

# AUTOMATIC DATA PROCESSING INC

## FORM 10-K (Annual Report)

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

# 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 [FEE REQUIRED]

For the fiscal year ended June 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

*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 (Sec.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 13, 1996 was \$12,171,600,382. On September 13, 1996, there were 290,038,815 shares of Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 1996 Annual Report to Shareholders Parts I, II &  
IV

Portions of the Registrant's Proxy Statement for Annual Meeting of Stockholders to be held on November 12, 1996. 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 deposit and reporting, human resources (HR), benefits outsourcing, timekeeping, 401(k) recordkeeping, and unemployment compensation management services. These services are provided to over 350,000 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. Employer services are offered from 40 computer centers and 73 satellite sales and service centers in the United States, 14 computer centers in Western Europe and one center in Canada. For clients who desire to do their own processing, client site payroll and HR software is available.

Payroll and tax filing services comprise over 87% of Employer Services' revenue. Payroll services include the preparation of pay checks and direct deposits, along with supporting journals, summaries and management reports. ADP also supplies the quarterly and annual social security, medicare, and federal, state and local income tax withholding reports required to be filed by employers and employees.

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. Over 260,000 clients rely on tax filing to assure regulatory compliance.

Approximately 45% of Employer Services' payroll and payroll tax filing services revenue for the past three fiscal years have been attributable to its heartland accounts (companies with between 1 and 99 employees), approximately 40% to major accounts (between 100 and 999 employees) and approximately 15% to national accounts (with 1,000 or more employees).

Autopay continues to be ADP's most popular, flexible and comprehensive payroll product with over 225,000 clients. Recently, PC/Payroll for Windows was introduced. ADP offers EasyPay, a simple, low-cost, outsourcing payroll solution for approximately 100,000 clients in the heartland

market. For heartland clients who prefer client site processing for managing payroll and payroll taxes, ADP has a PC-based product called SoftPay. For national accounts clients, ADP's Client Server Series provides fully integrated client site payroll, HR and benefits administration and outsourcing services. ADP's Application Group installs and implements client server systems for ADP clients and other users of server technology.

Full Service Direct Deposit in association with major bank partners permits employers to easily, rapidly and economically make electronic direct deposits to employee bank accounts. ADP's joint venture with Checkfree Corporation provides electronic banking and bill payment services to small businesses to help them manage money and improve their accounts payable process.

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.

ADP Total Time provides a comprehensive time-keeping system fully integrated into ADP's payroll systems. ADP's unemployment compensation service aids clients in managing and reducing unemployment insurance costs. ADP's Peachtree and One Write accounting packages are sold through retail channels.

ADP also offers 401(k) recordkeeping, benefits administration and benefits consulting. Comprehensive 401(k) administrative services relating to defined benefit plans, flexible spending, healthcare and other group benefits are offered.

As more ADP clients become multinational in scope, it becomes increasingly important to offer services on a global scale. Last January, ADP acquired Paris-based GSI, Europe's largest provider of payroll and related HR services. In Europe, ADP's services for payroll and HR management are now provided in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom. This makes ADP the first provider of integrated payroll and HR services to U.S. corporations and their European subsidiaries.

### **Brokerage Services**

ADP's Brokerage Services provides high quality, high speed securities transaction processing, investor support tools, market data services, and investor communications related services to the financial community worldwide. ADP is the largest provider of such third-party processing and retail equity information systems in the U.S. and Canada. Brokerage Services now supplies over 2,600 firms globally with technology-based information solutions.

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's Power Partner service is based on state-of-the-art "object linking and embedding technology" which allows clients to modularly build, and

seamlessly integrate, market information, securities processing systems, broker productivity tools, client applications and third party software into their workstations. Global Treasury Information Services (GTIS) keeps its clients in tune with price information, news and commentary on world markets in the areas of fixed income, foreign exchange, money markets, futures and metals. Information is contributed directly to GTIS by key institutions (e.g., banks and brokers) who participate in these markets.

Brokerage Services continued its expansion in the institutional marketplace with several acquisitions. The DAIS Group provides sophisticated quantitative models to help portfolio managers assess risk and select stocks. Merrin Financial provides automated securities trade order management and routing solutions for investment managers and securities brokers. Information Catalysts (ICI) markets automated and fixed income trading, operations and accounting software for domestic and international banks and securities brokerage firms.

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 GlossTrader client-server system offers global multicurrency clearance and settlement services for international securities.

ADP provides shareholder communication services in the United States and Canada, 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 1996, ADP processed over 235 million shareholder mailings for over 12,000 publicly held corporations, mutual funds and financial institutions. Shareholder ballots representing approximately 127 billion shares were electronically processed. As part of its shareholder communication services, ADP introduced StreetLink, 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 enables mutual fund shareholders to vote their proxy over the telephone for same-day tabulation.

### **Dealer Services**

ADP's Dealer Services provides industry-specific computing, data and professional services to automobile, truck and farm equipment dealers and manufacturers in the U.S., Canada, Europe, Asia and Latin America. Over 16,000 dealers use ADP's on-site systems and communications networks to manage every area of sales and operations. 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. In addition, ADP offers more than 95 manufacturer subsystems for pricing updates and factory ordering.

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. ADP's Laser Station replaces pre-printed, multipart, carbonized forms with customized laser-printed originals, allowing dealers to print from a single laser printer all types of customer communications, including customer satisfaction surveys, service reminders, invoices and statements. ADP's Document Storage & Data Archiving product is designed to create a paperless office, using optical disk and scanning technologies to electronically scan, store and retrieve purchase orders, invoices, checks, other documents and even customer signatures. ADP's New Vehicle Order System increases vehicle order accuracy, improves vehicle management and reduces floor plan interest expense. The Used Vehicle Network helps dealers manage their used vehicles more efficiently.

As industry change accelerated, ADP introduced its Advisor family of products. Super Service Advisor fully automates the reservation and service write-up process using hand-held wireless, electronic clipboard technology. Sales Advisor is a complete retail sales process application designed to improve sales performance and customer handling. The ADP Sales Kiosk is a state-of-the-art interactive sales presentation tool, and ADP's Relationship Marketing System (RMS) automates all phases of customer contact from initial prospect through the purchase life cycle and on-going service.

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 provides auto repair estimating and parts availability services to insurance companies, claims adjusters, repair shops and salvage yards involved in auto collision repair and valuation in the United States and Canada. 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, was recently introduced. Satellite and voice-based trading networks for the location and pricing of recycled parts, and ADP's salvage-related products and services, have been significantly expanded.

ADP provides services that evaluate the appropriateness of medical treatment and invoicing for auto accident victims. The core product, Provider Bill Audit, 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.

ADP also provides a property loss repair and replacement system to assist in settling homeowners' claims.

### **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 11% of fiscal 1996 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 375,000 clients. Annual revenues attributable to large client accounts range from \$1 million to approximately \$67 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 2% 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, 1996, 1995 and 1994, ADP spent \$249,635,000, \$193,173,000 and \$160,803,000, 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 29,000 persons as of June 30, 1996.

## **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 5,020,469 square feet in the United States, Canada, Europe and Asia, expire at various times up to the year 2016. ADP owns 23 of its processing facilities and its corporate headquarters in Roseland, New Jersey, which aggregate approximately 2,331,645 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 1996 Annual Report to Shareholders, which information is incorporated herein by reference. As of August 25, 1996, the Registrant had 27,186 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.

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

See "Selected Financial Data" on page 16 of the Registrant's 1996 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 and 18 of the Registrant's 1996 Annual Report to Shareholders, the Letter to Shareholders on pages 2-4 of such report and the business descriptions on pages 5-15 of such report, which information is incorporated herein by reference.

### **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 1996 Annual Report to Shareholders

Quarterly Financial Results (unaudited) for the three years ended June 30, 1996 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	51	Vice President, General Counsel and Secretary	1977
Gary C. Butler	49	Group President of Employer Services	1975
Robert J. Casale	57	Group President of Brokerage Services	1988
G. Harry Durity	49	Vice President, Worldwide Business Development	1994
Richard J. Haviland	50	Vice President, Finance	1982
Michael R. Holmes	38	Vice President, Human Resources	1991
Peter M. Leger	45	President of Dealer Services	1992
S. Michael Martone	48	President of Claims Services	1987
Joseph B. Pirret	55	Vice President and Treasurer	1974
Arthur F. Weinbach	53	President and Chief Executive Officer	1980

Messrs. Benson, Butler, Casale, Haviland, Holmes, Pirret 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.

Peter M. Leger joined ADP in March 1992 as Executive Vice President, North America of Dealer Services and was promoted to President of Dealer Services in January 1995. Prior to joining ADP, he was employed by Reuters North America in various senior executive positions.

S. Michael Martone joined ADP in 1987. Prior to his promotion to President of the Claims Solutions Group in December 1995, he held senior vice president positions in both the Employer Services Group and the Dealer Services Group.

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 1996 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 1996 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 1996 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 1996 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 1996 Annual Report to Shareholders -----
Independent Auditors' Report	28
Consolidated Balance Sheets - June 30, 1996 and 1995	20
Statements of Consolidated Earnings - years ended June 30, 1996, 1995 and 1994	19
Statements of Shareholders' Equity - years ended June 30, 1996, 1995 and 1994	21
Statements of Consolidated Cash Flows - years ended June 30, 1996, 1995 and 1994	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

##### **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 Annual Report on Form 10-K for the fiscal year ended June 30, 1991
  
- 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 - Employment Agreement with Josh S. Weston - incorporated by reference to Exhibit 10(ii) to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1986 (Management Contract)
  
- 10.1(a) - Amendment to Employment Agreement with Josh S. Weston - incorporated by reference to Exhibit 10(ii)(A)-#2 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Contract)
  
- 10.1(b) - Amendment to Employment Agreement with Josh S. Weston - incorporated by reference to Exhibit 10(ii)(A)-3 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994 (Management Contract)
  
- 10.1(c) - Amendment to Employment Agreement with Josh S. Weston (Management Contract) - incorporated by reference to Exhibit 10(ii)(A)-4 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1995
  
- 10.2 - Letter Agreement dated as of August 1, 1996 between Automatic Data Processing, Inc. and Arthur F. Weinbach (Management Contract)
  
- 10.3 - Agreement with Robert J. Casale - incorporated by reference to Exhibit 10(iii)(A)-#1 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Contract)
  
- 10.4 - 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)
  
- 10.5 - 1981 Key Employees' Stock Option Plan - incorporated by reference to Registrant's Registration Statement No. 2-75287 on Form S-8 (Management Compensatory Plan)
  
- 10.5(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)
  
- 10.6 - Key Employees' Restricted Stock Plan - incorporated by reference to Registrant's Registration Statement No. 33-25290 on Form S-8 (Management Compensatory Plan)



- 10.7 - 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)
- 10.8 - 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)
- 10.9 - 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)
- 10.10 - 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)
- 10.11 - 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 2-28 of the 1996 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' Report on Schedules and Consent
- 27 - Financial Data Schedule
- (b) None.

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, 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
Year ended June 30, 1994:					
Allowance for doubtful accounts:					
Current	\$18,112	\$6,838	\$492(B)	\$4,929(A)	\$20,513
Long-term	\$21,684	\$4,366	--	\$1,524(A)	\$24,526

(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 23, 1996

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.

Signature -----	Title -----	Date -----
/s/ Arthur F. Weinbach ----- (Arthur F. Weinbach)	President and Chief Executive Officer (Principal Executive Officer)	September 23, 1996
/s/ Richard J. Haviland ----- (Richard J. Haviland)	Vice President, Finance (Principal Financial Officer)	September 23, 1996
/s/ Josh S. Weston ----- (Josh S. Weston)	Chairman of the Board	September 23, 1996
/s/ Gary C. Butler ----- (Gary C. Butler)	Director	September 23, 1996
/s/ Joseph A. Califano, Jr. ----- (Joseph A. Califano, Jr.)	Director	September 23, 1996
/s/ Leon G. Cooperman ----- (Leon G. Cooperman)	Director	September 23, 1996
_____ (George H. Heilmeyer)	Director	September __, 1996
/s/ Ann Dibble Jordan ----- (Ann Dibble Jordan)	Director	September 23, 1996

/s/ Harvey M. Krueger                      Director                      September 23, 1996  
-----  
    (Harvey M. Krueger)

\_\_\_\_\_  
(Charles P. Lazarus)                      Director                      September \_\_, 1996

\_\_\_\_\_  
(Frederic V. Malek)                      Director                      September \_\_, 1996

/s/ Henry Taub                              Director                      September 23, 1996  
-----  
    (Henry Taub)

\_\_\_\_\_  
(Laurence A. Tisch)                      Director                      September \_\_, 1996

## 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 1996 Annual Report to Shareholders (the "1996 Annual Report") which are incorporated by reference into the Form 10-K.

Page in 1996 Annual Report -----	Description -----
2	The photograph on page 2 of the 1996 Annual Report is of Josh S. Weston, Chairman.
3	The photograph on page 3 of the 1996 Annual Report is of Arthur F. Weinbach, President and Chief Executive Officer.
5	The photograph on page 5 of the 1996 Annual Report is described in the following caption on page 5: "Below: World famous toy retailer, F.A.O. Schwarz counts on ADP to process its payroll for 900 employees. In over 40 states, ADP handles the company's payroll tax filing and reporting. Pictured below are Jennifer Miller (right), Major Account District Manager for ADP, and F.A.O. Schwarz Payroll Manager, Teddi O'Reilly (left)."
6	The photograph on page 6 of the 1996 Annual Report is described in the following caption on page 6: "Below: ADP is pleased to be a supporter of our client Habitat for Humanity International, a non-profit organization dedicated to eliminating poverty housing worldwide. Habitat looks to ADP to handle its payroll processing, tax filing and new hire reporting."
7	The photograph on page 7 of the 1996 Annual Report is described in the following caption on page 7: "Above: ADP Client Service Representative, Linda Del Savio (left) with Dennis Crumpler, Chairman and CEO of Atlanta-based XcelleNet, a worldwide leader in software for remote access computing that relies upon ADP to provide state-of-the-art payroll processing and information support. ADP depends upon XcelleNet's Remote Ware to keep its Client Service work station software up to date."
8	The two photographs on page 8 of the 1996 Annual Report are described in the following caption on page 8: "Right: Anthony

Portelli (left), Director, SBC Warburg Inc., thanks Tevin Datz (right), Vice President, Account Management, for ADP's support and dedication during the recent merger of SBC Capital Markets Inc., and SG Warburg, which created the new entity SBC Warburg Inc. ADP's proactive planning and solid commitment ensured an efficient and seamless consolidation of the two firms' books and records. Below: Hussein Khoder (right), ADP Vice President, Account Management, and Bill Anderson (left), Executive Vice President & Chief Executive Information Officer, Prudential Securities, discuss implementing ADP's strategic products on Prudential's technology platform. The firms recently strengthened their thirteen-year partnership by entering into an agreement to install over 12,000 Power Partner workstations in Prudential's retail offices, worldwide."

- 9 The photograph on page 9 of the 1996 Annual Report is described in the following caption on page 9: "Above: (from right to left) Bruce Barnett, ICS, VP of Account Management, and Steven DeBernardo, Client Services Director, discuss applications with Bear Stearns & Co. Inc. executives, Joseph Kruszka, Managing Director, and Jeffrey C. Bernstein, Senior Managing Director. Frequent consultation helps both firms identify opportunities. Bear Stearns uses several ADP products and is one of our largest and longest client relationships."
- 10 The photograph on page 10 of the 1996 Annual Report is described in the following caption on page 10: "Below: Ross Pope, (left) ADP Regional Director of Sales, and Terry Petit, (right) Client Relations Director, discuss the ADP Advisor family of products with Keith McCluskey (center), President, McCluskey Chevrolet in Cincinnati, Ohio. McCluskey Chevrolet is a member of Driver's Mart Worldwide Inc., a used-car mega retail chain established by a group of elite auto dealers. ADP partnered with Driver's Mart in developing the first truly interactive auto retailing system. It promises to revolutionize customer buying experiences."
- 11 The two photographs on page 11 of the 1996 Annual Report are described in the following captions on page 11: "Above: Nancy Rozinsky (left), ADP Fixed Operations Product Leader, discusses process improvements with Hank Faulkner (center), CEO, and Walt Huber (right), Director of Operations, The Faulkner Organization, Trevose, Pennsylvania. The Faulkner Organization owns eighteen dealerships, and uses ADP's on-site systems and communications networks to manage every area of their operation. Left: ADP AutoConnect is the most complete Internet service

created for both auto dealers and consumers. Cole Younger (right), ADP Major Account Executive, demonstrates how a web site on ADP AutoConnect will assist in advertising efforts for their sixteen dealerships with Glenn Gardner (left), General Manager, and Joseph Holman (center), Chairman of the Board, Holman Enterprises, Pennsauken, NJ. ADP AutoConnect is home to the largest community of dealer web sites on the Internet."

- 12 The photograph on page 12 of the 1996 Annual Report is described in the following caption on page 12: "Below: Zurich Canada conducts electronic commerce with collision repair facilities and independent appraisal firms, unifying and controlling the claims restoration process with information systems and network communications from ADP. Nick Briante, Senior Vice President, Claims (right), and Trevor Hayes, National Appraisal Manager (left), meet with ADP's Director of Client Relations, John Kotsopoulos, to explore the implementation of Electronic Funds Transfer as the next step in Zurich's blueprint for overall process improvement and increased customer satisfaction."
- 13 The two photographs on page 13 of the 1996 Annual Report are described in the following caption on page 13: "Above and left: When American Family Insurance Company invented their Concept Claims System (CCS), technology provided a means to implement their dream of a paperless work environment. One of their Physical Damage Representatives, Bob Schubring, uses his mobile ADP system to capture digital images of the damaged vehicle and write the computerized estimate while still in the field. As soon as he transmits this electronic claims folder to Donna Drews, the Drive-in Claims Processor at the office, she starts the check-in process to file the claim in CCS. Within a matter of minutes, claims representatives at American Family can access the information - simply by opening the folder on their computer screen - as they provide service for the policyholder."
- 14 The two photographs on page 14 of the 1996 Annual Report are described in the following caption on page 14: "Above: Catherine Marioli, Compagnie Francaise Philips Payroll/HR Specialist based in Paris, uses a complete ADP-GSI solution that serves all of Philips' needs for payroll and human resources management in France. Philips is a supplier of lighting and electronics products, systems and services and has developed a wide range of multimedia activities. Right: Michael Kurch (right), ADP Sales Manager (Germany), Johannes Szczepan (center), Managing Director, and Peter Nuhs (left), IT Manager of Georg von Opel

Group discussing the implementation of ADP's new sales advisor system. George von Opel Group is one of ADP's strategic clients in Germany generating more than 30,000 new and used car sales through almost 40 locations in Germany."

15

The photograph on page 15 of the 1996 Annual Report is described in the following caption on page 15: "Above: Ian Buchanan, Deputy Managing Director, Information Systems, Nomura International (left), with Terry Williams, Wilco Chairman. Wilco specializes in meeting the needs of the international securities industry and global custodians. Wilco's global trading and settlement system, Gloss, was selected by Nomura because of its ability to process high volumes on a resilient client server platform."





refused to perform your obligations as President and Chief Executive Officer, (iii) committed any act of negligence in the performance of your duties hereunder and failed to take appropriate corrective action, or (iv) committed any act of willful misconduct.

(b) If ADP terminates your employment for any reason other than "for cause", for permanent or serious disability or on account of a "Change in Control", you will, for 18 months after such termination date, (i) receive the compensation provided for under Paragraph 2(a) above, (ii) have the restrictions on your restricted stock continue to lapse, and (iii) have your Company stock options continue to vest.

(c) If you become permanently and seriously disabled, either physically or mentally, so that you are absent from your office due to such disability and otherwise unable substantially to perform your services hereunder, ADP may terminate your employment. ADP shall continue to pay you your full compensation up to and including the effective date of your termination for disability. For 36 months after such termination date, you will receive the compensation provided for under Paragraph 2(a) above and have the restrictions on your restricted stock continue to lapse. All of your outstanding and unvested ADP stock options shall automatically vest on the date of your termination for disability.

(d) If you elect to voluntarily leave ADP in the absence of a Change in Control, ADP's obligation to make payment to you shall cease on the date your employment ends.

(e) If a Change in Control occurs and if your employment is terminated (other than for cause) or you resign for "Good Cause" within two years after such Change in Control event, you will receive a termination payment equal to 300% of your "Current Total Annual Compensation". This termination payment will be reduced to either 200% or 100% of your Current Total Annual Compensation if such termination or resignation occurs during the third year, or more than three years, after such Change in Control event, whichever is applicable. In addition, all of your ADP stock options will become fully vested, and all of your ADP restricted stock having restrictions lapsing within three years after the date of such termination or resignation shall have such restrictions automatically removed. ADP will also pay you a tax equalization payment in an amount which when added to the other amounts payable to you under Paragraph 4(e) will place you in the same after-tax position as if the excise tax penalty of Section 4999 of the Internal Revenue Code of 1986 or any successor statute of similar import did not apply.

(f) The termination of this letter agreement or your employment shall not affect those provisions of this letter agreement that apply to any period or periods subsequent to such termination.

5. For purposes of this Agreement, the following definitions shall apply:

(a) "Change in Control" shall mean: (A) the acquisition by any person, entity or "group", of beneficial ownership of 25% or more of ADP's outstanding common stock; or (B) approval by ADP's stockholders of a reorganization, merger or consolidation, with respect to which persons who were the stockholders of ADP immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power of the reorganized, merged or consolidated company's then outstanding voting securities.

(b) "Good Reason" shall mean: (A) any action which results in a diminution in any respect in your current position, authority, duties or responsibilities as ADP's President and Chief Executive Officer; or (B) a reduction in the overall level of your compensation or benefits.

(c) "Current Total Annual Compensation" shall be the total of the following amounts: (A) the greater of your current annual salary for the calendar year in which your employment

terminates or for the calendar year immediately prior to the year of such termination; and (B) the average of your annual bonus compensation (prior to any bonus deferral election), for the two most recent calendar years immediately preceding the year in which your employment terminates.

6. SORP. As at December 31, 1996, under the Automatic Data Processing,

Inc. Supplemental Officers Retirement Plan (the "SORP"), your "Vested Percentage" shall be 100% and your "Future Service" period shall be 10 years. If your employment hereunder terminates other than for cause: (i) your Future Service period shall be deemed to be 17 years as at the date of such termination; and (ii) your "Final Average Annual Pay" shall, to the extent applicable, be deemed to include the applicable compensation attributable to the periods covered by the termination payments made to you hereunder. Your Final Average Annual Pay will not, in any event, be less than the aggregate of the minimum annual salary, bonus and restricted stock amounts payable to you under Paragraph 2 above.

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

Very truly yours,

**AUTOMATIC DATA PROCESSING, INC.**

By: /s/ James B. Benson

-----  
James B. Benson, Corporate Vice President

ACCEPTED AND AGREED:

/s/ Arthur F. Weinbach

-----  
ARTHUR F. WEINBACH

## EXHIBIT 11

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

	Year ended June 30,				
	1996	1995	1994	1993	1992
<b>PRIMARY EARNINGS PER SHARE:</b>					
Earnings before cumulative effect of accounting changes	\$454,700	\$394,830	\$334,120	\$294,200	\$256,180
Cumulative effect of accounting changes	-	-	(4,800)	-	-
	-----	-----	-----	-----	-----
Net earnings applicable to common shares	\$454,700	\$394,830	\$329,320	\$294,200	\$256,180
	=====	=====	=====	=====	=====
Average number of common shares outstanding (1)	288,967	285,112	281,780	282,654	278,090
	=====	=====	=====	=====	=====
Primary earnings per share before cumulative effect of accounting changes	\$1.57	\$1.38	\$1.19	\$1.04	\$.92
Cumulative effect of accounting changes	-	-	(.02)	-	-
	-----	-----	-----	-----	-----
Primary earnings per share (1)	\$1.57	\$1.38	\$1.17	\$1.04	\$.92
	=====	=====	=====	=====	=====
<b>FULLY DILUTED EARNINGS PER SHARE:</b>					
Net earnings used in primary earnings per share	\$454,700	\$394,830	\$334,120	\$294,200	\$256,180
Adjustment for interest (net of tax) - Zero coupon convertible subordinated notes (5 1/4% yield)(1)	11,703	11,330	10,075	9,409	3,314
	-----	-----	-----	-----	-----
Net earnings used for fully diluted earnings per share before cumulative effect of accounting changes	\$466,403	\$406,160	\$344,195	\$303,609	\$259,494
Cumulative effect of accounting changes	-	-	(4,800)	-	-
	-----	-----	-----	-----	-----
Net earnings used for fully diluted earnings per share	\$466,403	\$406,160	\$339,395	\$303,609	\$259,494
	=====	=====	=====	=====	=====
Average number of shares outstanding on a fully diluted basis:					
Shares used in calculating primary earnings per share	288,967	285,112	281,780	282,654	278,090
Diluted effect of all stock options outstanding after application of treasury stock method	6,483	5,836	5,382	5,962	6,360
Shares assumed to be issued upon conversion of Debentures- Zero coupon convertible subordinated notes (5 1/4% yield)(2)	10,360	10,402	10,402	10,402	3,722
	-----	-----	-----	-----	-----
Average number of shares outstanding on a fully diluted basis:	305,810	301,350	297,564	299,018	288,172
	=====	=====	=====	=====	=====
Fully diluted earnings per share before cumulative effect of accounting changes	\$1.53	\$1.35	\$1.16	\$1.02	\$.90
Cumulative effect of accounting changes	-	-	(.02)	-	-
	-----	-----	-----	-----	-----
Fully diluted earnings per share	\$1.53	\$1.35	\$1.14	\$1.02	\$.90
	=====	=====	=====	=====	=====

(1) All share and per share information has been adjusted to reflect a two-for-one stock split on January 1, 1996.

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

## EXHIBIT 13

### LETTER FROM THE CHAIRMAN

In this 35th annual report to our shareholders, I am pleased to formally congratulate Arthur Weinbach who, on August 1, 1996, assumed my responsibilities as chief executive officer (CEO). Art will continue to serve as president, and I will remain chairman of the board. Art has the qualities of leadership, integrity, intelligence, dedication, candor, and experience to serve ADP well, as we move toward the 21st century. ADP's first CEO, Henry Taub, founded ADP in 1949. He was succeeded by my predecessor Frank Lautenberg in 1975. Frank's election to the U.S. Senate in 1982 occasioned my becoming ADP's third CEO.

Since joining ADP in 1970, I had the good fortune to participate with many excellent colleagues in the remarkable acceleration of computer technologies as tools that facilitated our unusual growth in annual revenue from \$400,000 in '61 to \$40 million in '70, to the current \$3.5 billion.

Ever since ADP became publicly owned in '61, every one of the ensuing 35 years witnessed double-digit growth in earnings per share, a record unmatched by any of our country's 9,500 publicly owned companies. In fact, only one other company has done so for even 15 years. It's been an absolutely amazing and gratifying experience for those of us who were "early birds" with ADP.

As important as technology may have been, our many successful outcomes were far more caused by ADP associates, who now number 29,000. (Along the way, we were also aided by lucky events that were totally unplanned and unexpected.) Currently, over 20,000 associates own ADP stock. I am most pleased by the fact that over the years our associates have shared in over one billion dollars of stock appreciation as well it should be, for their having created over ten billion dollars of market appreciation for our external shareholders. ADP was begun by people and succeeds only because of people.

I have worked with Art Weinbach for over 16 years, and am confident that he will be ADP's fourth very successful CEO. Art has many capable colleagues to help assure continued growth, because no one person can manage our complexities and progress.

I thank my ADP friends for having helped so much for so many years. I especially cite Gary Butler, Group President of Employer Services, and recently elected board member. He brings 20 years of experience and accomplishments to leading our most important \$2 billion business unit. I thank our shareholders for their support during my fourteen years as CEO, and look forward to serving in my new part-time and much less demanding ADP role, as I become ever more engaged in pro bono activities.

As a board member and chairman, I shall maintain my interest in ADP, and will give counsel, but only when asked. A company can have only one CEO at a time. Good luck, Art! I know you'll do well.

*/s/ Josh S. Weston*

*JOSH S. WESTON  
CHAIRMAN*

*August 14, 1996*

## **LETTER FROM THE CHIEF EXECUTIVE OFFICER**

This is my first letter to you as ADP's newly appointed Chief Executive Officer. Having participated in ADP's outstanding results for over 16 years, I am very appreciative of my new opportunity. I am both optimistic and enthusiastic about ADP's future.

We would not be positioned so well if it weren't for the extraordinary contribution of Josh Weston, ADP's CEO since 1982. We owe Josh a tremendous debt for leading ADP to our position as one of the country's most respected and most valuable companies.

## **FISCAL 1996**

In fiscal '96 ADP continued its unequaled growth record by reporting its 140th consecutive quarter of record revenues and earnings per share (EPS) and its 35th consecutive year of double-digit increases in EPS.

We are especially pleased with our acquisition of GSI, a leading European information services company and provider of payroll and human resource information services. This was ADP's largest acquisition ever.

It gave us an important European presence and positions us well for further growth.

Aided by the GSI acquisition, revenue grew 23% to over \$3.5 billion. Net earnings grew 15% and EPS increased 14% to \$1.57.

In recognition of these strong operating results, our Board declared a two-for-one stock split and our 22nd consecutive annual dividend increase, to \$.40 per share, effective January 1, 1996.

ADP continues to operate from a position of significant financial strength and liquidity. Cash flow from operations exceeded \$644 million and year-end cash and marketable securities approximated \$1.1 billion, after spending \$718 million in '96 to acquire businesses and ADP shares.

We purchased 6.6 million ADP shares on the open market to fund employee equity plans.

Shareholders' equity exceeds \$2.3 billion. The ratio of long-term debt to equity is a comfortable .17 to 1, and return on average shareholders' equity is a very healthy 20%.

Capital expenditures for the year were \$164 million, about 5% of revenue. This compared to \$118 million last year.

## **VALUES**

At the root of our business success is a set of core values that guide our day-to-day activities. I'd like to share some of those values with you.

## **INTEGRITY & ETHICS**

Integrity and ethics are important...to each ADP associate and to ADP. We have a strong Code of Corporate Responsibility. We conduct our affairs with uncompromising honesty and integrity. It is a leadership requirement for every ADP supervisor to set a high standard of integrity and ethics in his or her own personal performance. This is more than words. This is an attitude that conveys our priorities and values. It leads us to treat everyone...associates, clients, prospects, and competitors...with respect. We will continue to spread this message throughout ADP in '97.

## **RESULTS ORIENTATION**

ADP's excellent operating results over the past 47 years did not happen by accident. Those results are a direct outcome of our commitment to increasing shareholder value through consistent revenue and earnings growth, with a high return on equity...all measured by conservative accounting methods.

Good leaders in a good environment will win over time. Yes, there may be short-term events that create anomalies. However, over the longer term it is results that matter. We measure performance by overall return to shareholders. We believe that our values, excellent people and markets, solid strategies and excellent service will lead to superior results.

### **CLIENT SERVICE**

Above all, ADP is a service company...striving to provide world-class service. We define service broadly, from initial contact with a prospect, to product quality, to client responsiveness. Our ability to consistently bring added-value to clients differentiates us from our competition. We are committed to continual improvement in product and service.

### **IMPORTANCE OF PEOPLE**

The most critical element in our success is our team of 29,000 associates who make ADP's service superior. Fortunately, we attract and retain exceptionally motivated, talented people with can-do attitudes. 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.

During '96 Gary Butler, Group President of Employer Services, our largest business unit, was appointed to our Board. Richard Haviland was promoted to Corporate Vice President, Finance. Philippe Gluntz, Ray Marlinga, Mike Rooney and Tom Tremba were named Corporate Vice Presidents, all in recognition of their important contributions and responsibilities.

After 29 years of service as Legal Counsel and Corporate Secretary, Fred Lafer retired in '96. Special thanks to Fred for his valuable contributions.

### **GROWTH STRATEGIES**

ADP's growth strategies continue to focus primarily on expanding leadership positions in our core businesses, where we already have #1 market positions and lots of remaining opportunities. Our major priorities are:

- - Deliver world-class client service to enhance value and increase client retention.
- - Increase market penetration by broadening product lines and distribution channels.
- - Provide ancillary products which create incremental value.
- - Expand existing businesses internationally.
- - Enter new markets which complement and leverage our core competencies and businesses.

### **FORECAST**

I am confident about ADP's long-term prospects for internal growth and selective acquisitions. We have the businesses, core competencies, and people to continue our remarkable record. In '97 we expect double-digit revenue growth and earnings per share growth of about 15%.

I am enthusiastic about our future success and want to particularly thank the 29,000 ADP associates, whose daily efforts make it all possible.

*/s/ Arthur F. Weinbach*

ARTHUR F. WEINBACH  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

August 14, 1996

Graph:

Earnings Per Share	92	.92
	93	1.04
	94	1.19
	95	1.38
	96	1.57
Revenues (\$ in millions)	92	1,941
	93	2,223
	94	2,469
	95	2,894
	96	3,567

## **Employer Services**

Employer Services (ES), our oldest and largest business, contributes 56% of ADP's revenue. ES serves over 350,000 employers with payroll, human resources, tax deposit and reporting services. ES now has 40 computer centers and 73 satellite sales and service centers in the U.S., as well as many others abroad.

The ES picture for '96 was one of steady growth. ES revenue grew by 18% to almost \$2 billion. ADP now processes payroll for 20 million employees in North America and several million in Europe.

Employer Services is focused on three market segments: National Accounts (companies with 1,000 or more employees), Major Accounts (100 to 999 employees) and the Heartland market. In National Accounts, average client tenure is 10 years. In Major Accounts, ADP has a 60% share of outsourced payroll. Perhaps the greatest growth potential exists in Heartland, where we now have 250,000 clients. As we look at all three market segments, we feel very confident that there is still lots of room for additional penetration and add-on services.

AutoPay continues to be ADP's most popular, flexible and comprehensive payroll product, serving 225,000 clients and 17 million employees. Approximately 55% of ES's worldwide revenue is derived from this core product. We recently introduced



PC/Payroll for Windows, a new client/server front-end for AutoPay. EasyPay is ADP's newest outsourcing solution for clients in the Heartland market (fewer than 100 employees). Its client base more than doubled this fiscal year, to 100,000 clients with steadily improving client retention and margins.

SoftPay is ADP's lowest-cost method for managing payroll and payroll taxes, designed for clients who prefer to process and print paychecks using their own PCs. In '96, ES launched a Windows version and a CPA version of SoftPay. We have also added electronic tracking of time and attendance.

Total Time continues to grow rapidly as more of our clients replace manual systems with our automated time and attendance solutions. Our installed base nearly doubled last year. In addition, we recently launched a simple user-installable version designed specifically for smaller clients. Employees may also enter attendance information directly into their own PCs.

As new electronic funds movement-type products evolve, such as New Hire Reporting, ADP Check/Full Service Direct Deposit and Wage Garnishment Payment, our ADP Tax Filing center is also responsible for the efficient movement of funds and information to third-party destinations. Over 260,000 clients rely on Tax Filing to assure regulatory compliance and to have timely product enhancements available, such as the IRS' Electronic Federal Tax Payment System (EFTPS).

New value-added products and functionality, supported by three decades of business experience, are key to ES meeting its marketplace goals. Human Resource Information Systems (HRIS) are excellent means to expand service offerings. The HRIS data bases and processes are similar to those already used for payroll.

For this reason, HRIS received special emphasis last year. Almost 80% of new National Accounts' sales included an HRIS component. We recently released CSS HRizon, a client/server HR solution, with fully integrated employee self-service modules for employee inquiry from a kiosk or desktop PC. This is a major help for short-staffed HR managers.

CSS/HRizon interfaces seamlessly with ADP payroll and other services. Future developments will include manager self-service modules for employee performance reviews, as well as, department compensation modeling and salary budgeting.

Because it is payroll-integrated, the ADP 401(k) product offers unique advantages to clients looking for a simple and affordable retirement savings plan. ADP has become a significant 401(k) service provider, we've grown from the 28th largest to the 11th largest 401(k) provider in the past two years. Client retention has remained consistent at close to 90%.

In '96, ADP added two well-respected industry leaders to its list of 401(k) investment choices -- Fidelity and Putnam Investments. A voice response system gives participants direct access to their accounts and eliminates most transaction-related paperwork.

Peachtree Complete for Windows is the most comprehensive Windows accounting and payroll product available in the low-end retail market.

In December, Peachtree shipped First Accounting 2.0, geared to first-time users of accounting software. In March, Peachtree acquired One-Write Plus, the leading entry-level accounting system. This brings the total users of Peachtree software products to 485,000.

Peachtree expects significant new activity in '97 as it links with ADP Total Time, SoftPay and ADP's electronic banking joint venture, called EC-Partners.

Through EC-Partners, ADP clients can view bank account information, transfer funds between accounts, pay bills and reconcile their accounts - all from the same personal computer on which they process payroll. Peachtree Software was first to integrate this service with accounting software in its "Peachtree Accounting with e-CHECK."

As more ADP clients become multinational in scope, it becomes increasingly important to offer services on a global scale. ADP is firmly committed to further expanding outside the United States. Last November, ADP acquired Paris-based GSI, Europe's largest provider of payroll and related human resource services with operations in eight countries. This makes ADP the first provider of integrated human resources and payroll services to U.S. corporations and their European subsidiaries.

## **Brokerage Services**

Brokerage Services, ADP's second-largest business, with over 22% of ADP revenue, provides high quality, high speed securities transaction processing, investor support tools, market data services, and investor communications related services to the financial community worldwide. ADP is the largest provider of such third-party processing and retail equity information systems in the U.S. and Canada. Brokerage Services now supplies over 2,600 firms globally with technology-based information solutions.

ADP's new Power Partner system has been chosen by over 30 brokerage firms. It provides 5,500 of their brokers with this advanced market information system, and seamlessly interfaces various desktop software applications.

In the Institutional marketplace, Brokerage Services made several acquisitions. The DAIS Group provides sophisticated quantitative models to help portfolio managers assess risk and select stocks. DAIS models combine analytics with real-time quotes and news. Merrin Financial provides securities trade order management and routing solutions for investment managers and securities brokers. ADP and Merrin will bring investors and brokers together using seamless, transparent, end-to-end transaction execution over a secure, reliable network. Information Catalysts (ICI) markets fixed income trading, operations and accounting software for domestic and international banks and securities brokerage firms.

Global Treasury Information Services (GTIS) keeps its clients in tune with global price information, news and commentary on fixed income, foreign exchange, money markets, futures and metals. Information is contributed directly to GTIS by key institutions (e.g., banks and brokers). GTIS's flexible delivery platform is usable at home via Internet or in the trading room of the world's largest banks.

ADP Investor Communication Services (ICS) is the largest independent provider of shareholder communication services in the U.S. and Canada servicing 12,000 publicly traded corporations, mutual funds, and financial institutions on behalf of more than 800 brokerage firms and banks. ICS processed over 235 million mailings during '96, up 15% from '95. In addition, ICS processed shareholder ballots, representing 127 billion shares, through its optical, electronic and telephone voting systems.

ICS also uses the Internet to display quarterly reports, earnings and other corporate information. Proxy Edge, is a unique electronic voting service which dramatically improves voting efficiency. PhoneVOTE Services, enables mutual fund shareholders to vote their proxy over the telephone for same-day tabulation.

ICS also processes statements, confirmations, customized messages and prospectus fulfillment. In addition, ICS continually combines technology and marketplace knowledge to engineer valuable new communications services.

## Dealer Services

ADP Dealer Services is the world's largest provider of computing, data and professional services to auto and truck dealers in the U.S., Canada, Europe, Asia and Latin America. Over 16,000 dealers use our on-site systems and communications networks to manage every area of sales and operations. Dealer Services' linking of systems, business processes, and strategies has rapidly grown our worldwide market share of dealer based systems.

In fiscal '96, Dealer Services' revenue grew 26%. Currently, customer retention rates are 95% in the United States and Canada, 97% in Europe, and 100% in Taiwan and Mexico. This year, we announced an expanding client focus -- "Securing Your Future." ADP addresses critical dealership areas and offers software and professional services to improve consumer loyalty, asset management, innovative technology, employee productivity, manufacturer relations, and real-time information access.

Dealer Services has been a recognized industry leader since introducing on-site, integrated systems 20 years ago. We recently introduced Pre-Owned Vehicle Locator (PVL) and New Vehicle Ordering System (NVOS) to help dealers manage inventories and enhance profitability.

As industry change accelerated we unveiled a next wave of technology in the Advisor family. Super Service Advisor fully automates reservation and service write-up, using hand-held wireless, electronic clipboards. Sales Advisor is a complete retail sales process designed to improve sales performance and customer handling. Also introduced in '96 was the ADP Sales Kiosk, a state-of-the-art interactive sales presentation tool, and ADP AutoConnect, a complete Internet service for both dealers and consumers. Currently over 3,300 web sites have been created, making ADP AutoConnect home to the largest community of dealership sites around the world on the Internet. With ADP AutoConnect, consumer access to dealer products and services is easier than ever.

We understand and value the importance of repeat business and positive client experiences for our dealer network. Other new products help dealers tailor their marketing programs to ensure customer loyalty. ADP's Relationship Marketing System (RMS) is the leading automated system for customer

contact, from initial prospect through the purchase life cycle and ongoing service.

Dramatic changes in customer expectations and manufacturers' requirements are revolutionizing the traditional dealership. Our commitment to assisting dealers in business process improvements is evidenced by strategic acquisitions including Sandy Corp., Automatic Service Consultants (ASC), Hayes-Ligon and Novak Corp. -- some of the most respected solution-oriented companies in the industry.

Dealer Services also offers solutions to help employee productivity and training. Synergies from our acquisition of Sandy Corp., Mike Nicholes Inc., ASC, and Novak provide new tools and services to improve dealer productivity and profitability.

ADP Computer Care and Suivitel/Pertel, are the leading outsourced providers of customer loyalty programs endorsed by most manufacturers in the U.S. and Canada.

Advancements in computer technology, based on consumer demands, are accelerating throughout the world. Dealer Services continually participates in strategic direction meetings with major auto manufacturers to ensure that our clients' investments will remain compatible with future manufacturer management tools and systems.

Most recently, Dealer Services partnered with Driver's Mart Worldwide, Inc. -- a used car mega retail chain, to develop the full range of systems for every retail center. As Driver's Mart's partner, Dealer Services is developing the first truly interactive auto retailing system. It promises to revolutionize customer buying.

## Claims Services

Claims Services provides products for the property and casualty industry and their business partners in the auto, medical and property claims sectors.

This year we realized significant expansion with a 27% revenue increase, and added eighteen new property and casualty clients in Canada.

In Estimating Services, products evolved away from single-purpose systems for auto physical damage claims. For the first time, mobile claims professionals could carry any combination of information systems needed for collision estimating, digital imaging, vehicle valuation, and homeowner's property damage appraisal -- on one pen-based computer tablet: PenPro.

Insurance clients electronically transferred claims information to restoration business partners using Autonet, ADP's communications network.

The sharing of electronic claims folders between insurers and collision repair facilities became so popular that we created a "Connectivity Services" program to exclusively support this relationship.

Market penetration of other key Estimating Services products also grew. Autosource vehicle loss valuations nearly doubled market share in the U.S. The installed base of Shoplink estimating systems for collision repairers grew to over 5,000 across North America, increasing revenue by 90%. The Photolink digital imaging system became the de facto industry standard.

ADP Parts Services helps the flow of salvage parts information among insurers, body shops and automotive recyclers. Over

3,000 parts recyclers now manage their salvage inventories with our yard management systems. Computerized storage of parts records translates into increased on-line availability for insurers and collision repairers using ADP's PXS locating system. Recyclers also bought and sold over 7.5 million parts among themselves, using ADP's satellite and land line networks.

In medical claims, Integrated Medical Solutions (IMS) had strong revenue growth, fueled by its added value for existing relationships between insurers and medical providers.

Provider Bill Audit (PBA), is a computerized system that reviews medical bills to help insurers contain costs. Twelve of the top fifteen U.S. insurers are either licensing or piloting PBA software.

IMS also has medical specialists to manage claims for key clients, aided by an electronic data interchange. In addition, IMS is beginning to audit Workers' Compensation claims, and has introduced a Negotiated Fee Network of preferred medical providers to further ensure quality medical services at reasonable costs.

Claims Services will continue to build upon the momentum created in '96, while pursuing acquisitions that add value to the property and casualty industry and its trading partners.



## **ADP International**

In Europe, ADP's services for payroll and human resource management are provided in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom.

### **GSI**

ADP-GSI now handles the outsourced processing of payroll for 1.2 million employees, including 120,000 who were added during the last year. Another 7 million employees are paid using ADP-GSI software. The retention rate of ADP-GSI clients who outsource their payroll has risen to 97% in the last fiscal year.

ADP-GSI recently introduced a new offering, Hypervision, which integrates payroll and human resource management on a Windows workstation, using client-server architecture and relational databases.

In France, ADP-GSI is now moving into the small companies market, serviced entirely by phone.

### **THE NETHERLANDS**

ADP now has a 14% share of the private sector market. Client retention for the year exceeded 90%.

We offer Payroll and Human Resource Management (HRM) to all employers. PERMAN II for Windows is an advanced HRM product for larger companies.

### **UNITED KINGDOM**

ADP currently pays over 2% of the UK workforce. Our goal is to become the leading supplier of payroll services, and we are steadily building our market share. Client retention for fiscal '96 was 93%.

PC Surepay service, with a fully integrated Personnel system, offers speed and flexibility. The Client Partnership Series helps larger clients to process when and where they like, while being fully supported by ADP's specialist teams. ADP's Managed Payroll services allows companies to outsource both the processing and administration of the payroll. ADP takes responsibility for all elements of the process and deals with the various statutory authorities on the client's behalf.

### **BROKERAGE SERVICES**

ADP Wilco continues to grow in international and domestic markets. Wilco acquired GlossTRADER, an easy-to-use Windows-based front office trading and sales system for fixed income. We now offer a total front and back office solution to the international marketplace, as well as the ability to offer each solution separately.

### **DEALER SERVICES**

Dealer Services continued its strategy of global expansion in '96, acquiring ADP Dealer Systems de Mexico, Pacsys in Canada, and DataTec in Taiwan.

Pacsys provides market-driven F&I products to Canadian dealers. ADP DataTec International can provide future distribution in Asia and the Pacific Rim.

Dealer Services' Pan-European efforts include systems being provided to the dealers of Opel PSA and Mercedes Benz throughout Europe.

Selected Financial Data  
Automatic Data Processing, Inc. and Subsidiaries

(In thousands, except per share amounts)

Year ended June 30,	1996	1995	1994	1993	1992
Revenue . . . . .	\$3,566,597	\$2,893,742	\$2,468,966	\$2,223,374	\$1,940,571
Cost of operations . . . . .	2,901,476	2,335,122	2,001,796	1,816,995	1,586,725
Interest expense . . . . .	29,731	24,340	20,840	19,819	12,266
	2,931,207	2,359,462	2,022,636	1,836,814	1,598,991
Earnings before income taxes and cumulative effect of accounting changes . . . . .	635,390	534,280	446,330	386,560	341,580
Provision for income taxes . . . . .	180,690	139,450	112,210	92,360	85,400
Net earnings before cumulative effect of accounting changes . . . . .	454,700	394,830	334,120	294,200	256,180
Cumulative effect of accounting changes . . . . .	----	----	(4,800)	----	----
Net earnings . . . . .	\$ 454,700	\$ 394,830	\$ 329,320	\$ 294,200	\$ 256,180
Earnings per share: Before cumulative effect of accounting changes . . . . .	\$1.57	\$1.38	\$1.19	\$1.04	\$ .92
Cumulative effect of accounting changes . . . . .	----	----	(.02)	----	----
Net earnings . . . . .	\$1.57	\$1.38	\$1.17	\$1.04	\$ .92
Average number of common shares outstanding . . . . .	288,967	285,112	281,780	282,654	278,090
Cash dividends per share . . . . .	\$ .3875	\$ .3125	\$ .27	\$ .2375	\$ .2075
Return on equity (a) . . . . .	20.3%	20.9%	21.0%	20.9%	22.1%
At year end: Cash, cash equivalents and marketable securities . . . . .	\$1,098,620	\$1,291,889	\$1,062,190	\$ 886,452	\$ 741,357
Working capital . . . . .	\$ 618,670	\$ 667,920	\$ 507,243	\$ 355,047	\$ 366,752
Total assets . . . . .	\$3,839,885	\$3,201,096	\$2,711,751	\$2,439,400	\$2,169,300
Long-term debt . . . . .	\$ 403,743	\$ 390,177	\$ 372,959	\$ 347,583	\$ 333,192
Shareholders' equity . . . . .	\$2,315,346	\$2,096,615	\$1,691,251	\$1,494,456	\$1,296,728

(a) Before cumulative effect of accounting changes in 1994 (see Note 1B.). All per share information has been adjusted to reflect a two-for-one stock split on January 1, 1996.

See notes to consolidated financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OPERATING RESULTS

Revenue and earnings reached record levels during each of the past three fiscal years. During fiscal '96, revenue was over \$3.5 billion and net earnings were \$455 million. Earnings per share increased 14% to \$1.57. All per share amounts are adjusted for a two-for-one common stock split, effective January 1, 1996. Fiscal '96 was ADP's 35th consecutive year of double-digit earnings per share growth since becoming a public company in 1961.

Effective November 1, 1995, ADP acquired control of GSI, the leading European provider of payroll and human resource information services. GSI also provides facilities management, banking, clearing and other information services in Europe.

The financial results of GSI are included in ADP's consolidated results on a one-month lag. Accordingly, the consolidated results for the year ended June 30, 1996 include GSI operations for the 7 months ended May 31, 1996. During the fourth quarter a decision was reached to sell GSI's facilities management business. As a result, the net of revenues and pre-tax expenses of that business for the quarter, which are not material, have been included in general, administrative and selling expenses.

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

	Revenue			Revenue Growth		
	Years Ended June 30,			Years Ended June 30,		
	1996	1995	1994	1996	1995	1994
(\$ in millions)						
Employer Services (a)	\$1,984	\$1,677	\$1,482	18%	13%	9%
Brokerage Services . . .	787	657	606	20	8	20
Dealer Services . . . .	555	440	334	26	32	22
Other (a) . . . . .	241	120	47	101	155	(40)
Consolidated . . . . .	\$3,567	\$2,894	\$2,469	23%	17%	11%

(a) Reclassified

Consolidated revenue grew 23% in fiscal '96, primarily from increased market penetration, an expanded array of products and services, and from acquisitions, with relatively minor contributions from price increases. Revenue growth, excluding the GSI acquisition, approximated 15%.

The margins of several of the current year acquisitions are lower than ADP's overall margins, and, as expected, consolidated margins decreased slightly. The consolidated pretax margin was 17.8% in '96, 18.5% in '95, and 18.1% in '94.

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 18% in fiscal '96 (12% excluding GSI). In the absence of all acquisitions revenue growth would have been about 10%, the same as in '95 and up from the 9% internal growth rate in '94.

As expected, the GSI acquisition had a slight negative impact on the overall ES operating margin, which was 25% for the year. Without GSI the ES margin would have been 26%. (Margins were 26% in '95 and 27% in '94.) Field operating margin increased in each of the past three years as a result of continued productivity and operating efficiencies. This increased field margin has enabled ES to significantly increase its investments in product development, sales, and marketing.

Employer Services' 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 consistent standard rate of 7.8% since 1986.

#### BROKERAGE SERVICES

Aided by acquisitions and very high trading volumes, Brokerage Services' revenue grew 20% in '96. Without acquisitions, Brokerage revenue growth would have approximated 12%. Growth rates in '95 and '94 were 8% and 20%, respectively.

Brokerage Services' operating margin was about 13% in fiscal '96, depressed slightly by the impact of acquisitions. The operating margin was 13% in '95 and 15% in '94. These prior year margins are slightly lower than previously reported as prior years' results have been restated for the inclusion of certain expenses previously recorded at the Corporate level.

#### DEALER SERVICES

Dealer Services' revenue grew 26% in '96, compared to increases of 32% in '95 and 22% in '94. Revenue growth in each year was aided by several small acquisitions. In the absence of acquisitions, '96 revenue growth would have been about 10%. The current year's acquisitions have lower margins than the existing Dealer margins, and accordingly, operating margin decreased slightly to approximately 18% in fiscal '96 from 20% in '95 and '94.

#### OTHER

The primary components of "Other revenue" are claims services, services for wholesalers, the non-Employer Services businesses of GSI and interest income. 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 7.8%. The revenue from two businesses providing payroll services in Europe have been reclassified from "Other revenue" and are now included in Employer Services. "Other revenue" has increased primarily as a result of the GSI acquisition and growth in the Claims Services business.

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 and develop new products. The impact of fluctuations in foreign currency rates on the Company's financial statements was not material during the three-year period ended June 30, 1996.

In '96, the Company's effective tax rate was approximately 28%, up from approximately 26% in '95, primarily as a result of greater weighting of taxable versus non-taxable earnings, the impact of non-deductible goodwill arising from the GSI acquisition, and the elimination of the research and development tax credit in '96. The '95 effective rate increased from approximately 25% in '94, primarily as a result of greater weighting of taxable versus non-taxable earnings. Consolidated after-tax margins were 12.7% in '96, 13.6% in '95, and 13.5% in '94.

In '94 the Company adopted FASB Statements No. 109, "Accounting for Income Taxes", and No. 112, "Employer's Accounting for Postemployment Benefits", effective July 1, 1993. The cumulative effect of adopting Statement No. 109 was to increase net earnings by \$2.7 million (\$.01 per share). The cumulative effect of adopting Statement No. 112 was to decrease net earnings by \$7.5 million (\$.03 per share), net of \$5.0 million of income tax benefits.

For '97 ADP is planning another record year with double-digit growth in revenue and about 15% growth in earnings per share.

Additional comments and operating results are included in the Letters to Shareholders on pages 2 through 4 and in the business descriptions presented on pages 5 through 15.

#### FINANCIAL CONDITION

ADP's financial condition and balance sheet remain exceptionally strong. At June 30, 1996, cash and marketable securities approximated \$1.1 billion.

Shareholders' equity exceeded \$2.3 billion, and return on average equity for the year was 20%. The ratio of long-term debt to equity at June 30, 1996 was 17%.

A portion of the GSI purchase price was funded by borrowing approximately 466 million French francs (equivalent to \$91 million at June 30, 1996) with the remainder coming from the Company's cash and marketable securities.

Cash flow from operating activities exceeded \$644 million in '96. We expect another excellent cash flow year in fiscal 1997.

In '96, 6.6 million shares of common stock were purchased at an average price of approximately \$37, as part of an ongoing program to fund equity related employee benefits. The Board of Directors has authorized the purchase of up to 6.8 million additional shares.

During '96, the Company purchased several businesses for approximately \$473 million in cash and \$20 million in common stock. The cost of acquisitions in '95 and '94 aggregated \$123 million and \$81 million, respectively. The Company also acquired several businesses in '96 and '95 in pooling of interest transactions in exchange for 969,000 and 2,362,000 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 '96 were approximately \$164 million, following investments of \$118 million in '95 and \$111 million in '94. Capital spending in fiscal '97 should approximate \$200 million.

#### 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 1996 quarter ended	Price Per Share		Dividends
	High	Low	Per Share
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
-----			
Fiscal 1995 quarter ended			
June 30 . . . . .	\$33	\$30 1/4	\$.0875
March 31 . . . . .	32 3/4	28 3/4	.075
December 31 . . . . .	29 7/8	26 1/4	.075
September 30 . . . . .	28 3/8	25 3/8	.075

As of June 30, 1996 there were approximately 26,800 holders of record of Automatic Data Processing, Inc. common stock. Over 100,000 additional holders have their stock in "street name". All per share information has been adjusted to reflect a two-for-one stock split on January 1, 1996.

**STATEMENTS OF CONSOLIDATED EARNINGS**  
**Automatic Data Processing, Inc. and Subsidiaries**

(In thousands, except per share amounts)

Year ended June 30,	1996	1995	1994
Revenue . . . . .	\$3,566,597	\$2,893,742	\$2,468,966
Operating expenses. . . . .	1,516,407	1,177,292	1,026,354
General, administrative and selling expenses . . . . .	933,805	792,121	666,344
Depreciation and amortization . . . . .	201,629	172,536	148,295
Systems development and programming costs . . . . .	249,635	193,173	160,803
Interest expense. . . . .	29,731	24,340	20,840
	2,931,207	2,359,462	2,022,636
Earnings before income taxes and cumulative effect of accounting changes . . . . .	635,390	534,280	446,330
Provision for income taxes. . . . .	180,690	139,450	112,210
Net earnings before cumulative effect of accounting changes	454,700	394,830	334,120
Cumulative effect of accounting changes . . . . .	----	----	(4,800)
Net earnings. . . . .	\$ 454,700	\$ 394,830	\$ 329,320
Earnings per share:			
Before cumulative effect of accounting changes. . . . .	\$1.57	\$1.38	\$1.19
Cumulative effect of accounting changes . . . . .	----	----	(.02)
Net earnings. . . . .	\$1.57	\$1.38	\$1.17
Average number of common shares outstanding . . . . .	288,967	285,112	281,780

See notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

Automatic Data Processing, Inc. and Subsidiaries  
(In thousands, except per share amounts)

June 30,	1996	1995
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 314,416	\$ 313,612
Short-term marketable securities	321,743	384,009
Accounts receivable	507,198	377,145
Other current assets	310,926	136,377
Total current assets	1,454,283	1,211,143
Long-term marketable securities	462,461	594,268
Long-term receivables	188,184	189,858
Property, plant and equipment - at cost:		
Land and buildings	322,975	287,186
Data processing equipment	578,935	501,403
Furniture, leaseholds and other	330,610	309,592
Less accumulated depreciation	1,232,520	1,098,181
	764,254	682,222
	468,266	415,959
Other assets	19,597	84,212
Intangibles	1,247,094	705,656
	\$3,839,885	\$3,201,096
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 90,746	\$ -
Accounts payable	96,351	65,955
Accrued expenses and other current liabilities	590,355	385,040
Income taxes	52,954	82,672
Current portion of long-term debt	5,207	9,556
Total current liabilities	835,613	543,223
Long-term debt	403,743	390,177
Other liabilities	78,508	66,865
Deferred income taxes	112,880	18,844
Deferred revenue	93,795	85,372
Shareholders' equity:		
Preferred stock, \$1.00 par value:		
Authorized, 300 shares; issued, none		
Common stock, \$.10 par value:		
Authorized, 500,000 shares; issued, 314,277 and 314,234 shares, respectively	31,428	31,424
Capital in excess of par value	406,200	351,907
Retained earnings	2,537,952	2,182,838
Treasury stock - at cost, 26,656 and 26,066 shares, respectively	(660,234)	(469,554)
Total shareholders' equity	2,315,346	2,096,615
	\$3,839,885	\$3,201,096

See notes to consolidated financial statements.

**STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY**  
**Automatic Data Processing, Inc. and Subsidiaries**

(In thousands, except per share amounts)

	Common Stock		Capital in	Retained	Treasury
	Shares	Amount	Excess of Par Value	Earnings	Stock
BALANCE, JULY 1, 1993, AS PREVIOUSLY REPORTED	157,117	\$15,712	\$300,010	\$1,630,135	\$451,401
Two-for-one stock split as of January 1, 1996	157,117	15,712	(15,712)	--	--
Employee stock plans and related tax benefits	--	--	23,699	--	(47,986)
Treasury stock acquired (5,158 shares)	--	--	--	--	129,389
Net earnings	--	--	--	329,320	--
Dividends (\$.27 per share)	--	--	--	(76,031)	--
Other transactions	--	--	1,320	(1)	109
BALANCE, JUNE 30, 1994	314,234	31,424	309,317	1,883,423	532,913
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	--	--	12,137	15	104
BALANCE, JUNE 30, 1995	314,234	31,424	351,907	2,182,838	469,554
Employee stock plans and related tax benefits	--	--	68,286	--	(37,080)
Treasury stock acquired (6,640 shares)	--	--	--	--	245,224
Acquisitions (1,513 shares)	--	--	4,007	12,530	(17,809)
Net earnings	--	--	--	454,700	--
Dividends (\$.3875 per share)	--	--	--	(112,116)	--
Other transactions	43	4	(18,000)	--	345
BALANCE, JUNE 30, 1996	314,277	\$31,428	\$406,200	\$2,537,952	\$660,234

See notes to consolidated financial statements.



**STATEMENTS OF CONSOLIDATED CASH FLOWS**

Automatic Data Processing, Inc. and Subsidiaries

(In thousands)

Year ended June 30,	1996	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings	\$ 454,700	\$ 394,830	\$ 329,320
Depreciation and amortization	201,629	172,536	148,295
Deferred income taxes	13,940	(11,050)	(3,200)
Changes in operating assets and liabilities:			
Receivables and other assets	22,659	(89,131)	(28,922)
Accounts payable and accrued expenses	(36,175)	(1,975)	17,105
Other	(12,699)	13,575	46,530
Net cash flows from operating activities	644,054	478,785	509,128
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of marketable securities	(1,014,244)	(1,080,989)	(953,494)
Proceeds from sale of marketable securities	1,208,317	926,276	835,580
Capital expenditures	(163,525)	(117,698)	(110,733)
Other changes in property, plant and equipment	5,563	3,756	12,822
Additions to intangibles	(111,054)	(38,612)	(24,460)
Acquisitions of businesses, net of cash acquired	(472,783)	(107,457)	(81,082)
Net cash flows from investing activities	(547,726)	(414,724)	(321,367)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of notes	90,746	---	---
Repayments of long-term debt	(21,009)	(6,217)	(1,702)
Proceeds from issuance of common stock	125,617	99,412	77,981
Repurchases of common stock	(245,224)	(13,146)	(129,389)
Dividends paid	(112,116)	(89,224)	(76,031)
Other	66,462	20,100	(796)
Net cash flows from financing activities	(95,524)	10,925	(129,937)
Net change in cash and cash equivalents	804	74,986	57,824
Cash and cash equivalents, at beginning of period	313,612	238,626	180,802
Cash and cash equivalents, at end of period	\$ 314,416	\$ 313,612	\$ 238,626

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended June 30, 1996, 1995 and 1994 / Automatic Data Processing, Inc. and Subsidiaries

### 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 accounts 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. Accounting Changes. In fiscal 1994 the Company adopted FASB Statements No. 109, "Accounting for Income Taxes", and No. 112, "Employers' Accounting for Postemployment Benefits", effective July 1, 1993. The cumulative effect of adopting Statement No. 109 was to increase net earnings by \$2.7 million (\$.01 per share). The cumulative effect of adopting Statement No. 112, which requires certain postemployment benefits to be accrued as service is provided, was to decrease net earnings by \$7.5 million (\$.03 per share), net of \$5.0 million of income tax benefits.

C. Cash and Cash Equivalents. Highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents. D. Marketable Securities. Marketable securities consist primarily of high grade municipal investments. Most of the Company's marketable securities are considered to be "available-for-sale", and, accordingly, are carried on the June 30, 1996 balance sheet at fair market value which approximates cost. Gains/losses from the sale of marketable securities have not been material. Approximately \$249 million of the Company's long-term marketable securities mature in 1-2 years, \$91 million in 2-3 years, and the remainder in less than 7 years. E. 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

F. 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.

G. 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.

H. 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, which are not material, are included in shareholders' equity.

I. Stock Split. As of January 1, 1996, the Company had a two-for-one stock split. All per share earnings and dividends and references to common stock give effect to this split.

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

K. Line of Business. The Company is engaged in the computing services business. L. Reclassification of Prior Financial Statements. Certain reclassifications have been made to previous years' financial statements to conform to current classifications.

### NOTE 2. ACQUISITIONS AND DISPOSITIONS

Effective November 1, 1995, ADP acquired control of GSI-Participations, a leading computer services company based in Paris, France, for approximately \$460 million in cash plus transaction costs and other related liabilities assumed. A portion of the purchase price has been funded by borrowing approximately 466 million French francs (equivalent to \$91 million as of June 30, 1996) on a short-term basis at an average interest rate of 4.1% during the period subsequent to the acquisition. This borrowing has been designated as a hedge against the Company's net investment in GSI.

The financial results of GSI are included in ADP's consolidated results on a one-month lag. Accordingly, the consolidated results for fiscal 1996 include GSI's operations from November 1995 through May 1996. During the fourth quarter, a decision was reached to sell GSI's facilities management

business. Consequently, the net of revenues and pre-tax expenses of that business for the quarter, which are not material, have been included in general, administrative and selling expenses in the Statement of Consolidated Earnings. Net assets of the business are included as assets held for sale in other current assets on the Consolidated Balance Sheet.

Based on preliminary allocations of purchase price, the GSI transaction results in approximately \$523 million of goodwill and other intangibles (primarily customer lists and software), which are being amortized over periods ranging from 5 to 40 years. The allocation of purchase price is preliminary and subject to adjustment upon receipt of final valuation information and management's final estimates as to the fair value of assets acquired and liabilities assumed.

On an unaudited pro forma basis, assuming that the acquisition had been made as of July 1, 1994, the consolidated revenue of ADP for fiscal 1996 and 1995 would have increased by approximately \$173 million and \$400 million, respectively, and net earnings would have decreased by approximately \$9 million (\$.03 per share) and \$31 million (\$.11 per share), respectively.

During fiscal 1996, 1995 and 1994, the Company purchased several other businesses for approximately \$91 million (including \$20 million in common stock), \$123 million (including \$16 million in common stock) and \$81 million, respectively. 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 1996 and 1995 in pooling of interest transactions in exchange for 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. RECEIVABLES

Accounts receivable is net of an allowance for doubtful accounts of \$35 million and \$23 million at June 30, 1996 and 1995, 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)	1996		1995	
	Current	Long-Term	Current	Long-Term
June 30,				
Receivables	\$126,415	\$243,522	\$110,345	\$247,145
Less:				
Allowance for doubtful accounts	(14,715)	(25,727)	(12,136)	(26,166)
Unearned income	(25,144)	(29,611)	(24,102)	(31,121)
	\$ 86,556	\$188,184	\$ 74,107	\$189,858

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, 1996 mature as follows:  
(In thousands)

1998	\$104,058
1999	74,898
2000	44,127
2001	16,752
Thereafter	3,687
	-----
	\$243,522
	-----

### NOTE 4. INTANGIBLE ASSETS

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

June 30,	1996	1995
Goodwill	\$ 931,424	\$ 482,076
Other	709,803	528,277
	-----	-----
Less accumulated amortization	1,641,227 (394,133)	1,010,353 (304,697)
	-----	-----
	\$1,247,094	\$ 705,656
	-----	-----

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 totalled \$81 million for fiscal 1996, \$66 million for 1995 and \$61 million for 1994.

**NOTE 5. LONG-TERM DEBT**

Components of long-term debt are as follows:

(In thousands)

**June 30, 1996 1995**

Zero coupon convertible subordinated notes (5 1/4% yield) \$356,561 \$339,132 Industrial revenue bonds (with fixed and variable interest rates

from 3.6% to 8.3%)	39,200	39,560
Other	13,189	21,041
	-----	-----
	408,950	399,733
Less current portion	(5,207)	(9,556)
	-----	-----
	\$403,743	\$390,177
	-----	-----

The zero coupon convertible subordinated notes have a face value of approximately \$802 million at June 30, 1996, and mature February 20, 2012, unless converted or redeemed earlier. The notes are convertible into approximately 10.4 million shares of the Company's common stock. The notes are callable at the option of the Company since February 1996, and the holders of the notes can convert into common stock at any time or require redemption in 1997,

2002, and 2007. During fiscal 1996, approximately \$3 million face value of notes were converted. As of June 30, 1996 and 1995, the quoted market prices for the zero coupon notes were approximately \$400 million and \$360 million, respectively. The fair value of the other debt included above, based on available market information, approximates its carrying value.

Long-term debt repayments are due as follows:

(In thousands)

1998	\$ 443
1999	435
2000	435
2001	435
Thereafter	401,995
	\$403,743

Interest payments were approximately \$8 million during fiscal 1996 and \$4 million during the years ended June 30, 1995 and 1994.

#### NOTE 6. 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 260,000 clients, files over 11.5 million applicable returns, handles all regulatory correspondence and amendments, absorbs regulatory charges for certain penalties and interest, and remits the funds to the appropriate tax agencies. 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 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 \$3.7 billion in fiscal 1996, \$3.3 billion in fiscal 1995 and \$2.8 billion in fiscal 1994. The amount of such funds was \$5.0 billion as of June 30, 1996, of which \$1 billion was supported by a letter of credit and a related ADP guarantee, and was \$4.6 billion as of June 30, 1995. Interest on collected but unremitted funds amounted to approximately \$178 million in fiscal 1996, \$148 million in 1995, and \$111 million in 1994.

#### NOTE 7. EMPLOYEE BENEFIT PLANS

A. Stock Option 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, 1996, there were 5,116 participants in the plans. The aggregate purchase price for options outstanding at June 30, 1996 was approximately \$556 million. The options expire between 1996 and 2006.

A summary of changes in the stock option plans for the three years ended June 30, 1996 is as follows:

(In thousands, except per share amounts)	Number of Options		
Year ended June 30,	1996	1995	1994
Options outstanding, beginning of year	20,724	19,340	16,474
Options granted (\$33 to \$39 per share in 1996, \$27 to \$31 in 1995 and \$24 to \$26 in 1994)	6,080	5,384	6,182
Options exercised (\$6 to \$31 per share in 1996, \$4 to \$25 in 1995 and \$4 to \$24 in 1994)	(2,445)	(2,282)	(1,718)
Options cancelled	(1,726)	(1,764)	(1,608)
Other	74	46	10
Options outstanding, end of year (\$8 to \$39 per share in 1996, \$6 to \$31 in 1995 and \$5 to \$26 in 1994)	22,707	20,724	19,340
Options exercisable, end of year	6,677	5,652	5,180
Shares available for future grants, end of year	10,015	4,442	8,108
Shares reserved for issuance under stock option plans	32,722	25,166	27,448

The Financial Accounting Standards Board has issued a statement on accounting for stock-based compensation, which allows companies to either retain APB Opinion 25 for recognizing expense for stock-based compensation, or adopt a new accounting method based on estimated fair value. The Company has decided to continue to follow APB 25 and will describe the impact of using an estimated fair value approach on a pro forma basis in fiscal 1997.

B. Restricted Stock Plan. 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, 1996, 1995 and 1994, the Company issued 186,800, 106,300 and 188,100 restricted shares, and repurchased 47,200, 50,200 and 46,200 shares, respectively.

C. Employee Stock Purchase Plans. 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 1.9 million shares are scheduled for issuance on December 31, 1996 and 2.3 million on December 31, 1997. Approximately 1.9 million and 2.0 million shares were issued during the years ended June 30, 1996 and 1995, respectively. At June 30, 1996 and 1995, there were approximately 8.6 million and 10.6 million shares reserved for purchase under the plan. Included in liabilities as of June 30, 1996 and 1995 are employee stock purchase plan withholdings of approximately \$51 million and \$45 million, respectively.

D. Pension Plan. The Company has a defined benefit cash balance pension plan covering substantially all domestic employees, under which employees are credited with a percentage of base pay each year 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,	1996	1995
Funded plan assets at market value, primarily stocks and bonds	\$191,400	\$134,200
Actuarial present value of benefit obligations:		
Vested benefits	140,900	119,000
Non-vested benefits	8,200	7,400
Accumulated/projected benefit obligation	149,100	126,400
Plan assets in excess of projected benefits	42,300	7,800
Prior service cost	(3,400)	(4,300)
Transition obligation	1,500	1,700
Unrecognized net actuarial loss due to different experience than that assumed	22,700	31,400
Prepaid pension cost	\$ 63,100	\$ 36,600

The components of net pension expense were as follows:

(In thousands)

Year ended June 30,	1996	1995	1994
Service cost -- benefits earned during the period	\$13,600	\$12,600	\$10,700
Interest cost on projected benefits	10,000	8,400	6,800
Return on plan assets	(20,000)	(11,600)	(1,500)
Net amortization and deferral	9,900	3,600	(7,300)
	\$13,500	\$13,000	\$ 8,700

Assumptions used to develop the actuarial present value of benefit obligations for the three years ended June 30, 1996 were:

Discount rate	8.0%
Expected long-term rate of return on assets	8.5%
Rate of increase in compensation levels	6.0%

E. 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 \$18 million, \$11 million and \$9 million for calendar years 1995, 1994 and 1993, respectively.

## NOTE 8. 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)

Year ended June 30,	1996	1995	1994
Current:			
Federal	\$124,400	\$106,440	\$ 87,430
Foreign	20,750	19,150	10,670
State	21,600	24,910	17,310
Total current	166,750	150,500	115,410
Deferred:			
Federal	6,060	(4,440)	(620)
Foreign	5,860	(5,430)	(2,880)
State	2,020	(1,180)	300
Total deferred	13,940	(11,050)	(3,200)

\$180,690

\$139,450

\$112,210

At June 30, 1996 and 1995, the Company had gross deferred tax assets of approximately \$114 million and \$78 million, respectively, consisting primarily of operating expenses not currently deductible for tax return purposes. Valuation allowances approximated \$23 million as of June 30, 1996, and were not material as of June 30, 1995. Gross deferred tax liabilities approximated \$214 million as of June 30, 1996 and \$85 million as of June 30, 1995, consisting primarily of differences in the accounting and tax values of certain fixed and intangible assets. Income tax payments were approximately \$178 million in 1996, \$131 million in 1995 and \$90 million in 1994. Pretax domestic earnings approximated \$592 million in 1996, \$505 million in 1995 and \$430 million in 1994.

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

(In thousands, except percentages)

Year ended June 30,	1996	%	1995	%	1994	%
Provision for taxes at statutory rate	\$222,400	35.0	\$187,000	35.0	\$156,200	35.0
Increase (decrease) in provision from:						
Investments in municipals and preferred stocks	(55,300)	(8.7)	(57,995)	(10.9)	(50,860)	(11.4)
State taxes, net of federal tax benefit	15,370	2.4	15,425	2.9	12,540	2.8
Other	(1,780)	(.3)	(4,980)	(.9)	(5,670)	(1.3)
	\$180,690	28.4	\$139,450	26.1	\$112,210	25.1



**NOTE 9. LEASE OBLIGATIONS**

The Company and its subsidiaries have various facilities and equipment lease obligations. Total rental expense was approximately \$164 million in 1996, \$152 million in 1995 and \$135 million in 1994 with minimum lease commitments under operating leases as follows:

(In thousands)	
-----	
Year ending June 30,	
-----	
1997	\$159,000
1998	117,000
1999	65,000
2000	34,000
2001	22,000
Thereafter	38,000
	-----
	\$435,000

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.

**NOTE 10. FINANCIAL DATA BY GEOGRAPHIC AREA**

Information about the Company's operations by geographic area for the year ended June 30, 1996 is as follows (in millions):

-----					
	United States	Europe	Other Foreign (Primarily Canada)	Corporate	Consolidated
-----					
Revenue	\$3,020	\$388	\$115	\$ 44	\$3,567
Earnings before income taxes	\$ 562	\$ 35	\$ 8	\$ 30	\$ 635
Identifiable assets	\$1,568	\$290	\$ 56	\$1,926	\$3,840
-----					

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

**NOTE 11. QUARTERLY FINANCIAL RESULTS (UNAUDITED)**

Summarized quarterly results of operations (as restated for a two-for-one stock split on January 1, 1996) for the three years ended June 30, 1996 are as follows:

(In thousands, except per share amounts)					
-----					
Year ended June 30, 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
-----					
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	
-----					
Year ended June 30, 1994					
-----					
Revenue	\$551,983	\$577,661	\$ 674,405	\$664,917	
Net earnings	\$ 53,710(a)	\$ 80,180	\$ 104,990	\$ 90,440	
Earnings per share	\$ .19(a)	\$ .29	\$ .37	\$ .32	
-----					

(a) After decrease of \$4.8 million (\$.02 per share) from the cumulative effect of accounting changes. Third quarter revenue and earnings have historically been positively impacted by calendar year-end processings 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 judgements, 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*

*Roseland, New Jersey  
August 14, 1996*

*/s/ Richard J. Haviland*

*Richard J. Haviland  
Vice President, Finance*

## 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, 1996 and 1995, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1994 the Company changed its methods of accounting for postemployment benefits other than pensions and for income taxes.

*/s/ Deloitte & Touche LLP*

*New York, New York, August 14, 1996*

## EXHIBIT 21

### Jurisdiction of Name of Subsidiary Incorporation

ADP Atlantic, Inc.	Delaware
ADP Claims Solutions Group, Inc.	Delaware
ADP Autonom Computer GmbH	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
ADP Network Services 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

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, 1996.

**EXHIBIT 23**

**INDEPENDENT AUDITORS' REPORT ON SCHEDULE AND CONSENT**

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, 1996 and 1995, and for each of the three years in the period ended June 30, 1996, and have issued our report thereon dated August 14, 1996, which report includes an explanatory paragraph indicating changes in accounting principles for postemployment benefits other than pensions and for income taxes; such consolidated financial statements and report are included in your 1996 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 financial statements taken as a whole, present fairly in all material respects the information set forth therein.

In addition, 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 and 333-02331 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 and 333-10277 on Form S-8 of our report dated August 14, 1996, included in your 1996 Annual Report to Shareholders and incorporated by reference in the Annual Report on Form 10-K of Automatic Data Processing, Inc. for the year ended June 30, 1996.

*/s/ Deloitte & Touche LLP  
New York, New York  
August 14, 1996*

## ARTICLE 5

PERIOD TYPE	YEAR
FISCAL YEAR END	JUN 30 1996
PERIOD END	JUN 30 1996
CASH	314,416
SECURITIES	321,743
RECEIVABLES	541,824
ALLOWANCES	(34,627)
INVENTORY	32,580
CURRENT ASSETS	1,454,283
PP&E	1,232,520
DEPRECIATION	764,254
TOTAL ASSETS	3,839,885
CURRENT LIABILITIES	835,613
BONDS	403,743
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	31,428
OTHER SE	2,283,918
TOTAL LIABILITY AND EQUITY	3,839,885
SALES	0
TOTAL REVENUES	3,566,597
CGS	0
TOTAL COSTS	2,888,684
OTHER EXPENSES	0
LOSS PROVISION	12,792
INTEREST EXPENSE	29,731
INCOME PRETAX	635,390
INCOME TAX	180,690
INCOME CONTINUING	454,700
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	454,700
EPS PRIMARY	1.57
EPS DILUTED	1.53

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**End of Filing**

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