



**Part I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**Automatic Data Processing, Inc. and Subsidiaries**  
**Consolidated Statements of Earnings**  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
REVENUES:		
Revenues other than interest on funds held for clients and PEO revenues	\$1,644,533	\$1,532,389
Interest on funds held for clients	84,663	82,934
PEO revenues (A)	<u>125,486</u>	<u>104,954</u>
TOTAL REVENUES	<u>1,854,682</u>	<u>1,720,277</u>
EXPENSES:		
Operating expenses	867,020	794,241
Selling, general and administrative expenses	446,158	426,878
Systems development and programming costs	148,724	131,754
Depreciation and amortization	74,421	74,726
Other income, net	<u>(12,581)</u>	<u>(18,592)</u>
TOTAL EXPENSES	<u>1,523,742</u>	<u>1,409,007</u>
EARNINGS BEFORE INCOME TAXES	330,940	311,270
Provision for income taxes	<u>122,779</u>	<u>116,420</u>
NET EARNINGS	<u>\$ 208,161</u>	<u>\$ 194,850</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.36</u>	<u>\$ 0.33</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.35</u>	<u>\$ 0.32</u>
Basic average shares outstanding	<u>583,551</u>	<u>594,843</u>
Diluted average shares outstanding	<u>589,952</u>	<u>600,849</u>
Dividends per common share	<u>\$ 0.1400</u>	<u>\$ 0.1200</u>

(A) Net of pass-through costs of \$1,149,487 and \$911,569, respectively.

See notes to the consolidated financial statements.

**Automatic Data Processing, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

(In thousands, except per share amounts)

(Unaudited)

	September 30, 2004	June 30, 2004
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,103,525	\$ 712,998
Short-term marketable securities	333,335	416,077
Accounts receivable, net	986,292	1,057,938
Other current assets	605,381	574,576
Total current assets	3,028,533	2,761,589
Long-term marketable securities	587,887	963,501
Long-term receivables	200,667	196,828
Property, plant and equipment, net	645,204	642,353
Other assets	735,064	720,936
Goodwill	2,217,787	2,195,539
Intangible assets, net	720,186	736,281
Total assets before funds held for clients	8,135,328	8,217,027
Funds held for clients	15,652,150	12,903,532
Total assets	\$23,787,478	\$21,120,559
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 128,514	\$ 175,175
Accrued expenses and other current liabilities	1,354,476	1,482,703
Income taxes payable	176,943	110,546
Total current liabilities	1,659,933	1,768,424
Long-term debt	76,508	76,200
Other liabilities	340,313	319,495
Deferred income taxes	323,950	283,781
Deferred revenue	439,065	414,764
Total liabilities before client funds obligations	2,839,769	2,862,664
Client funds obligations	15,534,175	12,840,225
Total liabilities	18,373,944	15,702,889
Stockholders' equity:		
Preferred stock, \$1.00 par value:		
authorized 300 shares, issued, none	-	-
Common stock, \$0.10 par value:		
authorized 1,000,000 shares; issued 638,702 shares	63,870	63,870
Capital in excess of par value	62,710	79,646
Retained earnings	7,453,521	7,326,918
Treasury stock - at cost: 56,165 and 44,264, respectively	(2,205,476)	(2,033,254)
Accumulated other comprehensive income (loss)	38,909	(19,510)
Total stockholders' equity	5,413,534	5,417,670
Total liabilities and stockholders' equity	\$23,787,478	\$21,120,559

See notes to the consolidated financial statements.

**Automatic Data Processing, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	Three Months Ended September 30,	
	2004	2003
<u>Cash Flows From Operating Activities:</u>		
Net earnings	\$ 208,161	\$ 194,850
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation and amortization	74,421	74,726
Deferred income taxes	26,822	56,868
Amortization of premiums and discounts on available-for-sale securities	33,521	27,425
Other	29,459	1,374
Changes in operating assets and liabilities, net of effects from acquisitions of businesses:		
Decrease (increase) in receivables and other assets	14,835	(64,138)
Decrease in accounts payable and accrued expenses	(121,000)	(126,785)
Net cash flows provided by operating activities	266,219	164,320
<u>Cash Flows From Investing Activities:</u>		
Purchases of marketable securities	(1,663,453)	(1,440,879)
Proceeds from the sale or maturity of marketable securities	1,912,278	910,078
Net proceeds from client fund money market securities	(2,482,023)	1,315,541
Net change in client funds obligations	2,693,950	(855,846)
Capital expenditures	(42,486)	(37,731)
Additions to intangibles	(20,595)	(20,047)
Acquisitions of businesses, net of cash acquired	(777)	(645)
Other	2,450	3,902
Net cash flows provided by (used in) investing activities	399,344	(125,627)
<u>Cash Flows From Financing Activities:</u>		
Payments of debt	(306)	(441)
Proceeds from issuance of notes	119	109
Repurchases of common stock	(234,674)	(64,332)
Proceeds from stock purchase plan and exercises of stock options	42,307	38,772
Dividends paid	(82,482)	(71,308)
Net cash flows used in financing activities	(275,036)	(97,200)
Net change in cash and cash equivalents	390,527	(58,507)
Cash and cash equivalents, at beginning of period	712,998	1,410,218
Cash and cash equivalents, at end of period	\$1,103,525	\$ 1,351,711

See notes to the consolidated financial statements.

**Automatic Data Processing, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

(Unless otherwise noted, amounts in thousands, except per share amounts)  
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. Adjustments are of a normal recurring nature. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes of Automatic Data Processing, Inc. and Subsidiaries (collectively, ADP or the Company) as of and for the fiscal year ended June 30, 2004. The results of operations for the three months ended September 30, 2004 may not be indicative of the results to be expected for the fiscal year ending June 30, 2005.

Note 2. Earnings Per Share (EPS)

	For the three months ended September 30,					
	2004			2003		
	Net <u>Earnings</u>	Average <u>Shares</u>	<u>EPS</u>	Net <u>Earnings</u>	Average <u>Shares</u>	<u>EPS</u>
Basic	\$208,161	583,551	\$0.36	\$194,850	594,843	\$0.33
Effect of zero coupon subordinated notes	265	1,235		327	1,606	
Effect of stock options	-	5,166		-	4,400	
Diluted	<u>\$208,426</u>	<u>589,952</u>	<u>\$0.35</u>	<u>\$195,177</u>	<u>600,849</u>	<u>\$0.32</u>

Options to purchase 36.0 million and 39.9 million shares of common stock for the three months ended September 30, 2004 and 2003, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices exceeded the average market price of outstanding common shares for the period.

Note 3. Fair Value Accounting for Stock-Based Compensation

The Company accounts for its stock options and employee stock purchase plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). No stock-based employee compensation expense related to the Company's stock options and employee stock purchase plans is reflected in net earnings, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant, and for the employee stock purchase plans, the discount does not exceed fifteen percent.

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Three Months Ended September 30,	
	2004	2003
Net earnings, as reported	\$208,161	\$194,850
Add: Stock-based employee compensation expense for restricted stock included in reported net earnings, net of related tax effects	2,175	1,817
Deduct: Total stock-based employee compensation expense determined using the fair value-based method for all awards, net of related tax effects	<u>(33,455)</u>	<u>(28,901)</u>
Pro forma net earnings	<u>\$176,881</u>	<u>\$167,766</u>
Earnings per share:		
Basic - as reported	<u>\$0.36</u>	<u>\$0.33</u>
Basic - pro forma	<u>\$0.30</u>	<u>\$0.28</u>
Diluted - as reported	<u>\$0.35</u>	<u>\$0.32</u>
Diluted - pro forma	<u>\$0.30</u>	<u>\$0.28</u>

## Note 4. Other Income, net

	Three Months Ended September 30,	
	2004	2003
Interest income on corporate funds	\$(25,870)	\$(22,100)
Interest expense	8,108	4,651
Realized gains on available-for-sale securities	(2,603)	(3,260)
Realized losses on available-for-sale securities	<u>7,784</u>	<u>2,117</u>
Other income, net	<u>\$(12,581)</u>	<u>\$(18,592)</u>

Proceeds from sales or maturities of available-for-sale securities were \$1.9 billion and \$0.9 billion for the three months ended September 30, 2004 and 2003, respectively.

## Note 5. Comprehensive Income

	Three Months Ended September 30,	
	2004	2003
Net earnings	\$208,161	\$194,850
Other comprehensive income:		
Foreign currency translation adjustments	20,099	(63,658)
Unrealized net gain (loss) on available-for-sale securities	<u>38,320</u>	<u>(47,042)</u>
Comprehensive income	<u>\$266,580</u>	<u>\$ 84,150</u>

## Note 6. Interim Financial Data by Segment

Employer Services, Brokerage Services and Dealer Services are the Company's largest business units. The primary components of "Other" are Claims Services, miscellaneous processing services, and corporate allocations and expenses. The Company evaluates

the performance of its business units based on operating results before interest on corporate funds, foreign currency gains and losses, and income taxes. Certain revenues and expenses are charged to business units at a standard rate for management reasons. Other costs are recorded based on management responsibility. The prior year's business unit revenues and earnings before income taxes have been adjusted to reflect updated fiscal year 2005 budgeted foreign exchange rates. Reconciling items include foreign exchange differences between the actual foreign exchange rates and the fiscal year 2005 budgeted foreign exchange rates, and the adjustment for the difference between actual interest income earned on invested funds held for clients and interest credited to Employer Services at a standard rate of 4.5%. Both of these adjustments are eliminated in consolidation and as such represent a reconciling item to revenues and earnings before income taxes. The business unit results also include an internal cost of capital charge related to the funding of acquisitions and other investments. This charge is eliminated in consolidation and as such represents a reconciling item to earnings before income taxes.

Business Segment Results (In millions):

	Revenues	
	Three Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
Employer Services	\$1,176	\$1,111
Brokerage Services	331	314
Dealer Services	238	211
Other	121	110
Reconciling items:		
Foreign exchange	19	(5)
Client fund interest	(30)	(21)
Total revenues	<u>\$1,855</u>	<u>\$1,720</u>

	Earnings Before	
	Income Taxes	
	Three Months Ended	
	<u>2004</u>	<u>2003</u>
Employer Services	\$ 219	\$ 207
Brokerage Services	39	20
Dealer Services	35	32
Other	31	40
Reconciling items:		
Foreign exchange	3	-
Client fund interest	(30)	(21)
Cost of capital charge	34	33
Total earnings before income taxes	<u>\$ 331</u>	<u>\$ 311</u>

Note 7. Corporate Investments and Funds Held for Clients

	<u>September 30, 2004</u>		<u>June 30, 2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Type of issue:				
Money market securities and other cash equivalents	\$ 5,691,728	\$ 5,691,728	\$ 2,903,284	\$ 2,903,284
Available-for-sale securities:				
U.S. Treasury and direct				

obligations of U.S. government agencies	5,660,786	5,723,735	5,449,694	5,485,632
Asset backed securities	2,302,372	2,321,060	2,570,424	2,580,609
Corporate bonds	2,228,423	2,240,904	2,342,017	2,341,015
Canadian government obligations and Canadian government agency obligations	790,617	803,004	765,908	774,877
Other debt securities	876,770	887,285	899,216	900,550
Other equity securities	<u>5,696</u>	<u>9,181</u>	<u>5,696</u>	<u>10,141</u>
Total available-for-sale securities	<u>11,864,664</u>	<u>11,985,169</u>	<u>12,032,955</u>	<u>12,092,824</u>
Total corporate investments and funds held for clients	<u>\$17,556,392</u>	<u>\$17,676,897</u>	<u>\$14,936,239</u>	<u>\$14,996,108</u>
Classification of investments on the Consolidated Balance Sheets				
Corporate investments	\$ 2,022,217	\$ 2,024,747	\$ 2,096,014	\$ 2,092,576
Funds held for clients	<u>15,534,175</u>	<u>15,652,150</u>	<u>12,840,225</u>	<u>12,903,532</u>
Total corporate investments and funds held for clients	<u>\$17,556,392</u>	<u>\$17,676,897</u>	<u>\$14,936,239</u>	<u>\$14,996,108</u>

Gross unrealized gains and losses on the available-for-sale securities are as follows:

	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Unrealized gains, net</u>
September 30, 2004	\$144,551	\$(24,046)	\$120,505
June 30, 2004	\$125,585	\$(65,716)	\$ 59,869

All of the Company's marketable securities are considered to be "available-for-sale" at September 30, 2004 and June 30, 2004 and, accordingly, are carried on the Consolidated Balance Sheets at fair value.

The Company believes that the available-for-sale securities which have fair values that are below cost are not other-than-temporarily impaired since it is probable that principal and interest will be collected in accordance with the applicable contractual terms and the Company has the ability to hold the available-for-sale securities until maturity.

#### Note 8. Goodwill and Intangible Assets, net

Changes in goodwill for the three months ended September 30, 2004 are as follows:

	<u>Employer Services</u>	<u>Brokerage Services</u>	<u>Dealer Services</u>	<u>Other</u>	<u>Total</u>
Balance as of June 30, 2004	\$1,314,579	\$366,299	\$324,111	\$190,550	\$2,195,539
Additions	777	-	671	16,176	17,624
Cumulative translation adjustments	<u>3,746</u>	<u>150</u>	<u>142</u>	<u>586</u>	<u>4,624</u>

Balance as of  
 September 30, 2004 \$1,319,102 \$366,449 \$324,924 \$207,312 \$2,217,787  
 Components of intangible assets, net are as follows:

	September 30, 2004	June 30, 2004
Intangible assets:		
Software and software licenses	\$ 751,965	\$ 729,399
Customer contracts and lists	599,067	594,841
Other	387,680	391,906
	<u>1,738,712</u>	<u>1,716,146</u>
Less accumulated amortization	<u>(1,018,526)</u>	<u>(979,865)</u>
Intangible assets, net	<u>\$ 720,186</u>	<u>\$ 736,281</u>

Other intangible assets consist primarily of purchased rights, covenants, patents and trademarks (acquired directly or through acquisitions). All of the intangible assets have finite lives and as such are subject to amortization. The weighted average remaining useful life of the intangible assets is 9 years (3 years for software licenses, 13 years for customer contracts and lists and 12 years for other). Amortization of intangibles totaled \$35.8 million and \$34.3 million for the three months ended September 30, 2004 and 2003, respectively. Estimated amortization expense of the Company's existing intangible assets for the remaining nine months of fiscal year 2005 and the succeeding five fiscal years is as follows:

	<u>Amount</u>
2005	\$112,702
2006	\$121,415
2007	\$ 97,361
2008	\$ 75,793
2009	\$ 46,133
2010	\$ 40,227

#### Note 9. Short-term Financing

In June 2004, the Company entered into two new unsecured revolving credit agreements, each for \$2.25 billion, with certain financial institutions, replacing a previous \$4.5 billion credit agreement. The two unsecured revolving credit agreements expire in June 2005 and June 2009, respectively. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided by the Company to the syndicated financial institutions prior to borrowing. The Company is also required to pay facility fees on the credit agreements. The primary uses of the credit facilities are to provide liquidity to the unsecured commercial paper program and to provide funding for general corporate purposes, if necessary. The Company had no borrowings through September 30, 2004 under the credit agreements.

The Company maintains a U.S. short-term commercial paper program providing for the issuance of up to \$4.5 billion in aggregate maturity value of commercial paper at the Company's discretion. The Company's commercial paper program is rated A-1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote the highest quality commercial paper securities. Maturities of commercial paper can range from overnight to 270 days. At September 30, 2004 and 2003, there was no commercial paper outstanding. For the three months ended September 30, 2004 and 2003, the Company had average borrowings of \$1.4 billion and \$1.1 billion, respectively, at an effective weighted average interest rate of 1.5% and 1.0%, respectively. The weighted average maturity of the Company's commercial paper during the three months ended September 30, 2004 and 2003 was less than two days for both periods.

The Company's U.S. and Canadian short-term funding requirements related to client funds obligations are sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight up to five business days. At September 30, 2004 and 2003, there were no outstanding repurchase agreements. For the three months ended September 30, 2004 and 2003, the Company had an average outstanding balance of \$390.1 million and \$7.2

million, respectively, at a weighted average interest rate of 1.4% and 2.5%, respectively.

#### Note 10. Pension Plans

The components of net pension expense were as follows:

	Three months ended	
	September 30	
	<u>2004</u>	<u>2003</u>
Service Cost- benefits earned during the period	\$ 7,383	\$ 5,743
Interest cost on projected benefits	9,430	8,422
Expected return on plan assets	(13,045)	(12,624)
Net amortization and deferral	<u>2,779</u>	<u>2,549</u>
Net pension expense	<u>\$ 6,547</u>	<u>\$ 4,090</u>

The minimum required contribution to the Company's pension plans is \$0 in fiscal 2005. For the three months ending September 30, 2004, the Company did not make any contributions to the pension plans; however, the Company expects to contribute approximately \$25 million during fiscal 2005.

#### Note 11. Commitments and Contingencies

It is not the Company's practice to enter into off-balance sheet arrangements. However, in the normal course of business, the Company does enter into contracts in which it guarantees the performance of the Company's products and services. Historically, there have been no material losses related to such guarantees.

**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

(Tabular dollars are presented in millions, except per share amounts)

**CRITICAL ACCOUNTING POLICIES**

Our Consolidated Financial Statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed below.

*Revenue Recognition.* Our revenues are primarily attributable to fees for providing services (e.g., Employer Services' payroll processing fees and Brokerage Services' trade processing fees) as well as investment income on payroll funds, payroll tax filing funds and other Employer Services' client-related funds. We typically enter into agreements for a fixed fee per transaction (e.g., number of payees or number of trades). Fees associated with services are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectibility is reasonably assured. Interest income on collected but not yet remitted funds held for clients is recognized in revenues as earned, as the collection, holding and remittance of these funds are critical components of providing these services.

We also recognize revenues associated with the sale of software systems and associated software licenses. For a majority of our software sales arrangements, which provide hardware, software licenses, installation and post-customer support, revenues are recognized ratably over the software license term as vendor-specific objective evidence of the fair values of the individual elements in the sales arrangement does not exist. Changes to the elements in an arrangement and the ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition.

The majority of our revenues are generated from a fee for service model (e.g., fixed-fee per transaction processed) in which revenue is recognized when the related services have been rendered under written price quotations or service agreements having stipulated terms and conditions which do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

We assess collectibility of our revenues based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history. We do not believe that a change in our assumptions utilized in the collectibility determination would result in a material change to revenues as no one customer accounts for a significant portion of our revenues.

*Goodwill.* We review the carrying value of all our goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," by comparing the carrying value of our reporting units to their fair values. We are required to perform this comparison at least annually or more frequently if circumstances indicate possible impairment. When determining fair value, we utilize a discounted future cash flow approach using various assumptions, including projections of revenues based on assumed long-term growth rates, estimated costs, and appropriate discount rates based on the particular businesses' weighted average cost of capital. Our estimates of long-term growth and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our routine long-range planning process. The estimated fair

value of the Company's reporting units exceeds the carrying value of the reporting units. We had approximately \$2.2 billion of goodwill as of September 30, 2004. Given the significance of our goodwill, an adverse change to the fair value could result in an impairment charge, which could be material to our consolidated earnings.

*Income taxes.* We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our financial statements or tax returns (e.g., realization of deferred tax assets, changes in tax laws or interpretations thereof). In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact our consolidated financial statements.

## RESULTS OF OPERATIONS

### Analysis of Consolidated Operations

	Three Months Ended		
	September 30,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Total revenues	\$1,855	\$1,720	8%
Total expenses	\$1,524	\$1,409	8%
Earnings before income taxes	\$ 331	\$ 311	6%
Margin	17.8%	18.1%	
Provision for income taxes	\$ 123	\$ 116	5%
Effective tax rate	37.1%	37.4%	
Net earnings	\$ 208	\$ 195	7%
Diluted earnings per share	\$ 0.35	\$ 0.32	9%

### Revenues

Our consolidated revenues for the quarter ended September 30, 2004 grew 8% to \$1.9 billion primarily due to increases in Employer Services of 6%, or \$65 million, to \$1.2 billion, Brokerage Services of 6%, or \$17 million, to \$331 million, and Dealer Services of 13%, or \$27 million, to \$238 million. Our consolidated revenues, excluding the impact of acquisitions and divestitures, grew 8% in the quarter ending September 30, 2004 as compared with the prior year. Revenue growth for the quarter was also favorably impacted by \$24 million, or 1.4%, due to fluctuations in foreign currency exchange rates.

Our consolidated revenues for the quarter ending September 30, 2004 includes interest on funds held for clients of \$85 million, as compared to \$83 million in the prior year. The increase in the consolidated interest earned on funds held for clients resulted from the increase of 10% in our average client fund balances to \$10.2 billion for the quarter, offset by a decrease in the interest yield. The difference between the 4.5% standard rate allocation in Employer Services and the actual interest earned is a reconciling item that is eliminated in consolidation and reduces revenues by \$30 million and \$21 million in the quarters ending September 30, 2004 and 2003, respectively.

## Expenses

Our consolidated expenses for the quarter increased by \$115 million, from \$1.4 billion to \$1.5 billion. The increase in our consolidated expenses is primarily due to our increase in revenues, including the additional expenses associated with acquisitions. In addition, consolidated expenses increased by \$21 million, or 1.5%, due to fluctuations in foreign currency exchange rates. Operating expenses increased by \$73 million, or 9%, primarily due to the increase in revenues. Selling, general and administrative expenses increased by \$19 million to \$446 million primarily due to the additional sales force to support the revenue growth. Systems development and programming costs increased by \$17 million to \$149 million due to continued investments in sustaining our products, primarily in our Employer Services business, and the maintenance of our existing technology throughout all of our businesses. In addition, other income, net, decreased \$6 million primarily due to the net realized loss of \$5 million in the quarter ending September 30, 2004 as compared to the net realized gain of \$1 million in the prior year on our available-for-sale securities.

## Earnings Before Income Taxes

Earnings before income taxes increased by \$20 million, or 6%, to \$331 million for the quarter ending September 30, 2004 due to the increase in revenues and expenses discussed above.

## Provision for Income Taxes

Our effective tax rate for the quarter ending September 30, 2004 was 37.1% as compared to 37.4% for the comparable quarter of the prior year. The decrease is attributable to a favorable mix in income among tax jurisdictions.

## Net Earnings

Net earnings for the quarter increased 7% to \$208 million from \$195 million and the related diluted earnings per share increased 9% to \$0.35. The increase in net earnings reflects the increase in earnings before income taxes and the impact of the lower effective tax rate. The increase in diluted earnings per share reflects the increase in net earnings and the impact of fewer shares outstanding due to the repurchase of 5.5 million shares during the quarter and 43.2 million shares in the prior two fiscal years.

**Analysis of Business Segments****Revenues**

(In millions)

	Three Months Ended		
	September 30,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Employer Services	\$1,176	\$1,111	6%
Brokerage Services	331	314	6%
Dealer Services	238	211	13%
Other	121	110	10%
Reconciling items:			
Foreign exchange	19	(5)	
Client fund interest	(30)	(21)	
Total revenues	<u>\$1,855</u>	<u>\$1,720</u>	8%

**Earnings Before Income Taxes**

(In millions)

	Three Months Ended		
	September 30,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Employer Services	\$219	\$207	6%
Brokerage Services	39	20	94%
Dealer Services	35	32	8%
Other	31	40	(23%)
Reconciling items:			
Foreign exchange	3	-	
Client fund interest	(30)	(21)	
Cost of capital charge	<u>34</u>	<u>33</u>	
Total earnings before income taxes	<u>\$331</u>	<u>\$311</u>	6%

**Employer Services****Revenues**

Employer Services' revenues increased 6% in the quarter primarily due to new business sales, strong client retention and interest earned on client fund balances. Internal revenue growth, which represents revenue growth excluding the impact of acquisitions and divestitures, was approximately 6% for the quarter. New business sales grew 14%, continuing the momentum of double-digit sales growth from the second half of fiscal 2004. The number of employees on our clients' payrolls, "pays per control", increased 1.8% in the United States. This employment metric represents over 125 thousand payrolls across a broad range of U.S. geographies ranging from small to very large businesses. Our client retention in the United States continues to improve from record retention levels in fiscal 2004 due to our continued investment and commitment to client service. Interest income is credited to Employer Services at a standard rate of 4.5%. The average client funds balance was \$10.2 billion during the quarter as compared to \$9.3 billion in the first quarter of fiscal 2004, representing an increase of 10%. Revenues from our "beyond payroll" products continued to grow at a faster rate than the traditional payroll and payroll tax revenues. Our Professional Employer Organization (PEO) revenues grew 20% to \$125 million primarily due to 15% growth in the number of PEO worksite employees and additional pass-through benefits.

In addition, "beyond payroll" revenues increased due to increased number of clients utilizing services such as Time and Labor Management and TotalPay Services.

**Earnings Before Income Taxes**

Earnings before income taxes in Employer Services increased 6%, from \$207 million to \$219 million for the quarter ending September 30, 2004 primarily due to the increase in revenues of 6%. Operating expenses, selling, general and administrative expenses

and systems development and programming costs increased 6% due to the increase in operating and sales personnel, and maintenance of our products and services to support the revenue growth.

## Brokerage Services

### Revenues

Brokerage Services' revenues increased 6% for the quarter when compared to first quarter of fiscal 2004 primarily due to an increase in certain investor communications activity. Revenues from investor communications increased by \$19 million, or 9%, to \$224 million primarily due to increases in the volume of our proxy and interim communications services, as well as increases in our distribution services revenues for post-sale mutual fund documents and new business sales. Our proxy and interim communication pieces delivered increased 22%, from 144 million to 175 million, stemming from more holders of equities and incremental activity from recent mutual fund industry regulatory activity. Our back-office trade processing revenues remained flat at \$82 million. For the quarter ending September 30, 2004, the average trades per day increased 10% from 1.25 million to 1.37 million primarily due to net new business sales and growth in our existing client base. This increase was offset by the decline in the average revenue per trade of 15% primarily due to higher institutional trade volume, as well as our client mix and volume processed under tier pricing agreements during the quarter.

### Earnings Before Income Taxes

Earnings before income taxes increased \$19 million to \$39 million primarily due to increased revenues in our investor communication activities. Our operating expenses increased in line with our revenue growth. Selling, general and administrative expenses declined approximately \$4 million primarily due to a decline in expenses relating to potential acquisitions during the quarter. Depreciation and amortization expense declined \$3 million primarily due to the renewal of software and equipment leases at more favorable rates. In addition, earnings before income taxes increased approximately \$5 million as a result of the elimination of unprofitable business lines and alignment of our cost structure in our underperforming businesses that occurred during fiscal 2004.

## Dealer Services

### Revenues

Dealer Services' revenues increased 13% for the quarter when compared to the first quarter of fiscal 2004. Internal revenue growth was approximately 7% for the quarter. Revenues increased for our dealer business systems in North America by \$27 million to \$199 million primarily due to growth in our key products and the effect of acquisitions. The growth in our key products was primarily driven by the increased users for Application Service Provider (ASP) managed services, new network installations, and increased market penetration of our Customer Relationship Management (CRM) product.

### Earnings Before Income Taxes

Earnings before income taxes grew 8% primarily due to the increase in revenues of 13% offset by costs relating to the integration of acquisitions that occurred during the fourth quarter of 2004 and additional sales expenses relating to headcount additions to support the revenue growth.

## Other

The primary components of "Other" are Claims Services, miscellaneous processing services, and corporate allocations and expenses.

## Reconciling Items

The prior year's business unit revenues and earnings before income taxes have been adjusted to reflect updated fiscal year 2005 budgeted foreign exchange rates. Reconciling items include foreign exchange differences between the actual foreign exchange rates and the fiscal year 2005 budgeted foreign exchange rates, and the adjustment for the difference between actual interest income earned on invested funds held for clients and interest credited to Employer Services at a standard rate of 4.5%. Both of these adjustments are eliminated in consolidation and as such represent a reconciling item to revenues and earnings before income taxes. The business unit results also include an internal cost of capital charge related to the funding of acquisitions and other investments. This charge is eliminated in consolidation and as such represents a reconciling item to earnings before income taxes.

#### **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Our financial condition and balance sheet remain strong. At September 30, 2004, cash and marketable securities were \$2.0 billion. Stockholders' equity was \$5.4 billion and the ratio of long-term debt-to-equity was 1.4% at September 30, 2004.

At September 30, 2004, working capital was \$1.4 billion compared to \$1.0 billion at September 30, 2003. The increase in the Company's working capital arose primarily from the movement of long-term marketable securities to cash and cash equivalents due to the expected closing of various acquisitions as well as other short-term cash requirements.

Our principal sources of liquidity are derived from cash generated through operations and our cash and marketable securities on hand. We also have the ability to generate cash through our financing arrangements under our U.S. short-term commercial paper program and our U.S. and Canadian short-term repurchase agreements. In addition, we have two unsecured revolving credit agreements that allow us to borrow \$4.5 billion in the aggregate. Our short-term commercial paper program and repurchase agreements are utilized as the primary instruments to meet short-term funding requirements related to client funds obligations. Our revolving credit agreements, totaling \$4.5 billion, are in place to provide additional liquidity, if needed. We have never had borrowings under the current or previous revolving credit agreements. The Company believes that the internally generated cash flows and financing arrangements are adequate to support business operations and capital expenditures.

Cash flows generated from operations were \$266 million for the three months ended September 30, 2004. This amount compares to cash flows from operations of \$164 million in the prior year. The increase in cash flow from operations was primarily due to the increase in net earnings of \$13 million, a decrease in receivables and other assets of \$79 million primarily due to the funding of the pension plans in the prior year. The increase in cash generated from operations was offset by the change in deferred income taxes of \$30 million.

Cash flows provided by investing activities in the three months ended September 30, 2004 totaled \$399 million compared to cash flows used in investing activities in the prior year of \$126 million. The fluctuation between periods was primarily due to the timing of purchases and proceeds of marketable securities and client fund money market securities, and net change in client funds obligations in the quarter.

Cash flows used in financing activities in the three months ended September 30, 2004 totaled \$275 million compared to \$97 million in the prior year. The increase in cash used in financing was primarily due to an increase in repurchases of common stock of \$170 million. We purchased 5.5 million shares of common stock at an average price per share of \$40.18 during the quarter. As of September 30, 2004, we had remaining Board of Directors' authorization to purchase up to 22.2 million additional shares.

In June 2004, we entered into two new unsecured revolving credit agreements, each for \$2.25 billion, with certain financial institutions, replacing a previous \$4.5 billion credit agreement. The two unsecured revolving credit agreements expire in June 2005 and June 2009, respectively. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided by the Company to the

syndicated financial institutions prior to borrowing. The Company is also required to pay facility fees on the credit agreements. The primary uses of the credit facilities are to provide liquidity to the unsecured commercial paper program and to provide funding for general corporate purposes, if necessary. We had no borrowings through June 30, 2004 under the credit agreements.

We maintain a U.S. short-term commercial paper program providing for the issuance of up to \$4.5 billion in aggregate maturity value of commercial paper at our discretion.

Our commercial paper program is rated A-1+ by Standard & Poor's and Prime 1 by Moody's. These ratings denote the highest quality commercial paper securities. Maturities of commercial paper can range from overnight to 270 days. We use the commercial paper issuances as a primary instrument to meet short-term funding requirements related to client funds obligations that occur as a result of our decision to extend maturities of our client fund marketable securities. We also use commercial paper issuances to fund general corporate purposes, if needed. This commercial paper program allows us to take advantage of higher extended term yields, rather than liquidating portions of our marketable securities, in order to provide more cost effective liquidity to the Company. At September 30, 2004 and 2003, there was no commercial paper outstanding. For the three months ended September 30, 2004 and 2003, our average borrowings were \$1.4 billion and \$1.1 billion, respectively, at a weighted average interest rate of 1.5% and 1.0%, respectively. The weighted average maturity of the Company's commercial paper during the three months ended September 30, 2004 and 2003 was less than two days for both periods.

Our U.S. and Canadian short-term funding requirements related to client funds obligations are sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight up to five business days. At September 30, 2004 and 2003, there were no outstanding repurchase agreements. For the three months ended September 30, 2004 and 2003, the Company had an average outstanding balance of \$390.1 million and \$7.2 million, respectively, at a weighted average interest rate of 1.4% and 2.5%, respectively.

For the three months ended September 30, 2004, capital expenditures were \$42 million.

Capital expenditures for fiscal 2005 are expected to be approximately \$225 to \$245 million compared to \$204 million in fiscal 2004.

On June 22, 2004, our Brokerage Services Group announced plans to implement a new business process outsourcing (BPO) strategy that is intended to strengthen its service offerings to meet the needs of a broader array of firms in the financial services marketplace. As part of this BPO strategy, we reached an agreement to acquire the U.S. Clearing and BrokerDealer Services divisions of Bank of America Corporation, which provide third-party clearing operations. The transaction closed on November 1, 2004. The acquisition of U.S. Clearing and BrokerDealer Services enables the Company to offer traditional clearing services to retail and institutional broker/dealers in the United States that want to outsource their entire back-office function.

It is not our business practice to enter into off-balance sheet arrangements. However, in the normal course of business, we do enter into contracts in which we guarantee the performance of our products and services. There have historically been no material losses related to such guarantees and we do not expect there to be any in the future.

#### **Quantitative and Qualitative Disclosures about Market Risk**

During the three months ended September 30, 2004, approximately fifteen percent of our overall investment portfolio was invested in cash and cash equivalents, and therefore was impacted almost immediately by changes in short-term interest rates. The other eighty-five percent of our investment portfolio was invested in fixed-income securities, with varying maturities of less than ten years, which were also subject to interest rate risk including reinvestment risk. We have historically had the ability to hold these investments until maturity.

Details regarding our corporate investments and funds held for clients portfolios are as follows:

(In millions)	Three Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
Average investment balances at cost:		
Corporate investments	\$ 3,811.9	\$ 3,307.2
Funds held for clients	<u>10,227.1</u>	<u>9,277.7</u>
Total	<u>\$14,039.0</u>	<u>\$12,584.9</u>
Average interest rates earned exclusive of realized gains/ (losses) on corporate investments and funds held for clients	3.2%	3.4%
Realized gains on available-for-sale securities	\$ 2.6	\$ 3.2
Realized losses on available-for-sale securities	(7.8)	(2.1)
Net realized (losses) gains	<u>\$ (5.2)</u>	<u>\$ 1.1</u>

	September 30, <u>2004</u>	June 30, <u>2004</u>
Net unrealized pre-tax gains on available-for-sale securities	\$ 120.5	\$ 59.9
Total available-for-sale securities	\$11,985.2	\$12,092.8

The return on our portfolio is impacted by interest rate changes. Factors that influence the earnings impact of the interest rate changes include, among others, the amount of invested funds and the overall portfolio mix between short-term and long-term investments. This mix varies during the year and is impacted by daily interest rate changes. A hypothetical change in both the short-term interest rates and the long-term interest rates of 25 basis points applied to the estimated fiscal 2005 average investment balances and any related borrowings would result in approximately a \$12.0 million impact to interest revenues on funds held for clients and approximately an \$8.0 million impact to earnings before income taxes over a twelve-month period. A hypothetical change in only short-term interest rates of 25 basis points applied to the estimated fiscal 2005 average short-term investment balances and any related short-term borrowing would result in approximately a \$1.0 million impact to earnings before income taxes over a twelve-month period.

The Company is exposed to credit risk in connection with our available-for-sale securities through the possible inability of the borrowers to meet the terms of the bonds. The Company limits credit risk by investing primarily in AAA and AA rated securities, as rated by Moody's, Standard & Poor's, and Dominion Bond Rating Service, and by limiting amounts that can be invested in any single issuer. At September 30, 2004, approximately 95% of our available-for-sale securities held a AAA or AA rating.

#### FORWARD-LOOKING INFORMATION

This report and other written or oral statements made from time to time by ADP may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like "expects," "assumes," "projects," "anticipates," "estimates," "we believe," "could be" and other words of similar meaning, are forward-looking statements. These statements are based on management's expectations and assumptions and are subject to risks and uncertainties that may

cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of products and services; changes in laws regulating payroll taxes, professional employer organizations and employee benefits; overall market and economic conditions, including interest rate and foreign currency trends; competitive conditions; stock market activity; auto sales and related industry changes; employment and wage levels; changes in technology; availability of skilled technical associates and the impact of new acquisitions and divestitures. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information called for by this item is provided under the caption "Quantitative and Qualitative Disclosures about Market Risk" under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Item 4. Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as of September 30, 2004 were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

Except as noted below, all other items are either inapplicable or would result in negative responses and, therefore, have been omitted.

**Item 2. Changes in Securities and Use of Proceeds.**

## Issuer Purchases of Equity Securities

<u>Period</u>	(a) <u>Total Number of Shares Purchased</u>	(b) <u>Average Price Paid per Share (3)</u>	(c) <u>Total Number of Shares Purchased as Part of the Publicly Announced Common Stock Repurchase Plan (1)</u>	(d) <u>Maximum Number of Shares that may yet be Purchased under the Common Stock Repurchase Plan (1)</u>
July 1, 2004 to July 31, 2004	1,829,451	\$40.93	1,800,000	25,878,800
August 1, 2004 to August 31, 2004	3,411,735	\$39.74	3,407,700	22,471,100
September 1, 2004 to September 30, 2004	<u>247,652</u>	\$40.74	<u>244,300</u>	22,226,800
Total	5,488,838(2)		5,452,000	

(1) In March 2001, the Registrant received the Board of Directors' approval to repurchase up to 50 million shares of the Registrant's common stock. In November 2002, the Registrant received the Board of Directors' approval to repurchase an additional 35 million shares of the Registrant's common stock. There is no expiration date for the common stock repurchase plan.

(2) During fiscal 2005, pursuant to the terms of the Registrant's restricted stock program, the Registrant (i) made repurchases of 3,451 shares during July 2004, 2,228 shares during August 2004 and 3,352 shares during September 2004 at the then market value of the shares in connection with the exercise by employees of their option under such program to satisfy certain tax withholding requirements through the delivery of shares to the Registrant instead of cash and (ii) made purchases of 26,000 shares during July 2004 and 1,807 shares during August 2004 at a price of \$.10 per share under the terms of such program to repurchase stock granted to employees who have left the Registrant.

(3) The average price per share does not include the repurchases described in clause (ii) of the preceding footnote.

**Item 6. Exhibits.**

<u>Exhibit Number</u>	<u>Exhibit</u>
10.1	2000 Stock Option Grant Agreement (Form for Employees)
10.2	2000 Stock Option Grant Agreement (Form for French Associates)
10.3	2000 Stock Option Grant Agreement (Form for Non-Employee Directors)
31.1	Certification by Arthur F. Weinbach pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification by Karen E. Dykstra pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification by Arthur F. Weinbach pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Karen E. Dykstra pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements 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)

Date: November 4, 2004

/s/ Karen E. Dykstra  
Karen E. Dykstra

Chief Financial Officer  
(Title)

## STOCK OPTION GRANT

AUTOMATIC DATA PROCESSING, INC. (the “Company”), pursuant to the 2000 Stock Option Plan (the “Plan”), hereby irrevocably grants to «**FirstName**» «**LastName**», (the “Participant”), on <<**Date**>> the right and option to purchase «**Shares**» shares of the Common Stock of the Company on the following terms and conditions:

1. The option herein granted shall become exercisable in whole or in part as follows:
  - (a) Exercisable as to «**Vesting1**» shares on and after «**Date1**»;
  - (b) Exercisable as to an additional «**Vesting2**» shares on and after «**Date2**»;
  - (c) Exercisable as to an additional «**Vesting3**» shares on and after «**Date3**»;
  - (d) Exercisable as to an additional «**Vesting4**» shares on and after «**Date4**»;
  - (e) Exercisable in its entirety on and after «**Date5**»; and
  - (f) Exercisable in full (i) upon the death of the Participant, or (ii) in the event of total and permanent disability of the Participant.
  - (g) Notwithstanding the foregoing, no shares shall become exercisable following termination of the Participant’s employment from the Company or any of its subsidiaries (and no shares shall become exercisable following the Company’s sale of the subsidiary, or the Company’s or a subsidiary’s sale of the division or business unit, that employs such Participant).
2. The unexercised portion of the option herein granted shall automatically and without notice terminate and become null and void at the time of the earliest of the following to occur:
  - (a) the expiration of ten years from the date on which the option was granted;
  - (b) the expiration of 60 days from the date of termination of the Participant’s employment from the Company (including in connection with the sale of the subsidiary, division or business unit that employs such Participant) or any of its subsidiaries; *provided, however*, that (i) if the Participant’s employment from the Company or any of its subsidiaries terminates because of total and permanent disability, the provisions of sub-paragraph (c) shall apply, (ii) if the Participant shall die during employment by the Company or any of its subsidiaries or during the 60-day period following the date of termination of such employment, the provisions of sub-paragraph (d) below shall apply, and (iii) (I) if the Participant shall retire (*and satisfy the Company’s criteria for retirement at such time*) from the Company or any of its subsidiaries, divisions or business units, as the case may be, (II) shall be at least 55 years of age at the time of such retirement and (III) (x) shall have at least ten credited years of service with the Company and its subsidiaries at the time of such retirement, the provisions of sub-paragraph (e) below shall apply, or (y) shall have at least five (but less than ten) credited years of service with the Company and its subsidiaries at the time of such retirement, the provisions of sub-paragraph (f) below shall apply;
  - (c) if Section 2(b)(i) applies, the expiration of twelve months after termination of Participant’s employment from the Company or any of its subsidiaries because of total and permanent disability; *provided, however*, that if such Participant shall die during such twelve month period, then the unexercised portion shall become null and void on the earlier of (i) six months after the appointment and qualification of the executor or administrator of the Participant, or (ii) twelve months after death of the Participant;
  - (d) if Section 2(b)(ii) applies, the expiration of (i) six months after the appointment and qualification of the executor or administrator of the Participant, or (ii) twelve months after death of the Participant, whichever occurs earlier;
  - (e) if Section 2(b)(iii)(x) applies, the expiration of 36 months after the retirement of Participant; *provided, however*, that if such Participant shall die during the 36 month period following the date of such Participant’s retirement, then the unexercised portion shall become null and void on the later of (i) the expiration of 36 months after the retirement of Participant and (ii) the earlier of (I) six months after the appointment and qualification of the executor or administrator of the Participant, or (II) twelve months after death of the Participant; and
  - (f) if Section 2(b)(iii)(y) applies, the expiration of 12 months after the retirement of Participant; *provided, however*, that if such Participant shall die during the 12 month period following the date of such Participant’s retirement, then the unexercised portion shall become null and void on the later of (i) the expiration of 12 months after the retirement of Participant and (ii) the earlier of (I) six months after the appointment and qualification of the executor or administrator of the Participant, or (II) twelve months after death of the Participant.

3. For the avoidance of doubt, and notwithstanding any provision (or interpretation) of Section 2 to the contrary, the unexercised portion of the option herein granted shall automatically and without notice terminate and become null and void upon the expiration of ten years from the date on which the option was granted.
4. The full price for each of the shares purchased pursuant to the option granted herein shall be <<Share Price>>.
5. Full payment for shares purchased by the Participant shall be made at the time of the exercise of the option in whole or in part, and certificates for such shares, when appropriate, shall be delivered to the Participant promptly thereafter. No shares shall be transferred to the Participant until full payment therefore has been made and the Participant shall have none of the rights of a shareholder with respect to any shares subject to this option until a certificate for such shares shall have been issued.
6. The option herein granted is non-assignable and non-transferable, other than by will or by the laws of descent and distribution, and during the Participant's lifetime shall be exercisable only by the Participant.
7. In the event of one or more stock splits, stock dividends, stock changes, reclassifications, recapitalizations or combinations of shares prior to complete exercise of the option herein granted which change the character or amount of the shares subject to the option, this option to the extent that it shall not have been exercised, shall entitle the Participant or the Participant's executors or administrators to receive in substitution such number and kind of shares as he, she or they would have been entitled to receive if the Participant or the Participant's executors or administrators had actually owned the shares subject to this option at the time of the occurrence of such change; *provided, however* that if the change is of such nature that the Participant or the Participant's executors or administrators, upon exercise of the option, would receive property other than shares of stock, then the Board of Directors shall adjust the option so that he, she or they shall acquire only shares of stock upon exercise, making such adjustment in the number and kind of shares to be received as the Board shall, in its sole judgment, deem equitable.
8. The effectiveness of the option granted hereunder is conditioned upon (i) the Participant having executed and delivered to the Company in connection with previous stock option grants a restrictive covenant, or (ii) the execution and delivery by the Participant of the restrictive covenant enclosed herewith. If the Participant has not previously executed and delivered to the Company a restrictive covenant, the Participant must sign the enclosed restrictive covenants and return one to ADP, 1 ADP Boulevard, Roseland, New Jersey 07068, Attention Stock Option Group, within six months from the date of this option. If the Company does not receive the signed restrictive covenant within such six-month period, this option grant shall be terminable by the Company.
9. It is understood and agreed that this option has been granted pursuant to the Plan adopted by the Board of Directors and stockholders of the Company, which shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

STOCK OPTION GRANT  
(French Associates)

AUTOMATIC DATA PROCESSING, INC. (the “Company”), pursuant to the 2000 Stock Option Plan (the “Plan”), hereby irrevocably grants to «**FirstName**» «**LastName**», (the “Participant”), on <<**Date**>> the right and option to purchase «**Shares**» shares of the Common Stock of the Company on the following terms and conditions:

- 1) The option herein granted shall become exercisable in whole or in part as follows:
  - a) Exercisable as to «**Vesting1**» shares on and after «**Date1**»;
  - b) Exercisable as to an additional «**Vesting2**» shares on and after «**Date2**»;
  - c) Exercisable as to an additional «**Vesting3**» shares on and after «**Date3**»;
  - d) Exercisable as to an additional «**Vesting4**» shares on and after «**Date4**»;
  - e) Exercisable in its entirety on and after «**Date5**»; and
  - f) Exercisable in full (i) upon the death of the Participant, or (ii) in the event of total and permanent disability of the Participant.
  - g) Notwithstanding the foregoing, no shares shall become exercisable following termination of the Participant’s employment from the Company or any of its subsidiaries (and no shares shall become exercisable following the Company’s sale of the subsidiary, or the Company’s or a subsidiary’s sale of the division or business unit, that employs such Participant).
- 2) The unexercised portion of the option herein granted shall automatically and without notice terminate and become null and void at the time of the earliest of the following to occur:
  - a) the expiration of ten years from the date on which the option was granted;
  - b) the expiration of 60 days from the date of termination of the Participant’s employment from the Company (including in connection with the sale of the subsidiary, division or business unit that employs such Participant) or any of its subsidiaries; *provided, however*, that (i) if the Participant’s employment from the Company or any of its subsidiaries terminates because of total and permanent disability, the provisions of sub-paragraph (c) shall apply, (ii) if the Participant shall die during employment by the Company or any of its subsidiaries or during the 60-day period following the date of termination of such employment, the provisions of sub-paragraph (d) below shall apply, and (iii) (I) if the Participant shall retire (*and satisfy the Company’s criteria for retirement at such time*) from the Company or any of its subsidiaries, divisions or business units, as the case may be, (II) shall be at least 55 years of age at the time of such retirement and (III) (x) shall have at least ten credited years of service with the Company and its subsidiaries at the time of such retirement, the provisions of sub-paragraph (e) below shall apply, or (y) shall have at least five (but less than ten) credited years of service with the Company and its subsidiaries at the time of such retirement, the provisions of sub-paragraph (f) below shall apply;
  - c) if Section 2(b)(i) applies, the expiration of twelve months after termination of Participant’s employment from the Company or any of its subsidiaries because of total and permanent disability; *provided, however*, that if such Participant shall die during such twelve month period, then the unexercised portion shall become null and void on the expiration of six months after death of the Participant;
  - d) if Section 2(b)(ii) applies, the expiration of six months after death of the Participant;
  - e) if Section 2(b)(iii)(x) applies, the expiration of 36 months after the retirement of Participant; *provided, however*, that if such Participant shall die during the 36 month period following the date of such Participant’s retirement, then the unexercised portion shall become null and void on the expiration of six months after death of the Participant; and
  - f) if Section 2(b)(iii)(y) applies, the expiration of 12 months after the retirement of Participant; *provided, however*, that if such Participant shall die during the 12 month period following the date of such Participant’s retirement, then the unexercised portion shall become null and void on the expiration of six months after death of the Participant.
- 3) For the avoidance of doubt, and notwithstanding any provision (or interpretation) of Section 2 to the contrary, the unexercised portion of the option herein granted shall automatically and without notice terminate and become null and void upon the expiration of ten years from the date on which the option was granted.

- 4) The full price for each of the shares purchased pursuant to the option granted herein shall be <<Share Price>>.
- 5) Full payment for shares purchased by the Participant shall be made at the time of the exercise of the option in whole or in part, and certificates for such shares, when appropriate, shall be delivered to the Participant promptly thereafter. No shares shall be transferred to the Participant until full payment therefore has been made and the Participant shall have none of the rights of a shareholder with respect to any shares subject to this option until a certificate for such shares shall have been issued.
- 6) The option herein granted is non-assignable and non-transferable, other than by will or by the laws of descent and distribution, and during the Participant's lifetime shall be exercisable only by the Participant.
- 7) In the event of one or more stock splits, stock dividends, stock changes, reclassifications, recapitalizations or combinations of shares prior to complete exercise of the option herein granted which change the character or amount of the shares subject to the option, this option to the extent that it shall not have been exercised, shall entitle the Participant or the Participant's executors or administrators to receive in substitution such number and kind of shares as he, she or they would have been entitled to receive if the Participant or the Participant's executors or administrators had actually owned the shares subject to this option at the time of the occurrence of such change; *provided, however* that if the change is of such nature that the Participant or the Participant's executors or administrators, upon exercise of the option, would receive property other than shares of stock, then the Board of Directors shall adjust the option so that he, she or they shall acquire only shares of stock upon exercise, making such adjustment in the number and kind of shares to be received as the Board shall, in its sole judgment, deem equitable.
- 8) The effectiveness of the option granted hereunder is conditioned upon (i) the Participant having executed and delivered to the Company in connection with previous stock option grants a restrictive covenant, or (ii) the execution and delivery by the Participant of the restrictive covenant enclosed herewith. If the Participant has not previously executed and delivered to the Company a restrictive covenant, the Participant must sign the enclosed restrictive covenants and return one to ADP, 1 ADP Boulevard, Roseland, New Jersey 07068, Attention Stock Option Group, within six months from the date of this option. If the Company does not receive the signed restrictive covenant within such six-month period, this option grant shall be terminable by the Company.
- 9) It is understood and agreed that this option has been granted pursuant to the Plan adopted by the Board of Directors and stockholders of the Company, which shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

STOCK OPTION GRANT  
(Non-Employee Director)

AUTOMATIC DATA PROCESSING, INC. (the “Company”), pursuant to the 2000 Stock Option Plan (the “Plan”), hereby irrevocably grants to «**FirstName**» «**LastName**», (the “Participant”), on <<**Date**>> the right and option to purchase «**Shares**» shares of the Common Stock of the Company on the following terms and conditions:

1. The option herein granted shall become exercisable in whole or in part as follows:
  - a. Exercisable as to «**Vesting1**» shares on and after «**Date1**»;
  - b. Exercisable as to an additional «**Vesting2**» shares on and after «**Date2**»;
  - c. Exercisable as to an additional «**Vesting3**» shares on and after «**Date3**»;
  - d. Exercisable as to an additional «**Vesting4**» shares on and after «**Date4**»;
  - e. Exercisable in its entirety on the earlier of (i) on and after «**Date5**» and (ii) the date such Participant retires from the Company’s Board of Directors, but only if the Accelerated Vesting Criteria (as defined in Section 8 hereof) is satisfied at the time of such retirement; and
  - f. Exercisable in full (i) upon the death of the Participant, or (ii) in the event of total and permanent disability of the Participant.
  - g. Except as specifically set forth in Section 1(e) above, no shares shall become exercisable following the cessation of the Participant’s membership on the Company’s Board of Directors.
2. The unexercised portion of the option herein granted shall automatically and without notice terminate and become null and void at the time of the earliest of the following to occur:
  - a. the expiration of ten years from the date on which the option was granted;
  - b. the expiration of 60 days from the date the Participant ceases to be a member of the Company’s Board of Directors; *provided, however*, that (i) if the Participant ceases to be a member of the Company’s Board of Directors because of total and permanent disability, the provisions of sub-paragraph (c) shall apply, (ii) if the Participant shall die while a member of the Company’s Board of Directors or during the 60-day period following the date the Participant ceases to be a member of the Company’s Board of Directors, the provisions of sub-paragraph (d) below shall apply, and (iii) if the Participant shall retire from the Company’s Board of Directors, and shall have been a member of the Company’s Board of Directors for at least ten years at the time of such retirement, the provisions of sub-paragraph (e) below shall apply;
  - c. if Section 2(b)(i) applies, the expiration of twelve months after the date the Participant ceases to be a member of the Company’s Board of Directors because of total and permanent disability; *provided, however*, that if such Participant shall die during such twelve month period, then the unexercised portion shall become null and void on the earlier of (i) six months after the appointment and qualification of the executor or administrator of the Participant, or (ii) twelve months after death of the Participant;
  - d. if Section 2(b)(ii) applies, the expiration of (i) six months after the appointment and qualification of the executor or administrator of the Participant, or (ii) twelve months after death of the Participant, whichever occurs earlier; and
  - e. if Section 2(b)(iii) applies, the expiration of 36 months after the retirement of the Participant from the Company’s Board of Directors; *provided, however*, that if such Participant shall die during the 36 month period following the date of such Participant’s retirement, then the unexercised portion shall become null and void on the later of (i) the expiration of 36 months after the retirement of Participant and (ii) the earlier of (I) six months after the appointment and qualification of the executor or administrator of the Participant, or (II) twelve months after death of the Participant.
3. For the avoidance of doubt, and notwithstanding any provision (or interpretation) of Section 2 to the contrary, the unexercised portion of the option herein granted shall automatically and without notice terminate and become null and void upon the expiration of ten years from the date on which the option was granted.
4. The full price for each of the shares purchased pursuant to the option granted herein shall be <<**Share Price**>>.

5. Full payment for shares purchased by the Participant shall be made at the time of the exercise of the option in whole or in part, and certificates for such shares, when appropriate, shall be delivered to the Participant promptly thereafter. No shares shall be transferred to the Participant until full payment therefore has been made and the Participant shall have none of the rights of a shareholder with respect to any shares subject to this option until a certificate for such shares shall have been issued.
6. The option herein granted is non-assignable and non-transferable, other than by will or by the laws of descent and distribution, and during the Participant's lifetime shall be exercisable only by the Participant.
7. In the event of one or more stock splits, stock dividends, stock changes, reclassifications, recapitalizations or combinations of shares prior to complete exercise of the option herein granted which change the character or amount of the shares subject to the option, this option to the extent that it shall not have been exercised, shall entitle the Participant or the Participant's executors or administrators to receive in substitution such number and kind of shares as he, she or they would have been entitled to receive if the Participant or the Participant's executors or administrators had actually owned the shares subject to this option at the time of the occurrence of such change; *provided, however* that if the change is of such nature that the Participant or the Participant's executors or administrators, upon exercise of the option, would receive property other than shares of stock, then the Board of Directors shall adjust the option so that he, she or they shall acquire only shares of stock upon exercise, making such adjustment in the number and kind of shares to be received as the Board shall, in its sole judgment, deem equitable.
8. As used herein, the term "Accelerated Vesting Criteria" means retirement from the Company's Board of Directors and, at the time of such retirement, having been a member of the Company's Board of Directors for at least ten years.
9. It is understood and agreed that this option has been granted pursuant to the Plan adopted by the Board of Directors and stockholders of the Company, which shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Arthur F. Weinbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Automatic Data Processing, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2004

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

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Karen E. Dykstra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Automatic Data Processing, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2004

/s/ Karen E. Dykstra  
Karen E. Dykstra  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Automatic Data Processing, Inc. (the "Company") on Form 10-Q for the fiscal quarter ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur F. Weinbach, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Arthur F. Weinbach  
Arthur F. Weinbach  
Chairman and Chief Executive Officer  
November 4, 2004

CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Automatic Data Processing, Inc. (the "Company") on Form 10-Q for the fiscal quarter ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karen E. Dykstra, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Karen E. Dykstra  
Karen E. Dykstra  
Chief Financial Officer  
November 4, 2004