

# AUTOMATIC DATA PROCESSING INC

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 9/18/1997 For Period Ending 6/30/1997

Address	ONE ADP BOULVARD ROSELAND, New Jersey 07068
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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, 1997

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:	201-994-5000

#### 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 (Section 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. / X /

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 12, 1997 was approximately \$13,341,000,000. On September 12, 1997, there were 292,353,349 shares of Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 1997 Annual Report to  
Shareholders  
Portions of the Registrant's Proxy Statement for

Parts I, II & IV

Annual Meeting of Stockholders to be held  
on November 11, 1997.

Part III

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## PART I

### **ITEM 1. BUSINESS**

Automatic Data Processing, Inc., incorporated in Delaware in 1961, and its subsidiaries (collectively, "ADP") are engaged in the computing services business. The following summary describes ADP's activities.

#### **INDUSTRY SEGMENT**

All of ADP's computing services enable clients to process and/or distribute data (their own, ADP's or that of third parties) and/or to interactively access and utilize ADP and third party databases and information, utilizing ADP's batch, interactive and client site systems.

#### **EMPLOYER SERVICES**

ADP's Employer Services offers a comprehensive range of payroll, payroll tax filing and reporting, human resource (HR), benefits administration, time and attendance, 401(k) recordkeeping, and unemployment compensation management services. These services are provided to over 395,000 clients engaged in a wide variety of businesses. In addition to its direct marketing, ADP has marketing relationships with many banks and accountants whereby ADP offers its services to their business clients.

Payroll and tax filing and reporting services comprise over 85% of Employer Services' revenue. Payroll services include the preparation of pay checks and direct deposits (with major bank partners), 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. ADP's tax filing services process federal, state and local payroll taxes on behalf of ADP clients and remit such taxes to the appropriate taxing authorities when due. As new products evolve (such as new hire reporting, ADP check/full service direct deposit and wage garnishment payment), the ADP Tax Filing center is also responsible for the efficient movement of funds and information to third parties.

As market trends increasingly favor both outsourcing and software as preferred payroll solutions, ADP's "Payroll AnyWay" strategy presents to businesses of virtually every size and type an extensive menu of outsourced and on-site payroll solutions, from turnkey service to client-site software. Employers are segmented by size and complexity to effectively match their needs to products and service teams that will best meet their expectations. Approximately 35% of Employer Services' payroll and payroll tax filing services revenue during the past fiscal year was attributable to its Emerging Business Services (for companies with less than 100 employees); approximately 35% of such revenue was attributable to Major Accounts (for companies with between 100 and 999 employees) and approximately 30% of such revenue was attributable to National Accounts (for companies with 1,000 or more employees).

ADP's HR services, operating in conjunction with a client's payroll database, provide comprehensive recordkeeping HR services, including benefits administration and outsourcing, applicant tracking, employee history and position control. The various HR systems run on standalone PC's, local or wide area networks or client/server systems.

Emerging Business Services processes payroll for approximately 300,000 clients. Major Accounts offers a robust line of best-of-breed payroll and human resource solutions for medium-size companies with full database and functional integration between payroll and HR. Many of the world's largest corporations are ADP National Accounts clients. In many cases, ADP provides system solutions for clients' entire human resource, payroll and benefits needs. For those companies who choose to process these applications in-house, ADP delivers stand-alone services such as tax filing, check printing and distribution, year-end statements (W-2's), and benefits administration.

The ADP Tax Filing Center, which supports all three market segments, electronically interfaces with over 2,000 tax agencies from the Internal Revenue Service to local school districts. Over 285,000 clients rely on tax filing to assure regulatory compliance.

ADP's Electronic Services Division complements Employer Services' market segments with a product mix that augments ADP's payroll and HR services. Included in such product mix are 401(k) recordkeeping and administrative services (relating to defined benefit plans), flexible spending, healthcare and other group benefits plans, and a comprehensive time and attendance system fully integrated into ADP's payroll systems. ADP's unemployment compensation services aid clients in managing and reducing unemployment insurance costs. Peachtree and One Write software business applications are sold to small clients through retail channels.

ADP's penetration of the benefits administration market accelerated with its acquisition of Health Benefits America, a provider of health care benefits design and communications programs, COBRA administration and other relevant services. ADP has firmly established itself as a leading professional employer organization through its TotalSource acquisition and positioned itself to aggressively increase its presence in the fast-expanding employee leasing industry.

The continued increase in multinational companies makes payroll and human resource management services a global opportunity. This development and a strong demand for outsourcing makes Europe a particularly attractive marketplace. Employer Services already has 35,000 payroll and HR clients in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom. The core of ADP's strength in the European market currently is in the larger company segment - those firms with 1,000 or more employees. The goal is to expand Employer Services to all major countries in Europe and be the leading provider of outsourcing and on-site services for employer solutions in all market segments.

ADP has also become the largest provider of payroll services to Canadian businesses with its recent purchases of the Royal Bank of Canada's and Scotiabank's payroll businesses. ADP's recent acquisition of a Brazilian computing services company gives it a strong initial position in the growing South American employer services marketplace.

## **BROKERAGE SERVICES**

ADP's Brokerage Services provides securities processing, real-time market information, and investor communications services to the financial services industry. ADP is the largest provider of securities processing services in North America. In fiscal 1997, ADP processed approximately 20% of the retail equity transactions in the United States and Canada, handling an average of over 475,000 trades per day. In the market information sector, Brokerage Services supports more than 97,000 desktops in over 1,600 firms worldwide. ADP provides shareholder communication services, handling all shareholder mailings and proxy processing for shareholders whose securities are left in "street name"

in the custody of ADP's "nominee" clients (principally brokerage firms and banks). In fiscal 1997, ADP processed over 285 million shareholder mailings for over 12,000 publicly-traded companies on behalf of more than 800 brokerage firms and banks and 400 mutual fund families. Shareholder ballots representing approximately 155 billion shares were electronically processed.

ADP provides front-office database, news, analytic and quotation services for the investment and brokerage community through terminals located on brokers' desks. ADP provides such services through interactive work stations (utilizing client-server architecture) for all active equity securities, commodities, currencies, and interest rate futures. ADP also offers its international clients real-time news processing systems, real-time fixed income, foreign exchange and money market information, and sophisticated analytics.

ADP provides back-office stock brokerage and related financial computing services such as trade processing, cage management, stock loan accounting, on-line inquiry and data collection, portfolio reporting, order matching and on-line trading. All of these services are offered in the United States and Canada. ADP's Wilco Systems' Gloss series international trading and settlement systems offer global multi-instrument, multi-currency trading, settlement and accounting services.

As part of its shareholder communication services, StreetLink is a quickly deliverable laser printed alternative to expensive quarterly mailings to shareholders. Proxy Edge is an electronic voting service which dramatically improves voting efficiency and record keeping. PhoneVOTE Services enable mutual fund shareholders to vote their proxy over the telephone for same-day tabulation.

## **DEALER SERVICES**

ADP's Dealer Services provides computing, data and professional services to automobile and truck dealers and manufacturers world-wide. Over 18,000 dealers use ADP's on-site systems and communications networks to manage every area of sales and operations in the U.S., Canada, Europe, Mexico and Taiwan. ADP addresses critical dealership areas and offers software and professional services to improve consumer loyalty, asset management, innovative technology, employee productivity training, manufacturer relations, business improvements and real-time information access.

It offers clients a service solution which includes ADP computer hardware, licensed software, software support and hardware maintenance services. Clients use ADP's systems to manage their accounting, inventory, factory communications, scheduling, leasing, sales and service activities. ADP establishes and maintains communications networks for its clients which allow interactive communications between manufacturers and their respective dealers. These communication networks are used for new vehicle ordering, status inquiry and warranty claims, parts and vehicle locating, credit checks, vehicle repair estimating, vehicle registration and vehicle lienholder information.

ADP continues to automate the business processes for its clients through value-added products such as paperless parts cataloging, repair shop pricing and scheduling, laser printing, and data archiving and document storage.

Changes in customer expectations and manufacturer's requirements are modifying how the traditional dealership conducts business. In response to these changes, ADP is providing consulting services to its dealer clients to help them reengineer their management processes. It also offers solutions to help employee productivity and training, and provides the tools and services necessary to improve dealership productivity and profitability.

## **CLAIMS SERVICES**

ADP offers a broad line of claims information products to property and casualty insurance companies, claims adjusters, repair shops and auto parts recycling facilities in the United States and Canada to help its clients accurately estimate auto damage, bodily injury and property claims. The services include automated collision damage repair estimating for cars and trucks, vehicle valuation services for total losses, and parts locating and pricing services to auto insurers and repairers to facilitate the claims settlement and parts locating processes. ADP provides management information and vehicle damageability and repair cost statistics to insurance companies, government agencies and automobile manufacturers. A pen-based, mobile auto estimating system, using state-of-the-art technology and graphical user interfaces, has won broad market acceptance.

ADP provides, through its Integrated Medical Solutions business, services that evaluate the appropriateness of medical treatment and invoicing for bodily injury claims arising from motor vehicle accidents. The core product, Provider Bill Audit (PBA), is an expert system that performs fee and utilization audits of medical provider bills involving soft tissue injury and that provides auto insurers with a consistent methodology for assessing the proper diagnoses and treatment of automobile-related injuries. The Injury Claims Evaluations product compliments the PBA system with proprietary injury valuations, helping adjusters to make fair and equitable settlements when usual and customary costs are disputed.

## **NATURE OF SERVICES PROVIDED**

In each of Employer Services, Dealer Services, Claims Services and most of Brokerage Services, ADP's services primarily involve the processing and utilization of client and/or third party data. In the front-office component of the Brokerage Services business, the primary service takes the form of providing securities, commodities and currencies quotation data (which data is provided by various exchanges) and news to clients; this front-office component represents less than 10% of consolidated revenue.

Services to all industries are generally available by the electronic transmission (through communications lines) of computer-generated data and information from and to clients. Services are offered through a variety of systems and networks which run on industry-standard operating systems. Virtually none of ADP's services require ADP-proprietary hardware and/or operating systems.

All of ADP's services utilize somewhat similar facilities, computers, communications networks, salesforces, and client service support personnel. ADP's businesses share numerous facilities, selected computer rooms and communications networks, and ADP occasionally transfers some of its employees among business units. The input and output of all of ADP's businesses is data and information. On occasion ADP has transferred services and products between business units.

While the labor intensiveness of a service may vary somewhat based on the degree of automation and complexity in providing the service, all services use the same basic functions as described above. None of ADP's service offerings are particularly capital intensive.

## **MARKETS AND MARKETING METHODS**

All of ADP's services are sold broadly across the United States and Canada. Non-North American services amounted to approximately 12.5% of fiscal 1997 revenue. All services use

common marketing techniques, including direct sales methodologies with emphasis on referral sources.

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 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. While concentrations of clients exist, no one business group is material to ADP's overall revenue. Employer Services also sells to auto dealers, brokerage clients, and insurance clients.

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.

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 independent computing services companies in the United States.

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 computing services to over 400,000 clients. Annual revenues attributable to large client accounts range from \$1 million to approximately \$50 million per client, while thousands of small client accounts produce annual revenues of less than \$1,000 each. ADP's largest single client accounts for approximately 1% of its annual revenue.

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 seven years in Employer Services and is ten or more years in Brokerage, Dealer and Claims Services, and does not vary significantly from period to period.

Discounts, rebates and promotions offered by ADP to clients are not material.

ADP's services are provided under written Price Quotations or Services Agreements having varying terms and conditions. No one Price Quotation or Service Agreement is material to ADP.

## **SYSTEMS DEVELOPMENT AND PROGRAMMING**

During the fiscal years ended June 30, 1997, 1996 and 1995, ADP spent \$296,544,000, \$249,635,000 and \$193,173,000, respectively, on systems development and programming activities for the development of new, and the improvement and maintenance of existing, computing services.

## **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 revenue or negatively impacts its existing products and services, and each existing product and service has 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. Licenses, patents, trademarks and franchises are not material to ADP's business as a whole.

## **COMPENSATION OF MARKETING AND SALES PERSONNEL**

The compensation arrangements of ADP's marketing and sales personnel vary significantly based on the tenure of the particular salesperson, with the commission-based portion of total compensation averaging approximately 40%. ADP sets minimum sales quotas on an individual basis.

## **COMPUTER SYSTEMS**

ADP does not manufacture computer systems or act as a distributor of computer systems. ADP may, however, be deemed to be a value-added reseller of computer systems insofar as its services often include computer equipment as part of the total service solution.

ADP's services are offered on a variety of computer platforms which run various operating systems. These computer platforms include those offered by IBM, IBM-compatibles, Digital Equipment Corporation, Apple, Motorola, Hewlett Packard and McDonnell Douglas. The industry-standard operating systems supporting such computer platforms include DOS, Windows, OS2, VSE, MVS, VMS, System 7 OS, Unix, Reality and Pick.

ADP's service warranty to its clients is 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 which facilitates the delivery of its services to clients.

**NUMBER OF EMPLOYEES**

ADP employed approximately 30,000 persons as of June 30, 1997.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

See Item 10 in Part III hereof.

**ITEM 2. PROPERTIES**

ADP leases space for more than 55 of its processing centers. In addition, ADP leases numerous small processing centers and sales offices. All of these leases, which aggregate approximately 5,300,000 square feet in the United States, Canada, Europe, South America and Asia, expire at various times up to the year 2016. ADP owns 27 of its processing facilities and its corporate headquarters complex in Roseland, New Jersey, which aggregate approximately 2,750,000 square feet.

**ITEM 3. LEGAL PROCEEDINGS**

None

**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 and Dividend Data" on page 18 of the Registrant's 1997 Annual Report to Shareholders, which information is incorporated herein by reference. As of August 24, 1997, the Registrant had 28,364 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 August 16, 1996, the Registrant issued an aggregate amount of 896,370 shares of its Common Stock to three shareholders of a company acquired by the Registrant in exchange for all of the issued and outstanding shares of capital stock of such company pursuant to the terms of a pooling agreement. On August 26, 1996, the Registrant issued an aggregate amount of 1,930,212 shares of its Common Stock to the three principal shareholders (and certain related trusts) of another company acquired by the Registrant in exchange for all of the issued and outstanding shares of capital stock of that company pursuant to the terms of a merger agreement. No underwriters were involved in the foregoing sales of securities. The Company 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.

### ITEM 6. SELECTED FINANCIAL DATA

See "Selected Financial Data" on page 16 of the Registrant's 1997 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" on pages 17-18 of the Registrant's 1997 Annual Report to Shareholders, the Letters to Shareholders on pages 3-5 of such report and the business descriptions on pages 6-15 of such report, which information is incorporated herein by reference.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Registrant's market risk sensitive instruments do not subject the Registrant to material market risk exposures.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements described in Item 14(a) hereof are incorporated herein.

The following supplementary data is incorporated herein by reference:

Page in 1997 Annual Report to Shareholders

Quarterly Financial Results (unaudited) for the three years ended June 30, 1997 27

### 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
James B. Benson	52	Vice President, General Counsel and Secretary	1977
Richard C. Berke	52	Vice President, Human Resources	1989
Gary C. Butler	50	Group President of Employer Services	1975
Richard J. Daly	44	Co-president of Brokerage Services	1989
G. Harry Durity	50	Vice President, Worldwide Business Development	1994
Russell P. Fradin	42	Senior Vice President	1996
Richard J. Haviland	51	Chief Financial Officer	1982
John P. Hogan	49	Co-president of Brokerage Services	1993
Peter M. Leger	46	President of Dealer Services	1992
S. Michael Martone	49	President of Claims Services	1987
Arthur F. Weinbach	54	President and Chief Executive Officer	1980

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

G. Harry Durity joined ADP in August 1994 as Corporate Vice President, Worldwide Business Development. Prior to joining ADP he was Senior Vice President - Corporate Development of Revlon Consumer Products Company. Between 1990 and February 1993 when he joined Revlon, he was President of The Highlands Group, Inc.

Russell P. Fradin joined ADP in 1996 as Senior Corporate Vice President. Prior to joining ADP, he was a senior partner of McKinsey & Company and had been associated with that firm for 18 years.

John P. Hogan joined ADP in 1993. Prior to his promotion to Co-president of the Brokerage Services Group in July 1997, he held various senior Brokerage Services' positions. Prior to joining ADP in July 1993, he had been Senior Vice President, Processing Division for Fidelity Investments/National Financial Services, Inc. for three years.

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 1997 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 1997 Annual Meeting of Stockholders, which information is incorporated herein by reference.

#### **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 1997 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 1997 Annual Meeting of Stockholders, which information is incorporated herein by reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

#### (a)1. FINANCIAL STATEMENTS

The following consolidated financial statements of Automatic Data Processing, Inc. and its subsidiaries are included in Part II, Item 8:

	Page in 1997 Annual Report to Shareholders -----
Independent Auditors' Report	28
Consolidated Balance Sheets - June 30, 1997 and 1996	20
Statements of Consolidated Earnings - years ended June 30, 1997, 1996 and 1995	19
Statements of Consolidated Shareholders' Equity - years ended June 30, 1997, 1996 and 1995	21
Statements of Consolidated Cash Flows - years ended June 30, 1997, 1996 and 1995	22
Notes to Consolidated Statements	23 - 27

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

#### 2. FINANCIAL STATEMENT SCHEDULES

Page in Form 10-K

##### **Independent Auditors' Report on Schedule 14**

##### **Schedule II - Valuation and Qualifying Accounts 15**

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. 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 December 15, 1994 - incorporated by reference to Exhibit (3)-#1 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1995

- 3.2 - By-Laws as currently in effect - incorporated by reference to Exhibit (3)-#2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997
- 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 1, 1996 between Automatic Data Processing, Inc. and Arthur F. Weinbach - incorporated by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1996 (Management Contract)
- 10.2 - Agreement with Gary C. Butler - incorporated by reference to Exhibit 10(iii)(A)-#2 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1991 (Management Contract)
- 10.3 - 1981 Key Employees' Stock Option Plan - incorporated by reference to Registrant's Registration Statement No. 2-75287 on Form S-8 (Management Compensatory Plan)
- 10.3(a) - Amendment to 1981 Key Employees' Stock Option Plan - incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1989 (Management Compensatory Plan)
- 10.4 - Key Employees' Restricted Stock Plan - incorporated by reference to Registrant's Registration Statement No. 33-25290 on Form S-8 (Management Compensatory Plan)
- 10.5 - Supplemental Officers' Retirement Plan, as amended and restated - incorporated by reference to Exhibit 10(iii)(A)-#5 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 (Management Compensatory Plan)
- 10.5(a) - Amendment to Supplemental Officers' Retirement Plan (Management Compensatory Plan)
- 10.6 - 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)
- 10.6(a) - Amendment to 1989 Non-Employee Director Stock Option Plan (Management Compensatory Plan)

- 10.7 - 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)
- 10.7(a) - Amendment to 1990 Key Employees' Stock Option Plan (Management Compensatory Plan)
- 10.8 - 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)
- 10.9 - 1994 Executive Compensation Plan - incorporated by reference to Exhibit A to Registrant's Proxy Statement for its Annual Meeting of Stockholders held November 15, 1994 (Management Compensatory Plan)
- 11 - Schedule of Calculation of Earnings Per Share
- 13 - Pages 3-28 of the 1997 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
- 27 - Financial Data Schedule
- (b) None.

## INDEPENDENT AUDITORS' REPORT ON SCHEDULE

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. as of June 30, 1997 and 1996, and for each of the three years in the period ended June 30, 1997, and have issued our report thereon dated August 13, 1997; such consolidated financial statements and report are included in your 1997 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 14. 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, present fairly in all material respects the information set forth therein.

*/s/ Deloitte & Touche LLP  
New York, New York  
August 13, 1997*

**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, 1997:					
Allowance for doubtful accounts:					
Current	\$34,627	\$13,230	\$4,067(B)	\$12,382(A)	\$39,542
Long-term	\$25,727	\$1,817		\$7,174(A)	\$20,370
Year ended June 30, 1996:					
Allowance for doubtful accounts:					
Current	\$23,035	\$9,115	\$4,835(B)	\$2,358(A)	\$34,627
Long-term	\$26,166	\$2,986	--	\$3,425(A)	\$25,727
Year ended June 30, 1995:					
Allowance for doubtful accounts:					
Current	\$20,513	\$8,415	\$904(B)	\$6,797(A)	\$23,035
Long-term	\$24,526	\$3,916	--	\$2,276(A)	\$26,166

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

(B) Acquired in purchase/pooling transactions.

## 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 18, 1997

By: /s/ Arthur F. Weinbach

-----  
Arthur F. Weinbach  
President and Chief Executive Officer

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

<i>SIGNATURE</i> -----	<i>TITLE</i> -----	<i>DATE</i> -----
/s/ Arthur F. Weinbach ----- (Arthur F. Weinbach)	President, Chief Executive Officer, and Director (Principal Executive Officer)	September 18, 1997
/s/ Richard J. Haviland ----- (Richard J. Haviland)	Chief Financial Officer (Principal Financial Officer)	September 18, 1997
/s/ Gary C. Butler ----- (Gary C. Butler)	Director	September 18, 1997

----- **Director September, 1997**

(Joseph A. Califano, Jr.)

/s/ Leon G. Cooperman ----- (Leon G. Cooperman)	Director	September 18, 1997
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----- **Director September, 1997**

(George H. Heilmeier)

/s/ Ann Dibble Jordan ----- (Ann Dibble Jordan)	Director	September 18, 1997
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<i>/s/ Harvey M. Krueger</i> ----- <i>(Harvey M. Krueger)</i>	<i>Director</i>	<i>September 18, 1997</i>
<i>/s/ Charles P. Lazarus</i> ----- <i>(Charles P. Lazarus)</i>	<i>Director</i>	<i>September 18, 1997</i>
<i>/s/ Fred V. Malek</i> ----- <i>(Frederic V. Malek)</i>	<i>Director</i>	<i>September 18, 1997</i>
<i>/s/ Henry Taub</i> ----- <i>(Henry Taub)</i>	<i>Director</i>	<i>September 18, 1997</i>
<i>/s/ Laurence A. Tisch</i> ----- <i>(Laurence A. Tisch)</i>	<i>Director</i>	<i>September 18, 1997</i>
<i>/s/ Josh S. Weston</i> ----- <i>(Josh S. Weston)</i>	<i>Director</i>	<i>September 18, 1997</i>

**EXHIBIT 10.5(A)**

**AUTOMATIC DATA PROCESSING, INC.  
SUPPLEMENTAL OFFICERS' RETIREMENT PLAN**

Paragraph 3.1(b) of the Supplemental Officers' Retirement Plan is amended to read as follows:

"(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."

**EXHIBIT 10.6(A)**

RESOLVED, that the Automatic Data Processing, Inc. 1989 Non-Employee Director Stock Option Plan be amended by adding the following language at the end of Section 7 thereof:

"Notwithstanding the foregoing, or any other provision of the Plan, the Board may in the applicable award agreement evidencing an option granted under the Plan or at any time thereafter provide that options granted hereunder may be transferred without consideration by the grantee, subject to such rules as the Board may adopt to preserve the purposes of the Plan, to:

- (i) the grantee's spouse, children or grandchildren (including adopted and stepchildren and grandchildren) (collectively, the "Immediate Family")
- (ii) a trust solely for the benefit of the grantee and his or her Immediate Family;
- (iii) a partnership or limited liability company whose only partners or shareholders are the grantee and his or her Immediate Family members; or
- (iv) if and when, and to the extent, permitted by applicable law, charitable trust designated by the grantee;

(each transferee described in clause (i), (ii) and (iii) above is hereinafter referred to as a "Permitted Transferee"); provided that the grantee gives the Board advance written notice describing the terms and conditions of the proposed transfer and the Board notifies the grantee in writing that such a transfer would comply with the requirements of the Plan and any applicable award agreement evidencing the option.

The terms of any Option transferred in accordance with the immediately preceding sentence shall apply to the Permitted Transferee, except that (a) Permitted Transferees shall not be entitled to transfer any Options, other than by will or the laws of descent and distribution; and (b) Permitted Transferees shall not be entitled to exercise any transferred Options unless there shall be in effect a registration statement on an appropriate form covering the shares to be acquired pursuant to the exercise of such Option if the Board determines that such a registration statement is necessary or appropriate."

FURTHER RESOLVED, that Sections 15 and 16 of the Automatic Data Processing, Inc. 1989 Non-Employee Director Stock Option Plan be amended to read as follows:

"15. AMENDMENT. The Board shall have the authority to amend the Plan at any time but no such amendment shall adversely affect any right pursuant to an Option granted prior thereto without the written consent of the holder of such Option.

16. ADOPTION DATE AND TERM. The Plan is being adopted on November 2, 1989, shall be effective as of such date and shall remain in effect until terminated by action of the Board. No such termination shall adversely affect any right pursuant to an Option granted prior thereto without the written consent of the holder of

such Option."

**EXHIBIT 10.7(A)**

RESOLVED, that the Automatic Data Processing, Inc. 1990 Key Employees' Stock Option Plan be amended by adding the following language at the end of Section 9 thereof:

"Notwithstanding the foregoing or any other provisions of the Plan, the Committee may in the applicable award agreement evidencing an option granted under the Plan or at any time thereafter provide that options granted hereunder which are not intended to qualify as Incentive Options may be transferred without consideration by the grantee, subject to such rules as the Committee may adopt to preserve the purposes of the Plan, to:

- (i) the grantee's spouse, children or grandchildren (including adopted and stepchildren and grandchildren) (collectively, the "Immediate Family")
- (ii) a trust solely for the benefit of the grantee and his or her Immediate Family;
- (iii) a partnership or limited liability company whose only partners or shareholders are the grantee and his or her Immediate Family members; or
- (iv) ,if and when, and to the extent, permitted by applicable law, charitable trust; designated by the grantee;

(each transferee described in clauses (i), (ii) and (iii) above is hereinafter referred to as a "Permitted Transferee"); provided that the grantee gives the Committee advance written notice describing the terms and conditions of the proposed transfer and the Committee notifies the grantee in writing that such a transfer would comply with the requirements of the Plan and any applicable award agreement evidencing the option.

The terms of any option transferred in accordance with the immediately preceding sentence shall apply to the Permitted Transferee, except that: (a) Permitted Transferees shall not be entitled to transfer any options, other than by will or the laws of descent and distribution; and (b) Permitted Transferees shall not be entitled to exercise any transferred options unless there shall be in effect a registration statement on an appropriate form covering the shares to be acquired pursuant to the exercise of such option if the Committee determines that such a registration statement is necessary

or appropriate."

**EXHIBIT 11**

**AUTOMATIC DATA PROCESSING, INC  
AND SUBSIDIARIES**

**CALCULATION OF EARNINGS PER SHARE**  
(In thousands, except per share amounts)

	YEAR ENDED JUNE 30,				
	1997	1996	1995	1994	1993
<b>PRIMARY EARNINGS PER SHARE:</b>					
Earnings before cumulative effect of accounting changes	\$513,500	\$454,700	\$394,830	\$334,120	\$294,200
Cumulative effect of accounting changes	-	-	-	(4,800)	-
Net earnings applicable to common shares	\$513,500	\$454,700	\$394,830	\$329,320	294,200
Average number of common shares outstanding	290,990	288,967	285,112	281,780	282,654
Primary earnings per share before cumulative effect of accounting changes	\$1.76	\$1.57	\$1.38	\$1.19	\$1.04
Cumulative effect of accounting changes	-	-	-	(0.02)	-
Primary earnings per share	\$1.76	\$1.57	\$1.38	\$1.17	\$1.04
<b>FULLY DILUTED EARNINGS PER SHARE:</b>					
Net earnings used in primary earnings per share	\$513,500	\$454,700	\$394,830	\$334,120	\$294,200
Adjustment for interest (net of tax) - Zero coupon convertible subordinated notes (5 1/4% yield)	11,302	11,703	11,330	10,075	9,409
Net earnings used for fully diluted earnings per share before cumulative effect of accounting changes	\$524,802	\$466,403	\$406,160	\$344,195	\$303,609
Cumulative effect of accounting changes	-	-	-	(4,800)	-
Net earnings used for fully diluted earnings per share	\$524,802	\$466,403	\$406,160	\$339,395	\$303,609
Average number of shares outstanding on a fully diluted basis:					
Shares used in calculating primary earnings per share	290,990	288,967	285,112	281,780	282,654
Diluted effect of all stock options outstanding after application of treasury stock method	6,805	6,483	5,836	5,382	5,962
Shares assumed to be issued upon conversion of Debentures- Zero coupon convertible subordinated notes (5 1/4% yield)(1)	9,686	10,360	10,402	10,402	10,402
Average number of shares outstanding on a fully diluted basis	307,481	305,810	301,350	297,564	299,018
Fully diluted earnings per share before cumulative effect of accounting changes	\$1.71	\$1.53	\$1.35	\$1.16	\$1.02
Cumulative effect of accounting changes	-	-	-	(0.02)	-
Fully diluted earnings per share	\$1.71	\$1.53	\$1.35	\$1.14	\$1.02

(1) Assumed converted at the beginning of periods reported.

## EXHIBIT 13

### Letter from the Chief Executive Officer

We have just finished my first year as ADP's chief executive officer. I am happy to tell you that we had an excellent year.

### FISCAL 1997 RESULTS

In fiscal '97, ADP continued its unequalled growth record by reporting its 144th consecutive quarter of record revenues and earnings per share (EPS) and its 36th consecutive year of double-digit increases in EPS.

Following last year's acquisition of GSI, we continued our international expansion with additional acquisitions in '97. We have now achieved the #1 European market share position in both Employer and Dealer Services.

With this expansion, revenue increased 15% to over \$4.1 billion. Prior to minor non-recurring items, pretax earnings increased 19%, net earnings advanced 16% and earnings per share increased 15% to \$1.80 from \$1.57 last year. Non-recurring items in the fourth quarter included an anticipated loss related to the previously announced disposition of our AutoInfo business and reduced EPS by \$.04.

In recognition of these strong operating results, our Board declared its twenty-third consecutive annual dividend increase, from \$.40 to \$.46 per share, effective January 1, 1997.

ADP continues to operate from a position of significant strength and liquidity. Cash flow from operations exceeded \$700 million and year-end cash and marketable securities approximated \$1.5 billion, after spending of \$243 million in '97 to acquire businesses and ADP shares. We purchased 3.2 million ADP shares on the open market to fund employee equity plans.

Shareholders' equity exceeds \$2.6 billion. The ratio of long-term debt to equity is a comfortable .15 to 1 and return on average shareholders' equity is a very healthy 21%.

Capital expenditures for the year were \$175 million, about 5% of revenue. This compared to \$164 million last year.

### LOOK AHEAD

As we look to the future, we expect to capitalize on our strengths which include (1) the good fortune of being in a growth industry, computing information services; (2) leading market share positions in each of our four core businesses: Employer, Brokerage, Dealer and Claims Services; (3) a strong client service orientation; (4) a superb direct sales capability; (5) a powerful financial position from which to compete; and (6) a trained, dedicated associate team committed to our objectives.

As we leverage these strengths into our strategies over the next few years, we expect our primary growth to be internally generated from our current core businesses. This growth will come from further penetration of our markets, extending our market opportunities through broader product offerings and through additional international expansion. We also intend to supplement this internal growth in our core markets with acquisitions which will further these strategies.

In addition, we continue to look for an entry into an additional computing information services market which complements our core businesses and leverages our existing strengths.

## **COMMITMENT TO WORLD CLASS SERVICE**

Among ADP's strengths is a strong client service orientation. Our service levels are very good today in each ADP business. But we are committed to achieving world class service levels where we delight our clients and exceed our clients' expectations. We define service broadly, from initial contact with a prospect, to product quality, to client responsiveness and happiness. We clearly see world class service as a journey where, whenever we get close to the destination, we move it out farther. This year, we are investing more than ever before in our associates, tools and processes to raise service quality levels. We believe these investments will improve client retention, enhance sales and improve associate retention. It is good for all of our stakeholders (clients, associates and shareholders.)

## **CURRENT OPTIMISM**

At ADP, there are always many exciting opportunities. It is one of our strengths. Here are three perspectives to think about.

First, our internal growth rate -- excluding acquisitions and dispositions -- in Employer Services, ADP's largest business, expanded for the 4th year in a row and we expect that trend to continue through '98 and beyond.

Second, we have more significant new client opportunities in our back office Brokerage Services than we have had in over a decade. We are installing Legg Mason now and we are getting close with additional prospects.

Third, our European expansion opportunities in both Dealer Services and Employer Services are better than ever. While we already are the number one European market share services leader in both of these businesses, we have significant room for further penetration and acquisition of competitors ... and we just entered South America with the acquisition of an Employer Services business in Brazil.

## **Importance of People**

The most critical element in our success is our team of 30,000 associates who continually strive to provide world class service to our more than 400,000 clients. Fortunately, we attract exceptionally dedicated and motivated people with a strong results orientation. They share our vision and help us win in the marketplace. Each person counts, each client counts, and each contact between a client and associate counts.

In '97, Russell Fradin joined ADP as Senior Vice President, Richard Haviland was promoted to Chief Financial Officer, and Howard Koenig, Gordon Mettam and Raymond Colotti were promoted to Corporate Vice President in recognition of their important contributions and responsibilities.

After 10 years of valuable service, Charles Lazarus has decided not to stand for re-election to our Board and after 9 years as Group President of our Brokerage Services business, Robert Casale will be retiring shortly. We will miss their contributions.

On a much sadder note, Joseph Pirret, our Treasurer and a 23 year ADP associate, died suddenly in June. Joe's contributions over the years were immense, and we will miss him greatly.

## **FORECAST**

I am very confident that ADP is well positioned for long-term growth and profitability. In '98, we expect both double-digit revenue and earnings per share growth while we make significant investments in our future.

I hope you share my excitement, enthusiasm and optimism. I want to especially tell our 30,000 ADP associates how much I appreciate their efforts and results. Without them, none of this is possible.

*/s/ Arthur F. Weinbach*

*Arthur F. Weinbach  
President & Chief Executive Officer*

*August 13, 1997*

## LETTER FROM THE CHAIRMAN

1997 marked my first ADP year in less than a full-time leadership role, and I am pleased to observe the outstanding accomplishments of the current management team under Art Weinbach's leadership.

As cited in Art's letter to shareholders, we concluded our 36th year (144 consecutive quarters) of uninterrupted growth in both revenue and earnings per share. According to the Compustat database of 9,500 publicly owned companies, only one other company's growth record has endured half as long as our 144 fiscal quarters. Consistency in continually attaining new heights without occasional financial disappointments is most difficult and unusual. The whole ADP team deserves special recognition for their collective achievement. I am quite confident that four more growth quarters will be added to that record in fiscal '98.

Many shareholders have asked me how my time has been redirected after so many years of more than full-time focus on ADP matters. During the past year, I am pleased to have played a leading role on two government-related "commissions," one to help restructure the Internal Revenue Service and the other to help shift military resources from overhead functions to more cutting-edge, rapid response defense capabilities. In between times, I've also played pro bono roles in several endeavors to enhance our nation's educational and economic development accomplishments.

I think that it is most appropriate for those individuals and companies who have benefited from our society to give back to that society so that others may be assisted.

I thank our shareholders for their support and confidence in ADP. The Board of Directors and our 30,000 ADP associates are committed to providing you with continued growth and good return on your investment.

*/s/ Josh S. Weston*

-----  
*Josh S. Weston*

*Chairman*

*August 13, 1997*

## EMPLOYER SERVICES

ADP's oldest and largest business is Employer Services (ES), which contributes more than half of ADP's revenues. ES provides a comprehensive range of payroll, human resource, benefits administration, time and attendance, and tax filing and reporting services to about 400,000 employers in the U.S., Canada, and Europe.

### **Pull Quote:**

"WE AT PIERCE LEAHY TAKE PRIDE IN MAKING THE STAFFS OF ACQUIRED COMPANIES FEEL THAT THEY'RE PART OF THE TEAM RIGHT AWAY. ADP HELPS US ACHIEVE THAT OBJECTIVE BY COMPLETING EACH PAYROLL CONVERSION IN AN EFFICIENT, COST EFFECTIVE AND TIMELY MANNER."

This year, ES revenue increased 19% to over \$2.2 billion. Today ADP processes the paychecks of over 21 million employees in North America and 2 million in Europe. In '97, we also printed 35 million W-2 forms at our 40 computer centers in the U.S.

As market trends increasingly favor both outsourcing and software as preferred payroll solutions, ES is uniquely positioned to be the logical vendor of choice for more and more companies. ADP's "Payroll AnyWay" strategy presents to businesses of virtually every size and type an extensive menu of outsourced and on-site payroll solutions, from turnkey service to client-site software. In addition, we have segmented employers by size and complexity to effectively match their needs to products and service teams that will best meet expectations.

In North America, ES focuses on three market segments: National Accounts (for companies with 1,000 or more employees), Major Accounts (100 to 999 employees), and Emerging Business Services (for companies with fewer than 100 employees).

Many of the world's largest corporations are ADP National Accounts clients. In many cases, we provide system solutions for their entire human resource, payroll and benefits needs. For those companies who choose to process these applications in-house, we deliver valuable stand-alone services such as tax filing, check printing and distribution, year-end statements (W-2s), and benefits administration. This year, National Accounts revenue grew rapidly and average client tenure is over a decade, and rising.

Major Accounts offers a robust line of best-of-breed payroll and human resource solutions for medium-size companies with full database and functional integration between payroll and human resources (HR). Nearly 65% of the medium-size firms in the U.S., who have elected to outsource their payrolls, are ADP Major Accounts clients.

Emerging Business Services processes payroll for 300,000 clients--far more than any other small business payroll provider. Over 10 million small and emerging companies are in the domestic marketplace, and represent a \$12 billion market opportunity for ES.

The ADP Tax Center, which supports all three market segments, electronically interfaces with 2,000 tax agencies from the IRS to local school districts.

Last year the Tax Center processed 13 million federal and state employer payroll tax returns, and transmitted over \$200 billion in taxes to appropriate tax collection agencies.

The Electronic Services Division (ESD) also complements our market segments with a product mix that augments our payroll and HR services--from 401(k) to time and attendance tracking. Additionally, we offer Peachtree software business applications and Business Express bill payment services for small clients.

In colored boxes, one on each page of spread:

### **Challenge**

Pierce Leahy Corp. is one of the largest international providers of records management and related services--and it's still growing. Acquired companies not only bring growth but numerous additions and adjustments to payroll. So paying new employees accurately and on-time is a high priority for Pierce Leahy's management.

### **SOLUTION**

ADP ASSOCIATES DEVELOPED A TAILORED PLAN TO EFFICIENTLY MANAGE THE PAYROLL CONVERSION PROCESS FOR EACH OF PIERCE LEAHY'S ACQUISITIONS. THE MODEL PROVIDED A LIST OF ACTION ITEMS--"DELIVERABLES"--REQUIRED BY BOTH ADP AND THE CLIENT. BY CLOSELY FOLLOWING THE PLAN AND MONITORING EACH TASK, THE CONVERSIONS OF FOUR NEW ACQUISITIONS TO THE ADP SYSTEM WENT SMOOTHLY. NOBODY MISSED A BEAT--OR A PAYCHECK.

We anticipate sustained growth at buoyant levels in ESD because these additional applications are high value-added and its products are in high-growth markets.

From time to time, we supplement our internal growth through selective acquisitions. This strategy allows us to expand existing products and services or pursue entirely new opportunities by shortening the time to market.

We became the largest provider of payroll services to Canadian businesses with our purchases of and alliances with Royal Bank of Canada's and the Scotiabank's payroll businesses. In July, we also acquired a Brazilian computing services company, giving us a strong initial position in the growing South American employer services marketplace.

Additionally, we made three important moves to accelerate our penetration of the multi-billion dollar benefits administration market. First, we acquired Health Benefits America (HBA), a provider of health care benefits administration services. Then we formed a strategic alliance in benefits administration with William M. Mercer, Inc., one of the leading benefits consulting firms in the U.S.

We also acquired Staff Management Services of Florida, Inc., which we renamed TotalSource. This acquisition firmly establishes ADP as a leading professional employer organization (PEO), and positions us to aggressively increase our presence in the rapidly-expanding employee leasing business.

The continued increase in multinational companies clearly makes payroll and human resource management services a global opportunity. This development and a strong demand for outsourcing make Europe a particularly attractive marketplace for ADP.

ES already has 35,000 payroll and

HR clients in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom. Our client retention rate in Europe is especially high, averaging over 90%. Our core strength in Europe currently is with larger companies--those with 1,000 or more employees. Our aim is to rapidly expand ES' business in major European countries and be the leading provider of employer solutions in all market segments. We strengthened our product offerings to smaller companies by introducing new "payroll by phone" offerings in France.

## **BROKERAGE SERVICES**

ADP's second largest business, Brokerage Services, contributes over 20% of ADP's overall revenues. Brokerage Services is a leading provider of securities processing, real-time market information and investor communications services.

### **Pull Quote:**

"WHEN WE NEEDED NEW INNOVATIONS TO MAINTAIN OUR COMPETITIVE EDGE, ADP STEPPED UP TO THE PLATE WITH THE RIGHT TECHNOLOGY, THE SOLUTIONS, AND HIGH QUALITY SERVICE TO HELP US MEET THE NEEDS OF OUR 750,000 CLIENTS. ADP HAS BEEN KEY TO OUR GROWTH AS A NATIONALLY RECOGNIZED LEADER IN OUR INDUSTRY."

ADP is the largest provider of securities processing services in North America. This year we processed approximately 20% of the retail equity transactions in the United States and Canada, handling an average of over 475,000 trades per day. We also added Legg Mason Wood Walker Incorporated as a processing client. In the market information sector, we support more than 97,000 desktops in over 1,600 firms worldwide.

ADP Investor Communications Services (ICS) is the largest processor and provider of shareholder communications services, and serves more than 12,000 publicly traded companies on behalf of more than 800 brokerage firms and banks and 400 mutual fund families. During '97, ICS processed over 285 million mailings.

In addition, ICS received and tabulated shareholder ballots that represented over 155 billion shares. ICS introduced ADP GLOBAL PROXY SERVICES which operates in 50 countries and aims to be the global processing standard.

While handling these increased volumes, ICS received ISO 9002 certification, recognizing our superior level of quality assurance.

Brokerage Services continues to provide quality, highly integrated products supported by reliable service, as indicated by our new products and enhancements.

This year, we introduced BPS ADVANTAGE, a client/server-based relational database that allows our brokerage clients to easily access real-time customer information, such as account holdings and transactions, and customize and distribute data within their firms.

ADP's POWER PARTNER, which provides advanced market information, has become the product of choice for retail brokers.

This powerful system delivers real-time information, analytics and custom charting for equity, options, and futures traded on all North American exchanges and over 100 foreign exchanges.

We also launched K2, a state-of-the-art market information and analytical product, designed for traders and money managers in the institutional marketplace. ADP developed K2 with the goal of integrating all of our institutional products on a common platform. This sets the stage for bringing together front-, middle-, and back-office services at the desktop for integrated processing.

Many of our investments also are helping our clients to expand their internal information management capabilities.

Starting with Deutsche Bank AG's New York branch, our new Impact transaction processing product will help to clear fixed income securities, track instrument positions, produce confirmations and settle transactions more effectively than ever.

Wilco Systems is a rapidly growing ADP subsidiary, which offers international trading and settlement systems. Wilco recently introduced GLOSS HV which is a multi-instrument, multi-currency, trading, settlement and accounting system. In December '96, Bankers Trust signed a global license agreement to use Wilco's Gloss HV trading and settlement system. Wilco continues to make gains in the global market with several more large prospects in the offing.

In colored boxes, one on each page of spread:

### **Challenge**

During the past year Waterhouse Securities, the 4th largest discount brokerage in the U.S., started a new correspondent clearing division--National Investor Services Corp. (NISC), to supplement its discount brokerage business. To make a difference in such a competitive marketplace, the firm needed a partner that could provide comprehensive, leading-edge brokerage processing applications--supported by responsive, reliable systems and service.

### **SOLUTION**

WATERHOUSE, AN ADP CLIENT FOR 10 YEARS, AND ITS NEW NISC AFFILIATE KNEW EXACTLY WHERE TO TURN FOR A ONE-STOP SOLUTION. ADP'S BROKERAGE SERVICES TEAM UPGRADED WORKSTATIONS IN 100 BRANCH OFFICES TO POWER PARTNER, A STATE-OF-THE-ART MARKET INFORMATION SYSTEM. ADP'S TECHNOLOGY NOW ENABLES WATERHOUSE AND NISC TO ACCESS HIGH PERFORMANCE NETWORKS FOR TRADE EXECUTIONS, PROVIDE CUSTOMERS INTERNET ACCESS TO THEIR ACCOUNTS, AND QUICKLY FULFILL REQUESTS FOR MUTUAL FUND INFORMATION THROUGH ADP'S PROSPECTUS FULFILLMENT SERVICE.

ADP Dealer Services is the world's largest provider of computing, data and professional services to auto and truck dealers and manufacturers. Over 18,000 dealers in the United States, Canada, Europe, Asia and Latin America use ADP's on-site systems and communications networks to manage virtually every area of operations.

**Pull Quote:**

"THE MEASURE OF A COMPANY'S COMMITMENT IS WHEN THEY STAND BY IT UNDER THE MOST DIFFICULT CONDITIONS. ADP DID THAT AND WE KNOW FROM EXPERIENCE WE CAN COUNT ON THEM."

In '97, Dealer Services revenue increased 17% and client retention rates remained very strong--over 95% in the U.S., Canada, Europe, Mexico and Taiwan.

This year, we began to segment our client base by size and complexity. Our objective is to better align product and service offerings to dealerships according to their needs.

We entered into an agreement with Credit Management Solutions, Inc. (CMSI), permitting us to market their CREDIT CONNECTION product. This real-time, on-line credit processing system expeditiously links dealers to lending institutions and accelerates decisions on consumer auto loans. A process that had once taken hours now only takes minutes.

We introduced ADP MANAGEMENT ADVISOR, a graphical user interfaced, on-line analytical application that enables dealers to control their expenses and maximize profits. In addition, we unveiled our new high-power systems platform, Millennia3, which includes flexible, cost-effective, and scalable enterprise-wide system solutions.

ADP Dealer Services also is the leading service provider to the emerging retail auto "super-store" market. We help these very large dealers design and implement enterprise-wide information and technology strategies, including state-of-the-art retailing systems, which enable customers to very easily select and even purchase a vehicle at touch-screen kiosks.

Both manufacturers and dealers are placing greater emphasis on effective contact with consumers. ADP is well positioned to assist. ADP AutoConnect already has 4,500 web sites which connect consumers and dealers on the Internet. Our Relationship Marketing System uses laptops and work-stations to aid the customer handling process. In addition, the recently acquired Picture Perfect Promotions, Inc. offers our clients on-demand, direct mail marketing capabilities.

As auto and truck manufacturers become more proactive in creating brand awareness, ADP Dealer Services, through the Professional Services of our Sandy Group, helps dealers and manufacturers promote brand identity. This year, Sandy began a multi-year marketing program for one large manufacturer, which conveys highly individualized, tailored one-on-one monthly mailings to all vehicle owners of that manufacturer's brand.

ADP serves over 9,000 European dealers. In '97, we expanded to Norway, Sweden, Denmark, Italy, Spain, Switzerland and Finland, and now have operations in every major European country. As part of our global strategy, we made two significant acquisitions: Istel Nordic (operating as JDC) in Denmark and Germany, and Sicit MT&T S.p.A., Italy's largest dealer system provider.

Today, over 40% of ADP Dealer Services clients are outside the North American market. We are clearly Europe's leading dealer services provider.

In colored boxes, one on each page of spread:

### **Challenge**

The morning after his business had been burglarized and he discovered that his ADP server was missing, the owner of the Bjorn Canning's Eftf ApS auto dealership called ADP Dealer Services in Denmark for help. Without a server to operate ADP's AD2000 software, the car dealer was unable to register sales, access inventory or effectively manage the administrative and financial aspects of his business.

### **SOLUTION**

ADP TECHNICAL CONSULTANT, KASPER SCHULTZ, IMMEDIATELY GOT ON THE ROAD TO MAKE THE LONG DRIVE TO COPENHAGEN FROM HIS OFFICE IN CENTRAL DENMARK. DESPITE ICY ROADS AND BRIDGES CLOSED BY DETERIORATING WEATHER CONDITIONS, KASPER WAS ABLE TO REACH THE DANISH CAPITAL THE FOLLOWING MORNING. HE INSTALLED THE SERVER, ENSURED THE SYSTEM WAS IN GOOD WORKING ORDER, AND THE DEALERSHIP WAS ABLE TO RESUME NORMAL OPERATIONS THAT VERY SAME DAY.

## CLAIMS SERVICES

ADP's Claims Services, the leading claims information provider to the property and casualty insurance industry, offers a broad line of products to help clients accurately estimate auto damage, bodily injury, and property claims.

### **Pull Quote**

"OUR INDUSTRY SURVIVES BY MAKING WISE CHOICES TO CAREFULLY MANAGE RISK. WHEN IT COMES TO TIMELY AND RESPONSIVE SERVICE, WE COULDN'T HAVE CHOSEN A CLAIMS SOLUTION PARTNER BETTER THAN ADP."

Our clients include 14 of the 15 largest auto insurance carriers, more than 250 additional insurance carriers and independent adjusting companies, over 7,000 collision repair facilities, and more than 3,600 auto parts recycling facilities in the United States and Canada. Revenue grew over 20% this year, and we succeeded in renewing all our major contracts.

In Estimating Services, virtually every product increased its market penetration. Our pen-based vehicle damage appraisal system, PenPro, operates on a PC laptop and has won broad market acceptance. This year, we installed over 1,500 new users.

AUTOSOURCE, our total loss valuation product, grew nearly 30%. SHOPLINK estimating systems for collision repair facilities achieved 70% revenue growth in '97, and is now installed in over 7,000 auto body shops. PHOTOLINK is the de facto industry standard for digital imaging between repair shops, claims adjusters and insurance companies. It is used by 75% of the claims professionals who employ imaging system.

Over 3,600 auto parts recycling facilities and salvage yards now manage their inventories using ADP Parts Services, which helps the flow of parts information between insurers, body shops and parts recyclers. ADP is also the data collector for the ARA International Database. Updated daily, it contains over 10 million items and is the preferred resource for locating recycled auto parts. Under a recent agreement with the FTC, we have agreed to sell part of this service in order to create a more competitive environment.

ACCUPRO is our building and structure estimating product launched in January '97. It already has 1,650 installations, and is growing steadily.

Integrated Medical Solutions (IMS), which processes bodily injury claims arising from auto accidents, increased revenue 60%. Provider Bill Audit (PBA) is IMS's computerized system that reviews medical bills. PBA software is licensed by many major insurance carriers and is clearly the most successful of its kind.

This year, IMS became the first vendor to offer automated medical utilization review, preferred provider access and managed care services via an integrated product expressly designed for the auto claims market.

We further expanded our capabilities to claims adjusters by introducing Injury Claims Evaluations (ICE) as a complement of the PBA system. ICE helps adjusters to make fair and equitable settlements when pain and suffering claims are involved in third party auto liability claims.

IMS recently expanded further into workers' compensation bill review by acquiring Medical Bill Review Services.

We will continue to sharpen our focus on major strategic opportunities that add value for our clients in the property and casualty industry.

In colored boxes, one on each page of spread:

### **Challenge**

In September 1996, Hurricane Fran did more than \$3.2 billion in damage on the North Carolina coast. United Services Automobile Association (USAA), one of the country's leading insurers of homes and automobiles, needed to respond quickly to a veritable flood of insurance claims.

### **SOLUTION**

ADP SET UP AUTOMATED CLAIMS ESTIMATE SITES, INCLUDING ONE IN A CONVERTED GARAGE ON A MILITARY BASE. A TEAM OF ADP ASSOCIATES OPERATED THE SITES 18 HOURS A DAY FOR THREE STRAIGHT WEEKS. USING ADP'S POWERFUL AND RELIABLE CLAIMS ESTIMATING SOFTWARE, USAA'S ESTIMATORS WERE ABLE TO EVALUATE DAMAGED VEHICLES, PROCESS CLAIMS, AND PROVIDE SETTLEMENT CHECKS ON-THE-SPOT.

**SELECTED FINANCIAL DATA**  
**AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES**

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED JUNE 30,	1997	1996	1995	1994	1993
Revenue	\$ 4,112,186	\$3,566,597	\$2,893,742	\$2,468,966	\$2,223,374
Cost of operations	3,331,093	2,901,476	2,335,122	2,001,796	1,816,995
Interest expense	27,794	29,731	24,340	20,840	19,819
Non-recurring items	29,289	--	--	--	--
	3,388,176	2,931,207	2,359,462	2,022,636	1,836,814
Earnings before income taxes and cumulative effect of accounting changes	724,010	635,390	534,280	446,330	386,560
Provision for income taxes	210,510	180,690	139,450	112,210	92,360
Net earnings before cumulative effect of accounting changes	513,500	454,700	394,830	334,120	294,200
Cumulative effect of accounting changes	--	--	--	(4,800)	--
Net earnings	\$ 513,500	\$ 454,700	\$ 394,830	\$ 329,320	\$ 294,200
Earnings per share	\$ 1.76 (a)	\$ 1.57	\$ 1.38	\$ 1.17	\$ 1.04
Average number of common shares outstanding	290,990	288,967	285,112	281,780	282,654
Cash dividends per share	\$ .445	\$ .3875	\$ .3125	\$ .27	\$ .2375
Return on equity	20.6%	20.3%	20.9%	21.0%	20.9%
At year end:					
Cash, cash equivalents and marketable securities	\$ 1,495,083	\$ 1,098,620	\$ 1,291,889	\$ 1,062,190	\$ 886,452
Working capital	\$ 785,450	\$ 618,670	\$ 667,920	\$ 507,243	\$ 355,047
Total assets	\$ 4,382,772	\$ 3,839,885	\$ 3,201,096	\$ 2,711,751	\$ 2,439,400
Long-term debt	\$ 401,162	\$ 403,743	\$ 390,177	\$ 372,959	\$ 347,583
Shareholders' equity	\$ 2,660,565	\$ 2,315,346	\$ 2,096,615	\$ 1,691,251	\$ 1,494,456

(A) AFTER IMPACT OF NON-RECURRING ITEMS (SEE NOTE 3).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OPERATING RESULTS

Revenue and earnings reached record levels during each of the past three fiscal years. During fiscal '97, revenue increased 15% to over \$4.1 billion. Prior to minor non-recurring charges, pretax earnings increased 19% and earnings per share (EPS) increased 15% to \$1.80. The Company reached a settlement with the Federal Trade Commission to divest certain assets acquired in fiscal '95, and consequently, a non-recurring charge was recorded in the fourth quarter lowering EPS by \$.04 to \$1.76 for the year. Fiscal '97 EPS was not impacted by the net effect of certain non-recurring items related to the Brokerage Front Office business (see Brokerage discussion below). Fiscal '97 was ADP's 36th consecutive year of double-digit earnings per share growth since becoming a public company in 1961.

Revenue and revenue growth by ADP's major service groups are shown below:

	REVENUE			REVENUE GROWTH		
	YEARS ENDED JUNE 30,			YEARS ENDED JUNE 30,		
	1997	1996	1995	1997	1996	1995
(\$ in millions)						
Employer Services (a)	\$2,275	\$1,911	\$1,612	19%	19%	13%
Brokerage Services	892	787	657	13	20	8
Dealer Services	651	555	440	17	26	32
Other (a)	294	314	185	(6)	70	78
Consolidated	\$4,112	\$3,567	\$2,894	15%	23%	17%

(A) RECLASSIFIED

Consolidated revenue grew 15% in fiscal '97 primarily from increased market penetration, an expanded array of products and services and from acquisitions, with relatively minor contributions from price increases. Prior to acquisitions, business dispositions and foreign exchange differences, revenue increased approximately 12%.

Prior to non-recurring charges, the consolidated pretax margin was 18.3% in '97, 17.8% in '96 and 18.5% in '95. Pretax margin improved over the previous year as continued automation and operating efficiencies enabled the Company to offset start-up costs associated with new products and acquisitions. Pretax margin in '97 after non-recurring charges was 17.6%.

The Company does not prepare its financial statements in a manner that generates the true stand-alone profitability for each unit and profitability measurements are not maintained in a consistent manner among the Company's major service groups. 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 are recorded at the corporate level and certain shared costs are not allocated. Consequently, comparisons of specific margins between groups are not meaningful, although trend information within a service group is a useful directional indicator.

### EMPLOYER SERVICES (ES)

Employer Services' revenue grew 19% in fiscal '97, and in the absence of acquisitions revenue growth would have been about 11%, up from 10% in '96.

In '97 and '96 the overall operating margin was 22%. The margin in North America has improved by about 1% versus fiscal '96 primarily due to continued automation and operating efficiencies. This increased field margin has enabled ES to increase investments in product development and sales. The overall ES margin remained flat as a result of greater weighting of international operations which have somewhat lower margins in '97.

ES' revenue shown above includes the pretax equivalent of interest earned on funds collected from clients as part of the Company's integrated payroll and payroll tax filing services. The pretax equivalent has been calculated at a standard rate. In fiscal '97 the standard rate was changed from 7.8% in prior years to 6% and, accordingly, the previously reported balances for Employer Services' and "Other" revenue have been reclassified. As a result of this change, the ES margin is 3% lower than previously reported.

### BROKERAGE SERVICES

Brokerage revenue grew by 13% aided by very high back-office trading volumes. In the absence of acquisitions, revenue growth would have been about 12%, the same as in '96.

Prior to non-recurring items in '97, Brokerage Services' operating margin was about 14% in '97, compared to 13% in both '96 and '95. In '97 the

Company recorded a non-taxable \$19 million gain to net earnings related to the return of a front-office client deposit. The Company also recorded a provision of \$31 million (\$19 million after tax) to restructure its front-office business in order to reduce product lines and platforms and consolidate data centers. This effort will continue and will result in about \$25 million lower earnings in the front-office business in '98.

## **DEALER SERVICES**

Dealer Services' revenue grew 17% in '97, compared to 26% in '96 and 32% in '95. Revenue growth in each year was aided by several small acquisitions. In the absence of acquisitions, '97 revenue growth would have been 6%. Revenue growth has been aided by increased usage of applications at auto dealerships, while at the same time changes in industry distribution channels have slowed auto dealership investments in new computer systems. Dealer Services' margins decreased slightly to 17% in fiscal '97 from 18% in '96 and 20% in '95 primarily due to the integration of acquisitions and a shift in product mix.

## **OTHER**

The primary components of "Other" revenue are claims services, services for wholesalers, interest income, foreign exchange differences, and miscellaneous processing services. In addition, "Other" revenue has been reduced to adjust for

the difference between actual interest income earned on invested tax filing funds and income credited to Employer Services at a standard rate of 6.0%.

A non-recurring pre-tax charge of \$17.8 million was recorded in the fourth quarter of fiscal '97 reflecting the Company's settlement with the Federal Trade Commission, under which the Company will divest certain non-material assets.

In each of the past three years, investments in systems development and programming have increased at a greater rate than the Company's overall growth rate. Investments have increased to accelerate automation, migrate to new computing technologies, address Year 2000 compliance, and develop new products.

In '97 the Company's effective tax rate was approximately 29%, up from 28% in '96 and 26% in '95. The increased rate is primarily as a result of the greater weighting of taxable versus non-taxable earnings, and the impact of non-deductible goodwill arising from the '96 GSI acquisition.

For '98 ADP is planning another record year with about 15% growth in revenue and double-digit growth in earnings per share over the '97 results prior to non-recurring items.

Additional comments and operating results are included in the Letters to Shareholders on pages 3 through 5 and in the business descriptions presented on pages 6 through 15.

## FINANCIAL CONDITION

ADP's financial condition and balance sheet remains exceptionally strong. At June 30, 1997, cash and marketable securities approximated \$1.5 billion. Shareholders' equity exceeded \$2.6 billion, and return on average equity for the year was 21%. The ratio of long-term debt to equity at June 30, 1997 was 15%.

Cash flow from operating activities exceeded \$700 million in '97. We expect another excellent cash-flow year in '98.

In '97, 3.2 million shares of common stock were purchased at an average price of approximately \$40, as part of an ongoing program to fund equity related employee benefits. The board of directors has authorized the purchase of up to 4.4 million additional shares.

During '97, the Company purchased several businesses for approximately \$115 million in cash and \$7 million in common stock. The cost of acquisitions in '96 and '95 aggregated \$473 million and \$123 million, respectively. The Company also acquired several businesses in the three years ended 1997, 1996 and 1995 in pooling of interest transactions in exchange for 3.0, 1.0 and 2.4 million shares of common stock, respectively. The company's historical financial statements were not restated because in the aggregate these pooling transactions were not material.

Capital expenditures during '97 were approximately \$175 million following investments of \$164 million in '96 and \$118 million in '95. Capital spending in fiscal '98 should approximate \$230 million and remains at a very comfortable level at about 5% of revenues.

## MARKET PRICE AND DIVIDEND DATA

The market price of Automatic Data Processing, Inc. (AUD) common shares based on New York Stock Exchange composite transactions and cash dividends per share declared during the past two years have been:

FISCAL 1997 QUARTER ENDED	PRICE PER SHARE		DIVIDENDS
	HIGH	LOW	PER SHARE
June 30	\$50 1/8	\$40 5/8	\$.115
March 31	45 1/8	39 1/2	.115
December 31	44 3/4	40	.115
September 30	45 3/4	35 5/8	.10
Fiscal 1996 quarter ended			
June 30	\$40 1/8	\$36 3/8	\$.10
March 31	43 3/8	35 1/4	.10
December 31	41 1/8	34	.10
September 30	35 3/8	31	.0875

As of June 30, 1997 there were approximately 28,000 holders of record of Automatic Data Processing, Inc. common stock. Over 100,000 additional holders have their stock in "street name".



**STATEMENTS OF CONSOLIDATED EARNINGS  
AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES**

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED JUNE 30,	1997	1996	1995
Revenue	\$4,112,186	\$3,566,597	\$2,893,742
Operating expenses	1,722,846	1,516,407	1,177,292
General, administrative and selling expenses	1,088,268	933,805	792,121
Depreciation and amortization	223,435	201,629	172,536
Systems development and programming costs	296,544	249,635	193,173
Interest expense	27,794	29,731	24,340
Non-recurring items	29,289	--	--
	3,388,176	2,931,207	2,359,462
Earnings before income taxes	724,010	635,390	534,280
Provision for income taxes	210,510	180,690	139,450
Net earnings	\$ 513,500	\$ 454,700	\$ 394,830
Earnings per share	\$ 1.76	\$ 1.57	\$ 1.38
Average number of common shares outstanding	290,990	288,967	285,112

**SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**

**CONSOLIDATED BALANCE SHEETS**  
**AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES**

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JUNE 30,	1997	1996
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 590,578	\$314,416
Short-term marketable securities	434,341	321,743
Accounts receivable	605,068	507,198
Other current assets	175,335	310,926
Total current assets	1,805,322	1,454,283
Long-term marketable securities	470,164	462,461
Long-term receivables	176,771	188,184
Property, plant and equipment -- at cost:		
Land and buildings	361,594	322,975
Data processing equipment	626,013	578,935
Furniture, leaseholds and other	364,161	330,610
Less accumulated depreciation	1,351,768	1,232,520
	832,423	764,254
	519,345	468,266
Other assets	96,383	19,597
Intangibles	1,314,787	1,247,094
	\$4,382,772	\$3,839,885
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Notes payable	\$ 129,168	\$90,746
Accounts payable	110,266	96,351
Accrued expenses and other current liabilities	717,868	590,355
Income taxes	61,479	52,954
Current portion of long-term debt	1,091	5,207
Total current liabilities	1,019,872	835,613
Long-term debt	401,162	403,743
Other liabilities	91,685	78,508
Deferred income taxes	102,751	112,880
Deferred revenue	106,737	93,795
Shareholders' equity:		
Preferred stock, \$1.00 par value:		
Authorized, 300 shares; issued, none		
Common stock, \$.10 par value:		
Authorized, 500,000 shares; issued, 314,288 and		
314,277 shares, respectively	31,429	31,428
Capital in excess of par value	480,492	420,463
Retained earnings	2,922,317	2,537,952
Treasury stock-- at cost 21,439 and 26,656 shares, respectively	(697,887)	(660,234)
Translation adjustments	(75,786)	(14,263)
Total shareholders' equity	2,660,565	2,315,346
	\$4,382,772	\$3,839,885

**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 EXCESS OF	RETAINED	TREASURY	TRANSLATION
	SHARES	AMOUNT	PAR VALUE	EARNINGS	STOCK	ADJUSTMENTS
BALANCE, JULY 1, 1994	314,234	\$ 31,424	\$ 312,672	\$1,883,423	\$(532,913)	\$(3,355)
Employee stock plans and related tax benefits	--	--	43,498	--	39,384	--
Treasury stock acquired (438 shares)	--	--	--	--	(13,146)	--
Acquisitions (2,956 shares)	--	--	(13,045)	(6,206)	37,225	--
Net earnings	--	--	--	394,830	--	--
Dividends (\$.3125 per share)	--	--	--	(89,224)	--	--
Other transactions	--	--	5,072	15	(104)	7,065
<b>BALANCE, JUNE 30, 1995</b>	<b>314,234</b>	<b>31,424</b>	<b>348,197</b>	<b>2,182,838</b>	<b>(469,554)</b>	<b>3,710</b>
Employee stock plans and related tax benefits	--	--	68,286	--	37,080	--
Treasury stock acquired (6,640 shares)	--	--	--	--	(245,224)	--
Debt conversion (42 shares)	42	4	1,459	--	--	--
Acquisitions (1,513 shares)	--	--	4,007	12,530	17,809	--
Net earnings	--	--	--	454,700	--	--
Dividends (\$.3875 per share)	--	--	--	(112,116)	--	--
Other transactions	1	--	(1,486)	--	(345)	(17,973)
<b>BALANCE, JUNE 30, 1996</b>	<b>314,277</b>	<b>31,428</b>	<b>420,463</b>	<b>2,537,952</b>	<b>(660,234)</b>	<b>(14,263)</b>
Employee stock plans and related tax benefits	--	--	83,283	--	44,167	--
Treasury stock acquired (3,166 shares)	--	--	--	--	(127,709)	--
Acquisitions (2,978 shares)	--	--	(35,390)	679	35,727	--
Debt conversion (629 shares)	11	1	13,139	--	10,162	--
Net earnings	--	--	--	513,500	--	--
Dividends (\$.445 per share)	--	--	--	(129,814)	--	--
Other transactions	--	--	(1,003)	--	--	(61,523)
<b>BALANCE, JUNE 30, 1997</b>	<b>314,288</b>	<b>\$31,429</b>	<b>\$ 480,492</b>	<b>\$2,922,317</b>	<b>\$(697,887)</b>	<b>\$(75,786)</b>

**SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**

**STATEMENTS OF CONSOLIDATED CASH FLOWS  
AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES**

(IN THOUSANDS)

YEARS ENDED JUNE 30,	1997	1996	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings	\$ 513,500	\$ 454,700	\$ 394,830
Depreciation and amortization	223,435	201,629	172,536
Deferred income taxes	(35,291)	13,940	(11,050)
Changes in operating assets and liabilities:			
Receivables and other assets	(108,786)	(46,321)	(89,131)
Accounts payable and accrued expenses	48,263	(36,175)	(1,975)
Other	77,938	86,494	28,247
Net cash flows from operating activities	719,059	674,267	493,457
<b>Cash Flows From Investing Activities</b>			
Purchase of marketable securities	(1,395,210)	(1,014,244)	(1,080,989)
Proceeds from sale of marketable securities	1,362,061	1,208,317	926,276
Capital expenditures	(175,289)	(163,525)	(117,698)
Additions to intangibles	(15,292)	(111,054)	(38,612)
Acquisitions of businesses, net of cash acquired	(115,438)	(472,783)	(107,457)
Other	39,683	5,563	3,756
Net cash flows from investing activities	(299,485)	(547,726)	(414,724)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of notes	45,395	90,746	--
Proceeds from issuance of common stock	71,263	125,617	99,412
Repurchases of common stock	(127,709)	(245,224)	(13,146)
Dividends paid	(129,814)	(112,116)	(89,224)
Other	(2,547)	15,240	(789)
Net cash flows from financing activities	(143,412)	(125,737)	(3,747)
Net change in cash and cash equivalents	276,162	804	74,986
Cash and cash equivalents, at beginning of period	314,416	313,612	238,626
Cash and cash equivalents, at end of period	\$ 590,578	\$ 314,416	\$ 313,612

**SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 1997, 1996 AND 1995**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Consolidation and Basis of Preparation. The consolidated financial statements include the accounts 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. Cash and Cash Equivalents. Highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

C. Marketable Securities. Marketable securities consist primarily of high grade fixed income investments. Most of the Company's marketable securities are considered to be "available-for-sale", and, accordingly, are carried on the balance sheet at fair market value, which approximates cost. Gains/losses from the sale of marketable securities have not been material. Approximately \$131 million of the Company's long-term marketable securities mature in 1-2 years, \$158 million in 2-3 years, \$115 million in 3-4 years, and the remainder in less than 7 years.

D. Property, Plant and Equipment. Property, plant and equipment is 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

E. Intangibles. Intangible assets are recorded at cost and are amortized primarily on a straight-line basis. Goodwill is amortized over periods from 15 to 40 years, and is periodically reviewed for impairment by comparing carrying value to undiscounted expected future cash flows. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is taken.

F. Revenue Recognition. Service revenue, including software license fees, maintenance fees and other ancillary fees, is recognized as services are provided. In those instances where hardware is sold to clients as part of a bundled service offering, the gross profit on the sale of hardware and prepaid software license fees, less costs of selling and installation, is deferred and recognized on a straight-line basis over the initial contract period, which generally is from 5 to 7 years.

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 revenue 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 as a separate component of shareholders' equity.

H. Earnings Per Share. Earnings per share are based upon the weighted average number of shares outstanding during the respective periods.

I. Line of Business. The Company is engaged in the computing services business.

J. Reclassification of Prior Financial Statements. Certain reclassifications have been made to previous years' financial statements to conform to current classifications.

**NOTE 2. ACQUISITIONS**

Effective November 1, 1995, ADP acquired control of GSI-Participations, a computer services company based in Paris, France for approximately \$460 million in cash plus transaction costs and other related liabilities assumed. The GSI transaction resulted in approximately \$596 million of goodwill and other intangibles (primarily customer lists and software), which are being amortized over periods ranging from 5 to 40 years.

During fiscal 1997, 1996 and 1995, the Company purchased several other businesses for approximately \$122 million (including \$7 million in common stock), \$91 million (including \$20 million in common stock), and \$123 million (including \$16 million in common stock), respectively, net of cash acquired. The results of these acquired businesses were not material to the Company's consolidated financial

statements, and are included from the date of acquisition.

The Company also acquired several businesses in fiscal 1997, 1996 and 1995 in pooling of interest transactions in exchange for 2,827,000, 969,000 and 2,362,000 shares of common stock, respectively. The Company's consolidated financial statements were not restated because in the aggregate these transactions were not material.

### **NOTE 3. NON-RECURRING ITEMS**

In the fourth quarter of fiscal 1997, the Company reached a settlement with the Federal Trade Commission under which the Company will divest certain assets, the amount of which is not material. An estimated pretax loss of \$17.8 million was recorded in connection with the settlement.

In the fourth quarter of fiscal 1997, a major Brokerage Services client formalized its intention to cancel its services contract with the Company, and, as a result, a client contract

deposit was returned to the Company resulting in a non-taxable gain to net earnings of approximately \$19 million. The Company is restructuring the internal operations of the Brokerage front office business to better align the business' cost structure with the lower revenue which will result as this client reduces its use of ADP services over the next 12-18 months. A provision of approximately \$31 million (\$19million after tax) was recorded in order to reduce product lines and platforms and consolidate data centers.

#### NOTE 4. RECEIVABLES

Accounts receivable is net of an allowance for doubtful accounts of \$40 million and \$35 million at June 30, 1997 and 1996, respectively.

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

(IN THOUSANDS)	1997		1996	
	CURRENT	LONG-TERM	CURRENT	LONG-TERM
JUNE 30,				
Receivables	\$134,506	\$221,783	\$126,415	\$243,522
Less:				
Allowance for doubtful accounts	(13,401)	(20,370)	(14,715)	(25,727)
Unearned income	(24,048)	(24,642)	(25,144)	(29,611)
	\$ 97,057	\$176,771	\$ 86,556	\$188,184

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, 1997 mature as follows:  
(In thousands)

1999	\$ 99,989
2000	68,958
2001	37,739
2002	12,203
Thereafter	2,894
	\$221,783

#### NOTE 5. INTANGIBLE ASSETS

Components of intangible assets are as follows:  
(In thousands)

JUNE 30,	1997	1996
Goodwill	\$1,062,193	\$ 931,424
Other	739,323	709,803
	1,801,516	1,641,227
Less accumulated amortization	(486,729)	(394,133)
	\$1,314,787	\$1,247,094

Other intangibles consist primarily of purchased rights (acquired directly or through acquisitions) to provide data processing services to various groups of clients (amortized over periods from 5 to 36 years) and purchased software (amortized over periods from 3 to 10 years). Amortization of intangibles totaled \$92 million for fiscal 1997, \$81 million for 1996 and \$66 million for 1995.

## NOTE 6. Debt

A portion of the purchase price of certain international acquisitions has been funded by borrowing in local currency (equivalent to \$129 million as of June 30, 1997 and \$91 million as of June 30, 1996) on a short-term basis at an average interest of 5.8% in fiscal 1997 and 4.1% in fiscal 1996. These borrowings have been designated as hedges against the Company's net investment in the businesses acquired.

Components of long-term debt are as follows:

(IN THOUSANDS)

JUNE 30,	1997	1996
Zero coupon convertible subordinated notes (5 1/4% yield)	\$350,897	\$356,561
Industrial revenue bonds (with fixed and variable interest rates from 3.6% to 8.3%)	38,690	39,200
Other	12,666	13,189
	402,253	408,950
Less current portion	(1,091)	(5,207)
	\$401,162	\$403,743

The zero coupon convertible subordinated notes have a face value of approximately \$750 million at June 30, 1997, and mature February 20, 2012, unless converted or redeemed earlier. The notes are convertible into approximately 9.7 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 1997, 2002, and 2007. During fiscal 1997 and 1996 approximately \$52 million and \$3 million face value of notes were converted or redeemed. As of June 30, 1997 and 1996, the quoted market prices for the zero coupon notes were approximately \$443 million and \$400 million, respectively. The fair value of the other debt included above, based on available market information, approximates its carrying value.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES**

Long-term debt repayments are due as follows:

(IN THOUSANDS)

1999	\$ 435
2000	435
2001	1,690
2002	--
Thereafter	398,602
	-----
	\$ 401,162
	-----

Interest payments were approximately \$10 million in fiscal 1997, \$8 million in 1996 and \$4 million in 1995.

**NOTE 7. PAYROLL AND PAYROLL TAX FILING SERVICES**

As part of its integrated payroll and payroll tax filing services, the Company collects funds for federal, state and local employment taxes from approximately 285,000 clients, files annually over 13.0 million returns, handles all regulatory 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 funds by investing the funds primarily in AA or better rated fixed income municipal instruments, with no more than \$80 million in any single instrument. The amount of collected but unremitted funds varies significantly during the year and averaged approximately \$4.5 billion in fiscal 1997, \$3.7 billion in fiscal 1996 and \$3.3 billion in fiscal 1995. The amount of such funds was \$5.8 billion as of June 30, 1997, of which \$1 billion was supported by a letter of credit and a related ADP guarantee, and \$5.0 billion as of June 30, 1996. Interest on collected but unremitted funds amounted to approximately \$213 million in fiscal 1997, \$178 million in 1996, and \$148 million in 1995.

**NOTE 8. 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 and 12 years, respectively, from the date of grant, at prices not less than the fair market value on the date of grant. At June 30, 1997, there were 6,200 participants in the plans. The aggregate purchase price for options outstanding at June 30, 1997 was approximately \$615 million. The options expire between 1997 and 2007.

A summary of changes in the stock option plans for the three years ended June 30, 1997 is as follows: (In thousands, except per share amounts)

Years ended June 30	Number of Options			Weighted Average Price		
	1997	1996	1995	1997	1996	1995
Options outstanding, beginning of year	22,707	20,724	19,340	\$25	\$21	\$18
Options granted	3,566	6,080	5,384	\$45	\$37	\$28
Options exercised	(2,952)	(2,445)	(2,282)	\$18	\$14	\$11
Options canceled	(2,036)	(1,652)	(1,718)	\$29	\$28	\$24
Options outstanding, end of year	21,285	22,707	20,724	\$29	\$25	\$21
Options exercisable, end of year	7,250	6,677	5,652	\$19	\$16	\$14
Shares available for future grants, end of year	8,485	10,015	4,442			
Shares reserved for issuance under stock option plans	29,770	32,722	25,166			

Summarized information about stock options outstanding as of June 30, 1997 is as follows:

OUTSTANDING			EXERCISABLE		
EXERCISE PRICE RANGE	# OF SHARES (IN THOUSANDS)	REMAINING (LIFE IN YEARS)	AVERAGE EXERCISE PRICE	# OF SHARES (IN THOUSANDS)	AVERAGE EXERCISE PRICE
Under \$10	482	1.4	\$ 9	482	\$ 9
\$10 to \$20	3,613	3.3	\$15	3,386	\$ 14
\$20 to \$30	7,630	6.2	\$25	2,597	\$ 25
\$30 to \$40	6,065	8.2	\$36	776	\$ 35
Over \$40	3,495	9.5	\$46	9	\$ 42

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 end of the plan. Approximately 2.0 million shares are scheduled for issuance on December 31, 1997 and on December 31, 1998. Approximately 1.8 million and 1.9 million shares were issued during the years ended June 30, 1997 and 1996 respectively. At June 30, 1997 and 1996, there were approximately 8.6 million shares reserved for purchase under the plan. Included in liabilities as of June 30, 1997 and 1996 are employee stock purchase plan withholdings of approximately \$56 million and \$51 million, respectively.

The Company has elected to continue to follow APB 25 to account for its stock plans. FASB Statement No. 123 requires that the Company disclose the pro forma net income impact of options and stock purchase plan rights granted subsequent to July 1, 1995. The fair value for these instruments was estimated at the date of grant using a Black-Scholes

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES**

option pricing model with the following weighted

average assumptions:

YEARS ENDED JUNE 30,	1997	1996
Risk-free interest rate	5.8-6.6%	5.2-6.5%
Dividend yield	1.0-1.1%	1.1%
Volatility factor	12.7-13.2%	11.9-13.3%
Expected life:		
Options	6.2	6.2
Purchase rights	2.0	2.0
Weighted average fair value:		
Options	\$12.43	\$9.53
Purchase rights	\$11.94	\$9.53

The Company's pro forma information, amortizing the fair value of the stock options and stock purchase plan rights issued in 1997 and 1996 over their vesting period, is as follows:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED JUNE 30,	1997	1996
Pro forma net earnings	\$ 492	\$ 442
Pro forma earnings per share	\$ 1.69	\$ 1.53

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, 1997, 1996 and 1995, the Company issued 148,800, 186,800, and 106,300 restricted shares, and repurchased 20,000, 47,200 and 50,200 shares, respectively.

B. Pension Plan. 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 each plus 7% interest. 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.

The plan's funded status is as follows:

(IN THOUSANDS)

JUNE 30,	1997	1996
Funded plan assets at market value, primarily stocks and bonds	\$264,400	\$191,400
Actuarial present value of benefit obligations:		
Vested benefits	170,900	140,900
Non-vested benefits	9,200	8,200
Accumulated/projected benefit obligation	180,100	149,100
Plan assets in excess of projected benefits	84,300	42,300
Prior service cost	(2,500)	(3,400)
Transition obligation	1,200	1,500
Unrecognized net actuarial loss due to different experience than that assumed	(8,100)	22,700
Prepaid pension cost	\$ 74,900	\$ 63,100

The components of net pension expense were as follows:

(IN THOUSANDS)

YEARS ENDED JUNE 30,	1997	1996	1995
Service cost - benefits earned during the period	\$15,500	\$13,600	\$12,600
Interest cost on projected benefits	11,800	10,000	8,400
Return on plan assets	(53,500)	(20,000)	(11,600)
Net amortization and deferral	36,500	9,900	3,600
	\$10,300	\$13,500	\$13,000

Assumptions used to develop the actuarial present value of benefit obligations for the three years ended June 30, 1997 were:

	1997	1996	1995
Discount rate	7.75%	8.0%	8.0%
Expected long-term rate of return on assets	8.5%	8.5%	8.5%
Rate of increase in compensation levels	6.0%	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 12% of their compensation annually. The Company matches a portion of this contribution which amounted to approximately \$19 million, \$18 million and \$11 million for calendar years 1996, 1995 and 1994, respectively.

#### NOTE 9. INCOME TAXES

In accordance with FASB Statement No. 109, accounting for income taxes follows the asset and liability approach. Deferred taxes reflect the tax consequences on future years of differences between the financial reporting and tax bases of assets and liabilities.

The provision for income taxes consists of the following components:

(IN THOUSANDS)

YEARS ENDED JUNE 30,	1997	1996	1995
Current:			
Federal	\$170,826	\$124,400	\$106,440
Non-U.S.	37,090	20,750	19,150
State	37,885	21,600	24,910
Total current	245,801	166,750	150,500
Deferred:			
Federal	(29,741)	6,060	(4,440)
Non-U.S.	4,360	5,860	(5,430)
State	(9,910)	2,020	(1,180)
Total deferred	(35,291)	13,940	(11,050)
	\$210,510	\$180,690	\$139,450

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES

At June 30, 1997 and 1996, the Company had gross deferred tax assets of approximately \$142 million and \$114 million, respectively, consisting primarily of operating expenses not currently deductible for tax return purposes. Valuation allowances approximated \$23 million as of June 30, 1997 and 1996. Gross deferred tax liabilities approximated \$214 million as of June 30, 1997 and June 30, 1996, consisting primarily of differences in the accounting and tax values of certain fixed and intangible assets.

Income tax payments were approximately \$200 million in 1997, \$178 million in 1996 and \$131 million in 1995. Pretax U.S. earnings approximated \$649 million in 1997, \$592 million in 1996, and \$505 million in 1995.

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,	1997	%	1996	%	1995	%
Provision for taxes at statutory rate	\$253,400	35.0	\$222,400	35.0	\$187,000	35.0
Increase (decrease) in provision from:						
Investments in municipals and preferred stock	(62,200)	(8.6)	(55,300)	(8.7)	(57,995)	(10.9)
State taxes, net of federal tax benefit	18,180	2.5	15,370	2.4	15,425	2.9
Other	1,130	0.2	(1,780)	(.3)	(4,980)	(.9)
	\$210,510	29.1	\$180,690	28.4	\$139,450	26.1

### NOTE 10. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries have various facilities and equipment lease obligations. Total rental expense was approximately \$165 million in 1997, \$164 million in 1996 and \$152 million in 1995 with minimum lease commitments under operating leases as follows:

(IN THOUSANDS)

#### YEARS ENDING JUNE 30,

1998	\$158,000
1999	115,000
2000	67,000
2001	39,000
2002	29,000
Thereafter	65,000
	-----
	\$473,000

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 11. FINANCIAL DATA BY GEOGRAPHIC AREA

Information about the Company's operations by geographic area for the two years ended June 30, 1997 is as follows (in millions):

---

OTHER

NON-U.S.

	UNITED STATES	EUROPE	(PRIMARYLY CANADA)	CORPORATE	CONSOLI- DATED
Revenue					
1997	\$3,417	\$512	\$131	\$ 52	\$4,112
1996	\$3,020	\$388	\$115	\$ 44	\$3,567
Earnings before income taxes					
1997	\$ 633	\$057	\$018	\$ 16	\$ 724
1996	\$0,562	\$035	\$008	\$ 30	\$ 635
Identifiable assets					
1997	\$1,659	\$1,315	\$ 84	\$1,325	\$4,383
1996	\$1,553	\$1,244	\$ 65	\$ 978	\$3,840

International operations prior to fiscal 1996 were not material to the Company's consolidated financial results.

**NOTE 12. QUARTERLY FINANCIAL RESULTS(Unaudited)**

Summarized quarterly results of operations for the three years ended June 30, 1997 are as follows:

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

YEAR ENDED JUNE 30, 1997	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenue	\$910,730	\$995,575	\$ 1,126,284	\$1,079,597
Net earnings	\$ 93,280	\$127,580	\$ 164,930	\$ 127,710(a)
Earnings per share	\$ .32	\$ .44	\$ .56	\$ .44(a)

(A) AFTER IMPACT OF NON-RECURRING ITEMS (SEE NOTE 3).

**YEAR ENDED JUNE 30, 1996**

Revenue	\$747,094	\$819,723	\$ 1,031,864	\$ 967,916
Net earnings	\$ 81,900	\$108,900	\$ 143,900	\$ 120,000
Earnings per share	\$ .28	\$ .38	\$ .49	\$ .42
-----				
YEAR ENDED JUNE 30, 1995				
Revenue	\$622,286	\$672,597	\$ 798,989	\$ 799,870
Net earnings	\$ 68,700	\$ 94,920	\$ 125,270	\$ 105,940
Earnings per share	\$ .24	\$ .33	\$ .44	\$ .37

Third quarter revenue and earnings have historically been positively impacted by calendar year-end processing associated with many of the Company's services.

## 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.

The Board of Directors has an Audit Committee comprised of four outside directors. The Audit Committee meets with both Deloitte & Touche 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's audits.

Deloitte & Touche and the internal auditors have free access to the Audit Committee.

*/s/ Arthur F. Weinbach*

*Arthur F. Weinbach  
PRESIDENT AND CHIEF EXECUTIVE OFFICER*

*/s/ Richard J. Haviland*

*Richard J. Haviland  
CHIEF FINANCIAL OFFICER*

**Roseland, New Jersey August 13, 1997**

## 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, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1997. 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 generally accepted auditing standards. 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 at June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

*/s/ Deloitte & Touche LLP*

*New York, New York, August 13, 1997*

## APPENDIX

(As required pursuant to Rule 304(a) of Regulation S-T)

The following is a narrative description of the graphic or image material which appears in Exhibit 13 to the Registrant's Annual Report on Form 10-K (the "Form 10-K"). Exhibit 13 contains particular pages from the Registrant's 1997 Annual Report to Shareholders (the "1997 Annual Report") which are incorporated by reference into the Form 10-K.

Page in 1997 ANNUAL REPORT	DESCRIPTION
3	The photograph on page 3 of the 1997 Annual Report is of Arthur F. Weinbach, President and Chief Executive Officer.
5	The photograph on page 5 of the 1997 Annual Report is of Josh S. Weston, Chairman.
7	The photograph on page 7 of the 1997 Annual Report is described in the following caption on page 7: "Below: Following their successful payroll conversions, Pierce Leahy's Director of Human Resources, Lawrence J. Sparacino (left), and Payroll Supervisor, Regina A. Walsh, take ADP Senior Implementation Consultant, Hugh McGovern on a tour of one of their archives. The company has 161 storage facilities in the U.S. and Canada."
8	The photograph on page 8 of the 1997 Annual Report is described in the following caption on page 8: "Left: ADP's "payroll by phone" is a fast and easy solution for Image Force, a Paris-based advertising agency. Receptionist Nazanine Amini-Majdi (right), phones her ADP client representative to submit employee hours and wage information as Gilles Vetillart, Account Director, confirms the data."
9	The photograph on page 9 of the 1997 Annual Report is described in the following caption on page 9: "Above: The Application Group's Practice Area Manager, Martia DeLauro (far left); and Susan Gallagher, Engagement Manager, ADP; discuss the successful implementation of ADP's full-featured HR management system, CSS Hrizon, with Catherine E. Scism, Business Leader; and Stephen Capuccio, HRIS Manager Human Resources of Blue Cross Blue Shield of Massachusetts."
10	<p>The photographs on page 10 of the 1997 Annual Report are described in the following captions on page 10:</p> <p>"Far left: Claudia Holcomsbe (left), Director of Shareowner Services, AT&amp;T, with Robert Kalenka (center), Vice President Production Operations and Mary Ann Butera (right), Vice President Sales, ADP ICS. ICS's extensive capacity and sophisticated systems support an ongoing project with AT&amp;T which eliminates duplicate shareowner mailings to about 10% of street name shareowners and provides a cost efficient distribution process which allows AT&amp;T to reach its more than 3 million shareowners.</p> <p>Left: J.W. Charles Financial Services, Inc., one of the largest broker/dealers in Southern Florida, and ADP work together to facilitate the firm's future growth. John C. Sease, Jr., ADP Account Manager (right), helps the firm's management</p>

team, Thomas Terpko, Vice President Management Information Services (left), and Greg Glaser, Executive Vice President and Treasurer (center), to maximize the unique benefits derived from ADP's integrated product offerings."

- 11 The photograph on page 11 of the 1997 Annual Report is described in the following caption on page 11: "Below: Peter A. Wigger (left), Chairman, and CEO, and Joseph N. Barra (right), President and COO of National Investor Services Corp., along with John Chapel (center right), President, and Frank Conti (center left), Executive Vice President, of Waterhouse Securities, Inc., discuss with ADP's Mark J. Coviello (second from left), Senior Director Account Management, and Marianne C. Brown (second from right), Senior Vice President of Service Delivery, how ADP can provide the technology and solutions to help Waterhouse Securities, Inc. and its affiliate NISC maintain a competitive edge."
- 12 The photograph on page 12 of the 1997 Annual Report is described in the following caption on page 12: "Tony Solano (right), ADP Major Account Executive, discusses the new MILLENNIA3 SYSTEMS SERIES at Maroone Plaza in Ft. Lauderdale, FL with Michael E. Maroone (center right), President, New Vehicle Division, Republic Industries, Inc., H. Scott Barrett (left), Senior Vice President, Information Technology, Republic Industries, Inc., and Don Reese (center left), Vice President, Corporate Controller, Republic Industries, Inc. ADP Dealer Services is working with innovators such as Republic Industries, Inc., which is the fastest growing automotive organization in the United States with involvement in new car retailing, used car super stores and the rental car industry."
- 13 The photograph on page 13 of the 1997 Annual Report is described in the following caption on page 13: "Below: Kasper Lydom Schultz, Technical Consultant for ADP Dealer Services Denmark discusses ADP's commitment to providing world class service to ADP clients in Denmark and around the world with Asbjorn Jensen, Owner, Bjorn Cannings Eftf. ApS."
- 14 The photograph on page 14 of the 1997 Annual Report is described in the following caption on page 14: "Left: Progressive Insurance Company uses ADP's Provider Bill Audit System for first and third party claims, has implemented ADP's managed care network in Florida, and is co-developing the Injury Claim Evaluation (ICE) product. John P. Bindseil (left), Medical Claim Manager, Corporate Claims for Progressive and Martha Herbig (right), Director, Managed Care Networks for ADP Integrated Medical Solutions discuss the impact of the managed care network in Progressive's Tampa office."
- 15 The photograph on page 15 of the 1997 Annual Report is described in the following caption on page 15. "Below: ADP's Catastrophe Services assist clients by providing both staff and estimating equipment at vital disaster areas. Senior Account Representatives David Roberts (left), and Aaron DeGroat (right), demonstrate ADP's PenPro for Colin Caron (center), Managing Appraiser for Amica Mutual Insurance Company, who recently utilized ADP's Catastrophe Services, and is currently in the process of testing this latest generation of estimating software."

## EXHIBIT 21

Name of Subsidiary -----	Jurisdiction of Incorporation -----
ADP Atlantic, Inc.	Delaware
ADP Claims Solutions Group, Inc.	Delaware
ADP Deutschland Autonom Computer AG	Germany
ADP Nederland B.V.	The Netherlands
ADP Central, Inc.	Delaware
ADP Credit Corp.	Delaware
ADP Dealer Services Ltd.	Canada (Federal)
ADP East, Inc.	Delaware
ADP Europe S.A.	France
ADP Financial Information Services, Inc.	Delaware
ADP Financial Information Services (UK) Limited	United Kingdom
ADP, Inc.	Delaware
ADP Insurance Company, Ltd.	Delaware
ADP Network Services International, Inc.	Delaware
Automatic Data Processing Limited	United Kingdom
ADP of New Jersey, Inc.	Delaware
ADP of North America, Inc.	Delaware
ADP Pacific, Inc.	Delaware
ADP Savings Association	Pennsylvania
ADP Tax Services, Inc.	Delaware
ADP Broker-Dealer, Inc.	New Jersey
Securities Industry Software Corporation	Colorado
ADP Hollander, Inc.	Delaware
ADP of Roseland, Inc.	Delaware
Peachtree Software, Inc.	Delaware
The Application Group, Inc.	California
Canadian Automatic Data Processing Services Ltd.	Canada (Federal)
Taylorix AG	Germany

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, 1997.

**EXHIBIT 23**

**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 and 333-29713 on Form S-3 and Registration Statements 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 and 333-13945 on Form S-8 of our report dated August 13, 1997, included in the 1997 Annual Report to Shareholders and incorporated by reference in this Annual Report on Form 10-K of Automatic Data Processing, Inc. for the year ended June 30, 1997.

*/s/ Deloitte & Touche LLP  
New York, New York  
September 18, 1997*

## ARTICLE 5

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD END	JUN 30 1997
CASH	590,578
SECURITIES	434,341
RECEIVABLES	644,610
ALLOWANCES	(39,542)
INVENTORY	34,165
CURRENT ASSETS	1,805,322
PP&E	1,351,768
DEPRECIATION	832,423
TOTAL ASSETS	4,382,772
CURRENT LIABILITIES	1,019,872
BONDS	401,162
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	31,429
OTHER SE	2,629,136
TOTAL LIABILITY AND EQUITY	4,382,772
SALES	0
TOTAL REVENUES	4,112,186
CGS	0
TOTAL COSTS	3,345,335
OTHER EXPENSES	0
LOSS PROVISION	15,047
INTEREST EXPENSE	27,794
INCOME PRETAX	724,010
INCOME TAX	210,510
INCOME CONTINUING	513,500
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	513,500
EPS PRIMARY	1.76
EPS DILUTED	1.71

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**End of Filing**

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