiver. The Secretary or any Assistant Secretary shall cause written notice of the place, date and hour of each meeting of the stockholders, and, in the case of a special meeting, the purpose or purposes for which such meeting is called, to be given personally or by mail, not less than ten nor more than sixty days prior to the meeting, to each stockholder of record entitled to vote at such meeting. If such notice is mailed, it shall be deemed to have been given to a stockholder when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the record of stockholders of the Corporation, or, if he or she shall have filed with the Secretary of the Corporation a written request that notices to him or her be mailed to some other address, then directed to him or her at such other address. Such further notice shall be given as may be required by law.

No notice of any meeting of stockholders need be given to any stockholder who submits a signed waiver of notice, whether before or after the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be

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1 Citations are to the General Corporation Law of the State of Delaware as in effect on January 1, 1996 (the "GCL"). The citations are inserted for reference only, and do not constitute a part of the By-Laws.

specified in a written waiver of notice. The attendance of any stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened. [Sections 222, 229.]

Section 1.04. Quorum. Except as otherwise required by law or by the Certificate of Incorporation, the presence in person or by proxy of the holders of record of a majority of the shares entitled to vote at a meeting of stockholders shall constitute a quorum for the transaction of business at such meeting. [Section 216.]

Section 1.05. Voting. If, pursuant to Section 5.05 of these By-Laws, a record date has been fixed, every holder of record of shares entitled to vote at a meeting of stockholders shall be entitled to one vote for each share outstanding in his or her name on the books of the Corporation at the close of business on such record date. If no record date has been fixed, then every holder of record of shares entitled to vote at a meeting of stockholders shall be entitled to one vote for each share of stock standing in his or her name on the books of the Corporation at the close of business on the day next preceding the day on which notice of the meeting is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. Except as otherwise required by law or by the Certificate of Incorporation or by these By-Laws, the vote of a majority of the shares represented in person or by proxy at any meeting at which a quorum is present shall be sufficient for the transaction of any business at such meeting. [Sections 212(a), 213, 216.]

Section 1.06. Voting by Ballot. No vote of the stockholders need be taken by written ballot unless demanded by the holders of at least fifteen percent (15%) of the shares represented in person or by proxy at any meeting at which a quorum is present or as otherwise required by law. Any vote which need not be taken by ballot may be conducted in any manner approved by the meeting.

Section 1.07. Adjournment. If a quorum is not present at any meeting of the stockholders, the holders of a majority of the shares present in person or by proxy shall have the power to adjourn any such meeting from time to time until a quorum is present. Notice of any adjourned meeting of the stockholders of the Corporation need not be given if the place, date and hour thereof are announced at the meeting at which the adjournment is taken, provided, however, that if the adjournment is for more than thirty days, or if after the adjournment a new record date for the adjourned meeting is fixed pursuant to Section 5.05 of these By-Laws, a notice of the adjourned meeting, conforming to the requirements of Section 1.03 of these By-Laws, shall be given to each stockholder of record entitled to vote at such meeting. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted on the original date of the meeting. [Section 222(c).]

Section 1.08. Proxies. Any stockholder entitled to vote at any meeting of the stockholders or to express consent to or dissent from corporate action in writing without a meeting may authorize another person or persons to vote at any such meeting and express such

consent or dissent for him or her by proxy. Every proxy shall be revocable at the pleasure of the stockholder executing it, except in those cases where applicable law provides that a proxy shall be irrevocable. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the Secretary.

[Section 212.]

Section 1.09. Organization; Procedure. At every meeting of stockholders the presiding officer shall be the Chairman or, in the event of his or her absence or should the Chairman in his or her discretion determine not to preside, in the following order of availability, the Chief Executive Officer, the President, or a Vice President, and in the case more than one Vice President shall be present, that Vice President designated by the Board of Directors (or in the absence of any such designation, the most senior Vice President, based on title). In case none of the foregoing officers designated to be the presiding officer shall be present, a presiding officer shall be chosen by the vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting. The Secretary, or in the event of his or her absence or disability, the Assistant Secretary, if any, or if there be no Assistant Secretary, in the absence of the Secretary, an appointee of the presiding officer, shall act as secretary of the meeting. The order of business and all other matters of procedure at every meeting of stockholders may be determined by such presiding officer.

Section 1.10. Inspectors of Elections. Preceding any meeting of the stockholders, the Board of Directors shall appoint one or more persons to act as Inspectors of Elections, and may designate one or more alternate inspectors. In the event no inspector or alternate is able to act, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of the duties of an inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector shall:

- (a) ascertain the number of shares outstanding and the voting power of each;
- (b) determine the shares represented at a meeting and the validity of proxies and ballots;
- (c) count all votes and ballots;
- (d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and
- (e) certify his or her determination of the number of shares represented at the meeting, and his or her count of all votes and ballots.

The inspector may appoint or retain other persons or entities to assist in the performance of the duties of inspector. [Sections 231(a), (b).]

Section 1.11. Opening and Closing of Polls. The date and time for the opening and the closing of the polls for each matter to be voted upon at a stockholder meeting shall be announced at the meeting. The inspector of the election shall be prohibited from accepting any ballots, proxies or votes or any revocations thereof or changes thereto after the closing of the polls, unless the Court of Chancery upon application by a stockholder shall determine otherwise. [Section 231(c).]

Section 1.12. Consent of Stockholders in Lieu of Meeting. To the fullest extent permitted by law, whenever the vote of stockholders at a meeting thereof is required or permitted to be taken for or in connection with any corporate action, such action may be taken without a meeting, without prior notice and without a vote of stockholders, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the earliest dated consent delivered in the manner required by law to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take the action were delivered to the Corporation as provided in this Section 1.12. [Section 228(a), (c), (d).]

## **ARTICLE II**

### **BOARD OF DIRECTORS**

Section 2.01. General Powers. Except as may otherwise be provided by law, by the Certificate of Incorporation or by these By-Laws, the property, affairs and business of the Corporation shall be managed by or under the direction of the Board of Directors and the Board of Directors may exercise all the powers of the Corporation. [Section 141(a) .]

Section 2.02. Number and Term of Office. The number of directors constituting the entire Board of Directors shall be between 9 and 13, which number may be modified from time to time by resolution of the Board of Directors, but in no event shall the number of directors be



less than three. No person shall be nominated by the Board of Directors to serve as a director after he or she has passed his or her 72nd birthday, unless the Nominating/Corporate Governance Committee of the Board of Directors has voted, on an annual basis, to waive, or continue to waive, the mandatory retirement age of such person as a director. Each director (whenever elected) shall hold office until his or her successor has been duly elected and qualified, or until his or her earlier death, resignation or removal. [Section 141(b).]

Section 2.03. Election of Directors. Except as otherwise provided in Sections 2.12 and 2.13 of these By-Laws, the directors shall be elected at each annual meeting of the stockholders. If the annual meeting for the election of directors is not held on the date designated therefor, the directors shall cause the meeting to be held as soon thereafter as convenient. At each meeting of the stockholders for the election of directors, provided a quorum is present, the directors shall be elected by a plurality of the votes validly cast in such election. [Sections 211(b), (c), 216.]

Section 2.04. Annual and Regular Meetings. The annual meeting of the Board of Directors for the purpose of electing officers and for the transaction of such other business as may come before the meeting shall be held as soon as possible following adjournment of the annual meeting of the stockholders at the place of such annual meeting of the stockholders. Notice of such annual meeting of the Board of Directors need not be given. The Board of Directors from time to time may by resolution provide for the holding of regular meetings and fix the place (which may be within or without the State of Delaware) and the date and hour of such meetings. Notice of regular meetings need not be given. [Section 141(g).]

Section 2.05. Special Meetings; Notice. Special meetings of the Board of Directors may be called by the Chairman, the Chief Executive Officer, the Secretary or an Assistant Secretary, if any, and, on the written request of any two directors, the Secretary or an Assistant Secretary shall call such meeting. Special meetings shall be held at such place (within or without the State of Delaware), date and hour as may be specified in the respective notices or waivers of notice of such meetings. Special meetings of the Board of Directors may be called on twenty-four hours' notice, if notice is given to each director personally or by telephone or telegram, or on five days' notice, if notice is mailed to each director, addressed to him or her at his or her usual place of business. Notice of any special meeting need not be given to any director who attends such meeting without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any director who submits a signed waiver of notice, whether before or after such meeting, and any business may be transacted thereat. [Sections 141(g), 229.]

Section 2.06. Quorum; Voting. At all meetings of the Board of Directors, the presence of at least one-third of the total authorized number of directors, but not less than two directors, shall constitute a quorum for the transaction of business. Except as otherwise required by law, the Certificate of Incorporation or these By-Laws, the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. [Section 141(b).]

Section 2.07. Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting of the Board of Directors to another time or place. No

notice need be given of any adjourned meeting unless the time and place of the adjourned meeting are not announced at the time of adjournment, in which case notice conforming to the requirements of Section 2.05 of these By-Laws shall be given to each director.

Section 2.08. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board of Directors. [Section 141(f).]

Section 2.09. Regulations; Manner of Acting. To the extent consistent with applicable law, the Certificate of Incorporation and these By-Laws, the Board of Directors may adopt such rules and regulations for the conduct of meetings of the Board of Directors and for the management of the property, affairs and business of the Corporation as the Board of Directors may deem appropriate. The directors shall act only as a Board, and the individual directors shall have no power as such.

Section 2.10. Action by Telephonic Communications. Except as otherwise determined by the Board of Directors, members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. [Section 141(i).]

Section 2.11. Resignations. Any director may resign at any time by delivering a written notice of resignation, signed by such director, to the Chairman or the Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon delivery. [Section 141(b).]

Section 2.12. Removal of Directors. Any director may be removed at any time, either for or without cause, upon the affirmative vote of the holders of a majority of the outstanding shares of stock of the Corporation entitled to vote for the election of such director. Any vacancy in the Board of Directors caused by any such removal may be filled at such meeting by the stockholders entitled to vote for the election of the director so removed. If such stockholders do not fill such vacancy at such meeting (or in the written instrument effecting such removal, if such removal was effected by consent without a meeting), such vacancy may be filled in the manner provided in Section 2.13 of these By-Laws. [Section 141(k).]

Section 2.13. Vacancies and Newly Created Directorships. If any vacancies shall occur in the Board of Directors, by reason of death, resignation, removal or otherwise, or if the authorized number of directors shall be increased, the directors then in office shall continue to act, and such vacancies and newly created directorships may be filled by a majority of the directors then in office, although less than a quorum. A director elected to fill a vacancy or a newly created directorship shall hold office until his or her successor has been elected and qualified or until his or her earlier death, resignation or removal. Any such vacancy or newly created directorship may also be filled at any time by vote of the stockholders. [Section 223.]

Section 2.14. Compensation. Each director, in consideration of his or her service as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at directors' meetings, or both, as the Board of Directors may from time to time determine, together with reimbursement for the reasonable out-of-pocket expenses, if any, incurred by such director in connection with the performance of his or her duties. Each director who shall serve as a member of any Committee designated by the Board of Directors in consideration of serving as such shall be entitled to such additional amount per annum or such fees for attendance at committee meetings, or both, as the Board of Directors may from time to time determine, together with reimbursement for the reasonable out-of-pocket expenses, if any, incurred by such director in the performance of his or her duties. Nothing contained in this Section 2.14 shall preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation. [Section 141(h).]

Section 2.15. Reliance on Accounts and Reports, etc. A director, or a member of any Committee designated by the Board of Directors shall, in the performance of his or her duties, be fully protected in relying in good faith upon the records of the Corporation and upon information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or Committees designated by the Board of Directors, or by any other person as to the matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation. [Section 141(e).]

Section 2.16. Honorary Directors. The Board of Directors may, by vote at a regularly held meeting, appoint at its discretion individuals as Honorary Directors to serve for such period of time and with such compensation as shall be fixed by the Board of Directors. Individuals appointed as Honorary Directors shall have the right to attend regularly scheduled Board of Directors meetings but shall not have the right to cast a vote.

### **ARTICLE III**

#### **EXECUTIVE COMMITTEE, AUDIT COMMITTEE, COMPENSATION COMMITTEE, NOMINATING/CORPORATE GOVERNANCE COMMITTEE AND OTHER COMMITTEES**

Section 3.01. How Constituted. The Board of Directors shall have an Executive Committee, an Audit Committee, a Compensation Committee and a Nominating/Corporate Governance Committee, each such Committee to consist of such number of directors as from time to time may be fixed by the Board of Directors in accordance with this Section 3.01. The Executive Committee shall consist of three or more directors. The Audit Committee, Compensation Committee, and Nominating/Corporate Governance Committee shall each consist of three or more outside directors, each of whom shall satisfy the independence (and, in the case of the Audit Committee, the financial literacy and experience) requirements of Section 10A of the Securities Exchange Act of 1934, the New York Stock Exchange and any other regulatory

requirements. The Board of Directors may designate one or more other Committees, each of which shall consist of such number of directors as from time to time may be fixed by the Board of Directors. The Board of Directors may designate one or more directors as alternate members of any Committee, who may replace any absent or disqualified member or members at any meeting of such Committee. Thereafter, members (and alternate members, if any) of each Committee may be designated at the annual meeting of the Board of Directors. Any Committee, other than the Executive Committee, Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee, may be abolished or re-designated from time to time by the Board of Directors. Each member (and each alternate member) of any Committee (whether designated at an annual meeting of the Board of Directors or to fill a vacancy or otherwise) shall hold office until his or her successor shall have been designated or until he or she shall cease to be a director, or until his or her earlier death, resignation or removal. [Section 141(c).]

Section 3.02. Powers; Duties and Responsibilities. During the intervals between the meetings of the Board of Directors, the Executive Committee, except as otherwise provided in this Section 3.02, shall have and may exercise all the powers and authority of the Board of Directors in the management of the property, affairs and business of the Corporation, including the power to declare dividends and to authorize the issuance of stock.

The Audit Committee shall have the power and authority of the Board of Directors to fulfill the Board of Directors' oversight responsibilities with respect to: (a) the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethical behavior; (b) the Corporation's auditing, accounting and financial reporting processes generally; (c) the Corporation's financial statements and other financial information provided by the Corporation to its stockholders, the public and others; (d) the Corporation's compliance with legal and regulatory requirements; and (e) the performance of the Corporation's internal auditors and independent auditors. The specific powers and responsibilities of the Audit Committee are set forth in its Charter (which is available on the Corporation's website at "adp.com").

The Compensation Committee shall have the power and authority of the Board of Directors to fulfill the Board of Directors' responsibilities in respect to compensation of the Corporation's executives. The specific powers and responsibilities of the Compensation Committee are set forth in its Charter (which is available on the Corporation's website at "adp.com").

The Nominating/Corporate Governance Committee shall have the power and authority of the Board of Directors to ensure: (a) that the Board of Directors shall have the benefit of qualified and experienced Directors; (b) that the Audit, Compensation and Nominating/ Corporate Governance Committees of the Board of Directors shall have the benefit of qualified Directors, each of whom shall satisfy the independence (and, in the case of the Audit Committee, the financial literacy and experience) requirements of Section 10A of the Securities Exchange Act, the New York Stock Exchange and any other regulatory requirements, and (c) that the Corporation shall have in place effective corporate governance policies and procedures. The

specific powers of the Nominating/Corporate Governance Committee are set forth in its Charter (which is available on the Corporation's website at "adp.com").

Each Committee shall have and may exercise such powers of the Board of Directors as may be provided by resolution or resolutions of the Board of Directors. Notwithstanding the foregoing, no Committee shall have the power or authority:

- (a) to amend the Certificate of Incorporation (except that a Committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the General Corporation Law, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series);
- (b) to adopt an agreement of merger or consolidation;
- (c) to recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets;
- (d) to recommend to the stockholders a dissolution of the Corporation or a revocation of dissolution; or
- (e) to amend the By-Laws of the Corporation. [Section 141(c).]

Section 3.03. Proceedings. The Chairman of each Committee shall be designated by the Board of Directors. Each Committee may fix its own rules of procedure and may meet at such place (within or without the State of Delaware), at such time and upon such notice, if any, as it shall determine from time to time or as may be required by the Board of Directors. Each Committee shall keep minutes of its proceedings and shall report such proceedings to the Board of Directors at the meeting of the Board of Directors next following any such proceedings.

Section 3.04. Quorum and Manner of Acting. Except as may be otherwise provided in the resolution creating such Committee, at all meetings of any Committee the presence of members (or alternate members) constituting a majority of the total authorized membership of such Committee shall constitute a quorum for the transaction of business. Notwithstanding the foregoing, the presence of two members (or alternate members) of a Committee that has four authorized members shall constitute a quorum for the transaction of business. The act of the majority of the members present at any meeting at which a quorum is present shall be the act of such Committee. Any action required or permitted to be taken at any meeting of any such Committee may be taken without a meeting, if all members of such Committee shall consent to such action in writing and such writing or writings are filed with the minutes of the proceedings

of the Committee. The members of any such Committee shall act only as a Committee, and the individual members of such Committee shall have no power as such. [Section 141(c), (f).]

Section 3.05. Action by Telephonic Communications. Except as otherwise provided by the applicable Committee or by the Board of Directors, members of any Committee may participate in a meeting of such Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. [Section 141(i).]

Section 3.06. Absent or Disqualified Members. In the absence or disqualification of a member of any Committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another qualified member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. [Section 141 (c).]

Section 3.07. Resignations. Any member (and any alternate member) of any Committee may resign at any time by delivering a written notice of resignation, signed by such member, to the Chairman or the Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon delivery.

Section 3.08. Removal. Any member (and any alternate member) of any Committee may be removed from his or her position as a member (or alternate member, as the case may be) of such Committee at any time, either for or without cause, by the Board of Directors.

Section 3.09. Vacancies. If any vacancy shall occur in any Committee, by reason of disqualification, death, resignation, removal or otherwise, the remaining members (and any alternate members) shall continue to act, and any such vacancy may be filled by the Board of Directors.

## **ARTICLE IV**

### **OFFICERS**

Section 4.01. Number. The officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer and such other officers as the Board of Directors may appoint, including one or more Vice Presidents and one or more Assistant Secretaries and Assistant Treasurers, who shall exercise such powers and perform such duties and have such titles as shall be determined from time to time by the Board of Directors or as otherwise provided in the By-Laws. The Board of Directors shall designate an officer to be the Chief Executive Officer of the Corporation and may designate any officer to be the Chief Operating Officer or Chief Financial Officer of the Corporation. Any number of offices may be held by the same person unless the Certificate of Incorporation or these By-Laws provide otherwise. [Section 142 (a) , (b).]

Section 4.02. Election. Unless otherwise determined by the Board of Directors, the officers of the Corporation shall be elected by the Board of Directors at the annual meeting of the Board of Directors, and shall be elected to hold office until the next succeeding annual meeting of the Board of Directors. In the event of the failure to elect officers at such annual meeting, officers may be elected at any regular or special meeting of the Board of Directors. Each officer shall hold office until his or her successor has been elected and qualified, or until his or her earlier death, resignation or removal. [Section 142(b).]

Section 4.03. Salaries. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors, the Chief Executive Officer or such other persons to whom the authority to fix such salaries shall be delegated by the Board of Directors or the Chief Executive Officer. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that the officer is also a director of the Corporation.

Section 4.04. Removal and Resignation; Vacancies. Any officer may be removed for or without cause at any time by the Board of Directors or by the Chief Executive Officer. Any officer may resign at any time by delivering a written notice of resignation, signed by such officer, to the Board of Directors or the Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon delivery. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, shall be filled by the Board of Directors or by the Chief Executive Officer. [Section 142(b), (e).]

Section 4.05. Authority and Duties of Officers. The officers of the Corporation shall have such authority and shall exercise such powers and perform such duties as may be specified in these By-Laws, except that in any event each officer shall exercise such powers and perform such duties as may be required by law. [Section 142(a).]

Section 4.06. Chairman. The Chairman shall preside at all meetings of the stockholders and the Board of Directors and shall exercise such powers and perform such other duties as shall be determined from time to time by the Board of Directors.

Section 4.07. President. The President shall have general supervision over the business of the Corporation, subject, however, to the control of the Board of Directors, any duly authorized Committee designated by the Board of Directors and the Chief Executive Officer (if not the President). The President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments except in cases in which the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officer or agent of the Corporation or shall be required by statute otherwise to be signed or executed and, in general, the President shall perform all duties incident to the office of President of a corporation and such other duties as may from time to time be assigned to the President by the Board of Directors and the Chief Executive Officer (if not the President).

Section 4.08. Vice Presidents. At the request of the Chief Executive Officer, or, in the Chief Executive Officer's absence, at the request of the Board of Directors, the Vice Presidents

shall (in such order as may be designated by the Chief Executive Officer or the Board of Directors or, in the absence of any such designation, the most senior Vice President based on title) perform all of the duties of the President and, in so performing, shall have all the powers of, and be subject to all restrictions upon, the President. Any Vice President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officer or agent of the Corporation, or shall be required by statute otherwise to be signed or executed, and each Vice President shall perform such other duties as from time to time may be assigned to such Vice President by the Board of Directors or by the Chief Executive Officer.

Section 4.09. Secretary. The Secretary shall attend all meetings of the stockholders and the Board of Directors and shall record all the proceedings of such meetings in a book or books to be kept for that purpose, and shall perform like duties for the Committees of the Board of Directors, when required. The Secretary shall give, or cause to be given, all notices to be given in accordance with these By-Laws or as required by law and shall perform such other duties as may be prescribed by the Board of Directors or by the Chief Executive Officer. The Secretary or an Assistant Secretary, if any, may attest all instruments signed by the Chairman, the Chief Executive Officer, the President, any Vice President or any other authorized officers of the Corporation. The Secretary shall have charge of the stock books and ledgers of the Corporation and all the books, records and papers of the Corporation relating to its organization and management, shall see that the reports, statements and other documents required by statute are properly kept and filed and, in general, shall perform all duties incident to the office of Secretary of a corporation and such other duties as may from time to time be assigned to the Secretary by the Board of Directors or by the Chief Executive Officer.

Section 4.10. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys and valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors, the Chief Executive Officer, the Treasurer or by any person to whom such power to designate is delegated by the Board of Directors, the Chief Executive Officer or the Treasurer; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined by the Board of Directors or the Chief Executive Officer and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books or other records maintained for the purpose full and adequate account of all moneys received or paid for the account of the Corporation; have the right to require from time to time reports or statements giving such information as the Treasurer may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the Chief Executive Officer or the Board of Directors, whenever the Chief Executive Officer or the Board of Directors shall require the Treasurer so to do, an account of the financial condition of the Corporation and of all financial transactions of the Corporation; exhibit at all reasonable times the records and books of account to any of the directors upon application at the office of the Corporation where such records and books are kept; disburse the funds of the Corporation as



ordered by the Board of Directors and the Chief Executive Officer; and, in general, perform all duties incident to the office of Treasurer of a corporation and such other duties as may from time to time be assigned to the Treasurer by the Board of Directors or the Chief Executive Officer.

Section 4.11. Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the Board of Directors or by the Chief Executive Officer.

Section 4.12. Security. The Board of Directors may require any officer, agent or employee of the Corporation to provide security for the faithful performance of his or her duties, in such amount and of such character as may be determined from time to time by the Board of Directors. [Section 142(c).]

## **ARTICLE V**

### **CAPITAL STOCK**

Section 5.01. Certificates of Stock; Uncertificated Shares. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the Corporation shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until each certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock in the Corporation represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation, by the Chairman, the President or a Vice President, and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, representing the number of shares registered in certificate form. Such certificate shall be in such form as the Board of Directors may determine, to the extent consistent with applicable law, the Certificate of Incorporation and these By-Laws. [Section 158.]

Section 5.02. Signatures; Facsimile. All of such signatures on the certificate referred to in Section 5.01 of these By-Laws may be a facsimile, engraved or printed, to the extent permitted by law. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue. [Section 158.]

Section 5.03. Lost, Stolen or Destroyed Certificates. The Board of Directors may direct that a new certificate be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon delivery to the Board of Directors of proof satisfactory to the Board of Directors of such loss, theft or destruction. The Board of Directors may require the owner of such lost, stolen or destroyed certificate, or his legal representative, to

advertise such loss, theft or destruction in such manner as the Board of Directors may require and to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. [Section 167.]

Section 5.04. Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares, duly endorsed or accompanied by appropriate evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Subject to the provisions of the Certificate of Incorporation and these By-Laws, the Board of Directors may prescribe such additional rules and regulations as it may deem appropriate relating to the issue, transfer and registration of shares of the Corporation. [Section 151(f).]

Section 5.05. Record Date. In order to determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted by the Board of Directors, and which shall not be more than sixty nor less than ten days before the date of such meeting. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting, provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights of the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. [Section 213.]

Section 5.06. Registered Stockholders. Prior to due surrender of a certificate for registration of transfer, the Corporation may treat the registered owner as the person exclusively entitled to receive dividends and other distributions, to vote, to receive notice and otherwise to exercise all the rights and powers of the owner of the shares represented by such certificate, and the Corporation shall not be bound to recognize any equitable or legal claim to or interest in such shares on the part of any other person, whether or not the Corporation shall have notice of such claim or interests. Whenever any transfer of shares shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer if, when the certificates are presented to the Corporation for transfer or uncertificated shares are requested to be transferred, both the transferor and transferee request the Corporation to do so. [Section 159.]

Section 5.07. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars, and may require all certificates representing shares to bear the signature of any such transfer agents or registrars.

## ARTICLE VI

### INDEMNIFICATION

Section 6.01. Nature of Indemnity. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was or has agreed to become a director or officer of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director or officer, of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, and may indemnify any person who was or is a party or is threatened to be made a party to such an action, suit or proceeding by reason of the fact that he or she is or was or has agreed to become an employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her or on his or her behalf in connection with such action, suit or proceeding and any appeal therefrom, if he or she (x) acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and, in the case of any such employee or agent, in a manner he or she reasonably believed to be not in violation of any policies or directives of the Corporation, and (y) with respect to any criminal action or proceeding had no reasonable cause to believe his or her conduct was unlawful; except that in the case of an action or suit by or in the right of the Corporation to procure a judgment in its favor (i) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit, and (ii) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. The indemnification under this Section 6.01 shall apply to all directors and officers of the Corporation who sit on the boards of directors of non-profit corporations in keeping with the Corporation's philosophy.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 6.02. Successful Defense. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 6.01 of these By-Laws or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Section 6.03. Determination That Indemnification Is Proper. Any indemnification of a director or officer of the Corporation under Section 6.01 of these By-Laws (unless ordered by a court) shall be made by the Corporation unless a determination is made that indemnification of the director or officer is not proper in the circumstances because he or she has not met the applicable standard of conduct set forth in Section 6.01 of these By-Laws. Any indemnification of an employee or agent of the Corporation under Section 6.01 of these By-Laws (unless ordered by a court) may be made by the Corporation upon a determination that indemnification of the employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 6.01 of these By-Laws. Any such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders.

Section 6.04. Advance Payment of Expenses. Expenses (including attorneys' fees) incurred by a director or officer in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Board of Directors may authorize the Corporation's counsel to represent such director, officer, employee or agent in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

Section 6.05. Procedure for Indemnification of Directors and Officers. Any indemnification of a director or officer of the Corporation under Sections 6.01 and 6.02 of these By-Laws, or advance of costs, charges and expenses to a director or officer under Section 6.04 of these By-Laws, shall be made promptly, and in any event within thirty days, upon the written request of the director or officer. If a determination by the Corporation that the director or officer is entitled to indemnification pursuant to this Article is required, and the Corporation fails to respond within sixty days to a written request for indemnity, the Corporation shall be deemed to have approved such request. If the Corporation denies a written request for indemnity or advancement of expenses, in whole or in part, or if payment in full pursuant to such request is not made within thirty days, the right to indemnification or advances as granted by this Article shall be enforceable by the director or officer in any court of competent jurisdiction. Such person's costs and expenses incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a

claim for the advance of costs, charges and expenses under Section 6.04 of these By-Laws where the required undertaking, if any, has been received by or tendered to the Corporation) that the claimant has not met the standard of conduct set forth in Section 6.01 of these By-Laws, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 6.01 of these By-Laws, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 6.06. Survival; Preservation of Other Rights. The foregoing indemnification provisions shall be deemed to be a contract between the Corporation and each director, officer, employee and agent who serves in any such capacity at any time while these provisions as well as the relevant provisions of the General Corporation Law are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any action, suit or proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a "contract right" may not be modified retroactively without the consent of such director, officer, employee or agent.

The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6.07. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her or on his or her behalf in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article, provided that such insurance is available on acceptable terms, which determination shall be made by a vote of a majority of the entire Board of Directors.

Section 6.08. Severability. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director or officer and may indemnify each employee or agent of the Corporation as to costs, charges and expenses (including attorneys' fees) judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative

or investigative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article that shall not have been invalidated and to the fullest extent permitted by applicable law.

## **ARTICLE VII**

### **GENERAL PROVISIONS**

Section 7.01. Dividends. Subject to any applicable provisions of law and the Certificate of Incorporation, dividends upon the shares of the Corporation may be declared by the Board of Directors at any regular or special meeting of the Board of Directors and any such dividend may be paid in cash, property, or shares of the Corporation's capital stock.

A member of the Board of Directors, or a member of any Committee designated by the Board of Directors shall be fully protected in relying in good faith upon the records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or Committees of the Board of Directors, or by any other person as to matters the director reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation, as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid. [Sections 172, 173.]

Section 7.02. Reserves. There may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, thinks proper as a reserve or reserves to meet contingencies or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Board of Directors may similarly modify or abolish any such reserve. [Section 171.]

Section 7.03. Execution of Instruments. The Board of Directors, except as otherwise provided in these By-Laws, may prospectively or retroactively authorize any officer or officers, employee or employees or agent or agents, in the name and on behalf of the Corporation, to enter into any contract or agreement or execute and deliver any instrument, including checks, drafts and other orders for the payment of moneys out of the funds of the Corporation, promissory notes, bonds or other evidences of indebtedness of the Corporation, endorsements, assignments, transfers, stock powers or other instruments of transfer of stock or other securities belonging to and/or standing in the name of the Corporation, and any other documents requiring the execution by or in the name of the Corporation, and any such authority may be general or confined to specific instances, or otherwise limited.

Section 7.04. Corporate Indebtedness. The Board of Directors may prospectively or retroactively authorize the Chief Executive Officer or any other officer, employee or agent of the Corporation to effect loans and advances at any time for the Corporation from any banks, trust

company or other institution, or from any firm, corporation or individual, and, when authorized by the Board of Directors so to do, may pledge and hypothecate or transfer any securities or other property of the Corporation as security for any such loans or advances. Such authority conferred by the Board of Directors may be general or confined to specific instances, or otherwise limited.

Section 7.05. Fiscal Year. The Board of Directors may determine the fiscal year of the Corporation and may from time to time change the same.

Section 7.06. Seal. The seal of the Corporation shall be circular in

\_\_\_\_\_ form and shall contain the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Delaware". The form of such seal shall be subject to alteration by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed, affixed or reproduced, or may be used in any other lawful manner.

Section 7.07. Books and Records; Inspection. Except to the extent otherwise required by law, the books and records of the Corporation shall be kept at such place or places within or without the State of Delaware as may be determined from time to time by the Board of Directors. Subject to the General Corporation Law, the Board of Directors from time to time may determine whether, to what extent, at what times and places, and under what conditions and regulations, the accounts, books and papers of the Corporation, or any of them, shall be open to the inspection of stockholders; and no stockholder shall have any right to inspect any account, book or paper of the Corporation except as expressly conferred by the General Corporation Law or authorized by the Board of Directors.

## **ARTICLE VIII**

### **AMENDMENT OF BY-LAWS**

Section 8.01. Amendment. Subject to the provisions of the Certificate of Incorporation, these By-Laws may be amended, altered or repealed:

(a) by resolution adopted by a majority of the Board of Directors at any special or regular meeting of the Board of Directors if, in the case of such special meeting only, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting; or

(b) at any regular or special meeting of the stockholders if, in the case of such special meeting only, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting. [Section 109(a).]

## **ARTICLE IX**

### **CONSTRUCTION**

Section 9.01. Construction. Whenever in these By-Laws references are made to the Certificate of Incorporation, such references shall be deemed to be references to the Certificate of Incorporation, as the same, at the time of the adoption of these By-Laws, may have been amended and as the same, subsequent to such time, may be amended; and wherever in these By-Laws references are made to the By-Laws of the Corporation, such references shall be deemed to be references to these By-Laws, and to the same as they from time to time may be amended. Wherever in these By-Laws references are made to the General Corporation Law, such references shall be deemed to be references to the General Corporation Law of the State of Delaware.



**EXHIBIT 10.4**

**AUTOMATIC DATA PROCESSING, INC.  
SUPPLEMENTAL OFFICERS RETIREMENT PLAN**  
(as amended on May 14, 2002)

The purpose of this Supplemental Officers Retirement Plan (the "Plan") is to provide an additional means by which AUTOMATIC DATA PROCESSING, INC. may attract, retain and encourage the productive efforts of a select group of corporate vice presidents and more senior corporate officers who provide valuable services to AUTOMATIC DATA PROCESSING, INC. and its subsidiaries. The Plan provides supplemental retirement benefits to qualifying participants.

The Plan is as follows:

**ARTICLE I**  
**DEFINITIONS**

The following terms when used in this Plan shall have the designated meaning, unless a different meaning is clearly required by the context.

1.1 Annual Plan Benefit. The Annual Plan Benefit shall be the annual amount of a Participant's Plan benefit calculated in accordance with the provisions of Section 3.1 below.

1.2 Annual Benefit Multiplier. The Annual Benefit Multiplier shall be 1-1/2%.

1.3 Committee. Three board members or senior officers of the Corporation appointed from time to time by the Board of Directors of the Company.

1.4 Board. The Board of Directors of the Company.

1.5 Code. The Internal Revenue Code of 1986, as amended.

1.6 Company. Automatic Data Processing, Inc. ("ADP") and its subsidiaries, and ADP's successors.

1.7 Early Retirement Date. The date on which a Participant attains age sixty (60).

1.8 Final Average Annual Pay. The average annual compensation of a Participant for the five full consecutive calendar years during his Future Service period during which he received the largest total amount of compensation. For this purpose a Participant's "compensation" shall mean his total compensation actually paid or accrued by the Company to or for a Participant (including, without limitation, bonuses paid or accrued, performance incentive payments and the like and restricted stock plans), and excluding relocation pay, compensation derived from stock options, and stock appreciation rights or any similar plans; provided that, notwithstanding anything to the contrary set forth herein, amounts deferred at a Participant's election under a plan described in section 401(k) of the Code and the deemed value (at time of grant) of any stock option grant made in lieu of a bonus payment, shall be included in Participant's compensation. The Company's chief executive officer shall determine the deemed value of any stock option grant made in lieu of a bonus payment, which value shall not, in any event, be: (i) greater than the "target bonus" amount the stock option grant was made in lieu of (the "Substituted Amount") or (ii) less than the amount such Participant would have received had the foregoing stock option grant not been made and the normal bonus "scoring" methodology been applied to the Substituted Amount, provided that such amount shall not exceed the Substituted Amount. The deemed value of such stock option grant shall be included in a Participant's compensation in the calendar year in which the bonus (which the stock option was granted in lieu of) would have otherwise been paid. The value (on the date that restrictions lapse) of a Participant's restricted stock with restrictions lapsing during the Company's fiscal year that begins during the applicable calendar year shall be included in the Participant's compensation for such calendar year.

1.9 Future Service. A Participant's period of full calendar years of continuous employment with the Company after his Plan participation has begun. Leaves of absence of less than six months may be taken into account as Future Service, to the extent provided by the

Committee. The Committee may, in the applicable Supplement, grant a Participant prior service credit for determining the length of his Future Service period.

1.10 Government Sponsored Plan Benefits. The annual amount of benefits to which a Participant is entitled on his Normal Retirement Date under all government sponsored retirement benefit plans (including, without limitation, Participant's Social Security benefits). A Participant's government sponsored retirement plan benefits shall be expressed as an annual amount in the form of an actuarially equivalent straight life annuity starting on his Normal Retirement Date.

1.11 Maximum Annual Benefit Limitation. The Maximum Annual Benefit **Limitation shall be 25% of a Participant's Final Average Annual Pay.**

1.12 Normal Retirement Date. The date on which the Participant attains age sixty-five (65).

1.13 Other Retirement Benefits. The sum of the Participant's Private **Sector Plan Benefits and his Government Sponsored Plan Benefits.**

1.14 Participant. An individual who has been designated as a Participant by the Committee pursuant to Article II.

1.15 Private Sector Plan Benefits. The annual amount of benefits to which a Participant is entitled on his Normal Retirement Date under all retirement plans maintained by the Company (other than this Plan), or by any former or subsequent employer of Participant (other than a governmental body covered by Section 1.10 above), whether as a periodic payment, as a lump sum, or otherwise. A Participant's Private Sector Plan Benefits shall be expressed as an annual amount in the form of an actuarially equivalent straight life annuity starting at his Normal Retirement Date.

1.16 Supplement. A supplement attached to and made a part of this Plan, which shall set forth for each Participant any special conditions applicable to him.

1.17 Termination of Employment. References hereunder to a Participant's termination of employment, the date a Participant's employment terminates and the like, shall refer to the ceasing of the Participant's employment with the Company for any reason.

1.18 Vested Percentage. Except to the extent set forth in Sections 3.4 and 5.5, until a Participant completes 5 full calendar years of Future Service, such Participant's Vested Percentage shall be 0% and he shall not be entitled to any Plan benefits hereunder. Upon completing 5, 6, 7, 8, 9, and 10 or more full calendar years of Future Service, a Participant's Vested Percentage shall be 50%, 60%, 70%, 80%, 90%, and 100%, respectively. The Committee may, in the applicable Supplement, grant a Participant prior service credit for determining his Vesting Percentage purposes. Any Participant who has passed the age of 55 and served as a corporate officer for more than 5 years as of the effective date of this Plan, January 1, 1989, shall be 100% vested in all of his plan benefits hereunder.

## **ARTICLE II** **ELIGIBILITY**

(a) The Committee may at any time and from time to time (but prospectively only) designate any corporate vice president or any more senior corporate officer of the Company as a Participant in the Plan; provided that such person participates to the maximum extent permissible in the Company's other retirement plans (including, without limitation, the Automatic Data Processing, Inc. Retirement and Savings Plan and the Automatic Data Processing, Inc. Pension Retirement Plan) during the entire period he is a Participant in the Plan.

(b) A person shall automatically cease to be a Participant on the earlier to occur of the date on which: (i) he is no longer a corporate vice president or a more senior corporate officer of the Company; or (ii) he ceases to participate to the maximum extent permissible in

the Company's retirement plans (including, without limitation, the Automatic Data Processing, Inc. Retirement and Savings Plan and the Automatic Data Processing, Inc. Pension Retirement Plan).

**ARTICLE III**  
**RETIREMENT BENEFITS**

3.1 In General.

(a) A Participant's Annual Plan Benefit is the product of (i) his Final Average Annual Pay, (ii) his Future Service period, (iii) the Annual Benefit Multiplier and (iv) his Vested Percentage; provided that, in no event, may the Participant's Annual Plan Benefit exceed the Maximum Annual Benefit Limitation applicable to him.

(b) In addition, the Annual Plan Benefits otherwise payable to a Participant under the Plan's basic benefit formula set forth in Section 3.1(a) above shall be reduced to the extent necessary to cause the total of (i) Participant's Annual Plan Benefits and (ii) Participant's annual Other Retirement Benefits not to exceed 60% of Participant's Final Average Annual Pay.

(c) A Participant's benefits under this Plan shall be expressed as an annual amount in the form of a straight life annuity or, at the Committee's election, another actuarially equivalent payment option, starting as at the date the payments to such Participant under this Article III begin.

3.2 Normal Retirement Benefit. If a Participant wishes to receive Plan benefits on and after his Normal Retirement Date, the Company will pay the Participant a monthly benefit, starting on the first of the month after Normal Retirement Date and ending with the payment for the month in which his death occurs; provided that no benefit shall be paid hereunder unless and until such Participant has ceased to be employed by the Company. Such monthly benefit shall be

one-twelfth of such Participant's Annual Plan Benefit determined in accordance with the provisions of Section 3.1 above.

3.3 Early Retirement Benefit. If a Participant wishes to receive Plan benefits commencing on or after his Early Retirement Date and before his Normal Retirement Date, the Company will, at Participant's request, pay the Participant a monthly benefit starting on the first of the month after his Early Retirement Date after which he requested that he begin receiving benefits under the Plan and ending with the payment for the month in which his death occurs; provided that no benefit shall be paid hereunder unless and until such Participant has ceased to be employed by the Company. Such monthly benefit shall be in an amount equal to the product of the monthly benefit the Participant would have received under Section 3.2 if the Participant had elected to commence receiving payments under the Plan on his Normal Retirement Date, actuarially reduced to reflect the commencement of the payment of Plan benefits before his Normal Retirement Date. The Committee may, in its discretion, reduce a Participant's Plan benefits by less than a straight actuarially reduced amount if Participant begins to receive Plan benefits after his Early Retirement Date and before his Normal Retirement Date.

3.4 Disability Retirement Benefit. If a Participant shall incur a Disability while employed by the Company, the Company shall pay such Participant a monthly benefit starting on the first day of the calendar month after the date his Disability begins and ending with the payment for the calendar month in which his death occurs or his disability ends, whichever occurs first. Such monthly benefit (which shall not be reduced by, and shall not reduce, the benefits, if any, payable to a Participant under the Company's Long Term Disability Insurance Program) shall be calculated in the same way as an Early Retirement benefit under Section 3.3, based on his Final Average Annual Pay when his Disability begins (which will, for purposes of this Section 3.4 only, be determined over less than five full consecutive calendar years to the extent that his Future Service period is less than five years), except that (i) the Vested Percentage

shall always be 100%, (ii) there shall not be any actuarial reduction to reflect the commencement of the payment of benefits before his Normal Retirement Date, and (iii) there shall not be any Future Service period accrual during his Disability. For purposes of this Section 3.4, "Disability" shall have the same meaning, and shall be determined in the same manner, as it is determined under the Company's Long Term Disability Insurance Program as in effect on the date the Disability begins.

3.5 No Duplication. In no event shall benefits become payable to any Participant under more than one Section of this Article III.

#### **ARTICLE IV** **FORFEITURES**

4.1 Forfeiture for Competitive Employment. If a Participant violates the non-competition provisions of any agreement he has entered into with the Company after his employment terminates, or if his employment with the Company is terminated on account of his dishonesty or gross negligence, such Participant shall forever and irrevocably forfeit all benefits otherwise due him under the terms of the Plan.

4.2 Limitation. If any provision of this Article IV shall be unenforceable as a matter of law, it shall be construed to apply to the greatest extent permitted by law so as to give effect to its intended purposes.

#### **ARTICLE V** **CONDITIONS RELATED TO BENEFITS**

5.1 Administration of Plan. The Committee shall administer the Plan and shall have the sole and exclusive authority to interpret, construe and apply its provisions. The Committee shall have the power to establish, adopt and revise such rules and regulations as it may deem

necessary or advisable for the administration of the Plan and the operation of the Committee's activities in connection therewith. All decisions of the Committee shall be by vote or written consent of the majority of its members and shall be final and binding. Members of the Committee shall be eligible to participate in the Plan while serving as a member of the Committee, but a member of the Committee shall not vote or act upon any matter which relates solely to such member in his capacity as a Participant.

5.2 Grantor Trust. The Committee may, at its discretion, have the Company create a grantor trust (within the meaning of section 671 of the Code) in connection with the adoption of this Plan to which it may from time to time contribute amounts to accumulate an appropriate reserve against its obligations hereunder. Notwithstanding the creation of such trust, the benefits hereunder shall be a general obligation of the Company. Payment of benefits from such trust shall, to the extent, discharge the Company's obligations under this Plan. A Participant shall have only a contractual right as a general creditor of the Company to the amounts, if any, payable hereunder and such right shall not be secured by any assets of the Company or the trust.

5.3 No Right to Company Assets. Neither a Participant nor any other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of the Company whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which the Company may set aside in anticipation of a liability hereunder, nor in or to any policy or policies of insurance on the life of a Participant owned by the Company.

5.4 No Employment Rights. Nothing herein shall constitute a contract of continuing employment or in any manner obligate the Company to continue the service of a Participant, or obligate a Participant to continue in the service of the Company, and nothing herein shall be construed as fixing or regulating the compensation paid to a Participant.

5.5 Company's Right to Terminate and Amend. The Company reserves the right in its sole discretion at any time to amend the Plan in any respect or terminate the Plan.



Notwithstanding the foregoing, no such amendment or termination shall reduce the amount of the benefit theretofore vested by any Participant or change the conditions required to be satisfied to receive payment of such past accrued benefit based on the provisions of the Plan as theretofore in effect. For this purpose, the amount of a Participant's accrued benefit as of the date of any plan amendment or termination shall be determined as if the Participant was then retiring in accordance with Section 3.3 with his actual Vested Percentage accrued as at such date; provided that if the Company is terminating the Plan and if a Participant has not completed at least 5 years of Future Service, Participant's Vested Percentage shall be (i) 40% if he has completed 4 years of Future Service, (ii) 30% if he has completed 3 years of Future Service, (iii) 20% if he has completed 2 years of Future Service, (iv) 10% if he has completed 1 year of Future Service, and (v) 0% if he has not completed 1 year of Future Service.

5.6 Protective Provisions. The Participant shall cooperate with the Company by furnishing any and all information requested by the Company in order to facilitate the payment of benefits hereunder.

5.7 Right of Offset. If at the time any payment is to be made hereunder a Participant is indebted to the Company or otherwise subject to a monetary claim by the Company, the payments remaining to be paid to the Participant under the Plan may, at the Company's discretion, be reduced by setoff against the amount of such indebtedness or claim.

5.8 No Third Party Rights. Nothing in this Plan or any trust established pursuant to Section 5.2 hereof shall be construed to create any rights hereunder in favor of any person (other than the Company and any Participant) or to limit the Company's right to amend or terminate the Plan in any manner subject to Section 5.5 hereof.

**ARTICLE VI**  
**MISCELLANEOUS**

6.1 Nonassignability. No rights or payments to any Participant shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary, and no attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be valid, nor shall any such benefit or payment be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of any Participant or subject to levy, garnishment, attachment, execution or other legal or equitable process. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant, nor be transferable by operation of law in the event of a Participant's bankruptcy or insolvency.

6.2 Withholding. To the extent required by law the Company shall be entitled to withhold from any payments due hereunder any federal, state and local taxes required to be withheld in connection with such payment.

6.3 Gender and Number. Wherever appropriate herein, the masculine shall mean the feminine and the singular shall mean the plural or vice versa.

6.4 Notice. Any notice required or permitted to be made under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to (a) in the case of notice to the Company or the Committee, the principal office of the Company, directed to the attention of the Secretary of the Committee, and (b) in the case of a Participant, such Participant's home or business address maintained in the Company's personnel records. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for registration or certification.

6.5 Validity. In the event any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

6.6 Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of New Jersey.

**ARTICLE VII**  
**SPOUSAL BENEFITS**

In the event of the death of a participant who is at least 35 years of age at the time of his death and who is vested in accordance with the provisions of Paragraph 1.18, the surviving spouse is entitled to receive 50% of the death benefit which the participant would have been entitled to receive at the time of his death. Such benefit shall be payable monthly as a straight life annuity benefit and shall be calculated in accordance with the benefit which the participant would have been entitled to at the normal retirement age of 65 or, at the election of the spouse, in accordance with the early retirement provision actuarially reduced.

**AUTOMATIC DATA PROCESSING, INC.**

**2000 KEY EMPLOYEES' STOCK OPTION PLAN**

(as amended effective as of August 31, 2001 and as further amended on May 14, 2002)

Automatic Data Processing, Inc., a Delaware corporation (the "Company"), hereby formulates and adopts the following 2000 Key Employees' Stock Option Plan (the "Plan") for employees of the Company and its Subsidiaries (as defined in Paragraph 5):

1. **PURPOSE.** The purpose of the Plan is to secure for the Company the benefits of the additional incentive inherent in the ownership of common stock, par value \$.10, of the Company ("Common Stock") by selected employees of the Company and its Subsidiaries who, in the judgment of the Committee (as defined in Paragraph 2), are important to the success and the growth of the business of the Company and its Subsidiaries and to help the Company and its Subsidiaries secure and retain the services of such employees.

2. **ADMINISTRATION.** Except to the extent required in order to qualify for exemptive relief under Rule 16b-3 or its successor provision under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), in which case the Board of Directors of the Company (the "Board of Directors"), or a committee appointed by the Board of Directors which satisfies the requirements of such provisions shall administer the Plan (and all applicable provisions of the Plan, including any reference herein to the "Committee", shall be construed accordingly), the Plan shall be administered by a Stock Option Committee (the "Committee") to be appointed by the Board of Directors, which Committee may include employees who are and who are not members of the Board of Directors. The Committee shall select one of its members as Chairman and shall make such rules and regulations as it shall deem appropriate concerning the holding of its meetings and transaction of its business. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board of Directors, and any vacancy on the Committee may at any time be filled by resolution adopted by the Board of Directors.

Subject to the express provisions of the Plan, the Committee shall have plenary authority to interpret the Plan, to prescribe, amend and rescind the rules and regulations relating to it and to make all other determinations deemed necessary and advisable for the administration of the Plan. The determinations of the Committee shall be conclusive.

3. **STOCK SUBJECT TO OPTIONS.** Subject to the adjustment provisions of Paragraph 13 below, a maximum of 36,750,000 shares of Common Stock may be made subject to Options (as defined below) granted under the Plan. In addition, subject to the adjustment provisions of Paragraph 13 below, no person may be granted Options under the Plan during any of the Company's fiscal years with respect to more than 500,000 shares of Common Stock.

If, and to the extent that, Options granted under the Plan shall terminate, expire or be canceled for any reason without having been exercised, new Options may be granted in respect of the shares covered by such terminated, expired or canceled Options. The granting and terms of such new Options shall comply in all respects with the provisions of the Plan.

Shares sold upon the exercise of any Option granted under the Plan may be shares of authorized and unissued Common Stock, shares of issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale under the Plan a number of shares of Common Stock, of either authorized and unissued shares of Common Stock, shares of Common Stock held in the Company's treasury, or both, equal to the maximum number of shares that may be purchased pursuant to Options granted or that may be granted under the Plan.

4. GRANT OF OPTIONS. The Committee shall have the authority and responsibility, within the limitations of the Plan, to determine the employees to whom Options are to be granted, whether the Options granted shall be "incentive stock options" ("Incentive Options"), within the meaning of Section 422(b) of the Code, or Options which are not Incentive Options ("Nonqualified Options" and together with Incentive Options, "Options," individually, an "Option"), the number of shares that may be purchased under each Option and the Option price.

In determining the officers or key employees to whom Options shall be granted and the number of shares to be covered by each such Option, the Committee shall take into consideration the employee's present and potential contribution to the success of the Company and its Subsidiaries (as defined below) and such other factors as the Committee may deem proper and relevant.

5. EMPLOYEES ELIGIBLE. Incentive Options may be granted to any key employee of the Company or any of its Subsidiaries. Nonqualified Options may be granted to any key employee of the Company or any of its Subsidiaries or Affiliates. Options may be granted to employees who hold or have held Options under this Plan or any similar or other awards under any other plan of the Company or any of its Subsidiaries or Affiliates. Employees who are also officers or directors of the Company or any of its Subsidiaries or Affiliates shall not by reason of such offices be ineligible as recipients of Options.

For purposes of the Plan, a "Subsidiary" of the Company shall mean any "subsidiary corporation" as such term is defined in Section 424(f) of the Code. An entity shall be deemed a Subsidiary of the Company only for such periods as the requisite ownership relationship is maintained.

For purposes of the Plan, an "Affiliate" of the Company shall mean any corporation, partnership, or other entity controlled by the Company.

Any Person who would own, directly or indirectly, immediately after the granting of an Option to such Person, more than 10% of the total combined voting power of all classes of stock

of the Company or any of its Subsidiaries shall only be eligible to receive an Incentive Option under the Plan if it satisfies the requirements of Section 422(c)(5) of the Code.

An employee receiving an Option pursuant to the Plan is hereinafter referred to as an "Optionee".

6. PRICE. The exercise price of each share of Common Stock purchasable under any Option granted pursuant to the Plan shall not be less than the Fair Market Value (as defined below) thereof at the time the Option is granted. In no event shall the Committee cause or permit, without the prior approval of the Company's stockholders, any Options granted pursuant to the Plan to be repriced, replaced, or re-granted through cancellation, or to otherwise lower the exercise price of a previously granted Option.

For purposes of the Plan, "Fair Market Value" of a share of Common Stock means the average of the high and low sales prices of a share of Common Stock on the New York Stock Exchange Composite Tape on the date in question. If shares of Common Stock are not traded on the New York Stock Exchange on such date, "Fair Market Value" of a share of Common Stock shall be determined by the Committee in its sole discretion.

7. DURATION OF OPTIONS. Options granted hereunder shall become exercisable, in whole or in part, all as the Committee in its discretion may provide upon the granting thereof.

Notwithstanding any provision of the Plan to the contrary, except as otherwise provided in the applicable award agreement, the unexercised portion of any Option granted under the Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(a) The expiration of 10 years (or, in the case of an Incentive Option, five years, in the case of an Optionee described in Section 422(c)(5) of the Code) from the date on which such Option was granted;

(b) The expiration of 15 days (or such longer period as the Committee may provide in the event of the Optionee's Permanent and Total Disability (as defined in Section 22(a)(3) of the Code) from the date of termination of the Optionee's employment with the Company or any of its Subsidiaries; provided, however, that if the Optionee shall die during such 15-day period (or such longer period as the Committee may provide in the event of the Optionee's Permanent and Total Disability) the provisions of subparagraph (c) below shall apply;

(c) The expiration of six months after the appointment and qualification of the executor or administrator of the Optionee's estate or 12 months after the date of the Optionee's death, whichever occurs earlier, if such death occurs either during employment by the Company or any of its Subsidiaries or during the 15-day period (or such longer period as the Committee may provide in the event of the Optionee's Permanent and Total Disability) following the date of termination of such employment; and

(d) In whole or in part, at such earlier time or upon occurrence of such earlier event as the Committee in its discretion may provide upon the granting of such Option.

The Committee may determine whether any given leave of absence constitutes a termination of employment. The Options granted under the Plan shall not be affected by any change of employment so long as the Optionee continues to be an employee of the Company or any of its Subsidiaries.

8. **EXERCISE OF OPTIONS.** Options shall be exercisable by the Optionee (or the Optionee's executor or administrator), as to all or part of the shares covered thereby, by the giving of written notice of the exercise thereof to the Company at its principal business office, directed to the attention of its Secretary. The Company shall cause certificates for the shares so purchased to be delivered to the Optionee (or the Optionee's executor or administrator) at the Company's principal business office, against payment in full of the purchase price, which payment may be made by cash, check or money order and, subject to the Committee's consent, by shares of the Company's Common Stock which are not subject to any pledge or security interest and have been held for at least 6 months or previously acquired on the open market or by delivery to the Committee of a copy of irrevocable instructions to a stockbroker to deliver promptly to the Company any amount of loan proceeds or proceeds of the sale of the shares subject to the Option sufficient to pay the exercise price on the date specified in the notice of exercise. Notwithstanding the foregoing, shares of the Company's Common Stock may not be used by Canadian Optionees to pay the exercise price of the shares being purchased pursuant to the exercise of an Option.

9. **NONTRANSFERABILITY OF OPTIONS.** No Option or any right evidenced thereby shall be transferable in any manner other than by will or the laws of descent and distribution, and, during the lifetime of an Optionee, only the Optionee (or the Optionee's court-appointed legal representative) may exercise an Option.

10. **RIGHTS OF OPTIONEE.** Neither the Optionee nor the Optionee's executor or administrator shall have any of the rights of a stockholder of the Company with respect to the shares subject to an Option until certificates for such shares shall actually have been issued upon the due exercise of such Option. No adjustment shall be made for any cash dividend or other right for which the record date is prior to the date of such due exercise and full payment for such shares has been made therefor.

11. **RIGHT TO TERMINATE EMPLOYMENT.** Nothing in the Plan or in any Option shall confer upon any Optionee the right to continue in the employment of the Company or any of its Subsidiaries or affect the right of the Company or any of its Subsidiaries to terminate the Optionee's employment at any time, subject, however, to the provisions of any agreement of employment between the Company or any of its Subsidiaries and the Optionee.

12. **NONALIENATION OF BENEFITS.** No right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, hypothecation, pledge, exchange, transfer, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. To the extent permitted by

applicable law, no right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the person entitled to such benefits.

13. **ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC.** In the event of any stock split, stock dividend, stock change, reclassification, recapitalization or combination of shares which changes the character or amount of Common Stock prior to exercise of any portion of an Option theretofore granted under the Plan, such Option, to the extent that it shall not have been exercised, shall entitle the Optionee (or the Optionee's executor or administrator) upon its exercise to receive in substitution such number and kind of shares as the Optionee would be entitled to receive if the Optionee had actually owned the stock subject to such Option at the time of the occurrence of such change and the Options shall be subject to such adjustments, as determined by the Committee, as to the number, price or kind of stock as determined to be equitable; provided, however, that if the change is of such a nature that the Optionee, upon exercise of the Option, would receive property other than shares of stock, then the Committee shall make an appropriate adjustment in the Option to provide that the Optionee (or the Optionee's executor or administrator) shall acquire upon exercise only shares of stock of such number and kind as the Committee, in its sole judgment, shall deem equitable; and, provided further, that any such adjustment shall be made so as to conform to the requirements of Section 424(a) or 162(m) of the Code and the regulations promulgated thereunder. The Committee shall also make appropriate adjustment in the number of shares subject to Options under the Plan and the maximum number of shares to be granted to any person in any fiscal year as determined to be equitable.

In the event that any transaction (other than a change specified in the preceding paragraph) described in Section 424(a) of the Code affects the Common Stock subject to any unexercised Option, the Board of the surviving or acquiring corporation shall make such similar adjustment as is permissible and appropriate.

If any such change or transaction shall occur, the number and kind of shares for which Options may thereafter be granted under the Plan shall be adjusted to give effect thereto.

14. **PURCHASE FOR INVESTMENT.** Whether or not the Options and shares covered by the Plan have been registered under the Securities Act of 1933, as amended, each person exercising an Option under the Plan may be required by the Company to give a representation in writing that such person is acquiring such shares for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

The Company will endorse any necessary legend referring to the foregoing restriction upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any Option granted under the Plan.

15. **FORM OF AGREEMENTS WITH OPTIONEES.** Each Option granted pursuant to the Plan shall be in writing and shall have such form, terms and provisions, not inconsistent with the provisions of the Plan, as the Committee shall provide for such Option. Each Optionee shall be notified promptly of such grant, and a written agreement shall be promptly executed and delivered by the Company and the Optionee.



16. **TERMINATION AND AMENDMENT OF PLAN AND OPTIONS.** Unless the Plan shall theretofore have been terminated as hereinafter provided, Options may be granted under the Plan at any time, and from time to time, prior to the tenth anniversary of the Effective Date (as defined below), on which date the Plan will expire, except as to Options then outstanding under the Plan. Such Options shall remain in effect until they have been exercised, have expired or have been canceled.

The Plan may be terminated or modified at any time by the Board of Directors; provided, however, that any such modification shall comply with all applicable laws, applicable stock exchange listing requirements, and applicable requirements for exemption (to the extent necessary) under Rule 16b-3 under the Exchange Act.

No termination, modification or amendment of the Plan, without the consent of the Optionee, may adversely affect the rights of such person with respect to such Option. With the consent of the Optionee and subject to the terms and conditions of the Plan, the Committee may amend outstanding award agreements with any Optionee.

17. **EFFECTIVE DATE OF PLAN.** The Plan shall become effective upon its adoption by the Board of Directors (the "Effective Date"), subject, however, to its approval by the Company's stockholders within 12 months after the date of such adoption.

18. **GOVERNMENT AND OTHER REGULATIONS.** The obligation of the Company with respect to Options granted under the Plan shall be subject to all applicable laws, rules and regulations and such approvals by any governmental agency as may be required, including, without limitation, the effectiveness of any registration statement required under the Securities Act of 1933, as amended, and the rules and regulations of any securities exchange on which the Common Stock may be listed.

19. **WITHHOLDING.** The Company's obligation to deliver shares of Common Stock in respect of any Option granted under the Plan shall be subject to all applicable federal, state, local and foreign tax withholding requirements. Federal, state, local and foreign withholding taxes due upon the exercise of any Option (or upon any disqualifying disposition of shares of Common Stock subject to an Incentive Option), in the Committee's sole discretion, may be paid in shares of Common Stock (including the withholding of shares subject to an Option) upon such terms and conditions as the Committee may determine. Notwithstanding the foregoing, shares of the Company's Common Stock may not be used by Canadian Optionees to pay any taxes due upon the exercise of any Option.

20. **SEPARABILITY.** If any of the terms or provisions of the Plan conflict with the requirements of Rule 16b-3 under the Exchange Act and/or

Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Rule 16b-3 under the Exchange Act and/or section 422 of the Code. With respect to Incentive Options, if the Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein; provided,

further, that to the extent any Option which is intended to qualify as an Incentive Option cannot so qualify such Option, to the extent, shall be deemed to be a Nonqualified Option for all purposes of the Plan.

21. **NON-EXCLUSIVITY OF THE PLAN.** Neither the adoption of the Plan by the Board of Directors nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitation on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options and the awarding of stock and cash otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

22. **EXCLUSION FROM PENSION AND PROFIT-SHARING COMPUTATION.** By acceptance of an Option, each Optionee shall be deemed to have agreed that such grant is special incentive compensation that will not be taken into account, in any manner, as salary, compensation or bonus in determining the amount of any payment under any pension, retirement or other employee benefit plan of the Company or any of its Subsidiaries. In addition, each beneficiary of a deceased Optionee shall be deemed to have agreed that such Option will not affect the amount of any life insurance coverage, if any, provided by the Company on the life of the Optionee which is payable to such beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

23. **DEFERRAL.** The Committee may, in its sole discretion, establish procedures whereby one or more Optionees may elect to defer the receipt of shares upon the exercise of Options for a specified period of time or until the occurrence of a specified event.

24. **GOVERNING LAW.** The Plan shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

AUTOMATIC DATA PROCESSING, INC.  
AND SUBSIDIARIES  
CALCULATION OF EARNINGS PER SHARE  
(In thousands, except per share amounts)

	Years ended June 30,				
	2002	2001	2000	1999	1998
<b>BASIC EARNINGS PER SHARE:</b>					
Net earnings applicable to common shares	\$1,100,770	\$924,720	\$840,800	\$696,840	\$608,262
Average number of common shares outstanding	618,857	629,035	626,766	615,630	600,803
Basic earnings per share	\$ 1.78	\$ 1.47	\$ 1.34	\$ 1.13	\$ 1.01
<b>DILUTED EARNINGS PER SHARE:</b>					
Net earnings used in basic earnings per share	\$1,100,770	\$924,720	\$840,800	\$696,840	\$608,262
Adjustment for interest (net of tax) - zero coupon convertible subordinated notes (5 1/4% yield)	1,611	2,340	2,912	3,607	7,833
Net earnings used for diluted earnings per share	\$1,102,381	\$927,060	\$843,712	\$700,447	\$616,095
Average number of shares outstanding on a diluted basis:					
Shares used in calculating basic earnings per share	618,857	629,035	626,766	615,630	600,803
Diluted effect of all stock options outstanding after application of treasury stock method	9,370	13,482	14,823	15,306	13,363
Shares assumed to be issued upon conversion of Debentures - zero coupon convertible subordinated notes (5 1/4% yield)	2,352	3,472	4,509	5,956	14,030
Average number of shares outstanding on a diluted basis:	630,579	645,989	646,098	636,892	628,196
Diluted earnings per share	\$ 1.75	\$ 1.44	\$ 1.31	\$ 1.10	\$ 0.98
<b>PRO FORMA BASIC EARNINGS PER SHARE:(a)</b>					
Net earnings applicable to common shares		\$924,720	\$840,800	\$696,840	\$608,262
Goodwill (net of tax impact)		46,960	41,090	42,420	39,768
Pro forma net earnings applicable to common shares		\$971,680	\$881,890	\$739,260	\$648,030
Average number of common shares outstanding		629,035	626,766	615,630	600,803
Pro forma basic earnings per share		\$ 1.54	\$ 1.41	\$ 1.20	\$ 1.08
<b>PRO FORMA DILUTED EARNINGS PER SHARE:(a)</b>					
Pro forma net earnings used in basic earnings per share		\$971,680	\$881,890	\$739,260	\$648,030
Adjustment for interest (net of tax) - zero coupon Convertible subordinated notes (5 1/4% yield)		2,340	2,912	3,607	7,833
Pro forma net earnings used for diluted earnings per share		\$974,020	\$884,802	\$742,867	\$655,863
Average number of shares outstanding on a diluted basis:					
Shares used in calculating basic earnings per share		629,035	626,766	615,630	600,803
Diluted effect of all stock options outstanding after application of treasury stock method		13,482	14,823	15,306	13,363
Shares assumed to be issued upon conversion of Debentures - zero coupon convertible subordinated notes (5 1/4% yield)		3,472	4,509	5,956	14,030
Average number of shares outstanding on a diluted basis		645,989	646,098	636,892	628,196
Pro forma diluted earnings per share		\$1.51	\$1.37	\$1.17	\$1.04

(a) Pro forma results reflect the impact relating to the July 1, 2001 adoption of Statement of Financial Accounting Standard No. 142, which eliminates goodwill amortization.

## Selected Financial Data

In thousands, except per share amounts)					
Years ended June 30,	2002	2001	2000	1999	1998
Total revenues	\$ 7,004,263	\$ 6,853,652	\$ 6,168,432	\$ 5,455,707	\$ 4,843,496
Earnings before income taxes	\$ 1,786,970	\$ 1,525,010	\$ 1,289,600	\$ 1,084,500	\$ 890,717
Net earnings	\$ 1,100,770	\$ 924,720	\$ 840,800	\$ 696,840	\$ 608,262
Pro forma net earnings*		\$ 971,680	\$ 881,890	\$ 739,260	\$ 648,030
Basic earnings per share	\$ 1.78	\$ 1.47	\$ 1.34	\$ 1.13	\$ 1.01
Diluted earnings per share	\$ 1.75	\$ 1.44	\$ 1.31	\$ 1.10	\$ .98
Pro forma basic earnings per share*		\$ 1.54	\$ 1.41	\$ 1.20	\$ 1.08
Pro forma diluted earnings per share*		\$ 1.51	\$ 1.37	\$ 1.17	\$ 1.04
Basic shares outstanding	618,857	629,035	626,766	615,630	600,803
Diluted shares outstanding	630,579	645,989	646,098	636,892	628,196
Cash dividends per share	\$ .4475	\$ .3950	\$ .3388	\$ .2950	\$ .2563
Return on equity	22.4%	19.9%	19.7%	18.7%	20.0%
At year end:					
Cash, cash equivalents and marketable securities	\$ 2,749,583	\$ 2,596,964	\$ 2,452,549	\$ 2,169,040	\$ 1,673,271
Working capital	\$ 1,406,155	\$ 1,747,187	\$ 1,767,784	\$ 907,864	\$ 626,063
Total assets before funds held for clients	\$ 7,051,251	\$ 6,549,980	\$ 6,429,927	\$ 5,824,820	\$ 5,242,867
Total assets	\$18,276,522	\$17,889,090	\$16,850,816	\$12,839,553	\$11,787,685
Long-term debt	\$ 90,648	\$ 110,227	\$ 132,017	\$ 145,765	\$ 192,063
Shareholders' equity	\$ 5,114,205	\$ 4,700,997	\$ 4,582,818	\$ 4,007,941	\$ 3,439,447

2001 data includes a \$90 million (\$54 million after-tax) non-cash, non-recurring write-off of the Company's investment in Bridge Information Systems, Inc.

1999 data includes non-recurring charges totaling approximately \$17 million (after-tax), associated with certain acquisitions and dispositions.

\*Pro forma net earnings and earnings per share reflect the impact relating to the July 1, 2001 adoption of Statement of Financial Accounting Standard No. 142, which eliminated goodwill amortization.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CRITICAL ACCOUNTING POLICIES

The Company's 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 the Company's management to make estimates, judgments, and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses. The Company continually evaluates the accounting policies and estimates it uses to prepare the consolidated financial statements. The Company bases its estimates 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 the Company's results of operations or financial position are discussed below.

**Intangible assets and goodwill.** We have reviewed the carrying value of all our goodwill and other intangible assets in connection with the implementation of Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," by comparing such amounts to their fair values. We determined that the carrying amounts of all our goodwill and other intangible assets did not exceed their respective fair values. Accordingly, the initial implementation of this standard did not impact earnings during fiscal 2002. We are required to perform this comparison at least annually or more frequently if circumstances indicate possible impairment. When determining fair value, we utilize various assumptions, including projections of future cash flows. Any significant adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions will cause a change in the estimation of fair value and could result in an impairment charge. Given the significance of our goodwill and other intangibles, an adverse change to the fair value could result in an impairment charge, which could be material to our financial statements.

**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. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns (e.g., realization of deferred tax assets). Fluctuations in the actual outcome of these future tax consequences could materially impact our financial statements.

### Operating Results

ADP continued to achieve record revenues, earnings and cash generation in fiscal '02 signifying the benefits of its longstanding proven business model, product leadership and commitment to world-class service. Despite the difficult economic environment, ADP grew fiscal '02 revenues by 2% to \$7.0 billion. Adjusted for the pro forma impact of adopting SFAS No. 142 and excluding non-recurring charges in '01, the pre-tax earnings increased 7% and diluted earnings per share increased 10% to \$1.75. In fiscal '01, revenues increased 11% to almost \$6.9 billion. Adjusted for the pro forma impact of SFAS No. 142 and excluding the non-cash, non-recurring charge in '01, pre-tax earnings increased 25% and diluted earnings per share increased 16% to \$1.59.

Revenues and revenue growth by ADP's major business units are shown below:

(In millions)	Revenues			Revenue Growth		
	Years Ended June 30,			Years Ended June 30,		
	2002	2001	2000	2002	2001	2000
Employer Services	\$ 4,184	\$3,968	\$3,539	5%	12%	11%
Brokerage Services	1,758	1,742	1,469	1	19	29
Dealer Services	706	683	715	3	(4)	--
Other	356	461	445	(23)	3	9
Consolidated	\$ 7,004	\$6,854	\$6,168	2%	11%	13%

Consolidated revenue growth in fiscal '02 slowed to 2% as compared to the prior corresponding periods, primarily due to the following major factors: In Employer Services, continued weak economic conditions resulted in slower sales, lower client retention due primarily to bankruptcies, and fewer employees on our clients' payrolls; in Brokerage Services, weakness in the brokerage and financial services industry significantly reduced discretionary spending and investments in new initiatives, and the change in the mix of retail versus institutional transactions lowered revenue per trade; and interest rates in the U.S. declined precipitously last year significantly impacting interest earnings on our client funds. Prior to acquisitions and dispositions of businesses, consolidated revenues increased approximately 1%.

As a result of the continued weak economic conditions and the precipitous decreases in interest rates during fiscal '02, we instituted a series of initiatives during the year to bring our expense structure in line with lower revenue expectations. These actions have resulted in approximately \$100 million of lower annual expense run rate as of June 30, 2002 (after a \$150 million reduction in run rate exiting 2001) while we continued to increase overall productivity. At the same time we have continued to pursue several promising opportunities, primarily in new and improved products and services.

The consolidated pre-tax margin was 25.5% in '02 compared to 24.4% in '01 (prior to non-recurring charges), and 21.6% in '00 adjusted for the pro forma impact of SFAS No. 142. Pre-tax margin increased over the previous year as the Company continued to focus on margin improvements by increasing automation, operating efficiencies and general expense controls. Systems development and programming costs decreased due to cost containment initiatives primarily related to the maintenance of existing applications, while funding of investments in new products continued. The impact of transitioning the investment portfolio from tax-exempt to taxable investments also contributed to the margin improvements.

During fiscal '01, the Company recorded a \$90 million (\$54 million net of tax) write-off of its investment in Bridge Information Systems, Inc. (Bridge), which is reflected in "other (income) expense". This non-cash, non-recurring write-off represented the Company's total recorded investment in Bridge.

During fiscal '00, the Company transitioned a portion of its corporate and client fund investments from tax-exempt to taxable instruments in order to increase liquidity of the overall portfolio. Approximately \$2.6 billion of tax-exempt investments were sold prior to maturity at a pre-tax loss of approximately \$32 million (\$10 million corporate funds, \$22 million funds held for clients), and the proceeds were reinvested at higher prevailing interest rates.

In July 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. The decrease in amortization expense is due to the adoption of SFAS No. 142. The Company completed its annual assessment of impairment as of June 2002, which indicated no impairment of goodwill.

In '02 the Company's effective tax rate was 38.4% of pre-tax earnings as compared to 39.4% in '01 and 34.8% in '00. The decrease in the effective tax rate in fiscal '02 was primarily due to the impact of adopting SFAS No. 142 and the resulting elimination of goodwill amortization expense in the current year. Adjusting the prior years for the pro forma impact of SFAS No. 142 the effective income tax rate was 38.5% in '01 and 33.9% in '00. The increased rate in '01 is primarily a result of the transition, referred to above, of a portion of the Company's investment portfolio to taxable investments.

For '03 ADP is forecasting another record year of revenue and earnings per share growth in the mid-single digits.

### **MAJOR BUSINESS UNITS**

Certain revenues and expenses are charged to business units at a standard rate for management and motivational reasons. Other costs are recorded based on management responsibility. As a result, various income and expense items, including certain non-recurring gains and losses, are recorded at the corporate level and certain shared costs are not allocated. The prior years' business unit revenues and pre-tax earnings have been restated to reflect fiscal year '02 budgeted foreign exchange rates.

### **EMPLOYER SERVICES**

Employer Services' revenues grew 5% in fiscal '02, and in the absence of acquisitions and dispositions, revenue growth would have been 5% in '02, 11% in '01 and 12% in '00. Employer Services revenue growth continued to be impacted by weak economic conditions, which resulted in slower sales, lower client retention due primarily to bankruptcies, and fewer employees on our clients' payrolls.

Employer Services' operating margin was 27% in '02, 24% in '01 and 22% in '00. Employer Services' operating margin improved due to operating efficiencies, cost containment initiatives, and continued improvements in Europe, offset by investments in new products.

Employer Services' revenues shown above include interest earned on collected but not yet remitted funds held for clients at a standard rate of 6%, or \$505 million in '02, \$489 million in '01 and \$411 million in '00.

### **BROKERAGE SERVICES**

Brokerage Services' revenue growth was 1%. Excluding acquisitions, fiscal '02 revenues would have decreased 4%, compared to increases of 7% in '01 and 31% in '00. The mix of back office client transactions, brokerage industry consolidations and pricing pressure resulted in lower revenue per trade. The continued reduction in discretionary spending in the financial services industry, particularly in research print and implementation services, also contributed to the decline in fiscal '02 revenue growth. Ongoing efforts to transition the proxy mailing and voting process towards electronic delivery and the "householding," or consolidation of customer accounts resulted in an increase in mailing suppressions. Suppressed mailings increase service fees, but lower postage revenues and expenses in the Investor Communications business.

Brokerage Services' operating margin was 20% in '02 compared to 19% in '01 and 23% in '00. The higher margin in fiscal '02 resulted primarily from operating efficiencies, the impact of cost containment initiatives, and the transition of the proxy mailings and voting process to electronic delivery. These increases in operating margin were offset by a higher mix of lower-margin institutional trades, the impact of pricing pressure in the industry, and investments in new products and acquisitions.

### **DEALER SERVICES**

Dealer Services' revenues increased 3% in '02. In the absence of acquisitions and dispositions, '02 revenues would have increased 2%, compared to a 3% decline in revenue growth in '01 and flat revenues in '00. Dealer Services' operating margin was 16% in fiscal '02 compared to 14% in '01 and 16% in '00. Dealer Services' operating margin increased due to operating efficiencies and cost containment initiatives, offset by investments in new products and acquisitions.

## **OTHER**

The primary components of "Other" revenues are Claims Services, foreign exchange differences, and miscellaneous processing services. In addition, "Other" revenues have been adjusted for the difference between actual interest earned on invested funds held for clients and interest credited to Employer Services at a standard rate of 6%.

## **FINANCIAL CONDITION**

ADP's financial condition and balance sheet remain exceptionally strong. At June 30, 2002, cash and marketable securities approximated \$2.7 billion. Shareholders' equity was approximately \$5.1 billion, and return on average equity for the year was approximately 22%. The ratio of long-term debt to equity at June 30, 2002 was 2%.

In '02 zero coupon convertible subordinated notes were converted to 0.7 million shares of common stock.

During '02 the Company purchased several businesses for approximately \$232 million (including \$12 million in stock). The cost of acquisitions in '01 and '00 aggregated \$75 million and \$200 million (including \$25 million in common stock), respectively.

Capital expenditures during '02 were \$146 million following investments of \$185 million in '01 and \$166 million in '00. Capital spending in fiscal '03 should approximate \$150 million.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flows generated from operations were \$1.5 billion for the twelve months ended June 30, 2002, adding to our strong cash position.

Cash flows used in investing activities totaled \$1.1 billion, primarily as a result of additions to our investment portfolio, acquisitions and capital expenditures.

Cash flows used in financing activities totaled \$0.9 billion. In fiscal 2002, the Company purchased approximately 17.4 million shares of common stock at an average price per share of approximately \$50. As of June 30, 2002, the Company has remaining Board of Directors' authorization to purchase up to 35.9 million additional shares.

Approximately thirty percent of the Company's overall investment portfolio is invested in overnight interest-bearing instruments, which are therefore impacted immediately by changes in interest rates. The other seventy percent of the Company's investment portfolio is invested in fixed-income securities, with maturities up to ten years, which are also subject to interest rate risk including reinvestment risk. The Company has historically had the ability to hold these investments until maturity, and therefore this has not had an adverse impact on income or cash flows.



Details regarding the Company's combined corporate investments and funds held for clients portfolios are as follows:

Years ended June 30:	2002	2001	2000
Average investment balances (In millions):			
Corporate investments	\$ 2,548.4	\$2,598.9	\$2,168.5
Funds held for clients	8,376.6	8,188.6	6,854.0
Total	\$10,925.0	\$10,787.5	\$9,022.5
Average interest rates earned exclusive of realized gains/(losses) for the total combined corporate investments and funds held for clients' portfolios			
	4.9%	6.2%	5.1%
Realized gains/(losses) (in millions)	\$ 16.5	\$ (77.6)*	\$ (32.4)
As of June 30:			
Unrealized pre-tax gains on available-for-sale portfolios (in millions)	\$ 208.8	\$ 140.2	\$ 11.3
Total available-for-sale securities (in millions)	\$9,856.4	\$ 7,729.4	\$4,588.0

\*Includes a \$90 million (\$54 million after-tax) non-cash, non-recurring write-off of the Company's investment in Bridge Information Systems, Inc.

The earnings impact of future interest rate changes is based on many factors, which influence the return on the Company's portfolio. These factors 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 year and is impacted by daily interest rate changes. A hypothetical change in interest rates of 25 basis points applied to the forecasted average balances in fiscal 2003 would result in approximately a \$9.0 million pre-tax earnings impact over the twelve-month period.

In April 2002, the Company authorized a short-term commercial paper program providing for the issuance of up to \$ 4.0 billion in aggregate maturity value of commercial paper at any given time. The Company's commercial paper program is rated A-1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote high quality investment grade securities. Maturities of commercial paper can range from overnight to 270 days. At June 30, 2002, there was no commercial paper outstanding. From the inception of the commercial paper program in April through the fiscal year ended June 30, 2002, the Company had average borrowings of \$667 million at an effective weighted average interest rate of 1.8%. The Company will use the commercial paper issuances as a primary instrument to meet short-term funding needs.

In October 2001, the Company entered into a new \$4.0 billion, unsecured revolving credit agreement with certain financial institutions, replacing an existing \$2.5 billion credit agreement. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided to the syndicated financial institutions prior to borrowing. The Company is also required to pay a facility fee on the credit agreement. The agreement, which expires in October 2002, has no borrowings to date.

The Company's short-term financing is sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by U.S. government securities. These agreements generally have terms ranging from overnight to up to ten days. At June 30, 2002 and 2001, there were no outstanding repurchase agreements. For the fiscal years ended June 30, 2002 and 2001, the Company had an average outstanding balance of \$361 million and \$41 million, respectively, at an average interest rate of 2.6% and 4.3%, respectively.

## MARKET PRICE, DIVIDEND DATA AND OTHER

The market price of the Company's common stock (symbol: ADP) based on New York Stock Exchange composite transactions and cash dividends per share declared during the past two years have been:

Fiscal 2002 quarter ended	Price Per Share		Dividends Per Share
	High	Low	
June 30	\$58.00	\$42.35	\$.1150
March 31	59.53	51.00	.1150
December 31	60.37	46.70	.1150
September 30	53.97	41.00	.1025
-----			
Fiscal 2001 quarter ended			
June 30	\$57.15	\$49.57	\$.1025
March 31	63.56	48.47	.1025
December 31	69.94	58.50	.1025
September 30	67.88	49.50	.0875

As of June 30, 2002 there were approximately 32,679 holders of record of the Company's common stock. Approximately 400,323 additional holders have their stock in "street name".

### **New Accounting Pronouncements**

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and expands the scope of a discontinued operation. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001 and generally are to be applied prospectively. The Company adopted this statement on July 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2003 financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets," which revise the standards for accounting for business combinations and goodwill and other intangible assets acquired in a business combination. The Company adopted SFAS No.141 and SFAS No.142 in fiscal 2002.

This report contains "forward-looking statements" based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ from those expressed. Factors that could cause differences include but are not limited to: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of products and services; changes in laws regulating payroll taxes and employee benefits; overall economic trends, including interest rate and foreign currency trends; stock market activity; auto sales and related industry changes; employment levels; changes in technology; availability of skilled technical associates; and the impact of new acquisitions. ADP disclaims any obligations to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## Statements of Consolidated Earnings

### Automatic Data Processing, Inc. and Subsidiaries

(In thousands, except per share amounts)

Years Ended June 30,	2002	2001	2000
Revenues other than interest on funds held for clients and PEO revenues	\$ 6,305,206	\$ 6,100,112	\$ 5,609,962
Interest on funds held for clients	431,236	518,956	348,596
PEO revenues(A)	267,821	234,584	209,874
Total revenues	7,004,263	6,853,652	6,168,432
Operating expenses	2,970,645	2,900,124	2,564,496
General, administrative and selling expenses	1,606,690	1,665,447	1,643,360
Systems development and programming costs	474,843	514,279	460,275
Depreciation and amortization	279,077	320,856	284,282
Other (income) expense	(113,962)	(72,064)	(73,581)
	5,217,293	5,328,642	4,878,832
Earnings before income taxes	1,786,970	1,525,010	1,289,600
Provision for income taxes	686,200	600,290	448,800
Net earnings	\$ 1,100,770	\$ 924,720	\$ 840,800
Basic earnings per share	\$ 1.78	\$ 1.47	\$ 1.34
Diluted earnings per share	\$ 1.75	\$ 1.44	\$ 1.31
Basic shares outstanding	618,857	629,035	626,766
Diluted shares outstanding	630,579	645,989	646,098

(A) Net of pass-through costs of \$2,648,321, \$2,446,768, and \$2,197,323, respectively.

See notes to consolidated financial statements.

## Consolidated Balance Sheets

### Automatic Data Processing, Inc. and Subsidiaries

(In thousands, except per share amounts)

June 30,	2002	2001
	-----	-----
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 798,810	\$ 1,275,356
Short-term marketable securities	677,005	515,245
Accounts receivable	1,045,170	976,638
Other current assets	296,272	316,221
	-----	-----
Total current assets	2,817,257	3,083,460
Long-term marketable securities	1,273,768	806,363
Long-term receivables	192,769	224,964
Property, plant and equipment:		
Land and buildings	458,478	457,110
Data processing equipment	696,829	653,641
Furniture, leaseholds and other	540,217	533,883
	-----	-----
	1,695,524	1,644,634
Less accumulated depreciation	(1,099,073)	(1,029,984)
	-----	-----
	596,451	614,650
Other assets	293,808	219,133
Intangibles	1,877,198	1,601,410
	-----	-----
Total assets before funds held for clients	7,051,251	6,549,980
Funds held for clients	11,225,271	11,339,110
	-----	-----
Total assets	\$ 18,276,522	\$ 17,889,090
	=====	=====
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 148,694	\$ 156,324
Accrued expenses and other current liabilities	1,035,389	1,032,273
Income taxes	227,019	147,676
	-----	-----
Total current liabilities	1,411,102	1,336,273
Long-term debt	90,648	110,227
Other liabilities	233,671	208,880
Deferred income taxes	237,633	207,928
Deferred revenue	138,893	85,931
	-----	-----
Total liabilities before client funds obligations	2,111,947	1,949,239
Client funds obligations	11,050,370	11,238,854
	-----	-----
Total liabilities	13,162,317	13,188,093
	-----	-----
Shareholders' equity:		
Preferred stock, \$1.00 par value:		
Authorized, 300 shares; issued, none	--	--
Common stock, \$.10 par value:		
Authorized, 1,000,000 shares; issued, 638,702 shares at June 30, 2002 and 2001	63,870	63,870
Capital in excess of par value	333,371	553,927
Retained earnings	5,977,318	5,153,408
Treasury stock - at cost 22,385 and 14,766 shares, respectively	(1,142,041)	(837,244)
Accumulated other comprehensive income (loss)	(118,313)	(232,964)
	-----	-----
Total shareholders' equity	5,114,205	4,700,997
	-----	-----
Total liabilities and shareholders' equity	\$ 18,276,522	\$ 17,889,090
	=====	=====

See notes to consolidated financial statements.

# Statements of Consolidated Shareholders' Equity

## Automatic Data Processing, Inc. and Subsidiaries

(In thousands, except per share amounts)

	Common Stock		Capital in	Retained	Treasury	Comprehensive	Accumulated
	Shares	Amount	Excess of Par Value	Earnings	Stock	Income	Other Comprehensive Income
Balance at June 30, 1999	628,576	62,858	421,333	3,848,421	(189,204)		(135,467)
Net earnings	--	--	--	840,800	--	\$ 840,800	--
Currency translation						(86,277)	(86,277)
Unrealized net loss on securities						(7,690)	(7,690)
Comprehensive income						\$ 746,833	
Employee stock plans and related tax benefits	2,867	286	(7,841)	498	207,322		
Treasury stock acquired (4,648 shares)	--	--	--	--	(201,007)		
Acquisitions (478 shares)	--	--	4,359	--	20,122		
Debt conversion (808 shares)	--	--	(15,084)	--	31,967		
Dividends (\$.3388 per share)	--	--	--	(212,578)			
Balance at June 30, 2000	631,443	63,144	402,767	4,477,141	(130,800)		(229,434)
Net earnings	--	--	--	924,720	--	\$ 924,720	--
Currency translation						(80,816)	(80,816)
Unrealized net gain on securities						77,286	77,286
Comprehensive income						\$ 921,190	
Employee stock plans and related tax benefits	6,878	688	163,464	--	187,058		
Treasury stock acquired (16,558 shares)	--	--	--	--	(935,064)		
Acquisitions (22 shares)	--	--	234	--	839		
Debt conversion (1,303 shares)	381	38	(12,538)	--	40,723		
Dividends (\$.395 per share)	--	--	--	(248,453)	--		
Balance at June 30, 2001	638,702	63,870	553,927	5,153,408	(837,244)		(232,964)
Net earnings	--	--	--	1,100,770	--	\$ 1,100,770	--
Currency translation						73,504	73,504
Unrealized net gain on securities						41,147	41,147
Comprehensive income						\$ 1,215,421	
Employee stock plans and related tax benefits	--	--	(197,083)	--	515,729		
Treasury stock acquired (17,412 shares)	--	--	--	--	(875,449)		
Acquisitions (226 shares)	--	--	(423)	--	12,848		
Debt conversion (705 shares)	--	--	(23,050)	--	42,075		
Dividends (\$.4475 per share)	--	--	--	(276,860)	--		
Balance at June 30, 2002	638,702	\$63,870	\$333,371	\$5,977,318	\$(1,142,041)		\$(118,313)

See notes to consolidated financial statements.

## Statements of Consolidated Cash Flows

### Automatic Data Processing, Inc. and Subsidiaries

(In thousands) Years ended June 30,	2002	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings	\$1,100,770	\$ 924,720	\$ 840,800
Adjustments to reconcile net earnings to net cash flows provided by operating activities:			
Depreciation and amortization	279,077	320,856	284,282
Write-off of investment in Bridge	--	90,000	--
Deferred income taxes	8,680	29,450	8,885
Increase in receivables and other assets	(73,511)	(70,699)	(149,913)
Increase in accounts payable and accrued expenses	138,141	182,634	39,339
Other	78,547	14,063	46,708
Net cash flows provided by operating activities	1,531,704	1,491,024	1,070,101
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of marketable securities	(4,597,320)	(3,973,434)	(7,372,892)
Proceeds from sale of marketable securities	4,167,028	3,087,406	4,001,848
Net change in client fund obligations	(188,484)	818,082	3,406,039
Capital expenditures	(145,621)	(185,406)	(166,012)
Additions to intangibles	(109,799)	(97,448)	(67,303)
Acquisitions of businesses, net of cash acquired	(219,783)	(73,667)	(175,248)
Disposals of businesses	7,200	900	14,634
Other	6,286	(32,267)	(11,664)
Net cash flows used in investing activities	(1,080,493)	(455,834)	(370,598)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of debt	(3,919)	(48,567)	(106,090)
Proceeds from issuance of notes	358	26,435	13,940
Repurchases of common stock	(875,449)	(935,064)	(201,007)
Proceeds from issuance of common stock	228,113	218,178	172,589
Dividends paid	(276,860)	(248,453)	(212,578)
Net cash flows used in financing activities	(927,757)	(987,471)	(333,146)
Net change in cash and cash equivalents	(476,546)	47,719	366,357
Cash and cash equivalents, at beginning of period	1,275,356	1,227,637	861,280
Cash and cash equivalents, at end of period	\$ 798,810	\$ 1,275,356	\$ 1,227,637

See notes to consolidated financial statements.

**Years ended June 30, 2002, 2001, and 2000****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. Intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles 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. Revenue Recognition. A majority of the Company's revenues are attributable to fees for providing services (e.g., Employer Services' payroll processing fees, Brokerage Services' trade processing fees) as well as investment income on payroll and tax filing funds. 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. Investment income on collected but not yet remitted funds held for clients are recognized in revenues as earned (Refer to Note 9 "Funds Held for Clients and Client Fund Obligations").

The Company also recognizes revenues associated with the sale of software systems and associated software licenses. Revenues are recognized when the fair value of each element of a sales arrangement containing a software product, implementation, conversion and post-implementation services can be objectively determined. The amounts and timing of revenue recognition are determined for each element in an arrangement. When the fair values in an arrangement are not determinable, all revenues are recognized equally over the life of the respective agreement. As part of the sale of software systems, the Company recognizes revenue from the sale of hardware, which is recorded net of the associated costs.

Postage fees for client mailings are included in revenues and the associated postage expenses are included in operating expenses. Professional Employer Organization (PEO) service revenues are included in revenues and are reported net of direct costs billed and incurred for PEO worksite employees, which include wages and taxes.

C. Cash and Cash Equivalents. Highly-liquid investments with a maturity of ninety days or less at the time of purchase are considered cash equivalents.

D. Investments. Corporate investments and funds held for clients at June 30, 2002 and 2001.

(In thousands)

	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Money market securities and other cash equivalents:				
Corporate investments	\$ 798,810	\$ 798,810	\$ 1,275,356	\$ 1,275,356
Funds held for clients	3,319,646	3,319,646	4,931,350	4,931,350
Total money market securities and other cash equivalents	4,118,456	4,118,456	6,206,706	6,206,706
Available-for-sale securities:				
Corporate investments	1,916,896	1,950,773	1,281,664	1,321,608
Funds held for clients	7,730,724	7,905,625	6,307,504	6,407,760
Total available-for-sale securities	9,647,620	9,856,398	7,589,168	7,729,368
Total corporate investments and funds held for clients	13,766,076	13,974,854	13,795,874	13,936,074
Classification of investments on the Consolidated Balance Sheet:				
Corporate investments	2,715,706	2,749,583	2,557,020	2,596,964
Funds held for clients	11,050,370	11,225,271	11,238,854	11,339,110

Total corporate investments and funds held for clients	\$13,766,076	\$13,974,854	\$13,795,874	\$13,936,074
	=====	=====	=====	=====

All of the Company's marketable securities are considered to be "available-for-sale" at June 30, 2002 and accordingly are carried on the Consolidated Balance Sheet at fair value. Expected maturities of available-for-sale securities for both corporate investments and funds held for clients at June 30, 2002 are as follows:

(In thousands)

Maturity Dates:	
Due in one year or less	\$2,598,701
Due after one year through two years	2,503,897
Due after two years through three years	2,141,256
Due after three years through four years	1,187,277
Due after four years through ten years	1,425,267
	-----
Total available-for-sale securities	\$9,856,398
	=====

E. Property, Plant and Equipment. Property, plant and equipment is stated at cost and depreciated over the estimated useful lives of the assets by 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 3 years
Buildings	20 to 40 years
Furniture and fixtures	3 to 7 years

F. Intangibles. Intangible assets are recorded at cost and are amortized primarily on the straight-line basis over their estimated useful lives. In July

2001, the company adopted SFAS 142 "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead tested for impairment at least annually at the reporting unit level. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Intangible assets with finite lives will continue to be amortized primarily on the straight-line basis over their estimated useful lives.



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

H. Earnings Per Share (EPS). The calculation of basic and diluted EPS is as follows:

(In thousands, except EPS)

	Basic	Effect of Zero Coupon Subordinated Notes	Effect of Stock Options	Diluted
2002				
Net earnings	\$1,100,770	\$ 1,611	\$ --	\$1,102,381
Average shares	618,857	2,352	9,370	630,579
EPS	\$ 1.78			\$ 1.75
2001				
Net earnings	\$ 924,720	\$ 2,340	\$ --	\$ 927,060
Average shares	629,035	3,472	13,482	645,989
EPS	\$ 1.47			\$ 1.44
2000				
Net earnings	\$ 840,800	\$ 2,912	\$ --	\$ 843,712
Average shares	626,766	4,509	14,823	646,098
EPS	\$ 1.34			\$ 1.31

I. Reclassification of Prior Financial Statements. Certain reclassifications have been made to previous years' financial statements to conform to the 2002 presentation.

J. Income taxes. The provision for income taxes, income taxes payable and deferred income taxes are determined using the liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. A valuation allowance is provided when the Company determines that it is more likely than not that a portion of the deferred tax asset balance will not be realized.

K. Adoption of New Accounting Pronouncements. On July 1, 2001, the Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standard No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" (SFAS 142).

SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have a material effect on the Company results of operations or financial position.

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually at the reporting unit level. SFAS 142 also requires intangible assets with finite useful lives to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

The Company completed its assessment of impairment as of July 1, 2001, which indicated no impairment of goodwill.

Prior to fiscal year 2002, the Company amortized goodwill over periods from 10 to 40 years. Pro forma net income and earnings per share for the years ended June 30, 2001 and 2000 adjusted to eliminate historical amortization of goodwill and related tax effects, are as follows:

(In thousands, except EPS)		
Years ended June 30,		
	2001	2000
Previously reported net earnings	\$ 924,720	\$ 840,800
Goodwill amortization	53,936	44,663
Tax provision	(6,976)	(3,573)
Pro forma net earnings	\$ 971,680	881,890
Previously reported basic EPS	\$ 1.47	\$ 1.34
Previously reported diluted EPS	\$ 1.44	\$ 1.31
Pro forma basic EPS	\$ 1.54	\$ 1.41
Pro forma diluted EPS	\$ 1.51	\$ 1.37

L. New Accounting Pronouncements. In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived-assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and expands the scope of a discontinued operation. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001 and generally are to be applied prospectively. The Company adopted this statement on July 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2003 financial statements.

**Note 2. Other (income) expense consists of the following:**

(In thousands)			
Years ended June 30,			
	2002	2001	2000
Interest income on corporate funds	\$ (118,672)	\$ (163,918)	\$ (119,080)
Realized (gains) losses on investments	(16,454)	77,594	32,359
Interest expense	21,164	14,260	13,140
Total other (income) expense	\$ (113,962)	\$ (72,064)	\$ (73,581)

**Note 3. Acquisitions and Dispositions**

The Company purchased several businesses for approximately \$232 million in fiscal 2002 (including \$12 million in common stock), \$75 million in fiscal 2001, and \$200 million (including \$25 million in common stock) in fiscal 2000, net of cash acquired. The results of these acquired businesses are included in operations from the dates of acquisition.

Goodwill recognized in these transactions amounted to \$167 million, of which \$48 million is expected to be fully deductible for tax purposes. Other intangible assets acquired in these transactions amounted to \$51 million. Additionally, ADP made contingent payments totaling \$21 million, relating to previously consummated acquisitions. Goodwill and other intangible assets related to these transactions were allocated to the Company's reportable segments as follows for the twelve months ended June 30, 2002:

(In thousands)	Goodwill	Software	Customer Lists	Other Intangibles
Employer Services	\$ 88,475	\$10,353	\$ 7,305	\$ -
Brokerage Services	47,681	-	9,585	-
Dealer Services	45,473	7,745	9,000	200
Other	6,569	7,023	-	-
Total	\$188,198	\$25,121	\$25,890	\$ 200
Weighted average amortization period	N/A	3.8 years	8.3years	6.0 years

#### Note 4. Non-recurring Item

In fiscal 1999 the Company divested its Brokerage front-office business to Bridge Information Systems, Inc. (Bridge), and received \$90 million of Bridge convertible preferred stock as part of the proceeds. In fiscal 2001 Bridge filed for bankruptcy and the Company recorded a \$90 million (\$54 million net of tax) write-off of its investment, reflected in the "other (income) expense" line item.

#### Note 5. Receivables

Accounts receivable is net of an allowance for doubtful accounts of \$53 million and \$42 million at June 30, 2002 and 2001, respectively.

The Company finances the sale of computer systems to certain of its clients. These finance receivables, most of which are due from automobile and truck dealerships, are reflected in the consolidated balance sheets as follows:

(In thousands) June 30,	2002		2001	
	Current	Long-term	Current	Long-term
Receivables	\$181,609	\$227,422	\$189,079	\$267,394
Less:				
Allowance for doubtful accounts	(9,216)	(16,020)	(9,717)	(16,666)
Unearned income	(23,100)	(18,633)	(28,603)	(25,764)
	\$149,293	\$192,769	\$150,759	\$224,964

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 interest method to maintain a constant rate of return on the net investment over the term of each contract.

Long-term receivables at June 30, 2002 mature as follows:

(In thousands)	
2004	\$122,570
2005	64,567
2006	30,457
2007	9,430
2008	364
Thereafter	34
	\$227,422

## Note 6. Intangible Assets

Components of intangible assets are as follows:

(In thousands) June 30,	2002	2001
Goodwill	\$1,375,654	\$ 1,151,873
Intangibles		
Software licenses	462,474	343,228
Customer lists	360,268	317,087
Other	398,495	426,172
Total intangibles	1,221,237	1,086,487
Total goodwill and intangibles	2,596,891	2,238,360
Less accumulated amortization	(719,693)	(636,950)
	\$ 1,877,198	\$ 1,601,410

Other intangibles consist primarily of purchased rights, covenants, and patents (acquired directly or through acquisitions) amortized over periods from 3 to 25 years. Amortization of intangibles totaled \$115 million for fiscal 2002, \$103 million for 2001 and \$89 million for 2000.

Changes in goodwill for the year ended June 30, 2002 are as follows:

(In thousands)

	Employer Services	Brokerage Services	Dealer Services	Other	Total
Balance as of June 30, 2001	\$ 631,541	\$ 299,864	\$138,701	\$ 81,767	\$ 1,151,873
Additions	88,475	47,681	45,473	6,569	188,198
Sale of business	(2,669)	--	--	--	(2,669)
Cumulative translation adjustments	34,104	1,415	(1,532)	4,265	38,252
Balance as of June 30, 2002	\$ 751,451	\$ 348,960	\$182,642	\$ 92,601	\$ 1,375,654

No impairment losses were recognized during the year.

## Note 7. Short-term Financing

In April 2002, the Company authorized a short-term commercial paper program providing for the issuance of up to \$ 4.0 billion in aggregate maturity value of commercial paper at any given time. The Company's commercial paper program is rated A-1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote high quality investment grade securities. Maturities of commercial paper can range from overnight to 270 days. At June 30, 2002, there was no commercial paper outstanding. From the inception of the commercial paper program in April through the fiscal year ended June 30, 2002, the Company had average borrowings of \$667 million at an effective weighted average interest rate of 1.8%. The Company will use the commercial paper issuances as a primary instrument to meet short-term funding needs.

In October 2001, the Company entered into a new \$4.0 billion, unsecured revolving credit agreement with certain financial institutions, replacing an existing \$2.5 billion credit agreement. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided to the syndicated financial institutions prior to borrowing. The Company is also required to pay a facility fee on the credit agreement. The agreement, which expires in October 2002, has no borrowings to date.

The Company's short-term financing is sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by U.S. government securities. These agreements generally have terms ranging from overnight to up to ten days. At June 30, 2002 and 2001, there were no outstanding repurchase agreements. For the fiscal years ended June 30, 2002 and 2001, the Company had an average outstanding balance of \$361 million and \$41 million, respectively, at an average interest rate of 2.6% and 4.3%, respectively.

## Note 8. Debt

Components of long-term debt are as follows:

(In thousands)		
June 30,	2002	2001
Zero coupon convertible subordinated notes (5.25% yield)	\$ 45,614	\$ 62,312
Industrial revenue bonds (with fixed and variable interest rates from 1.50% to 2.05%)	36,474	36,449
Other	8,685	12,681
	90,773	111,442
Less current portion	(125)	(1,215)
	\$ 90,648	\$ 110,227

The zero coupon convertible subordinated notes have a face value of approximately \$80 million at June 30, 2002 and mature February 20, 2012, unless converted or redeemed earlier. At June 30, 2002, the notes were convertible into approximately 2.1 million shares of the Company's common stock. The notes are callable at the option of the Company, and the holders of the notes can convert into common stock at any time or require redemption in fiscal 2007. During fiscal 2002 and 2001, approximately \$27 million and \$50 million face value of notes were converted, respectively. As of June 30, 2002 and 2001, the quoted market prices for the zero coupon notes were approximately \$90 million and \$139 million, respectively. The fair value of the other debt, included above, approximates its carrying value.

Long-term debt repayments at June 30, 2002 are due as follows:

(In thousands)	
2004	\$ 99
2005	161
2006	167
2007	173
2008	1,070
Thereafter	88,978
	\$ 90,648

Interest payments were approximately \$18 million in fiscal 2002, \$10 million in fiscal 2001, and \$10 million in fiscal 2000.

#### Note 9. Funds Held for Clients and Client Funds Obligations

As part of its integrated payroll and payroll tax filing services, the Company impounds funds for federal, state and local employment taxes from approximately 354,000 clients; handles all regulatory payroll tax filings, correspondence, amendments, and penalty and interest disputes; remits the funds to the appropriate tax agencies; and handles other employer-related services. In addition to fees paid by clients for these services, the Company receives interest during the interval between the receipt and disbursement of these funds by investing the funds primarily in fixed-income instruments. The amount of collected but not yet remitted funds for the Company's payroll and tax filing and certain other services varies significantly during the year and averaged approximately \$8.4 billion in fiscal 2002, \$8.2 billion in fiscal 2001, and \$6.9 billion in fiscal 2000.

#### Note 10. Employee Benefit Plans

A. Stock Plans. The Company has stock option plans which provide for the issuance to eligible employees of incentive and non-qualified stock options, which may expire as much as 10 years from the date of grant, at prices not less than the fair market value on the date of grant. At June 30, 2002 there were 10,624 participants in the plans. The aggregate purchase price for options outstanding at June 30, 2002 was approximately \$2.1 billion. The options expire at various points between 2002 and 2012.

A summary of changes in the stock option plans for the three years ended June 30, 2002 is as follows:

(In thousands, except per share amounts)	Number of Options			Weighted Average Price		
	2002	2001	2000	2002	2001	2000
Options outstanding,						

beginning of year	47,496	46,694	47,467	\$37	\$29	\$24
Options granted	12,325	10,740	9,646	\$49	\$57	\$46
Options exercised	(6,481)	(7,956)	(6,736)	\$22	\$18	\$16
Options canceled	(2,497)	(1,982)	(3,683)	\$47	\$38	\$32
-----						
Options outstanding, end of year	50,843	47,496	46,694	\$41	\$37	\$29
-----						
Options exercisable, end of year	21,626	19,929	18,719	\$31	\$25	\$19
-----						
Shares available for future grants, end of year	13,892	1,720	10,478			
-----						
Shares reserved for issuance under stock option plans	64,735	49,216	57,172			
=====						
-----						

Summarized information about stock options outstanding as of June 30, 2002 is as follows:

Exercise Price Range	Outstanding		Exercisable		
	Number of Options (In thousands)	Remaining Life (In years)	Average Exercise Price	Number of Options (In thousands)	Average Exercise Price
Under \$15	3,173	1.7	\$13	3,131	\$13
\$15 to \$25	6,222	3.9	\$20	5,920	\$20
\$25 to \$35	5,740	5.5	\$29	4,219	\$29
\$35 to \$45	12,761	7.0	\$42	5,264	\$41
\$45 to \$55	16,535	9.1	\$50	1,789	\$51
Over \$55	6,412	8.2	\$60	1,303	\$60

The Company has stock purchase plans under which eligible employees have the ability to purchase shares of common stock at 85% of the lower of market value as of the date of purchase election or as of the end of the plans. Approximately 2.8 million and 1.8 million shares are scheduled for issuance on December 31, 2003 and 2002, respectively. Approximately 2.3 million and 2.5 million shares were issued during the years ended June 30, 2002 and 2001, respectively. At June 30, 2002 and 2001, there were approximately 3.3 million and 5.7 million shares, respectively, reserved for purchase under the plans. Included in liabilities as of June 30, 2002 and 2001 are employee stock purchase plan withholdings of approximately \$93 million and \$94 million, respectively.

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" to account for its stock option and employee stock purchase plans. An alternative method of accounting for stock options is SFAS 123, "Accounting for Stock-Based Compensation." Under SFAS No. 123 employee stock options are valued at grant date using the Black-Scholes valuation model, and this compensation cost is recognized ratably over the vesting period. Had compensation cost of the Company's stock option and employee stock purchase plans been determined as prescribed by SFAS No. 123, the pro forma net earnings impact of options and stock purchase plan rights granted subsequent to July 1, 1995 is shown below. The fair value for these instruments was estimated at the date of grant using a Black-Scholes valuation model with the following weighted average assumptions:

Years ended June 30,	2002	2001	2000
Risk-free interest rate	4.3-5.2%	5.3-6.0%	6.0-6.7%
Dividend yield	.7-.8%	.7-.8%	.8-.9%
Volatility factor	25.9-27.9%	27.9-28.2%	22.0-26.7%
Expected life:			
Options	6.3	6.3	6.4
Purchase rights	2.0	2.0	2.0
Weighted average fair value:			
Options	\$16.54	\$21.31	\$16.89
Purchase rights	\$21.55	\$20.58	\$19.73
	=====	=====	=====

The Company's pro forma earnings recognize compensation expense based upon the fair value of the stock options and stock purchase plan rights issued subsequent to July 1, 1995 over their vesting period, as follows:

(In millions, except per share amounts)	2002	2001	2000
Pro forma net earnings	\$ 981	\$ 818	\$ 762
Pro forma basic earnings per share	\$ 1.58	\$ 1.30	\$ 1.22
Pro forma diluted earnings per share	\$ 1.56	\$ 1.27	\$ 1.18
	=====	=====	=====

The Company has a restricted stock plan under which shares of common stock have been sold for nominal consideration to certain key employees. These shares are restricted as to transfer and in certain circumstances must be resold to the Company at the original purchase price. The restrictions lapse over periods of up to six years. During the years ended June 30, 2002, 2001 and 2000 the Company issued 143,500, 172,500, and 171,900 restricted shares, respectively.

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. Effective January 1, 2001, the plan interest credit rate was changed from a fixed rate of 7% to a rate that will vary from year-to-year with the 10-year treasury constant. This change is the primary reason for the decrease in service cost in 2002. Employees are fully vested on completion of five years' 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 officer's years of service and compensation.

The plans' funded status as of June 30, 2002 and 2001 follows:

(In thousands) June 30,	2002	2001
Change in plan assets:		
Funded plan assets at market value at beginning of year	\$ 469,300	\$ 485,700
Actual return on plan assets	(54,800)	(44,700)
Employer contributions	33,400	36,200
Benefits paid	(11,800)	(7,900)
Funded plan assets at market value at end of year	\$ 436,100	\$ 469,300
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 399,300	\$ 328,500
Service cost	16,900	32,800
Interest cost	28,400	24,600
Actuarial and other gains	41,200	21,300
Benefits paid	(11,800)	(7,900)
Projected benefit obligation at end of year	\$ 474,000	\$ 399,300
Plan assets in excess of projected benefits	\$ (37,900)	\$ 70,000
Transition obligation	-	300
Unrecognized net actuarial gain due to different experience than assumed	181,500	44,600
Prepaid pension cost	\$ 143,600	\$ 114,900



The components of net pension expense were as follows:

(In thousands) Years ended June 30,	2002	2001	2000
Service cost - benefits earned during the period	\$ 16,900	\$32,800	\$ 30,800
Interest cost on projected benefits	28,400	24,600	20,900
Expected return on plan assets	(45,600)	(40,200)	(32,900)
Net amortization and deferral	(600)	400	(300)
	\$ (900)	\$17,600	\$ 18,500

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

Years ended June 30,	2002	2001
Discount rate	6.75%	7.25%
Expected long-term rate on assets	8.50%	8.75%
Increase in compensation levels	6.0%	6.0%

C. Retirement and Savings Plan. The Company has a 401(k) retirement and savings plan, which allows eligible employees to contribute up to 20% of their compensation annually. The Company matches a portion of employee contributions, which amounted to approximately \$35 million, \$31 million and \$27 million for calendar years 2001, 2000 and 1999, respectively.

#### Note 11. Income Taxes

Earnings before income taxes shown below are based on the geographic location to which such earnings are attributable.

(In thousands) Years ended June 30,	2002	2001	2000
Earnings before income taxes:			
US	\$1,618,885	\$1,375,220	\$1,197,030
Non-US	168,085	149,790	92,570
	\$1,786,970	\$1,525,010	\$1,289,600

The provision for income taxes consists of the following components:

(In thousands) Years ended June 30,	2002	2001	2000
Current:			
Federal	\$ 542,980	\$ 439,745	\$ 326,875
Non-U.S.	67,380	77,435	56,505
State	67,160	53,660	56,535
Total current	677,520	570,840	439,915
Deferred:			
Federal	6,525	24,895	5,750
Non-U.S.	(20)	(3,743)	1,220
State	2,175	8,298	1,915
Total deferred	8,680	29,450	8,885
Total provision	\$ 686,200	\$ 600,290	\$ 448,800

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

(In thousands, except percentages)						
Years ended June 30,	2002	%	2001	%	2000	%
Provision for taxes at U.S. statutory rate	\$ 625,415	35.0	\$ 533,800	35.0	\$ 451,400	35.0
Increase (decrease) in provision from:						
Investments in municipals	(3,255)	(0.2)	(5,700)	(0.4)	(68,180)	(5.3)
State taxes, net of federal tax benefit	45,070	2.5	40,270	2.6	37,990	2.9
Other	18,970	1.1	31,920	2.2	27,590	2.2
	<u>\$ 686,200</u>	<u>38.4</u>	<u>\$ 600,290</u>	<u>39.4</u>	<u>\$ 448,800</u>	<u>34.8</u>

2001 data includes impact of non-recurring adjustments.

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

(In millions)		
June 30,	2002	2001
<b>DEFERRED TAX ASSETS:</b>		
Accrued expenses not currently deductible	\$135,604	\$128,566
Foreign net operating losses	30,861	27,682
Other	18,320	20,469
	<u>184,785</u>	<u>176,717</u>
Less: Valuation allowances	(40,140)	(41,930)
Deferred tax assets - net	<u>\$144,645</u>	<u>\$134,787</u>
<b>DEFERRED TAX LIABILITIES:</b>		
Unrealized investment gains	\$ 83,512	\$ 56,080
Accrued retirement benefits	81,883	75,217
Depreciation and amortization	164,160	137,371
Other	50,660	47,485
Deferred tax liabilities	<u>\$ 380,215</u>	<u>\$ 316,153</u>
<b>NET DEFERRED TAX LIABILITIES</b>	<u>\$ 235,570</u>	<u>\$ 181,366</u>

There are \$2.1 million and \$26.6 million net current deferred tax assets included in other current assets in the balance sheet at June 30, 2002 and June 30, 2001, respectively.

Income taxes have not been provided on undistributed earnings of foreign subsidiaries as the Company considers such earnings to be permanently reinvested as of June 30, 2002 and June 30, 2001.

The Company has estimated foreign net operating loss carry forwards of approximately \$85.2 million and \$70.5 million at June 30, 2002 and June 30, 2001, respectively.

The Company has recorded valuation allowances of \$40.1 million and \$41.9 million (all of which relate to foreign entities) at June 30, 2002 and June 30, 2001, respectively, to reflect the estimated amount of deferred tax assets that may not be realized. A portion of the valuation allowances in the amounts of approximately \$17.7 million and \$23.2 million at June 30, 2002 and June 30, 2001, respectively, relate to net deferred tax assets which were recorded in purchase accounting. The recognition of such amounts in future years will be allocated to reduce the excess purchase price over the net assets acquired.

Income tax payments were approximately \$518 million in 2002, \$437 million in 2001 and \$375 million in 2000.

### Note 12. Commitments and Contingencies

The Company has obligations under various facilities and equipment leases, and software license agreements. Total expense under these agreements was approximately \$272 million in 2002, \$269 million in 2001 and \$243 million in 2000, with minimum commitments at June 30, 2002 as follows:

(In millions)	
-----	
Years ending June 30,	
2003	245
2004	175
2005	109
2006	68
2007	43
Thereafter	75
	-----
	\$715
	=====
	-----

In addition to fixed rentals, certain leases require payment of maintenance and real estate taxes and contain escalation provisions based on future adjustments in price indices.

In the normal course of business, the Company is subject to various claims and litigation. The Company does not believe that the resolution of these matters will have a material impact on the consolidated financial statements.

### Note 13. Financial Data By Segment

Employer Services, Brokerage Services and Dealer Services are the Company's largest business units. ADP evaluates performance of its business units based on recurring operating results before interest on corporate funds, income taxes and foreign currency gains and losses. Certain revenues and expenses are charged to business units at a standard rate for management and motivation reasons. Other costs are recorded based on management responsibility. As a result, various income and expense items, including certain non-recurring gains and losses, are recorded at the corporate level and certain shared costs are not allocated. Goodwill amortization is charged to business units as a surrogate for the cost of capital for acquisitions, which is subsequently eliminated in consolidation. Interest on invested funds held for clients is recorded in Employer Services' revenues at a standard rate of 6%, with the adjustment to actual revenues included in "Other". Prior years' business unit revenues and pre-tax earnings have been restated to reflect fiscal year 2002 budgeted foreign exchange rates. Business unit assets include funds held for clients but exclude corporate cash, marketable securities and goodwill. "Other" consists primarily of Claims Services, corporate expenses, non-recurring items and the reconciling items referred to above.

-----					
(In millions)	Employer	Brokerage	Dealer	Other	Total
Year ended June 30, 2002	Services	Services	Services		
	-----	-----	-----	-----	-----
Revenues	\$ 4,184	\$ 1,758	\$ 706	\$ 356	\$ 7,004
Pre-tax earnings	\$ 1,110	\$ 354	\$ 116	\$ 207	\$ 1,787
Assets	\$12,244	\$ 566	\$ 181	\$ 5,286	\$18,277
Capital expenditures	\$ 71	\$ 33	\$ 21	\$ 21	\$ 146
Depreciation and amortization	\$ 208	\$ 180	\$ 40	\$ (77)	\$ 279
	-----	-----	-----	-----	-----

Year ended June 30, 2001

Revenues	\$ 3,968	\$ 1,742	\$ 683	\$ 461	\$ 6,854
Pre-tax earnings	\$ 936	\$ 332	\$ 99	\$ 158	\$ 1,525
Assets	\$12,320	\$ 523	\$ 183	\$ 4,863	\$17,889
Capital expenditures	\$ 106	\$ 33	\$ 23	\$ 23	\$ 185
Depreciation and amortization	\$ 196	\$ 109	\$ 38	\$ (22)	\$ 321

Year ended June 30, 2000

Revenues	\$ 3,539	\$ 1,469	\$ 715	\$ 445	\$ 6,168
Pre-tax earnings	\$ 775	\$ 333	\$ 112	\$ 70	\$ 1,290
Assets	\$11,264	\$ 522	\$ 202	\$ 4,863	\$16,851
Capital expenditures	\$ 94	\$ 27	\$ 24	\$ 21	\$ 166
Depreciation and amortization	\$ 177	\$ 81	\$ 38	\$ (12)	\$ 284

Revenues and assets by geographic area are as follows:

(In millions) Year ended June 30, 2002	United States	Europe	Canada	Other	Total
Revenues	\$ 5,978	\$ 673	\$ 270	\$ 83	\$ 7,004
Assets	\$16,055	\$1,214	\$ 843	\$ 165	\$18,277
Year ended June 30, 2001					
Revenues	\$ 5,827	\$ 641	\$ 279	\$ 107	\$ 6,854
Assets	\$15,799	\$1,055	\$ 910	\$ 125	\$17,889
Year ended June 30, 2000					
Revenues	\$ 5,210	\$ 645	\$ 259	\$ 54	\$ 6,168
Assets	\$14,640	\$1,126	\$ 1,014	\$ 71	\$16,851

#### Note 14. Quarterly Financial Results (Unaudited)

Summarized quarterly results of operations for the two years ended June 30, 2002 are as follows:

(In thousands, except per share amounts) Year ended June 30, 2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$1,607,883	\$1,681,028	\$1,870,036	\$1,845,316
Net earnings	\$ 196,600	\$ 264,600	\$ 352,260	\$ 287,310
Basic earnings per share	\$ .32	\$ .43	\$ .57	\$ .47
Diluted earnings per share	\$ .31	\$ .42	\$ .56	\$ .46
Year ended June 30, 2001*				
Revenues	\$1,544,129	\$1,639,822	\$1,853,765	\$1,815,936
Net earnings	\$ 173,400	\$ 207,440	\$ 288,880	\$ 255,000
Basic earnings per share	\$ .28	\$ .33	\$ .46	\$ .41
Diluted earnings per share	\$ .27	\$ .32	\$ .45	\$ .40

\*After impact of non-cash, non-recurring item. See note 4 to the consolidated financial statements.

## REPORT OF MANAGEMENT

Management is responsible for the preparation of the accompanying financial statements. The financial statements, which include amounts based on the application of business judgments, have been prepared in conformity with generally accepted accounting principles. Deloitte & Touche LLP, independent certified public accountants, have audited our consolidated financial statements as described in their report.

The Company maintains financial control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management authorization. The control systems are supported by written policies and the control environment is regularly evaluated by both the Company's internal auditors and Deloitte & Touche LLP.

The Board of Directors has an Audit Committee comprised of three outside directors. The Audit Committee meets with both Deloitte & Touche LLP and the internal auditors with and without management's presence. It monitors and reviews the Company's financial statements and internal controls, and the scope of the internal auditors' and Deloitte & Touche LLP's audits. Deloitte & Touche LLP and the internal auditors have free access to the Audit Committee.

*/s/ Arthur F. Weinbach  
Arthur F. Weinbach  
Chairman and Chief Executive Officer*

*/s/ Karen E. Dykstra  
Karen E. Dykstra  
Vice President Finance  
(Principal Financial Officer)*

*Roseland, New Jersey  
August 12, 2002*

## INDEPENDENT AUDITORS' REPORT

Board of Directors and  
Shareholders  
Automatic Data Processing, Inc.  
Roseland, New Jersey

We have audited the accompanying consolidated balance sheets of Automatic Data Processing, Inc. and subsidiaries as of June 30, 2002 and 2001, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

*/s/ Deloitte & Touche LLP*

*New York, New York  
August 12, 2002*

**EXHIBIT 21**

Name of Subsidiary -----	Jurisdiction of Incorporation -----
ADP Atlantic, Inc.	Delaware
ADP Belgium CVA	Belgium
ADP Brasil Ltda.	Brazil
ADP Broker-Dealer, Inc.	New Jersey
ADP Brokerage International Limited	United Kingdom
ADP Central, Inc.	Delaware
ADP Claims Solutions Group, Inc.	Delaware
ADP Credit Corp.	Delaware
ADP Dealer Services Ltd.	Canada
ADP Dealer Services Deutschland GmbH	Germany
ADP Dealer Services Italia s.r.l.	Italy
ADP East, Inc.	Delaware
ADP Employer Services GmbH	Germany
ADP Europe S.A.	France
ADP Financial Information Services, Inc.	Delaware
ADP GSI S.A.	France
ADP Hollander, Inc.	Delaware
ADP, Inc.	Delaware
ADP Integrated Medical Solutions, Inc.	Delaware
ADP Investor Communication Services, Inc.	Delaware
ADP Nederland B.V.	The Netherlands
ADP Network Services International, Inc.	Delaware
ADP Network Services Limited	United Kingdom
ADP of North America, Inc.	Delaware
ADP Output Services, Inc.	Delaware
ADP of Roseland, Inc.	Delaware
ADP Pacific, Inc.	Delaware
ADP Payroll Services, Inc.	Delaware
ADP Savings Association	Pennsylvania
ADP South, Inc.	Delaware
ADP Tax Services, Inc.	Delaware
ADP TotalSource Group, Inc.	Florida
Audatex GmbH	Switzerland
Audatex Holding GmbH	Switzerland
Audatex Deutschland Datenverarbeitungs GmbH	Germany
Automatic Data Processing Limited	Australia
Automatic Data Processing Limited	United Kingdom
Automatic Data Processing SPRL	Belgium
Avert, Inc.	Colorado
Business Management Software Limited	United Kingdom
Canadian-Automatic Data Processing Services Ltd.	Canada
Cunningham Graphics, Inc.	New Jersey
Cunningham Graphics International, Inc.	New Jersey
Cunningham Graphics International, S.A.	British Virgin Islands
Digital Motorworks Holdings, Inc.	Texas
GSI Transport Tourisme S.A.	France

Name of Subsidiary  
-----

Jurisdiction of  
Incorporation  
-----

Health Benefits America  
Informex S.A.  
OMR Systems Corporation  
Wilco International Limited

Utah  
Belgium  
New Jersey  
United Kingdom

In accordance with Item 601(b)(21) of Regulation S-K, the Registrant 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, 2002.



**INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in Automatic Data Processing, Inc.'s Registration Statement Nos. 33-45150, 33-52876, 33-55909, 33-57207, 33-58165, 33-61629, 333-01839, 333-02331, 333-12767, 333-15103, 333-29713, 333-48493, 333-57075, 333-80237, 333-79749, 333-72497, 333-31058, 333-42294 and 333-68030 on Form S-3, Registration Statement No. 333-72023 on Form S-4, and Registration Statement Nos. 33-24987, 33-25290, 33-38338, 2-75287, 33-38366, 33-38365, 33-46168, 33-51979, 33-51977, 33-52629, 33-56419, 33-56463, 333-10281, 333-10279, 333-10277, 333-13945, 333-50123, 333-84647, 333-81725, 333-74265, 333-33258, 333-69020, 333-75468 and 333-9054 on Form S-8 of our reports dated August 12, 2002, included in and incorporated by reference in this Annual Report on Form 10-K of Automatic Data Processing, Inc. for the year ended June 30, 2002.

*/s/ Deloitte & Touche LLP*  
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*New York, New York*  
*September 16, 2002*

**EXHIBIT 99.1**

**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, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur F. Weinbach, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 result of operations of the Company.

*/s/ Arthur F. Weinbach*

-----  
*Arthur F. Weinbach*  
*Chief Executive Officer*  
*September 16, 2002*

**EXHIBIT 99.2**

**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, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karen E. Dykstra, Vice President, Finance (Principal Financial Officer) of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 result of operations of the Company.

*/s/ Karen E. Dykstra*

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*Karen E. Dykstra*  
*Vice President, Finance*  
*(Principal Financial Officer)*  
*September 16, 2002*

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**End of Filing**

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