

# AUTOMATIC DATA PROCESSING INC

## FORM 10-K (Annual Report)

Filed 9/23/1998 For Period Ending 6/30/1998

Address	ONE ADP BOULVARD ROSELAND, New Jersey 07068
Telephone	973-974-7849
CIK	0000008670
Industry	Business Services
Sector	Services
Fiscal Year	06/30

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# FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the fiscal year ended June 30, 1998

OR

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

*Commission file number 1-5397*

### AUTOMATIC DATA PROCESSING, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-1467904 (I.R.S. Employer Identification No.)
One ADP Boulevard, Roseland, New Jersey (Address of principal executive offices)	07068 (Zip Code)
Registrant's telephone number, including area code: 973-994-5000	

#### 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 11, 1998 was approximately \$21,830,440,000. On September 11, 1998, there were 303,200,554 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 1998 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 10, 1998.

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 Employer Services offers a comprehensive range of payroll, human resources, benefits administration, time and attendance and tax filing and reporting services to more than 400,000 employers in the United States, Canada, Europe and South America. In addition to its direct marketing, Employer Services has marketing relationships with many banks and accountants whereby ADP offers its services to their business clients.

Payroll and tax filing and reporting services comprise over 80% of Employer Services' revenue. Payroll services include the preparation of pay checks and direct deposits (with major bank partners), along with supporting journals, summaries and management reports. ADP also supplies the quarterly and annual social security, medicare, and federal, state and local income tax withholding reports required to be filed by employers and employees. ADP's tax filing services process federal, state and local payroll taxes on behalf of ADP clients and remit such taxes to the appropriate taxing authorities when due. As new products evolve (such as new hire reporting, ADP check/full service direct deposit and wage garnishment payment), the ADP Tax Filing Center is also responsible for the efficient movement of funds and information to third parties.

ADP's "Payroll AnyWay" strategy presents to businesses of virtually every size and type an extensive menu of outsourced and on-site payroll solutions, from simple software packages to turnkey payroll services. ADP's Employer Services approach to the market is to match a client's needs with the product that will best meet expectations. Approximately 29% of Employer Services' payroll and payroll tax filing services revenue during the past fiscal year was attributable to Emerging Business Services (companies with less than 100 employees); approximately 31% of such revenue was attributable to Major Accounts (companies with between 100 and 999 employees) and approximately 26% of such revenue was attributable to National Accounts (companies with 1,000 or more employees).

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

Emerging Business Services processes payroll for approximately 325,000 clients. Major

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

The ADP Tax Filing Center supports all three market segments. It provides an electronic interface between approximately 315,000 ADP clients in the United States and Canada and over 2,000 tax agencies, from the Internal Revenue Service to town governments.

ADP complements its payroll and HR services with additional employer services that include products ranging from time and attendance tracking to 401(k) recordkeeping. ADP's unemployment compensation services aid clients in managing and reducing unemployment insurance costs. Peachtree and One Write software business applications are sold to small clients through retail channels. ADP enhanced its position as a leading benefits administration provider with the acquisition of the benefits administration business of William M. Mercer, Incorporated ("Mercer"), and the formation with Mercer of the Administrative Solutions Group, an alliance providing benefits administration and consulting services.

TotalSource-SM-, ADP's professional employer organization, supports 26,000 work-site employees in Florida, Georgia and Illinois and is positioned to substantially increase its presence in the fast-expanding employee leasing industry.

The continued increase in multinational companies makes payroll and human resource management services a global opportunity. Employer Services already has 23,000 payroll and HR clients in Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland, the United Kingdom and Brazil. In late 1997, ADP acquired the payroll services business of Royal Bank of Canada. The addition of Royal Bank's payroll clients makes ADP the largest payroll outsourcer in Canada. ADP's acquisition of a Brazilian computing services company permits it to offer employer services solutions to many businesses in Brazil, the world's ninth-largest economy.

### **Brokerage Services**

ADP's Brokerage Services provides securities processing, desktop productivity applications, and investor communications services to the financial services industry. ADP is the largest provider of securities processing services in North America. In fiscal 1998, ADP processed more than 15% of the retail equity transactions in the United States and Canada, handling an average of over 620,000 trades per day, and on October 28, 1997, ADP's systems handled more than one million trades.

In September 1998, ADP signed an agreement with Bridge Information Systems, Inc., a global market information and news company, to create a long-term, strategic alliance to provide market data, desktop applications and transaction processing services to the financial services industry. As part of this alliance, Bridge will purchase the market data assets and products of ADP, which generated approximately \$190 million of revenue in fiscal 1998. ADP will acquire a minority interest in Bridge.

In addition, ADP signed an agreement with Comprehensive Software Systems (CSS) to

exclusively market their BrokerView(TM) desktop product, a browser-based support tool for retail, discount, or independent brokers and trading desk personnel. ADP acquired a minority interest in CSS.

ADP Investor Communications Services (ICS), the largest processor and provider of shareholder communications services, handles 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 1998, ADP processed over 360 million shareholder mailings for over 12,000 publicly-traded companies on behalf of more than 800 brokerage firms and banks and 450 mutual fund families. Shareholder ballots representing approximately 250 billion shares were processed.

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

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

### **Dealer Services**

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

ADP offers clients a service solution that includes computer hardware, licensed software, software support, network consulting, design and hardware maintenance services. Clients use ADP's systems to manage business activities such as accounting, inventory, factory communications, scheduling, finance, insurance, sales and service. ADP designs, establishes and maintains communications networks for its clients that allow interactive communications among multiple site locations for larger dealers as well as links between franchise dealers and their respective manufacturers. These networks are used for new vehicle ordering, status inquiry and warranty submission and validation, parts and vehicle locating, credit application submissions, vehicle repair estimates, vehicle registration and lienholder information.

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

Changes in customers' expectations and manufacturers' 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. ADP 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 Claims Services offers a broad line of information products to property and casualty insurance companies, claims adjusters, repair shops and auto parts recycling facilities. These products help insurers to accurately estimate auto damage, bodily injury and property claims and help repairshops and recyclers locate parts and manage their operations.

Claims Services offers a broad range of cost containment products and services to the automobile physical damage and property claims markets in North America and Europe. These products and services are designed to assist clients in determining settlement amounts, to improve work flow efficiency, and to locate and utilize cost effective parts options. The products and services include automated collision damage repair estimating products for cars and trucks, integrated electronic digital imaging and communications services, vehicle valuation services for total losses, collision repair management systems products, aftermarket and recycled parts locating and pricing services and related management information products.

In 1998, ADP acquired Audatex Holding A.G., the leading provider of automobile insurance claims estimating services outside of North America. With Audatex, Claims Services is able to support clients on a worldwide basis.

ADP Hollander provides inventory management and communications products and services to the automotive recycling industry. The products are designed to assist clients in creating and capturing operational efficiencies and expanding their market and sales through electronic parts locating with other auto recyclers and their business partners. In connection with a settlement reached with the Federal Trade Commission, in fiscal 1998 ADP completed the divestiture of certain assets used to facilitate electronic commerce among automotive parts recyclers. The remaining business, formerly called the Parts Services unit, was renamed ADP Hollander.

Integrated Medical Solutions provides services designed to assist clients in containing medical expenses and personal injury settlements arising from auto liability and workers compensation claims. ADP delivers integrated proprietary and state legislated fee schedules and treatment protocols, personal injury algorithms, access to preferred provider networks, and medical and bill review outsourcing services. These products and services are designed to assist clients in identifying and paying for only medically appropriate treatments.

## **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**

ADP's services are sold broadly across the United States and Canada. Most ADP services are offered in Western Europe and some employer services are now offered in Brazil. Services offered outside the United States amounted to approximately 16% of fiscal 1998 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 world.

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

Competition in the computing services industry is primarily based on service responsiveness, product quality and price. ADP believes that it is very competitive in each of these areas and that there are no material negative factors impacting ADP's competitive position in the computing services industry. No one competitor or group of competitors is dominant in the computing services industry.

### **Clients and Client Contracts**

ADP provides computing services to over 425,000 clients. Annual revenues attributable to large client accounts range from \$1 million to approximately \$45 million per client, while thousands of small client accounts produce annual revenues of less than \$1,000 each. ADP's largest single client accounts for approximately 1% of its annual revenue.

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

ADP's average client retention is eight 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, 1998, 1997 and 1996, ADP spent \$375,214,000, \$296,544,000, and \$249,635,000, 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 34,000 persons as of June 30, 1998.

### **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 5,900,000 square feet in the United States, Canada, Europe, South America, Asia, Australia and South Africa, expire at various times up to the year 2016. ADP owns 25 of its processing facilities and its corporate headquarters complex in Roseland, New Jersey, which aggregate approximately 2,750,000 square feet.

### **Item 3. Legal Proceedings**

None

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

None

## Part II

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

See "Market Price, Dividend Data and Other" on page 18 of the Registrant's 1998 Annual Report to Shareholders, which information is incorporated herein by reference. As of June 30, 1998, the Registrant had approximately 30,000 registered holders of its Common Stock, par value \$.10 per share. The Registrant's Common Stock is traded on the New York, Chicago and Pacific Stock Exchanges.

On February 20, 1998, the Registrant issued an aggregate amount of 158,595 shares of its Common Stock to the two shareholders (one such shareholder being a limited liability company) of a company acquired by the Registrant in exchange for all of the issued and outstanding shares of capital stock of such company pursuant to the terms of a stock purchase agreement. On April 28, 1998, the Registrant issued an aggregate amount of 45,978 shares of its Common Stock to six shareholders of another company acquired by the Registrant in exchange for all of the issued and outstanding shares of capital stock of such other company pursuant to the terms of a stock purchase agreement. No underwriters were involved in the foregoing sales of securities. The Company issued the foregoing shares of Common Stock without registration under the Securities Act of 1933, as amended, in reliance upon the exemption therefrom set forth in Section 4(2) of such Act, relating to sales by an issuer not involving a public offering.

### Item 6. Selected Financial Data

See "Selected Financial Data" on page 16 of the Registrant's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

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

See "Management's Discussion and Analysis" on pages 17-18 of the Registrant's 1998 Annual Report to Shareholders, the Letters 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 7A. Quantitative and Qualitative Disclosures About Market Risk

The Registrant's investment portfolio consists primarily of high grade fixed income investments, such as AA or better rated fixed income municipal instruments, maturing in less than 7 years, and such portfolio does not subject the Registrant to material market risk exposures.

### Item 8. Financial Statements and Supplementary Data

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

The following supplementary data is incorporated herein by reference:

Page in 1998 Annual Report to Shareholders

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

None

**Part III**

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

**Executive Officers of the Registrant**

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

Name ----	Age ---	Position -----	Employed by ADP Since -----
James B. Benson	53	Vice President, General Counsel and Secretary	1977
Richard C. Berke	53	Vice President, Human Resources	1989
Gary C. Butler	51	President and Chief Operating Officer	1975
Richard J. Daly	45	Group President, Brokerage Services	1989
G. Harry Durity	51	Vice President, Worldwide Business Development	1994
Russell P. Fradin	43	Group President, Employer Services	1996
Eugene A Hall	42	Senior Vice President	1998
Richard J. Haviland	52	Vice President, Chief Financial Officer	1982
John Hogan	50	Group President, Brokerage Services	1993
S. Michael Martone	50	Group President, Dealer Services	1987
Arthur F. Weinbach	55	Chairman and Chief Executive Officer	1980

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

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

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

Eugene A. Hall joined ADP in 1998 as Senior Vice President. Prior to joining ADP, he was a senior partner of McKinsey & Company and had been associated with that firm for 16 years.

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

Each of ADP's executive officers is elected for a term of one year and until their successors are chosen and qualified or until their death, resignation or removal.

### **Directors of the Registrant**

See "ELECTION OF DIRECTORS" in the Proxy Statement for Registrant's 1998 Annual Meeting of Stockholders, which information is incorporated herein by reference.

### **Section 16(B) Beneficial Ownership Reporting Compliance**

See "SECTION 16(B) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Proxy Statement for Registrant's 1998 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 1998 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 1998 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 1998 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 1998 Annual Report to Shareholders -----
Independent Auditors' Report	28
Consolidated Balance Sheets - June 30, 1998 and 1997	20
Statements of Consolidated Earnings - years ended June 30, 1998, 1997 and 1996	19
Statements of Consolidated Shareholders' Equity - years ended June 30, 1998, 1997 and 1996	21
Statements of Consolidated Cash Flows - years ended June 30, 1998, 1997 and 1996	22
Notes to Consolidated Statements	23 - 27

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

#### 2. Financial Statement Schedules

	Page in Form 10-K -----
Independent Auditors' Report on Schedule	18
Schedule II - Valuation and Qualifying Accounts	19

All other Schedules have been omitted because they are inapplicable or are not required or the information is included elsewhere in the financial statements or notes thereto.

3. 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
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- 3.2 - By-Laws as currently in effect - incorporated by reference to Exhibit (3)-#2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997
- 4 - Indenture dated as of February 20, 1992 between Automatic Data Processing, Inc. and Bankers Trust Company, as trustee, regarding the Liquid Yield Option Notes due 2012 of the Registrant - incorporated by reference to Exhibit (4)-#1 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1992
- 10.1 - Letter Agreement dated as of August 1, 1996 between Automatic Data Processing, Inc. and Arthur F. Weinbach - incorporated by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1996 (Management Contract)
- 10.2 - Letter Agreement, dated September 14, 1998 between Automatic Data Processing, Inc. and Gary C. Butler (Management Contract)
- 10.3 - 1981 Key Employees' Stock Option Plan - incorporated by reference to Registrant's Registration Statement No. 2-75287 on Form S-8 (Management Compensatory Plan)
- 10.3(a) - Amendment to 1981 Key Employees' Stock Option Plan - incorporated by reference to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1989 (Management Compensatory Plan)
- 10.4 - Key Employees' Restricted Stock Plan - incorporated by reference to Registrant's Registration Statement No. 33-25290 on Form S-8 (Management Compensatory Plan)
- 10.5 - Supplemental Officers' Retirement Plan, as amended and restated - incorporated by reference to Exhibit 10(iii)(A)-#5 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 (Management Compensatory Plan)
- 10.5(a) - Amendment to Supplemental Officers' Retirement Plan (Management Compensatory Plan) - 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, 1997
- 10.6 - 1989 Non-Employee Director Stock Option Plan - incorporated by reference to Exhibit 10(iii)(A)-#7 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Compensatory Plan)
- 10.6(a) - Amendment to 1989 Non-Employee Director Stock Option Plan [ - incorporated by reference to Exhibit 10(6)(a) to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (Management Compensatory Plan)

10.7	-	1990 Key Employees' Stock Option Plan - incorporated by reference to Exhibit 10(iii)(A)-#8 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990 (Management Compensatory Plan)
10.7(a)	-	Amendment to 1990 Key Employees' Stock Option Plan (Management Compensatory Plan) - incorporated by reference to Exhibit 10(7)(a) to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997
10.8	-	1994 Directors' Pension Arrangement - incorporated by reference to Exhibit 10(iii)(A)-#10 to Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994 (Management Compensatory Plan)
10.9	-	1994 Executive Compensation Plan - incorporated by reference to Exhibit A to Registrant's Proxy Statement for its Annual Meeting of Stockholders held November 15, 1994 (Management Compensatory Plan)
11	-	Schedule of Calculation of Earnings Per Share
13	-	Pages 2-28 of the 1998 Annual Report to Shareholders (with the exception of the pages incorporated by reference herein, the Annual Report is not a part of this filing)
21	-	Subsidiaries of the Registrant
23	-	Independent Auditors' Consent
27	-	Financial Data Schedule
(b)	None.	

## INDEPENDENT AUDITORS' REPORT ON SCHEDULE

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

We have audited the consolidated financial statements of Automatic Data Processing, Inc. as of June 30, 1998 and 1997, and for each of the three years in the period ended June 30, 1998, and have issued our report thereon dated August 13, 1998; such consolidated financial statements and report are included in your 1998 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Automatic Data Processing, Inc., listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

*/s/ Deloitte & Touche LLP  
New York, New York  
August 13, 1998*

**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, 1998:					
Allowance for doubtful accounts:					
Current	\$39,542	\$15,402	\$ 907(B)	\$(13,292)(A)	\$42,559
Long-term	\$20,370	\$ 1,345	\$ --	\$ (7,284)(A)	\$14,431
Year ended June 30, 1997:					
Allowance for doubtful accounts:					
Current	\$34,627	\$13,230	\$4,067(B)	\$ 12,382 (A)	\$39,542
Long-term	\$25,727	\$ 1,817	\$ --	\$ 7,174 (A)	\$20,370
Year ended June 30, 1996:					
Allowance for doubtful accounts:					
Current	\$23,035	\$ 9,115	\$4,835(B)	\$ 2,358 (A)	\$34,627
Long-term	\$26,166	\$ 2,986	\$ --	\$ 3,425 (A)	\$25,727

(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 22, 1998

By: /s/ Arthur F. Weinbach

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

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

Signature -----	Title -----	Date ----
/s/ Arthur F. Weinbach ----- (Arthur F. Weinbach)	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	September 22, 1998
/s/ Richard J. Haviland ----- (Richard J. Haviland)	Chief Financial Officer (Principal Financial Officer)	September 22, 1998
/s/ Gary C. Butler ----- (Gary C. Butler)	Director	September 22, 1998
/s/ Joseph A. Califano, Jr. ----- (Joseph A. Califano, Jr.)	Director	September 22, 1998
/s/ Leon G. Cooperman ----- (Leon G. Cooperman)	Director	September 22, 1998
/s/ George H. Heilmeier ----- (George H. Heilmeier)	Director	September 22, 1998
/s/ Ann Dibble Jordan ----- (Ann Dibble Jordan)	Director	September 22, 1998

-----  
(Harvey M. Krueger)

/s/ Fred V. Malek  
-----  
(Frederic V. Malek)

Director

September 22, 1998

-----  
(Henry Taub)

Director

September 22, 1998

/s/ Laurence A. Tisch  
-----  
(Laurence A. Tisch)

Director

September 22, 1998

/s/ Josh S. Weston  
-----  
(Josh S. Weston)

Director

September 22, 1998

## APPENDIX

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

The following is a narrative description of the graphic or image material that appears in Exhibit 13 to the registrant's Annual Report of Form 10-K (the Form "10-K"). Exhibit 13 contains particular pages from the Registrant's 1998 Annual Report to Shareholders (the "1998 Annual Report") that are incorporated by reference into the Form 10-K.

Page in 1998 Annual Report -----	Description -----
2	The photograph on page 2 of the 1998 Annual Report is of Arthur F. Weinbach, Chairman and Chief Executive Officer.
4	The photograph on page 4 of the 1998 Annual Report is of Josh S. Weston, Honorary Chairman.
5	The photograph on page 5 of the 1998 Annual Report is described in the following caption on page 5: "Softchoice Corporation of Norwalk, CT. is one of more than 400,000 companies in the U.S. that uses the payroll services of ADP. Kelly Mcilwaine (left) is the human resources supervisor at Softchoice. Melanie Testa (right) is the ADP account executive who set up the Softchoice payroll earlier this year on the ADP system."
6	The photograph to the left on page 6 of the 1998 Annual Report is described in the following caption on page 6: "When First Security Corporation of Salt Lake City, UT, a regional bank holding company with 9,500 employees and nearly 1,500 retirees in 28 states, decided to outsource their payroll, human resource and benefits administration functions, ADP's Administrative Solutions Group (ASG) was its vendor of choice. ASG has a unique pool of talent and resources to help a company realize such a far-reaching goal. Trudy Hoffman (left), ASG's Program Manager, and Althea DeBrule (right), Executive Vice President and Director of Human Resources at First Security, are leading the effort to implement First Security's outsourcing plan. The photograph to the right on page 6 of the 1998 Annual Report is described by the following caption on page 6: "An increasing number of ADP payroll service clients are using our processing system to handle the administrative details of their 401(k) retirement and savings plans. ADP senior 401(k) implementation specialist, Jolene White (left), is working with Tara S. Moroney (right), Accounting Manager of Sudbury Systems, Inc., Sudbury, MA, to ensure that the proper forms and agenda for the client's upcoming 401(k) enrollment meeting are ready."



- 7 The photograph on page 7 of the 1998 Annual Report is described by the following caption on page 7: "Denton Hall is a large, London-based legal firm with corporate, commercial and international clients. This year, Denton Hall began processing its payroll with ADP. It selected ADP over four other competitors, primarily because of the superior functionality of our product and the responsiveness of the ADP staff. Several of the people who helped create this new client relationship are (left to right): David G. Gilbert, Payroll Manager, Denton Hall; John C. Green, District Manager, National Accounts, ADP; Steven D. Rowan, Financial Controller, Denton Hall; and Mark Jones, Area Sales Manager-London, ADP."
- 8 The photograph appearing fully on page 8 of the 1998 Annual Report is described by the following caption on page 8: "Earlier this year, Alex, Brown & Sons, Inc. and Bankers Trust merged to create BT Alex, Brown, Inc. ADP helped them convert their books and records to a new consolidated operating system. (Left to right ) BT Alex, Brown Inc. Principal, John K. Forrester; ADP Account Manager/Director, Susan S. Kauffman; and BT Alex, Brown Inc. Managing Director, Mario P. Deangelo, share some ideas about future processing needs."
- 8-9 The photograph appearing on page 8 and 9 of the 1998 Annual Report is described by the following caption on page 9: "Intel Corporation of Santa Clara, CA, was one of the first companies to use our new investor Communications Services (ICS) internet service to electronically vote proxies. Cary I. Klafter (left), Intel's Director of Corporate Affairs and Senior Counsel, Discusses the benefits of electronic delivery of shareholder communications with Richard J. Specht, ADP's Director of ICS Sales."
- 9 The photograph appearing fully on page 9 of the 1998 Annual Report is described by the following caption on page 9: "ADP's Year 2000 master securities database was chosen by the Securities Industry Association to be test bed for industry-wide year 2000 testing. ABN AMRO, Incorporated was among the first firms to undertake Y2K testing with ADP. ADP and ABN AMRO worked closely to ensure test results were timely and accurate. Ben A. Witt (far left), Sr. Vice President, ABN AMRO, and Lois M. Chianese (center left), ADP Director or Service Delivery, discuss the general merits of the project, as James D. Nolan (center right), Sr. Vice President, ABN AMRO, and Janice Rittbert-Snuffer (far right), ADP Director of Product Management, review the testing timetable."
- 10 The photograph on page 10 of the 1998 Annual Report is described by the following caption on page 10: "Fernando Lovo (left), ADP Key Account Executive, is with Richard Stoff (right), Vice President of Gunther Motor Company, Fort Lauderdale, FL. Gunther Motor is a multi-franchise auto retailer that uses its ADP systems to manage virtually all aspects of its business. It also is the largest Volkswagen dealer and the second largest

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The photograph to the left on page 11 of the 1998 Annual Report is described by the following caption on page 11: "ADP Dealer Services provides system support for auto dealers of every size and complexity. Valarie Rodriguez (right), ADP Sr. Client Technical Analyst, reviews how to standardize applications set up and training with Brad Willingham (left), Information Technology Director, M.F. Salta Company, an ADP mega-dealer client with 14 stores in California, Oregon and Hawaii. The photograph to the right on page 11 of the 1998 Annual Report is described by the following caption on page 11: "ADP has served the growth oriented Corsmann Group since that multi-store auto franchise was founded in 1989. Corsmann utilizes a full range of ADP's dealer services to manage its 14 dealerships, which are located throughout Germany. Markus Jastroch (left), ADP marketing Specialist, confers with Bolko Prussok (right), General Manager of the Corsmann Group, about the Client's growth plans." The photograph to the right on page 11 of the 1998 Annual Report is described by the following caption on page 11: "Nationwide Insurance Enterprise, Inc., Columbus, OH, has been a client of ADP Integrated Medical Solutions since 1991 and uses our Provider Bill Audit(TM) (PBA) computerized medical bill review system nationally. Nationwide also is ADP's strategic partner in the development of our Injury Claims Evaluation (ICE)(TM) product, which complements PBA and helps to settle third-party auto liability claims. Michelle Premo (left) is director of claims at Nationwide. Tina Brown (right) was ADP's first Account Manger to serve Nationwide."

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The photograph to the left on page 12 of the 1998 Annual Report is described by the following caption on page 12: "When typhoon Paka slammed into Guam with high winds and heavy rains in December 1997, insurance carriers immediately sent in estimators to make prompt settlements. The catastrophe team from USAA, San Antonio, TX included Vinson Pluma (first row, right), their ADP Account Representative. He gave up his holiday to help USAA assist its members. Vinson prepared numerous estimates, using PENPRO(TM), ADP's pen-based laptop PC product. Pictured with Vinson are team members from USAA: (back row, left to right) James J. Horner, Physical Damage Claims Program Administrator; Rudy Rios, Northeast and Overseas Property Damage Specialist; and Kenneth E. Rosen, Northeast and Overseas Property Damage Specialist; (front row, left) Ester Brundige, Appraisal Dispatch.

13

The photograph on page 13 of the 1998 Annual Report is described by the following caption on page 13: "ADP's Audatex business provides insurance carriers in 16 European countries with leading-edge automated estimating capabilities. Allianz Insurance Stock Corporation,

headquartered in Munich, Germany, is a major Audatex client. Wolfgang Gilbert (right), Director of Marketing and Sales of Audatex Germany, discusses Audatex advantages with Allianz Insurance Director, Dr. Jr. Gerhard Kuppersbusch (left)."

14 The photograph on page 14 of the 1998 Annual Report is described by the following caption on page 14: "Merrill Lynch continued its global rollout of our Wilco Gloss(TM) international securities transaction processing system in '98 with installations in its Paris and Milan offices. Stephen Norman (left), Vice President, Merrill Lynch and Steve Bloomer (right), Deputy Managing Director, Wilco, directed these successful rollouts."

15 The photograph on page 15 of the 1998 Annual Report is described by the following caption on page 15: "World Class Service is a worldwide effort. Ton Van Der Starre (left), Database Administrator; Marcel De Dood (center), Project Leader and Information Manager; and Frans Hartman (right), Business Analyst, are part of the team at ADP, The Netherlands, that implemented ADP's advanced client service support system for our clients in The Netherlands. It utilizes highly-functional Clarify systems software, which also supports other ADP client service operations throughout Europe and North America."

**EXHIBIT 10.2**

**[GRAPHIC OMITTED]**

Automatic Data Processing  
One ADP Boulevard  
Roseland, New Jersey 07068-1728  
973 994-5000

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September 14, 1998

Gary C. Butler  
195 Mt. Harmony Road  
Bernardsville, New Jersey 07924

Dear Gary:

Congratulations again on becoming President and Chief Operating Officer of Automatic Data Processing, Inc. ("ADP"). The Board of Directors and I are more than pleased with your appointment and look to the future with confidence and enthusiasm. This letter outlines our understandings concerning the impact of a "Change in Control" on your new positions:

1. Change of Control: If a Change in Control occurs and if your employment is terminated (other than for cause) or you resign for "Good Reason" within two years after such Change in Control event, you will receive a termination payment equal to 200% of the "Current Total Annual Compensation". This termination payment will be reduced to either 150% 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 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(c) 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.

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

(a) "Change in Control" shall mean: (i) the acquisition by any person, entity or "group", of beneficial ownership of 25% or more of ADP's outstanding common stock; or (ii) 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: (i) any action which results in a diminution in any respect in your current position, authority, duties or responsibilities as ADP's President and Chief Operating Officer; or (ii) a reduction in the overall level of your compensation or benefits.

(c) "Current Total Annual Compensation" shall be the total of the following amounts: (i) 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 (ii) 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.

3. Term: The term of this agreement shall be for the length of your full-time employment at ADP.

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/ Arthur F. Weinbach

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

**ACCEPTED AND AGREED:**

/s/ Gary C. Butler

-----  
Gary C. Butler

**EXHIBIT 11**

**AUTOMATIC DATA PROCESSING, INC  
AND SUBSIDIARIES**

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

	Year ended June 30				
	1998	1997	1996	1995	1994
<b>BASIC EARNINGS PER SHARE:</b>					
Net earnings applicable to common shares	\$605,300	\$513,500	\$454,700	\$394,830	\$329,320
Average number of common shares outstanding	296,878	290,990	288,967	285,112	281,780
Basic earnings per share	\$2.04	\$1.76	\$1.57	\$1.38	\$1.17
<b>DILUTED EARNINGS PER SHARE:</b>					
Net earnings used in basic earnings per share	\$605,300	\$513,500	\$454,700	\$394,830	\$334,120
Adjustment for interest (net of tax) - Zero coupon convertible subordinated notes (5 1/4% yield)	7,833	11,302	11,703	11,330	10,075
Net earnings used for diluted earnings per share	\$613,133	\$524,802	\$466,403	\$406,160	\$344,195
Average number of shares outstanding on a diluted basis:					
Shares used in calculating basic earnings per share	296,878	290,990	288,967	285,112	281,780
Diluted effect of all stock options outstanding after application of treasury stock method	6,518	5,983	5,682	5,836	5,382
Shares assumed to be issued upon conversion of Debentures- Zero coupon convertible subordinated notes (5 1/4% yield)(1)	7,015	9,686	10,360	10,402	10,402
Average number of shares outstanding on a diluted basis	310,411	306,659	305,009	301,350	297,564
Diluted earnings per share	\$1.98	\$1.71	\$1.53	\$1.35	\$1.14

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

**LETTER FROM THE CHIEF EXECUTIVE OFFICER**

ADP had a terrific year in '98. We had good revenue and earnings growth, made important strategic investments in our future, and significantly strengthened our organizational leadership. Our strategies are sound and our future looks bright. The market rewarded us with a large increase in shareholder value. ADP had a terrific year.

Let me tell you more.

**FISCAL '98**

In '98, ADP continued its unique growth by reporting its 148th consecutive quarter of record revenue and earnings per share (EPS) and its 37th consecutive year of double-digit increases in EPS.

I am especially pleased with the acceleration of our internal growth rate in Employer Services (ES), ADP's largest -- and oldest -- business. With strong sales and improved client retention, our ES internal growth rate increased by about 3% to 14%, our biggest uptick and best growth rate in several years.

With this acceleration, consolidated revenue increased 17% to \$4.8 billion. Excluding a small one-time write-off in '97, pretax earnings increased 17%, net earnings were up 15% and EPS increased 13% to \$2.04 from \$1.80 last year. All of these growth numbers are higher when compared to the reported data for '97, which included the write-off.

This year, all of the per share amounts we discuss refer to basic earnings per share. Starting in '99, our disclosures will focus primarily on diluted earnings per share which have been about 3% lower, but have had growth rates similar to basic earnings per share.

In recognition of these strong operating results, our Board declared its twenty-fourth consecutive annual dividend increase, from \$.46 to \$.53 per share, effective January 1, 1998.

ADP has significant financial strength and liquidity. Cash flow from operations exceeded \$850 million and year-end cash and marketable securities approximated \$1.7 billion, after spending of \$379 million in '98 to acquire businesses and ADP shares. We purchased 896,000 ADP shares on the open market to fund employee equity plans.

Shareholders' equity exceeds \$3.4 billion. More than half of the holders of our convertible debt converted to equity this year, reducing our already low, long-term debt to equity ratio to 6%. Our return on shareholders equity is a healthy 20%.

Capital expenditures for the year were \$199 million, about 4% of revenue. This compared to \$175 million last year.

## **LOOK AT THE FUTURE**

'98 was also a year of investment. We invested significant amounts in growth opportunities, product and service enhancements, a reengineering program and, along with everyone else, in Year 2000 software fixes.

We spent in excess of \$30 million in Year 2000 fixes in '98 after having started the process several years ago. We are in excellent shape. Virtually all of our core systems changes are completed. The remaining ancillary systems should be completed in calendar 1998, and calendar 1999 will be dedicated primarily to testing to make sure the transition goes well.

Our '98 investments, many of which will continue, position us well for future growth. They are consistent with our growth strategies, which focus primarily on expanding our positions in each core business where we already have leading market positions and lots of remaining opportunities. Our 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.

## **ACQUISITIONS AND DISPOSITIONS**

ADP supplements its internal growth with strategic acquisitions that extend our markets or add applications to our product sets. In '98, we acquired 11 separate businesses.

In Employer Services, the acquisition of Royal Bank of Canada's \$50 million payroll and human resource services solidifies our position as the premier provider of payroll, human resource, and related employer services in Canada. The acquisition of a majority interest in a \$60 million provider of payroll, human resource and accounting services in Brazil gives us an excellent platform for further expansion in Latin America. The acquisition of William M. Mercer's \$50 million benefits administration service enhances our position as a major provider of benefits administration outsourcing.

In Europe, we acquired Audatex. Their revenue of \$80 million clearly makes us the leading provider of automotive claims services in Europe.

We also review each business and product line and dispose of those that are no longer strategically relevant. In '98, we sold several businesses with \$95 million of annual revenues. We will continue this process in '99.

## **INCREASING SHAREHOLDER VALUE**

We are firmly committed to increasing shareholder value. That is why I've been so pleased to see our substantial share price increase in fiscal '98.

Our priority in increasing shareholder value is to accelerate our internal growth rates. While there are many components to internal growth, achieving World Class Service is our single most important objective. It will increase client retention and sales to new and existing clients. World Class Service begins with the initial prospect contact and includes product quality, installation effectiveness and client responsiveness.

This year, we spent more than an incremental \$30 million in tools, processes, and staffing to move toward our World Class Service goal.

We improved significantly with record client retention and sales in most of our businesses. Despite this strong performance, we did not yet achieve our desired returns on investment. To do this, we will further increase our service commitment and our investment, because this goal is so important. I am confident that we will make further improvements and achieve our desired results.

This year we are going to weigh our World Class Service investment more toward making ADP the employer of choice for our present and future associates. Toward these objectives, we will improve associate training and development, communication and career pathing. We will also create a more flexible and supportive work environment.

Being an employer of choice is a building block to providing World Class Service. This supports an accelerating internal growth rate which is a key to increasing shareholder value.

## **LEADERSHIP MAKES IT HAPPEN**



'98 was also a year of significant leadership change for ADP.

Josh Weston, our Chairman and long-time Chief Executive Officer, who laid the groundwork for our recent positive results, retired in April 1998. We are fortunate that Josh will remain on the ADP Board and Board Executive Committee. Everyone at ADP, especially me, owes Josh a lot and we are very grateful.

I added the title of Chairman to my CEO responsibilities.

Gary Butler, a 23-year ADP associate, and most recently the leader of Employer Services, was named President and Chief Operating Officer. Russ Fradin was promoted to lead Employer Services-North America, Mike Martone to lead Dealer Services and John Barfitt to lead Claims Services. Eugene Hall joined ADP as Senior Vice President, and John Barfitt and Bill Campbell were promoted to Corporate Vice President in recognition of their important contributions and responsibilities. We have strong leadership.

## **FORECAST**

I am confident that ADP is well positioned for long-term growth and profitability. We have the businesses, the clients, the competencies, technologies, business leaders, and the associates to continue to grow ADP. In '99, we expect another year of double-digit revenue and earnings per share growth.

I hope you share my excitement, enthusiasm and optimism. I want to especially thank the 34,000 ADP associates whose efforts and results make it all possible.

**ARTHUR F. WEINBACH**  
**CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

August 13, 1998

## **HONORARY CHAIRMAN LETTER**

As an addendum to Art Weinbach's CEO's letter to shareholders, this is a "farewell letter" of sorts to the many shareholders and associates whom I've gotten to know since my ADP arrival in 1970 (when annual revenues were \$40 million and our stock price, adjusted for splits, was around \$1).

Although I remain on our Board and Executive Committee, 1999 will mark my first ADP year in a very long time when I am neither Chairman nor CEO nor COO. For years, I temporarily carried the overblown title of "Chairman, President, Chief Executive Officer, and Chief Operating Officer" as Art Weinbach, Gary Butler, and I moved step-by-step toward our present succession roles. Art and Gary are eminently qualified and already leading ADP to newer and better heights.

I've been party to many proud and memorable events during the past 28 years. Three stand out:

1. We recently completed our 148th consecutive quarter of EPS growth. Out of 11,000 publicly-owned companies, only one, Abbott Labs, has achieved even 60 consecutive growth quarters. It is tough to do so. We have been very fortunate.
2. During the past 30 years, thousands of hard-working ADP associates who created the above track records accrued \$3 billion of ADP stock profits, as they created \$17 billion of gains for our other shareholders. My ADP colleagues are unusually dedicated and capable, and it has been gratifying to help them achieve this special Return on their Efforts (another kind of ROE).
3. The unusual commitment, smarts, experience, open culture, and high ADP longevity of our several thousand managers are a promising foundation for outstanding future accomplishments.

My newly-available time permits me to be engaged in many pro-bono roles with universities, museums, the United Nations, International Rescue Committee, public broadcasting, several hospitals, an orchestra, and economic "think tanks." It is gratifying to have an opportunity to give something back to the society that was so helpful to me and my family.

With best wishes to every ADP shareholder and associate,

**JOSH S. WESTON**  
**HONORARY CHAIRMAN**

August 13, 1998

## **EMPLOYER SERVICES**

ADP's oldest and largest business -- Employer Services (ES) -- contributes more than half of ADP's revenues. ES provides a comprehensive range of payroll, human resources, benefits administration, time and attendance, and tax filing and reporting services to more than 400,000 employers in the United States, Canada, Europe and South America.

In '98, ES revenue increased 21% to more than \$2.7 billion. Today we process the paychecks of approximately 27 million workers in North and South America, and 3 million in Europe. This year, we also printed and delivered 37 million W-2s in the U. S. and 800,000 T-1s in Canada.

ES internal revenue growth was 14% in '98, our fifth consecutive year of accelerating internal growth. New sales also grew at an accelerating, double-digit rate for the fourth year in a row. These represent our highest growth rates in over 15 years.

Favorable economic trends continue to create a buoyant market for ES products. Several dynamics are at work. The size of the average payroll continues to increase, while new businesses are entering the U. S. economy at a record rate. Also, as more employers participate in the growing trend toward outsourcing, ADP is increasingly their vendor of choice for payroll and human resource applications.

ADP's "Payroll AnyWay" strategy presents an attractive menu of services that appeals to businesses of virtually every size and type. Clients can choose business solutions that range from simple software packages to turnkey payroll services, as well as on-site payroll and human resource information systems. ADP's approach to the market is to effectively match a client's needs with the products and support services that will best meet expectations.

## **NORTH AMERICA**

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

## **CAPTION:**

SOFTCHOICE CORPORATION OF NORWALK, CT, IS ONE OF MORE THAN 400,000 COMPANIES IN THE U.S. THAT USES THE PAYROLL SERVICES OF ADP. KELLY MCILWAIN (LEFT) IS THE HUMAN RESOURCES SUPERVISOR AT SOFTCHOICE. MELANIE TESTA (RIGHT) IS THE ADP ACCOUNT EXECUTIVE WHO SET UP THE SOFTCHOICE PAYROLL EARLIER THIS YEAR ON THE ADP SYSTEM.

ADP National Accounts serves many of the world's largest companies. To many we provide entire system solutions for their human resource, payroll and benefits needs. For those companies who still process these functions in-house, ADP delivers valuable, stand-alone services, such as tax filing, check printing and distribution, year-end (W-2) statements, and benefits administration.

We also offer larger companies an opportunity to design and implement benefits outsourcing and HRIS systems solutions using the services of highly-specialized systems and implementation professionals of our Administrative Solutions Group.

Major Accounts, our largest ES business, offers medium-size companies an attractive array of best-of-breed payroll and human resource solutions. This includes full database and functional integration between payroll and human resources. A considerable proportion of medium-size firms in the U. S., who outsource their payrolls, today are Major Accounts clients.

Emerging Business Services processes payroll for more than 325,000 clients and is by far the largest payroll and tax filing services provider for small businesses in the U. S. marketplace. In addition, ADP is the single most significant provider of direct deposit payroll services to American businesses and their employees.

The ADP Tax Center supports all three market segments. It provides an electronic interface between approximately 315,000 ADP clients in the U. S. and Canada, and over 2,000 tax agencies -- from the IRS to town governments. In '98, the Tax Center processed more than 15 million federal and state employer payroll tax returns, and transmitted nearly \$250 billion in taxes to appropriate tax authorities.

The Electronic Services Division supports all market segments with products designed to complement payroll and HR services -- from time and attendance tracking to 401(k) processing.

ADP's TotalSourceSM business also made significant strides in '98, firmly establishing us as a leading professional employer organization. We now support 26,000 work-site employees in Florida, Georgia and Illinois, and have plans to expand beyond these initial three states.

**CAPTION, PHOTO LEFT:**

WHEN FIRST SECURITY CORPORATION OF SALT LAKE CITY, UT, A REGIONAL BANK HOLDING COMPANY WITH 9,500 EMPLOYEES AND NEARLY 1,500 RETIREES IN 28 STATES, DECIDED TO OUTSOURCE THEIR PAYROLL, HUMAN RESOURCE AND BENEFITS ADMINISTRATION FUNCTIONS, ADP'S ADMINISTRATIVE SOLUTIONS GROUP (ASG) WAS ITS VENDOR OF CHOICE. ASG HAS A UNIQUE POOL OF TALENT AND RESOURCES TO HELP A COMPANY REALIZE SUCH A FAR-REACHING GOAL. TRUDY HOFFMAN (LEFT), ASG'S PROGRAM MANAGER, AND ALTHEA DEBRULE (RIGHT), EXECUTIVE VICE PRESIDENT AND DIRECTOR OF HUMAN RESOURCES AT FIRST SECURITY, ARE LEADING THE EFFORT TO IMPLEMENT FIRST SECURITY'S OUTSOURCING PLAN.

**CAPTION, PHOTO RIGHT:**

AN INCREASING NUMBER OF ADP PAYROLL SERVICE CLIENTS ARE USING OUR PROCESSING SYSTEM TO HANDLE THE ADMINISTRATIVE DETAILS OF THEIR 401(K) RETIREMENT AND SAVINGS PLANS. ADP SENIOR 401(K) IMPLEMENTATION SPECIALIST, JOLENE WHITE (LEFT), IS WORKING WITH TARA A. MORONEY (RIGHT), ACCOUNTING MANAGER OF SUDBURY SYSTEMS, INC., SUDBURY, MA, TO ENSURE THAT THE PROPER FORMS AND AGENDA FOR THE CLIENT'S UPCOMING 401(K) ENROLLMENT MEETING ARE READY.

## **EUROPE AND SOUTH AMERICA**

ADP's international payroll and HR businesses grew substantially in '98. The worldwide trend for employers to outsource has created unprecedented opportunities. In Europe, we expanded our salesforce by 40%, and made considerable investments in systems and software to handle both near- and long-term growth.

While our historical core strength in Europe is mainly up-market -- companies with 1,000 or more employees -- our objective is to be the leading provider of employer services solutions in all market segments. Marketing relationships, the development of add-on product offerings to up-market clients, and the addition of new services for smaller clients are helping us to improve our market share across the entire spectrum.

In addition to our strong presence in Europe, we serve a significant share of all segments of the Brazilian market.

## **ACQUISITIONS**

ADP augments internal growth through selective acquisitions that help reduce time to market and increase market share. This strategy allows us to focus on expanding the reach of existing products or to pursue entirely new opportunities.

ES continued to accelerate its penetration of the fast-growing benefits administration market by purchasing the administrative outsourcing business of William M. Mercer, Inc., one of the leading benefits consulting companies in the U. S., giving ADP approximately \$100 million of annual revenue from providing benefits administration services.

In '98, we purchased the payroll services business of Royal Bank of Canada. The addition of Royal Bank's 15,000 clients makes us the largest payroll outsourcer in Canada, and positions us well for future growth in that market.

Our acquisition of a Brazilian computing services company enables us to deliver employer services solutions to many businesses in Brazil, the world's ninth-largest economy. We believe our success there will enable us to extend ES offerings to other areas in the region.

## **YEAR 2000**

Our AutoPay(R) payroll system, the main engine of our payroll service, is already using the technology and operating procedures that are needed to handle the Year 2000 challenge. With our high degree of readiness, ES clients should consider the first day of the new millennium as just another payday.

## **CAPTION:**

DENTON HALL IS A LARGE, LONDON-BASED LEGAL FIRM WITH CORPORATE, COMMERCIAL AND INTERNATIONAL CLIENTS. THIS YEAR, DENTON HALL BEGAN PROCESSING ITS PAYROLL WITH ADP. IT SELECTED ADP OVER FOUR OTHER COMPETITORS, PRIMARILY BECAUSE OF THE SUPERIOR FUNCTIONALITY OF OUR PRODUCT AND THE RESPONSIVENESS OF THE ADP STAFF. SEVERAL OF THE PEOPLE WHO HELPED CREATE THIS NEW CLIENT RELATIONSHIP ARE (LEFT TO RIGHT): DAVID G. GILBERT, PAYROLL MANAGER, DENTON HALL; JOHN C. GREEN, DISTRICT MANAGER, NATIONAL ACCOUNTS, ADP; STEVEN D. ROWAN, FINANCIAL CONTROLLER, DENTON HALL; AND MARK JONES, AREA SALES MANAGER-LONDON, ADP.

## **BROKERAGE SERVICES**

ADP's second largest business, Brokerage Services, is a leading provider of securities processing, desktop productivity applications, and investor communications services. It contributes over 20% of ADP's overall revenues.

ADP is the largest provider of securities processing services in North America. This year, we processed more than 15% of all retail equity transactions in the U. S. and Canada. ADP trades averaged 620,000 per day, and on October 28, 1997, ADP's systems handled more than one million trades.

In July 1998, ADP signed a letter of intent with Bridge Information Systems, Inc., a global market information and news company, to create a long-term, strategic alliance to provide comprehensive and fully integrated offerings of market data, desktop applications and transaction processing services to the financial services industry. As part of this alliance, Bridge will purchase the market data assets and products of ADP, which generated approximately \$190 million of revenue in fiscal '98. ADP and Bridge will work toward integrated product offerings. ADP also will have a minority interest in Bridge.

Additionally, we signed an agreement with Comprehensive Software Systems (CSS) to exclusively market their BrokerView-TM- desktop product, a browser-based support tool for retail, discount, or independent brokers and trading desk personnel. ADP has a minority interest in CSS.

ADP Investor Communications Services (ICS), the largest processor and provider of shareholder communications services, serves more than 14,000 publicly-traded companies on behalf of more than 800 brokerage firms and banks, and 450 mutual fund families. This year, ICS signed contracts with Merrill Lynch, Prudential Securities and Paine Webber, while adding 80 other new clients. We processed over 360 million mailings -- a 30% increase over '97 -- and tabulated over 40 million shareholder ballots representing over 250 billion shares.

### **CAPTION:**

RLIER THIS YEAR, ALEX. BROWN & SONS, INC. AND BANKERS TRUST MERGED TO CREATE BT ALEX. BROWN INC. ADP HELPED THEM CONVERT THEIR BOOKS AND RECORDS TO A NEW CONSOLIDATED OPERATING SYSTEM. (LEFT TO RIGHT) BT ALEX. BROWN INC. PRINCIPAL, JOHN K. FORRESTER; ADP ACCOUNT MANAGER/ DIRECTOR, SUSAN S. KAUFFMAN; AND BT ALEX. BROWN INC. MANAGING DIRECTOR, MARIO P. DEANGELO, SHARE SOME IDEAS ABOUT FUTURE PROCESSING NEEDS.

In the face of record-setting volumes, ICS maintained its ISO 9002 certification for superior quality assurance, operated at the highest performance level according to proxy industry criteria, and completed '98 with 100% client retention.

Anticipating widespread "millennium bug" computer system irregularities, the Securities Industry Association selected ADP's Master Security Database as the standard for industry-wide Year 2000 testing. Some firms have begun to outsource securities processing to ADP to expedite Year 2000 readiness.

As a wave of banking and brokerage mergers and acquisitions swept through the financial marketplace, ADP helped numerous clients convert their books and records to new consolidated operating systems. We now provide additional brokerage services to entities such as ABN AMRO, Incorporated, Waterhouse Investor Services, Inc. and Warburg Dillon Read, LLC.

We also leveraged our processing and delivery capabilities to help clients offer electronic brokerage services over the Internet. About half of the top 20 rated brokerage web sites now use ADP for equity trading and customer account inquiry services. Internet trades represent an increasing proportion of the market's processing volume. In addition, we introduced Internet proxy voting and electronic delivery of shareowner communications.

In '98, we significantly advanced our global securities processing capabilities by creating an interface that connects our Brokerage Processing Services (North American equity) with our ICI ImpactSM (fixed income) and Wilco GlossSM (international securities) transaction processing systems. This is part of our strategy to develop an enterprise-wide capability that fulfills a client's equity, fixed income, multi-currency and multi-company processing requirements.

Our Wilco International subsidiary is the leading provider of global trading and settlement systems. Cantor Fitzgerald, which provides institutional brokerage services worldwide, is among the newest users of Wilco's highly-functional GlossSM product. Merrill Lynch expanded its use of that system to its operations in Paris and Milan.

ADP Brokerage Services continues to focus on what matters to its clients, and is well positioned for sustained growth in the global marketplace.

**CAPTION, PHOTO RIGHT:**

INTEL CORPORATION OF SANTA CLARA, CA, WAS ONE OF THE FIRST COMPANIES TO USE OUR NEW INVESTOR COMMUNICATIONS SERVICES (ICS) INTERNET SERVICE TO ELECTRONICALLY VOTE PROXIES. CARY I. KLAFTER (LEFT), INTEL'S DIRECTOR OF CORPORATE AFFAIRS AND SENIOR COUNSEL, DISCUSSES THE BENEFITS OF ELECTRONIC DELIVERY OF SHAREHOLDER COMMUNICATIONS WITH RICHARD J. SPECHT, ADP'S DIRECTOR OF ICS SALES.

**CAPTION, PHOTO LEFT:**

ADP'S YEAR 2000 MASTER SECURITIES DATABASE WAS CHOSEN BY THE SECURITIES INDUSTRY ASSOCIATION TO BE THE TEST BED FOR INDUSTRY-WIDE YEAR 2000 TESTING. ABN AMRO, INCORPORATED WAS AMONG THE FIRST FIRMS TO UNDERTAKE Y2K TESTING WITH ADP. ADP AND ABN AMRO WORKED CLOSELY TO ENSURE TEST RESULTS WERE TIMELY AND ACCURATE. BEN

A. WITT (FAR LEFT), SR. VICE PRESIDENT, ABN AMRO, AND LOIS M. CHIANESE (CENTER LEFT), ADP DIRECTOR OF SERVICE DELIVERY, DISCUSS THE GENERAL MERITS OF THE PROJECT, AS JAMES D. NOLAN (CENTER RIGHT), SR. VICE PRESIDENT, ABN AMRO, AND JANICE RITTBERG-SNUFFER (FAR RIGHT), ADP DIRECTOR OF PRODUCT MANAGEMENT, REVIEW THE TESTING TIMETABLE.

## **DEALER SERVICES**

ADP Dealer Services is the world's largest provider of transaction systems, data products, and professional services to auto and truck dealers and manufacturers. Today nearly 19,000 clients in North America, Europe and Latin America use ADP's on-site systems and communications networks to manage sales and operations.

In '98, Dealer Services revenue increased 7% and client retention exceeded 95%. ADP continues to be the leading provider of computer systems and services to dealerships in the U. S., Canada and Europe.

While a new generation of consolidated retail chains and consumer buying habits are changing the dynamics of how autos are sold and serviced, ADP is well positioned to help its dealership clients respond to these fundamental market changes. Our innovative and flexible product set enables dealers of every size to control their businesses and maximize profits, while making the experience of buying and owning a vehicle more pleasant for their customers.

This year, ADP Dealer Services sold a significant number of Millennia computer systems. Our powerful Millennia 3-TM- systems platform, which delivers enterprise-wide system solutions, gives dealers the ability to view, track and influence their business -- from sales and service to accounting. In addition, these systems give our dealer clients the assurance of being Year 2000 compliant.

Increasingly, we are helping large retail enterprises design, implement and install very complex computer system networks. These large retailers on average use more applications than the typical dealership, enabling them to manage their businesses with optimum efficiency, while offering buyers the most extensive array of services available anywhere, even empowering buyers to select and purchase vehicles using advanced retail systems, such as touch-screen kiosks.

In '98, ADP installed the largest computer system platform in the auto dealer marketplace. It serves approximately 1,200 users from a single central processing unit.

### **CAPTION:**

FERNANDO LOVO (LEFT), ADP KEY ACCOUNT EXECUTIVE, IS WITH RICHARD STOFF (RIGHT), VICE PRESIDENT OF GUNTHER MOTOR COMPANY, FORT LAUDERDALE, FL. GUNTHER MOTOR IS A MULTI-FRANCHISE AUTO RETAILER THAT USES ITS ADP SYSTEM TO MANAGE VIRTUALLY ALL ASPECTS OF ITS BUSINESS. IT ALSO IS THE LARGEST VOLKSWAGEN DEALER AND THE SECOND LARGEST MAZDA DEALER IN THE U. S.



Additionally, Republic Industries, the largest publicly-owned chain of auto dealerships, recently named ADP as one of its selected technology partners.

Through our Alliance-TM- and Standard Dealer Management System-TM- product lines, ADP Dealer Services also delivers leading-edge capabilities to mid-size and smaller dealers. These systems help them manage their dealerships in an ever-more-competitive marketplace.

As both manufacturers and dealers continue to place heightened emphasis on effective contact with consumers, ADP is there to assist them. AutoConnect-TM-, a joint venture of ADP and Manheim Auctions, a subsidiary of Cox Enterprises, has over 5,000 web sites which connect vehicle buyers and dealers on the Internet. Our Relationship Marketing System-TM- provides dealers with the option of generating consumer contacts -- such as personalized service reminders -- through several ADP companies in off-site mode, or right at the dealership on their ADP on-site system.

The Sandy Corporation, an ADP company, helps dealers and manufacturers promote brand identity and loyalty. One such program for PontiacGMC involves the creation of highly-personalized publications that are sent to over 1.5 million PontiacGMC owners three times a year.

ADP also continues to work closely with manufacturers on their Common Manufacturer Environment (CME) initiatives and strategies. We now have active CME relationships with two of the top three U. S. auto manufacturers, as well as a number of non-U. S. vehicle makers.

Dealer Services is a global business and today we are the number one provider of Pan-European business solutions to European dealers. We also work closely with European manufacturers to deploy new technologies and other initiatives.

**CAPTION, PHOTO LEFT:**

ADP DEALER SERVICES PROVIDES SYSTEM SUPPORT FOR AUTO DEALERS OF EVERY SIZE AND COMPLEXITY. VALARIE RODRIGUEZ (RIGHT), ADP SR. CLIENT TECHNICAL ANALYST, REVIEWS HOW TO STANDARDIZE APPLICATION SET UP AND TRAINING WITH BRAD WILLINGHAM (LEFT), INFORMATION TECHNOLOGY DIRECTOR, M.F. SALTA COMPANY, AN ADP MEGA-DEALER CLIENT WITH 14 STORES IN CALIFORNIA, OREGON AND HAWAII.

**CAPTION, PHOTO RIGHT:**

ADP HAS SERVED THE GROWTH-ORIENTED CORSMANN GROUP SINCE THAT MULTI-STORE AUTO FRANCHISE WAS FOUNDED IN 1989. CORSMANN UTILIZES A FULL RANGE OF ADP'S DEALER SERVICES TO MANAGE ITS 14 DEALERSHIPS, WHICH ARE LOCATED THROUGHOUT GERMANY. MARKUS JASTROCH (LEFT), ADP MARKETING SPECIALIST, CONFERS WITH BOLKO PRUSSOK (RIGHT), GENERAL MANAGER OF THE CORSMANN GROUP, ABOUT THE CLIENT'S GROWTH PLANS.

## **CLAIMS SERVICES**

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

In '98, ADP acquired Audatex, the leading provider of insurance claims estimating outside North America. This acquisition provides Claims Services with the infrastructure and resources to support clients on a worldwide basis.

Our clients include most of the major property and casualty insurance carriers and many of the independent adjusting companies, nearly 13,000 collision repair centers, and more than 3,000 auto parts recycling facilities in the U. S., Canada and Europe. This year, we processed about 12 million claims estimates and revenue grew approximately 13%, as we continued to expand our market presence.

Across the board, Estimating Services' products increased market penetration in '98. PenPro-TM-, our pen-based vehicle damage appraisal system that runs on a PC laptop, continues to win broad market acceptance. We now have over 6,000 PenPro-TM- systems installed.

Autosource-TM-, our total loss valuation product, had a 30% increase in transaction volume this year. Shoplink-TM- estimating systems for collision repair facilities achieved 30% revenue growth in '98, and is now installed in nearly 8,000 auto body shops. Photolink-TM-, which provides digital imaging among repair shops, claims adjusters and insurance companies, is the industry leader.

### **CAPTION, PHOTO LEFT:**

WHEN TYPHOON PAKA SLAMMED INTO GUAM WITH HIGH WINDS AND HEAVY RAINS IN DECEMBER 1997, INSURANCE CARRIERS IMMEDIATELY SENT IN ESTIMATORS TO MAKE PROMPT SETTLEMENTS. THE CATASTROPHE TEAM FROM USAA, SAN ANTONIO, TX, INCLUDED VINSON PLUMA (FIRST ROW, RIGHT), THEIR ADP ACCOUNT REPRESENTATIVE. HE GAVE UP HIS HOLIDAY TO HELP USAA ASSIST ITS MEMBERS. VINSON PREPARED NUMEROUS ESTIMATES, USING PENPRO-TM-, ADP'S PEN-BASED LAPTOP PC PRODUCT. PICTURED WITH VINSON ARE TEAM MEMBERS FROM USAA: (BACK ROW, LEFT TO RIGHT) JAMES J. HORNER, PHYSICAL DAMAGE CLAIMS PROGRAM ADMINISTRATOR; RUDY RIOS, NORTHEAST AND OVERSEAS PROPERTY DAMAGE SPECIALIST; AND KENNETH E. ROSEN, NORTHEAST AND OVERSEAS PROPERTY DAMAGE SPECIALIST; (FRONT ROW, LEFT) ESTHER BRUNDIGE, APPRAISAL DISPATCH.

### **CAPTION, PHOTO RIGHT:**

NATIONWIDE INSURANCE ENTERPRISE, INC., COLUMBUS, OH, HAS BEEN A CLIENT OF ADP INTEGRATED MEDICAL SOLUTIONS SINCE 1991 AND USES OUR PROVIDER BILL AUDIT-TM- (PBA) COMPUTERIZED MEDICAL BILL REVIEW SYSTEM NATIONALLY. NATIONWIDE ALSO IS ADP'S STRATEGIC PARTNER IN THE DEVELOPMENT OF OUR INJURY CLAIMS EVALUATION (ICE)-TM- PRODUCT, WHICH COMPLEMENTS PBA AND HELPS TO SETTLE THIRD-PARTY AUTO LIABILITY CLAIMS. MICHELLE PREMO (LEFT) IS DIRECTOR OF CLAIMS AT NATIONWIDE. TINA BROWN (RIGHT) WAS ADP'S FIRST ACCOUNT MANAGER TO SERVE NATIONWIDE.

Last year, we reached a settlement with the Federal Trade Commission that required us to divest certain assets of our Parts Services business, which facilitates electronic commerce among automotive parts recyclers. We completed that divestiture in fiscal '98. The remaining business was renamed ADP Hollander. This year, revenues for ADP Hollander products and services grew 13%. In addition, market acceptance of EDEN-TM- (Electronic Data Exchange Network), ADP Hollander's electronic parts locating product for recyclers, reached an all-time high with more than 2,350 units in place.

Integrated Medical Solutions (IMS), which reviews medical-related claims arising from automobile accidents, increased its revenue more than 35%. This is the fourth consecutive year that IMS revenue has grown 30% or better. Provider Bill Audit-TM- (PBA), IMS's flagship product, is licensed by many of the major insurance carriers to assist them in medical claim review and management.

Injury Claims Evaluation (ICE)-TM-, a product which complements PBA, continued to gain significant industry recognition. ICE helps adjusters make fair and equitable settlements, when pain and suffering claims are involved in third-party auto liability claims.

In '98, IMS continued to expand into the workers' compensation market with the acquisition of Context/ Embassy and its Claims Analyzer-TM- product, a state-of-the-art workers' compensation bill review system.

Claims Services has proactively developed integrated solutions to ensure Year 2000 computer system compliance, and will continue to focus on strategic opportunities that enhance growth and add value for our clients worldwide.

**CAPTION:**

ADP'S AUDATEX BUSINESS PROVIDES INSURANCE CARRIERS IN 16 EUROPEAN COUNTRIES WITH LEADING-EDGE AUTOMATED ESTIMATING CAPABILITIES. ALLIANZ INSURANCE STOCK CORPORATION, HEADQUARTERED IN MUNICH, GERMANY, IS A MAJOR AUDATEX CLIENT. WOLFGANG FILBERT (RIGHT), DIRECTOR OF MARKETING AND SALES OF AUDATEX GERMANY, DISCUSSES AUDATEX ADVANTAGES WITH ALLIANZ INSURANCE DIRECTOR, DR. JUR. GERHARD KUPPERSBUSCH (LEFT).

## **INTERNATIONAL**

ADP provides a wide range of computing and information services to clients worldwide. All four ADP business units operate successful businesses in the global marketplace and we expect our international operations to contribute to our growth rate over the next several years.

### **EMPLOYER SERVICES**

More than 25,000 Canadian employers use ADP's employer services, making us the leading provider in Canada.

We now serve over 22,000 payroll and HR clients in Europe. Today, one out of five major companies in Germany and one out of three in France are ADP clients. Overall ES European revenue growth in '98 was 15%, we expanded our salesforce by 40%, and client retention remained high. While most ES clients in Europe are larger businesses, there is enormous potential with small- to mid-sized employers. As just one example of our services to these clients, our new "payroll by phone" service is being well received by small businesses across Europe.

ADP ES Brazil delivers payroll services to about 1,000 clients and is our primary entry vehicle for further expansion in South America.

### **BROKERAGE SERVICES**

ADP continues to pursue securities processing and related opportunities in global markets.

In Canada, we are the leading processor of stock trades nationwide.

Our Wilco International subsidiary has a superior product set to process international securities. These products offer market-specific features for the U.S., Europe and Asia. Wilco revenues grew by more than 65% in '98.

ADP's Global Proxy Services satisfies the proxy voting requirements of international investors and their financial services firms worldwide. We now offer proxy services in more than 50 countries.

### **CAPTION:**

MERRILL LYNCH CONTINUED ITS GLOBAL ROLLOUT OF OUR WILCO GLOSS-SM- INTERNATIONAL SECURITIES TRANSACTION PROCESSING SYSTEM IN '98 WITH INSTALLATIONS IN ITS PARIS AND MILAN OFFICES. STEPHEN NORMAN (LEFT), VICE PRESIDENT, MERRILL LYNCH, AND STEVE BLOOMER (RIGHT), DEPUTY MANAGING DIRECTOR, WILCO, DIRECTED THESE SUCCESSFUL ROLLOUTS.

## DEALER SERVICES

Over 9,000 European and approximately 1,000 Canadian auto dealers are ADP clients, making us the number one provider of auto dealer services in Europe and Canada. Our Pan-European products are on schedule to be both Year 2000 compliant and meet Euro standards.

We now serve manufacturers, importers and dealers in 22 countries, including every major country in Europe.

## CLAIMS SERVICES

Already a major provider of automated estimating in the U. S. and Canada, Claims Services now offers an array of valuation and estimating services to insurance companies and their partners in 16 countries. Our Audatex business rapidly delivers computer precise estimates to clients by utilizing the most extensive Pan-European database available. It currently includes 15,000 models and 735 vehicle types.

## CLEARING SERVICES

We also provide ticket settlement services to travel agents and the airlines. ADP Clearing Services processes millions of transactions each year, serving as a highly respected third-party provider to businesses in the very competitive air travel industry. Clients in more than 15 countries now use Clearing Services.

## CAPTION:

WORLD CLASS SERVICE IS A WORLDWIDE EFFORT. TON VAN DER STARRE (LEFT), DATABASE ADMINISTRATOR; MARCEL DE DOOD (CENTER), PROJECT LEADER AND INFORMATION MANAGER; AND FRANS HARTMAN (RIGHT), BUSINESS ANALYST, ARE PART OF THE TEAM AT ADP, THE NETHERLANDS, THAT IMPLEMENTED ADP'S ADVANCED CLIENT SERVICE SUPPORT SYSTEM FOR OUR CLIENTS IN THE NETHERLANDS. IT UTILIZES HIGHLY-FUNCTIONAL CLARIFY SYSTEMS SOFTWARE, WHICH ALSO SUPPORTS OTHER ADP CLIENT SERVICE OPERATIONS THROUGHOUT EUROPE AND NORTH AMERICA.

## Pie Charts:

### ADP International (%)

#### Revenue

Canada	26
Germany	14
UK	11
France	20
Brazil	8
Netherlands	8
All Others	13

#### Clients

Canada	23
Germany	15
UK	3
France	6
Brazil	0
Netherlands	6
All Others	46

#### Associates

Canada	18
Germany	15
UK	12
France	19
Brazil	15
Netherlands	7
All Others	14

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

(In thousands, except per share amounts)

Years ended June 30,	1998	1997	1996	1995	1994
Revenue	\$4,798,061	\$4,112,186	\$3,566,597	\$2,893,742	\$2,468,966
Cost of operations	3,889,819	3,360,382	2,901,476	2,335,122	2,014,296
Interest expense	24,042	27,794	29,731	24,340	20,840
	3,913,861	3,388,176	2,931,207	2,359,462	2,035,136
Earnings before income taxes	884,200	724,010	635,390	534,280	433,830
Provision for income taxes	278,900	210,510	180,690	139,450	104,510
Net earnings	\$ 605,300	\$ 513,500	\$ 454,700	\$ 394,830	\$ 329,320
Basic earnings per share	\$ 2.04	\$ 1.76	\$ 1.57	\$ 1.38	\$ 1.17
Diluted earnings per share	\$ 1.98	\$ 1.71	\$ 1.53	\$ 1.35	\$ 1.14
Basic shares outstanding	296,878	290,990	288,967	285,112	281,780
Diluted shares outstanding	310,411	306,659	305,009	301,350	297,564
Cash dividends per share	\$ .5125	\$ .445	\$ .3875	\$ .3125	\$ .27
Return on equity	20.1%	20.6%	20.3%	20.9%	21.0%
AT YEAR END:					
Cash, cash equivalents and marketable securities	\$ 1,662,448	\$ 1,495,083	\$ 1,098,620	\$ 1,291,889	\$ 1,062,190
Working capital	\$ 608,263	\$ 785,450	\$ 618,670	\$ 667,920	\$ 507,243
Total assets	\$ 5,175,355	\$ 4,382,772	\$ 3,839,885	\$ 3,201,096	\$ 2,711,751
Long-term debt	\$ 192,063	\$ 401,162	\$ 403,743	\$ 390,177	\$ 372,959
Shareholders' equity	\$ 3,406,451	\$ 2,660,565	\$ 2,315,346	\$ 2,096,615	\$ 1,691,251

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OPERATING RESULTS

Revenue and earnings reached record levels during each of the past three fiscal years. During fiscal '98, revenue increased 17% to \$4.8 billion. Prior to minor non-recurring charges in '97, pretax earnings increased 17% and basic earnings per share increased 13% to \$2.04. In '97, the Company recorded a fourth quarter non-recurring charge of \$0.04 for the divestiture of certain assets as required by the Federal Trade Commission and certain charges related to the front-office operation of Brokerage Services. Fiscal '98 was ADP's 37th consecutive year of double-digit earnings per share growth since becoming a public company in 1961.

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

(In Millions)	Revenue			Revenue Growth		
	Years Ended June 30, 1998	1997	1996	1998	1997	1996
Employer Services	\$2,747	\$2,275	\$1,911	21%	19%	19%
Brokerage Services	1,100	892	787	23	13	20
Dealer Services	698	651	555	7	17	26
Other	253	294	314	(14)	(6)	70
Consolidated	\$4,798	\$4,112	\$3,567	17%	15%	23%

Consolidated revenue grew 17% in fiscal '98 primarily from increased market penetration, from an expanded array of products and services, and from acquisitions, with relatively minor contributions from price increases. Prior to acquisitions and dispositions, revenue increased approximately 14%.

The consolidated pretax margin was 18.4% in '98, 18.3% in '97 (prior to non-recurring charges), and 17.8% in '96. Pretax margin improved over the previous year as continued automation and operating efficiencies enabled the Company to offset start-up costs associated with new products and acquisitions along with continued increases in spending on systems development and programming.

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 business units. 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 units are not meaningful, although trend information within a business unit is a useful directional indicator.

### EMPLOYER SERVICES

Employer Services' (ES) revenue grew 21% in fiscal '98, and in the absence of acquisitions revenue growth would have been about 14%, up from 11% in '97 and 10% in '96.

In '98 the ES operating margin was 21% compared to 22% in '97 and '96. Investments associated with new products and acquisitions, and increased investments in sales force, market penetration and client service contributed to the decrease.

ES' revenue shown above includes the pretax equivalent of interest earned on funds collected from clients as part of the Company's integrated payroll and payroll tax filing services. The pretax equivalent has been calculated at a standard rate of 6%.

### BROKERAGE SERVICES

Brokerage Services' revenue grew by 23% aided by record back-office trading volumes and new clients in Investor Communications Services. In the absence of acquisitions, revenue growth would have been about 22%, up from 12% in '97 and '96.

The Brokerage Services operating margin was 15% in '98 compared to 14% in '97 (prior to non-recurring items) and 13% in '96. The improved operating margin results from improved operating efficiencies.

In '97, the Company recorded a non-taxable \$19 million gain related to the return of a front-office client deposit. The Company also recorded a provision in '97 of \$31 million (\$19 million after tax) to restructure its front-office business. The Company has reached an agreement, subject to regulatory approvals, to divest the \$190 million revenue front-office business. As part of the agreement, the Company will take a minority

investment in the acquiring entity.

## **DEALER SERVICES**

Dealer Services' revenue grew 7% in '98, compared to 17% in '97 and 26% in '96. In the absence of acquisitions and dispositions, '98 revenue growth would have been 8%, up from 6% in '97. Dealer Services' margins decreased to 14% in fiscal '98 from 17% in '97 and 18% in '96 as a result of investments in new product architecture, higher cost to support an increasingly complex product set, and changes and uncertainties in the industry's distribution channels.

## **OTHER**

The primary components of "Other" revenue are claims services, interest income, foreign exchange differences, and miscellaneous processing services. In addition, "Other" revenue has been reduced to adjust for the difference between actual interest income earned on invested tax filing funds and income credited to Employer Services at a standard rate of 6%.

During '97, the Company recorded \$29.3 million of non-recurring pretax charges. Included in the non-recurring pretax charges was a \$17.8 million charge reflecting the Company's settlement with the Federal Trade Commission, under which the Company agreed to divest certain non-material assets. That divestiture was completed during '98.



In addition, in '97 the Company recorded net pretax charges of approximately \$11.5 million related to the front-office business as discussed previously under Brokerage Services.

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

The majority of the Company's services involve computer processing and, as such, the Year 2000 could have a significant impact on the Company's products and services. As a result, the Company has worked for several years addressing both internal and third-party Year 2000 compliance issues. The Year 2000 remediation is not expected to have a material adverse effect on the Company's overall results, as these costs are not expected to be substantially different from normal recurring costs that are incurred for systems development and implementation. The Company expects to have all of its projects complete by the year 2000 or earlier.

In '98, the Company's effective tax rate was approximately 31.5%, up from 29.1% in '97 and 28.4% in '96. The increasing rate is primarily a result of the greater weighting of taxable versus non-taxable earnings.

For '99, ADP is planning another record year with double-digit growth in revenue, and basic and diluted earnings per share growth in the range of 13% to 16%.

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 remains exceptionally strong. At June 30, 1998, cash and marketable securities approximated \$1.7 billion. Shareholders' equity exceeded \$3.4 billion, and return on average equity for the year was 20.1%. The ratio of long-term debt to equity at June 30, 1998 was 6%.

Cash flow from operating activities exceeded \$850 million in '98. We expect another excellent cash-flow year in '99.

In '98, 896,000 shares of common stock were purchased at an average price of approximately \$46 as part of an ongoing program to fund equity-related employee benefits. The Board of Directors has authorized the purchase of up to 8.5 million additional shares.

In '98, zero coupon convertible subordinated notes were converted to about 6 million shares of common stock.

During '98, the Company purchased several businesses for approximately \$338 million in cash and \$13 million in common stock. The cost of acquisitions in '97 and '96 aggregated \$122 million and \$551 million, respectively. The Company acquired several businesses in the years ended 1997 and 1996 in pooling of interest transactions in exchange for 3 and 1 million shares of common stock, respectively. The Company's historical financial statements were not restated because, in the aggregate, these pooling transactions were not material.

Capital expenditures during '98 were approximately \$199 million following investments of \$175 million in '97 and \$164 million in '96. Capital spending in fiscal '99 should approximate \$200 million and remains at a very comfortable level at about 4% of revenues.

The Company's investment portfolio for corporate and client funds consists primarily of fixed income securities subject to interest rate risk, including reinvestment risk. The Company has historically had the ability to hold these investments until maturity, and therefore this has not had an adverse impact on income or cash flows.

## MARKET PRICE, DIVIDEND DATA AND OTHER

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

Fiscal 1998 quarter ended	Price Per Share		Dividends
	High	Low	Per Share
June 30	\$72 7/8	\$61 5/8	\$.1325
March 31	70 11/16	57 9/16	.1325
December 31	62 11/16	47 3/8	.1325
September 30	50 7/16	44 3/8	.115

Fiscal 1997 quarter ended					
June 30	\$50	1/8	\$40	5/8	\$.115
March 31	45	1/8	39	1/2	.115
December 31	44	3/4	40	1/2	.115
September 30	45	3/4	35	5/8	.10

As of June 30, 1998 there were approximately 30,000 holders of record of the Company's common stock. Approximately 150,000 additional holders have their stock in "street name."

This report contains "forward-looking statements" based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ from those expressed. Factors that could cause differences include: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of products and services; overall economic trends, including interest rate and foreign currency trends; impact of Year 2000; stock market activity; auto sales and related industry changes; employment levels; changes in technology; availability of skilled technical associates; and the impact of new acquisitions.

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

(In thousands, except per share amounts)

Years ended June 30,	1998	1997	1996
	-----	-----	-----
Revenue	\$4,798,061	\$4,112,186	\$3,566,597
	-----	-----	-----
Operating expenses	2,063,145	1,722,846	1,516,407
General, administrative and selling expenses	1,206,844	1,117,557	933,805
Systems development and programming costs	375,214	296,544	249,635
Depreciation and amortization	244,616	223,435	201,629
Interest expense	24,042	27,794	29,731
	-----	-----	-----
	3,913,861	3,388,176	2,931,207
	-----	-----	-----
Earnings before income taxes	884,200	724,010	635,390
Provision for income taxes	278,900	210,510	180,690
	-----	-----	-----
Net earnings	\$ 605,300	\$ 513,500	\$ 454,700
	-----	-----	-----
	-----	-----	-----
Basic earnings per share	\$ 2.04	\$ 1.76	\$ 1.57
	-----	-----	-----
Diluted earnings per share	\$ 1.98	\$ 1.71	\$ 1.53
	-----	-----	-----
	-----	-----	-----
Basic shares outstanding	296,878	290,990	288,967
	-----	-----	-----
Diluted shares outstanding	310,411	306,659	305,009
	-----	-----	-----
	-----	-----	-----

See notes to consolidated financial statements.

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

(In thousands, except per share amounts)

June 30,	1998	1997
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 752,240	\$ 590,578
Short-term marketable securities	144,936	434,341
Accounts receivable	727,936	605,068
Other current assets	204,192	175,335
	-----	-----
Total current assets	1,829,304	1,805,322
	-----	-----
Long-term marketable securities	765,272	470,164
	-----	-----
Long-term receivables	177,946	176,771
	-----	-----
Property, plant and equipment -- at cost:		
Land and buildings	386,745	361,594
Data processing equipment	696,424	626,013
Furniture, leaseholds and other	432,654	364,161
	-----	-----
	1,515,823	1,351,768
Less accumulated depreciation	932,150	832,423
	-----	-----
	583,673	519,345
	-----	-----
Other assets	166,112	96,383
	-----	-----
Intangibles	1,653,048	1,314,787
	-----	-----
	\$ 5,175,355	\$ 4,382,772
	-----	-----
	-----	-----
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 239,811	\$ 129,168
Accounts payable	119,803	110,266
Accrued expenses and other current liabilities	806,297	718,959
Income taxes	55,130	61,479
	-----	-----
Total current liabilities	1,221,041	1,019,872
	-----	-----
Long-term debt	192,063	401,162
	-----	-----
Other liabilities	103,056	91,685
	-----	-----
Deferred income taxes	147,397	102,751
Deferred revenue	105,347	106,737
	-----	-----
Shareholders' equity:		
Preferred stock, \$1.00 par value:		
Authorized, 300 shares; issued, none		
Common stock, \$.10 par value:		
Authorized, 500,000 shares; issued, 314,288 shares	31,429	31,429
Capital in excess of par value	618,455	480,492
Retained earnings	3,374,729	2,922,317
Treasury stock-- at cost 12,182 and 21,439 shares, respectively	(515,845)	(697,887)
Translation adjustments	(102,317)	(75,786)
	-----	-----
Total shareholders' equity	3,406,451	2,660,565
	-----	-----
	\$ 5,175,355	\$ 4,382,772
	-----	-----
	-----	-----

See notes to consolidated financial statements.

## STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

## AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES

(In thousands, except per share amounts)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Translation Adjustments
	Shares	Amount				
BALANCE, JULY 1, 1995	314,234	\$31,424	\$348,197	\$2,182,838	\$(469,554)	\$ 3,710
Employee stock plans and related tax benefits	--	--	68,286	--	37,080	--
Treasury stock acquired (6,640 shares)	--	--	--	--	(245,224)	--
Debt conversion (42 shares)	42	4	1,459	--	--	--
Acquisitions (1,513 shares)	--	--	4,007	12,530	17,809	--
Net earnings	--	--	--	454,700	--	--
Dividends (\$.3875 per share)	--	--	--	(112,116)	--	--
Other transactions	1	--	(1,486)	--	(345)	(17,973)
	-----	-----	-----	-----	-----	-----
BALANCE, JUNE 30, 1996	314,277	31,428	420,463	2,537,952	(660,234)	(14,263)
Employee stock plans and related tax benefits	--	--	83,283	--	44,167	--
Treasury stock acquired (3,166 shares)	--	--	--	--	(127,709)	--
Acquisitions (2,978 shares)	--	--	(35,390)	679	35,727	--
Debt conversion (629 shares)	11	1	13,139	--	10,162	--
Net earnings	--	--	--	513,500	--	--
Dividends (\$.445 per share)	--	--	--	(129,814)	--	--
Other transactions	--	--	(1,003)	--	--	(61,523)
	-----	-----	-----	-----	-----	-----
BALANCE, JUNE 30, 1997	314,288	31,429	480,492	2,922,317	(697,887)	(75,786)
Employee stock plans and related tax benefits	--	--	68,514	--	60,444	--
Treasury stock acquired (896 shares)	--	--	--	--	(40,907)	--
Acquisitions (205 shares)	--	--	6,415	--	6,303	--
Debt conversion (5,925 shares)	--	--	64,583	--	156,202	--
Net earnings	--	--	--	605,300	--	--
Dividends (\$.5125 per share)	--	--	--	(152,888)	--	--
Other transactions	--	--	(1,549)	--	--	(26,531)
	-----	-----	-----	-----	-----	-----
BALANCE, JUNE 30, 1998	314,288	\$31,429	\$618,455	\$3,374,729	\$(515,845)	\$(102,317)
	-----	-----	-----	-----	-----	-----

See notes to consolidated financial statements.

## STATEMENTS OF CONSOLIDATED CASH FLOWS

## AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES

(In thousands)

Years ended June 30,	1998	1997	1996
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	\$ 605,300	\$ 513,500	\$ 454,700
Depreciation and amortization	244,616	223,435	201,629
Deferred income taxes	(4,847)	(35,291)	13,940
Changes in operating assets and liabilities:			
Receivables and other assets	(129,700)	(108,786)	(46,321)
Accounts payable and accrued expenses	40,560	48,263	(36,175)
Other	96,152	77,938	86,494
	-----	-----	-----
Net cash flows from operating activities	852,081	719,059	674,267
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of marketable securities	(618,401)	(659,835)	(327,808)
Proceeds from sale of marketable securities	550,405	626,686	521,881
Capital expenditures	(198,586)	(175,289)	(163,525)
Additions to intangibles	(95,797)	(15,292)	(111,054)
Acquisitions of businesses, net of cash acquired	(338,436)	(115,438)	(472,783)
Other	13,634	39,683	5,563
	-----	-----	-----
Net cash flows from investing activities	(687,181)	(299,485)	(547,726)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of notes	110,951	45,395	90,746
Proceeds from issuance of common stock	80,545	71,263	125,617
Repurchases of common stock	(40,907)	(127,709)	(245,224)
Dividends paid	(152,888)	(129,814)	(112,116)
Other	(939)	(2,547)	15,240
	-----	-----	-----
Net cash flows from financing activities	(3,238)	(143,412)	(125,737)
	-----	-----	-----
Net change in cash and cash equivalents	161,662	276,162	804
Cash and cash equivalents, at beginning of period	590,578	314,416	313,612
	-----	-----	-----
Cash and cash equivalents, at end of period	\$ 752,240	\$ 590,578	\$ 314,416
	-----	-----	-----

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 1998, 1997 AND 1996**

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

A. Consolidation and Basis of Preparation. The consolidated financial statements include the accounts of Automatic Data Processing, Inc. and its majority-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

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

C. Marketable Securities. Marketable securities consist primarily of high-grade fixed income investments. Most of the Company's marketable securities are considered to be "available-for-sale" and, accordingly, are carried on the balance sheet at fair market value, which approximates cost. Gains/losses from the sale of marketable securities have not been material. Approximately \$201 million of the Company's long-term marketable securities mature in 1-2 years, \$310 million in 2-3 years, \$147 million in 3-4 years, and the remainder in less than 7 years.

D. Property, Plant and Equipment. Property, plant and equipment is depreciated over the estimated useful lives of the assets by the straight-line method. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful lives of the improvements.

The estimated useful lives of assets are primarily as follows:

Data processing equipment	2 to 3 years
Buildings	20 to 40 years
Furniture and fixtures	3 to 7 years

E. Intangibles. Intangible assets are recorded at cost and are amortized primarily on a straight-line basis. Goodwill is amortized over periods from 10 to 40 years, and is periodically reviewed for impairment by comparing carrying value to undiscounted expected future cash flows. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is taken.

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

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

H. Earnings Per Share. The Company has implemented FASB Statement No. 128, which requires the disclosure of basic and diluted earnings per share. A reconciliation of the income and weighted average shares used in both calculations for the three years ended June 30, 1998 follows:

(In thousands, except EPS)

	Basic	Effect of zero coupon subordinated notes	Effect of stock options	Diluted
	-----	-----	-----	-----
1998				
Net earnings	\$605,300	\$ 7,833	\$ --	\$613,133
Avg. shares	296,878	7,015	6,518	310,411
EPS		\$2.04		\$1.98
1997				

Net earnings	\$513,500	\$11,302	\$ --	\$524,802
Avg. shares	290,990	9,686	5,983	306,659
EPS		\$1.76		\$1.71

1996

Net earnings	\$454,700	\$11,703	\$ --	\$466,403
Avg. shares	288,967	10,360	5,682	305,009
EPS		\$1.57		\$1.53
	-----	-----	-----	-----
	-----	-----	-----	-----

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

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



**NOTE 2. ACQUISITIONS AND DISPOSITIONS**

During fiscal 1998, 1997 and 1996, the Company purchased several businesses for approximately \$351 million (including \$13 million of common stock), \$122 million (including \$7 million in common stock) and \$551 million (including \$20 million in common stock), respectively, net of cash acquired. The results of these acquired businesses are included from the date of acquisition.

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

Additionally, in fiscal 1998, the Company sold several businesses with annual revenues of approximately \$95 million.

**NOTE 3. NON-RECURRING ITEMS**

In the fourth quarter of fiscal 1997, the Company reached a settlement with the Federal Trade Commission under which the Company agreed to divest certain assets, the amount of

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

which was not material. A pretax loss of \$17.8 million was recorded in connection with the settlement.

In the fourth quarter of fiscal 1997, a major Brokerage Services client canceled its services contract with the Company, and, as a result, a client contract deposit was returned to the Company resulting in a non-taxable gain to net earnings of approximately \$19 million. The Company began the process of restructuring the internal operations of the Brokerage front-office business to better align the business' cost structure with the lower revenue which would result as this client reduces its use of ADP services. During fiscal 1997, a provision of approximately \$31 million (\$19 million after-tax) was recorded in order to reduce product lines and platforms and consolidate data centers. In fiscal '98, the Company reached agreement, subject to regulatory approvals, to divest the \$190 million revenue front-office business. As part of the agreement, the Company will take a minority investment in the acquiring entity.

**NOTE 4. RECEIVABLES**

Accounts receivable is net of an allowance for doubtful accounts of \$43 million and \$40 million at June 30, 1998 and 1997, 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)

June 30,	1998		1997	
	Current	Long-Term	Current	Long-Term
Receivables	\$135,265	\$217,644	\$134,506	\$221,783
Less:				
Allowance for doubtful accounts	(15,738)	(14,432)	(13,401)	(20,370)
Unearned income	(24,072)	(25,266)	(24,048)	(24,642)
	\$ 95,455	\$177,946	\$ 97,057	\$176,771

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, 1998 mature as follows:

(In thousands)	
2000	\$98,720
2001	64,392
2002	37,488
2003	15,084
2004	1,504
Thereafter	456
	-----
	\$217,644
	-----
	-----

**NOTE 5. INTANGIBLE ASSETS**

Components of intangible assets are as follows:

(In thousands)

June 30,	1998	1997
	-----	-----
Goodwill	\$ 1,278,511	\$ 1,062,193
Other	938,893	739,323

	-----	-----
	2,217,404	1,801,516
Less accumulated amortization	(564,356)	(486,729)
	-----	-----
	\$ 1,653,048	\$ 1,314,787
	-----	-----

Other intangibles consist primarily of purchased rights (acquired directly or through acquisitions) to provide data processing services to various groups of clients (amortized over periods from 5 to 36 years) and purchased software (amortized over periods from 3 to 10 years). Amortization of intangibles totaled \$102 million for fiscal 1998, \$92 million for 1997 and \$81 million for 1996.

**NOTE 6. DEBT**

A portion of the purchase price of certain international acquisitions has been funded by borrowing in local currency (equivalent to \$240 million as of June 30, 1998 and \$129 million as of June 30, 1997) on a short-term basis at an average interest rate of 3.8% in fiscal 1998 and 3.3% in fiscal 1997. These borrowings have been designated as hedges against the Company's net investment in the businesses acquired.

Components of long-term debt are as follows:

(In thousands)

June 30,	1998	1997
	-----	-----
Zero coupon convertible subordinated notes (5 1/4% yield)	\$ 142,953	\$ 350,897
Industrial revenue bonds (with fixed and variable interest rates from 3.5% to 5.8%)	38,040	38,690
Other	12,453	12,666
	-----	-----
	193,446	402,253
Less current portion	(1,383)	(1,091)
	-----	-----
	\$ 192,063	\$ 401,162
	-----	-----
	-----	-----

The zero coupon convertible subordinated notes have a face value of approximately \$291 million at June 30, 1998, and mature February 20, 2012, unless converted or redeemed earlier. At June 30, 1998, the notes are convertible into approximately 3.8 million shares of the Company's common stock. The notes are callable at the option of the Company, and the holders of the notes can convert into common stock at any time or require redemption in 2002 and 2007. During fiscal 1998 and 1997, approximately \$458 million and \$52 million face value of notes were converted or redeemed. As of June 30, 1998 and 1997, the quoted market prices for the zero coupon notes were approximately \$267 million and

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

\$443 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)	
2000	\$ 679
2001	2,240
2002	76
2003	81
2004	--
Thereafter	188,987
	-----
	\$192,063
	-----
	-----

Interest payments were approximately \$11 million in fiscal 1998, \$10 million in 1997 and \$8 million in 1996.

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

As part of its integrated payroll and payroll tax filing services, the Company collects funds for federal, state and local employment taxes from approximately 315,000 clients, files annually over 15 million returns, handles all regulatory correspondence, amendments, and penalty and interest disputes, remits the funds to the appropriate tax agencies, and handles other employer-related services. In addition to fees paid by clients for these services, the Company receives interest during the interval between the receipt and disbursement of funds by investing the funds primarily in AA or better-rated fixed income municipal instruments, with no more than \$80 million in any single instrument. The amount of collected but unremitted funds varies significantly during the year and averaged approximately \$5.2 billion in fiscal 1998, \$4.5 billion in fiscal 1997 and \$3.7 billion in fiscal 1996. The amount of such funds was \$6.5 billion as of June 30, 1998 and \$5.8 billion as of June 30, 1997. Interest on collected but unremitted funds amounted to approximately \$246 million in fiscal 1998, \$213 million in 1997 and \$178 million in 1996.

**NOTE 8. EMPLOYEE BENEFIT PLANS**

A. Stock Plans. The Company has stock option plans which provide for the issuance to eligible employees of incentive and non-qualified stock options, which may expire as much as 10 years from the date of grant, at prices not less than the fair market value on the date of grant. At June 30, 1998, there were 7,100 participants in the plans. The aggregate purchase price for options outstanding at June 30, 1998 was approximately \$815 million. The options expire at various points between 1998 and 2008.

A summary of changes in the stock option plans for the three years ended June 30, 1998 is as follows:

(In thousands, except per share amounts)	Number of Options			Weighted Average Price		
	1998	1997	1996	1998	1997	1996
Years ended June 30,	-----	-----	-----	-----	-----	-----
Options outstanding, beginning of year	21,285	22,707	20,724	\$ 29	\$ 25	\$ 21
Options granted	5,495	3,566	6,080	\$ 57	\$ 45	\$ 37
Options exercised	(2,920)	(2,952)	(2,445)	\$ 21	\$ 18	\$ 14
Options canceled	(1,464)	(2,036)	(1,652)	\$ 35	\$ 29	\$ 28
	-----	-----	-----	-----	-----	-----
Options outstanding, end of year	22,396	21,285	22,707	\$ 36	\$ 29	\$ 25
	-----	-----	-----	-----	-----	-----
Options exercisable, end of year	7,391	7,250	6,677	\$ 23	\$ 19	\$ 16
	-----	-----	-----	-----	-----	-----
Shares available for future grants, end of year	4,460	8,485	10,015			
	-----	-----	-----			
Shares reserved for issuance under						

stock option plans	26,856	29,770	32,722
	-----	-----	-----
	-----	-----	-----

Summarized information about stock options outstanding as of June 30, 1998 is as follows:

Exercise Price Range	Outstanding		Average Exercise Price	Exercisable	
	No. of Shares (in thousands)	Remaining Life (in years)		No. of Shares (in thousands)	Average Exercise Price
Under \$10	180	0.7	\$ 9	180	\$ 9

\$10 to \$20	2,619	2.6	\$15	2,619	\$ 15
\$20 to \$30	5,986	5.2	\$25	2,791	\$ 25
\$30 to \$40	5,093	7.3	\$35	1,370	\$ 35
\$40 to \$50	3,251	8.6	\$46	397	\$ 46
\$50 to \$60	3,811	9.4	\$55	34	\$ 55
Over \$60	1,456	9.9	\$64	--	\$ 64
-----	-----	---	---	-----	-----

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 plans. Approximately 1.7 million and 1.9 million shares are scheduled for issuance on December 31, 1998 and 1999, respectively. Approximately 1.8 million shares were issued during each of the years ended June 30, 1998 and 1997. At June 30, 1998 and 1997, there were approximately 5.5 million and 7.3 million shares, respectively, reserved for purchase under the plans. Included in liabilities as of June 30, 1998 and 1997 are employee stock purchase plan withholdings of approximately \$63 million and \$56 million, respectively.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## AUTOMATIC DATA PROCESSING, INC. AND SUBSIDIARIES

Years ended June 30,	1998	1997	1996
Risk-free interest rate	5.4-6.3%	5.8-6.6%	5.2-6.5%
Dividend yield	1.0%	1.0-1.1%	1.1%
Volatility factor	3.9-17.4%	12.7-13.2%	11.9-13.3%
Expected life:			
Options	6.2	6.2	6.2
Purchase rights	2.0	2.0	2.0
Weighted average fair value:			
Options	\$15.97	\$12.43	\$9.53
Purchase rights	\$21.44	\$11.94	\$9.53
	-----	-----	-----
	-----	-----	-----

The Company's pro forma information, amortizing the fair value of the stock options and stock purchase plan rights issued subsequent to July 1, 1995 over their vesting period, is as follows:

(In millions, except per share amounts)			
Years ended June 30,	1998	1997	1996
Pro forma net earnings	\$ 565	\$ 492	\$ 442
Pro forma basic earnings per share	\$ 1.90	\$ 1.69	\$ 1.53
Pro forma diluted earnings per share	\$ 1.85	\$ 1.64	\$ 1.49
	-----	-----	-----
	-----	-----	-----

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, 1998, 1997 and 1996, the Company issued 130,500, 128,800 and 139,600 restricted shares, respectively.

B. Pension Plan. The Company has a defined benefit cash balance pension plan covering substantially all U.S. employees, under which employees are credited with a percentage of base pay 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. In addition, the Company has various retirement plans for its non-U.S. employees.

The plans' funded status is as follows:

(In thousands)		
June 30,	1998	1997
Funded plan assets at market value, primarily stocks and bonds	\$ 306,900	\$ 245,300
	-----	-----
Actuarial present value of benefit obligations:		
Vested benefits	224,800	170,900
Non-vested benefits	6,500	9,200
	-----	-----
Accumulated/projected benefit obligation	231,300	180,100
	-----	-----
Plan assets in excess of projected benefits	75,600	65,200
Prior service cost	(1,600)	(2,500)
Transition obligation	1,000	1,200
Unrecognized net actuarial loss due to different experience than assumed	4,400	11,000
	-----	-----
Prepaid pension cost	\$ 79,400	\$ 74,900
	-----	-----
	-----	-----

The components of net pension expense were as follows:

(In thousands)



Years ended June 30,	1998	1997	1996
	----	----	----
Service cost - benefits earned during the period	\$ 18,000	\$ 15,500	\$ 13,600
Interest cost on projected benefits	14,500	11,800	10,000
Return on plan assets	(41,100)	(35,100)	(20,000)
Net amortization and deferral	19,100	18,100	9,900
	-----	-----	-----
	\$ 10,500	\$ 10,300	\$ 13,500
	-----	-----	-----
	-----	-----	-----

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

Years ended June 30,	1998	1997	1996
	----	----	----
Discount rate	7.25%	7.75%	8.0%

Expected long-term rate on assets	8.5%	8.5%	8.5%
Increase in compensation levels	6.0%	6.0%	6.0%
	----	----	----
	----	----	----

C. Retirement and Savings Plan. The Company has a 401(k) retirement and savings plan which allows eligible employees to contribute up to 16% of their compensation annually. The Company matches a portion of this contribution which amounted to approximately \$22 million, \$19 million and \$18 million for calendar years 1997, 1996 and 1995, respectively.

#### NOTE 9. INCOME TAXES

The Company accounts for its income taxes using the asset and liability approach. Deferred taxes reflect the tax consequences on future years of differences between the financial reporting and tax bases of assets and liabilities.

The provision for income taxes consists of the following components:

(In thousands)			
Years ended June 30,	1998	1997	1996
	----	----	----
Current:			
Federal	\$197,496	\$170,826	\$124,400
Non-U.S.	41,209	37,090	20,750
State	45,042	37,885	21,600
	-----	-----	-----
Total current	283,747	245,801	166,750
Deferred:			
Federal	(5,972)	(29,741)	6,060
Non-U.S.	3,115	4,360	5,860
State	(1,990)	(9,910)	2,020
	-----	-----	-----
Total deferred	(4,847)	(35,291)	13,940
	-----	-----	-----
	\$278,900	\$210,510	\$180,690
	-----	-----	-----
	-----	-----	-----

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

At June 30, 1998 and 1997, the Company had gross deferred tax assets of approximately \$134 million and \$142 million, respectively, consisting primarily of operating expenses not currently deductible for tax return purposes. Valuation allowances approximated \$23 million as of June 30, 1998 and 1997. Gross deferred tax liabilities approximated \$256 million and \$214 million, as of June 30, 1998 and June 30, 1997, respectively, consisting primarily of differences in the accounting and tax values of certain fixed and intangible assets.

Income tax payments were approximately \$245 million in 1998, \$200 million in 1997, and \$178 million in 1996.

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

(In thousands, except percentages)						
Years ended June 30,	1998	%	1997	%	1996	%
	----	-	----	-	----	-
Provision for taxes at statutory rate	\$ 309,500	35.0	\$ 253,400	35.0	\$ 222,400	35.0
Increase (decrease) in provision from:						
Investments in municipals and preferred stock	(68,670)	(7.8)	(62,200)	(8.6)	(55,300)	(8.7)
State taxes, net of federal tax benefit	27,985	3.2	18,180	2.5	15,370	2.4
Other	10,085	1.1	1,130	0.2	(1,780)	(0.3)
	-----	-----	-----	-----	-----	-----
	\$ 278,900	31.5	\$ 210,510	29.1	\$ 180,690	28.4
	-----	-----	-----	-----	-----	-----

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries have various facilities and equipment lease obligations. Total rental expense was approximately \$172 million in 1998 and \$165 million in 1997 and 1996, with minimum lease commitments under operating leases as follows:

(In millions)	
Years ending June 30,	
1999	\$171
2000	125
2001	69
2002	41
2003	31
Thereafter	88
	-----
	\$525
	-----
	-----

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

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

## NOTE 11. FINANCIAL DATA BY GEOGRAPHIC AREA

Information about the Company's operations by geographic area for the three years ended June 30, 1998 is as follows (in millions):

	United States	Europe	Americas	Corporate	Consoli- dated
	-----	-----	-----	-----	-----
Revenue					
1998	\$4,013	\$ 493	\$261	\$ 31	\$4,798
1997	\$3,417	\$ 512	\$131	\$ 52	\$4,112
1996	\$3,020	\$ 388	\$115	\$ 44	\$3,567
	-----	-----	-----	-----	-----
Earnings before income taxes					
1998	\$ 838	\$ 40	\$ 22	\$ (16)	\$ 884
1997	\$ 687	\$ 41	\$ 17	\$ (21)	\$ 724
1996	\$ 606	\$ 19	\$ 17	\$ (7)	\$ 635
	-----	-----	-----	-----	-----
Identifiable assets					
1998	\$2,207	\$1,248	\$254	\$1,466	\$5,175
1997	\$1,659	\$1,315	\$ 84	\$1,325	\$4,383
1996	\$1,553	\$1,244	\$ 65	\$ 978	\$3,840
	-----	-----	-----	-----	-----

## NOTE 12. QUARTERLY FINANCIAL RESULTS

(UNAUDITED)

Summarized quarterly results of operations for the three years ended June 30, 1998 are as follows:

(In thousands, except per share amounts)

Year ended June 30, 1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	-----	-----	-----	-----
Revenue	\$ 1,038,498	\$ 1,148,026	\$ 1,309,329	\$ 1,302,208
Net earnings	\$ 105,410	\$ 147,390	\$ 190,600	\$ 161,900
Basic earnings per share	\$ .36	\$ .50	\$ .64	\$ .54
Diluted earnings per share	\$ .35	\$ .49	\$ .62	\$ .52
	-----	-----	-----	-----
Year ended June 30, 1997				
Revenue	\$ 910,730	\$ 995,575	\$ 1,126,284	\$ 1,079,597
Net earnings	\$ 93,280	\$ 127,580	\$ 164,930	\$ 127,710
Basic earnings per share	\$ .32	\$ .44	\$ .56	\$ .44
Diluted earnings per share	\$ .31	\$ .43	\$ .55	\$ .42
	-----	-----	-----	-----
Year ended June 30, 1996				
Revenue	\$ 747,094	\$ 819,723	\$ 1,031,864	\$ 967,916
Net earnings	\$ 81,900	\$ 108,900	\$ 143,900	\$ 120,000
Basic earnings per share	\$ .28	\$ .38	\$ .49	\$ .42
Diluted earnings per share	\$ .28	\$ .37	\$ .48	\$ .41
	-----	-----	-----	-----

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

## **REPORT OF MANAGEMENT**

Management is responsible for the preparation of the accompanying financial statements. The financial statements, which include amounts based on the application of business judgments, have been prepared in conformity with generally accepted accounting principles. Deloitte & Touche, 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.

Arthur F. Weinbach  
Chairman and Chief Executive Officer

Richard J. Haviland  
Chief Financial Officer

**Roseland, New Jersey, August 13, 1998**

## **DIRECTORS AND CORPORATE OFFICERS**

### **DIRECTORS**

Henry Taub(3)  
Honorary Chairman of the Board  
Chairman, ADP Executive Committee

Josh S. Weston(3)  
Honorary Chairman of the Board

Arthur F. Weinbach(3)  
Chairman and Chief Executive Officer  
Gary C. Butler  
President and Chief Operating Officer

Joseph A. Califano, Jr.(1)  
Chairman of the Board and President,  
The National Center on Addiction and Substance Abuse at Columbia University  
(CASA)

Leon G. Cooperman(1)  
Chairman and Chief Executive Officer  
of Omega Advisors, Inc.

George H. Heilmeyer(2)  
Chairman Emeritus of Bellcore

Ann Dibble Jordan(1)  
Consultant  
Member of various boards

Harvey M. Krueger(1,3)  
Vice Chairman of Lehman Brothers  
Chairman, ADP Audit Committee

Frederic V. Malek(2,3)  
Chairman, Thayer Capital Partners

Chairman, ADP Compensation Committee

Laurence A. Tisch(2)

Co-Chairman and Co-Chief Executive Officer of Loews Corporation

1 Audit Committee

2 Compensation Committee

3 Executive Committee

## **CORPORATE OFFICERS**

Arthur F. Weinbach  
Chairman and Chief Executive Officer

Gary C. Butler  
President and Chief Operating Officer

Group Presidents  
Richard J. Daly  
Russell P. Fradin  
John P. Hogan  
S. Michael Martone

Corporate Vice Presidents  
Albert J. Angelus  
John D. Barfitt

James B. Benson, General Counsel  
Richard C. Berke  
William J. Campbell  
Ronald F. Clarke  
Raymond L. Colotti, Treasurer  
Renato Crocetti  
G. Harry Durity  
Philippe A. Gluntz  
Eugene A. Hall, Senior VP  
Richard J. Haviland, Chief Financial Officer  
Howard D. Koenig  
Timothy D. Lamb  
Peter M. Leger

Raymond A. Marlinga  
Gordon R. Mettam  
Michael W. Reece  
Michael P. Rooney  
George I. Stoeckert  
Dante F. Terzo  
Thomas J. Tremba

Staff Vice Presidents  
Karen E. Dykstra  
Brian E. Heiser  
Terri J. LeCamp  
Gary E. Tarino

**EXHIBIT 21**

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

In accordance with Item 601(b)(21) of Regulation S-K, the Registrant has omitted the names of particular subsidiaries because the unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not have constituted a significant subsidiary as of June 30, 1998.



## EXHIBIT 23

### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Automatic Data Processing, Inc.'s Registration Statement Nos. 33-45150, 33-52876, 33-55909, 33-57207, 33-58165, 33-61629, 333-01839, 333-02331, 333-12767, 333-15103, 333-29713, 333-48493, and 333-57075, on Form S-3 and Registration Statements Nos. 33-24987, 33-25290, 33-38338, 2-75287, 33-38366, 33-38365, 33-46168, 33-51979, 33-51977, 33-52629, 33-56419, 33-56463, 333-10281, 333-10279, 333-10277, 333-13945, and 333-50123 on Form S-8 of our reports dated August 13, 1998, appearing in (and incorporated by reference) in this Annual Report on Form 10-K of Automatic Data Processing, Inc. for the year ended June 30, 1998.

*/s/ Deloitte & Touche LLP  
New York, New York  
September 22, 1998*

## ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	JUN 30 1998
CASH	752,240
SECURITIES	910,208
RECEIVABLES	770,495
ALLOWANCES	42,559
INVENTORY	47,054
CURRENT ASSETS	1,829,304
PP&E	1,515,823
DEPRECIATION	932,150
TOTAL ASSETS	5,175,355
CURRENT LIABILITIES	1,221,041
BONDS	192,063
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	31,429
OTHER SE	3,375,022
TOTAL LIABILITY AND EQUITY	5,175,355
SALES	0
TOTAL REVENUES	4,798,061
CGS	0
TOTAL COSTS	3,873,072
OTHER EXPENSES	0
LOSS PROVISION	16,747
INTEREST EXPENSE	24,042
INCOME PRETAX	884,200
INCOME TAX	278,900
INCOME CONTINUING	605,300
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	605,300
EPS PRIMARY	\$2.04
EPS DILUTED	\$1.98

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