

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2004

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

For the Transition Period From to

Commission File Number 0-14278

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 office)

07068
(Zip Code)

Registrant's telephone number, including area code: (973) 974-5000

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 such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No []

The number of shares outstanding of the registrant's common stock as of December 31, 2004 was 583,096,967.

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		Six Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
REVENUES:				
Revenues, other than interest on funds held for Employer Services clients and PEO revenues	\$1,769,094	\$1,636,333	\$3,413,627	\$3,168,722
Interest on funds held for Employer Services clients	91,129	82,202	175,792	165,136
PEO revenues (A)	<u>133,361</u>	<u>108,865</u>	<u>258,847</u>	<u>213,819</u>
TOTAL REVENUES	<u>1,993,584</u>	<u>1,827,400</u>	<u>3,848,266</u>	<u>3,547,677</u>
EXPENSES:				
Operating expenses	915,719	810,300	1,782,739	1,604,541
Selling, general, and administrative expenses	465,363	459,293	911,521	886,171
Systems development and programming costs	150,070	133,125	298,794	264,879
Depreciation and amortization	76,161	73,609	150,582	148,335
Other income, net	<u>(11,349)</u>	<u>(14,067)</u>	<u>(23,930)</u>	<u>(32,659)</u>
TOTAL EXPENSES	<u>1,595,964</u>	<u>1,462,260</u>	<u>3,119,706</u>	<u>2,871,267</u>
EARNINGS BEFORE INCOME TAXES	397,620	365,140	728,560	676,410
Provision for income taxes	<u>147,517</u>	<u>136,560</u>	<u>270,296</u>	<u>252,980</u>
NET EARNINGS	<u>\$ 250,103</u>	<u>\$ 228,580</u>	<u>\$ 458,264</u>	<u>\$ 423,430</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.43</u>	<u>\$ 0.39</u>	<u>\$ 0.79</u>	<u>\$ 0.71</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.42</u>	<u>\$ 0.38</u>	<u>\$ 0.78</u>	<u>\$ 0.71</u>
Basic average shares outstanding	<u>583,230</u>	<u>591,685</u>	<u>583,389</u>	<u>593,264</u>
Diluted average shares outstanding	<u>591,086</u>	<u>597,624</u>	<u>590,473</u>	<u>599,242</u>
Dividends per common share	<u>\$ 0.1550</u>	<u>\$ 0.1400</u>	<u>\$ 0.2950</u>	<u>\$ 0.2600</u>

(A) Net of pass-through costs of \$1,352,004 and \$1,037,864 for the three months ended December 31, 2004 and 2003, respectively, and \$2,501,491 and \$1,949,433 for the six months ended December 31, 2004 and 2003, respectively.

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except per share amounts)
(Unaudited)

	<u>December 31,</u> <u>2004</u>	<u>June 30,</u> <u>2004</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,131,117	\$ 712,998
Short-term marketable securities	425,354	416,077
Accounts receivable, net	1,108,462	1,057,938
Securities clearing and outsourcing receivables	947,011	-
Other current assets	<u>581,929</u>	<u>574,576</u>
Total current assets	4,193,873	2,761,589
Long-term marketable securities	442,991	963,501
Long-term receivables	202,678	196,828
Property, plant and equipment, net	650,058	642,353
Other assets	771,924	720,936
Goodwill	2,385,278	2,195,539
Intangible assets, net	<u>766,746</u>	<u>736,281</u>
Total assets before funds held for clients	9,413,548	8,217,027
Funds held for clients	<u>18,775,831</u>	<u>12,903,532</u>
Total assets	<u>\$28,189,379</u>	<u>\$ 21,120,559</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 146,073	\$ 175,175
Accrued expenses and other liabilities	1,500,501	1,482,703
Securities clearing and outsourcing payables	769,965	-
Income taxes payable	<u>184,101</u>	<u>110,546</u>
Total current liabilities	2,600,640	1,768,424
Long-term debt	75,926	76,200
Other liabilities	360,191	319,495
Deferred income taxes	313,635	283,781
Deferred revenues	<u>472,263</u>	<u>414,764</u>
Total liabilities before client funds obligations	3,822,655	2,862,664
Client funds obligations	<u>18,710,201</u>	<u>12,840,225</u>
Total liabilities	22,532,856	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	35,462	79,646
Retained earnings	7,613,142	7,326,918
Treasury stock - at cost: 55,606 and 51,587 shares, respectively	(2,167,135)	(2,033,254)
Accumulated other comprehensive income (loss)	<u>111,184</u>	<u>(19,510)</u>
Total stockholders' equity	<u>5,656,523</u>	<u>5,417,670</u>
Total liabilities and stockholders' equity	<u>\$28,189,379</u>	<u>\$ 21,120,559</u>

See notes to the consolidated financial statements.

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

(In thousands)

(Unaudited)

	Six Months Ended December 31,	
	2004	2003
<u>Cash Flows from Operating Activities:</u>		
Net earnings	\$ 458,264	\$ 423,430
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation and amortization	150,583	148,335
Deferred income taxes	26,736	44,785
Amortization of premiums and discounts on available-for-sale securities	65,093	58,438
Other	69,353	52,055
Changes in operating assets and liabilities, net of effects from acquisitions of businesses:		
Increase in accounts receivable and other assets	(57,762)	(105,852)
Net change in securities clearing and outsourcing receivables and payables	(17,789)	-
Decrease in accounts payable and accrued expenses	(2,629)	(64,649)
Net cash flows provided by operating activities	691,849	556,542
<u>Cash Flows from Investing Activities:</u>		
Purchases of marketable securities	(3,564,849)	(3,574,698)
Proceeds from the sale or maturity of marketable securities	3,576,289	2,741,261
Net proceeds from client fund money market securities	(5,436,679)	(4,965,783)
Net change in client funds obligations	5,869,976	5,125,477
Capital expenditures	(85,968)	(78,017)
Additions to intangibles	(39,311)	(45,247)
Acquisitions of businesses, net of cash acquired	(325,724)	(2,363)
Proceeds from sale of businesses	17,234	2,049
Other	4,528	5,308
Net cash flows provided by (used in) investing activities	15,496	(792,013)

Cash Flows from Financing Activities:

Payments of debt	(793)	(985)
Proceeds from issuance of notes	239	217
Net proceeds from reverse repurchase agreements	48,681	-
Repurchases of common stock	(270,032)	(270,602)
Proceeds from stock purchase plan and exercises of stock options	96,774	75,259
Dividends paid	<u>(164,095)</u>	<u>(143,006)</u>
Net cash flows used in financing activities	<u>(289,226)</u>	<u>(339,117)</u>
Net change in cash and cash equivalents	418,119	(574,588)
Cash and cash equivalents, beginning of period	<u>712,998</u>	<u>1,410,218</u>
Cash and cash equivalents, end of period	<u>\$1,131,117</u>	<u>\$ 835,630</u>

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 (ADP or the Company) as of and for the year ended June 30, 2004. The results of operations for the three and six months ended December 31, 2004 may not be indicative of the results to be expected for the fiscal year ending June 30, 2005.

Note 2. New Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R is effective for the Company's quarterly period ending September 30, 2005. Among other things, SFAS No. 123R requires that compensation cost relating to share-based payment transactions be recognized in the consolidated financial statements. Note 5, Fair Value Accounting for Stock-Based Compensation, of the Notes to the Consolidated Financial Statements of this Quarterly Report on Form 10-Q, contains pro forma disclosures regarding the effect on net earnings and earnings per share as if the Company had applied the fair value method of accounting for stock-based compensation under SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123). However, the calculation of compensation cost for share-based payment transactions in accordance with SFAS No. 123R may be different from the calculation of compensation cost under SFAS No. 123. The Company is currently evaluating the new standard and models which may be used to calculate the expense for future share-based payment transactions.

Note 3. Acquisitions

The Company acquired three businesses during the six months ended December 31, 2004 for approximately \$320 million, net of cash acquired. These acquisitions resulted in approximately \$134 million of goodwill. Intangible assets acquired, which total approximately \$36 million, consisted primarily of software, and customer contracts and lists that are being amortized over a weighted average life of 14 years. The Company also made \$6 million of contingent payments relating to previously consummated acquisitions.

On November 1, 2004, the Company acquired the U.S. Clearing and BrokerDealer Services divisions of Bank of America Corporation (U.S. Clearing and BrokerDealer Business), which provide third-party clearing operations. The acquisition of the U.S. Clearing and BrokerDealer Business 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 and clearing operations while maintaining their status as clearing brokers.

Note 4. Earnings Per Share (EPS)

	For the periods ended December 31, 2004					
	Three months ended			Six months ended		
	Net <u>Earnings</u>	Average <u>Shares</u>	<u>EPS</u>	Net <u>Earnings</u>	Average <u>Shares</u>	<u>EPS</u>
Basic	\$250,103	583,230	\$0.43	\$458,264	583,389	\$0.79
Effect of zero coupon subordinated notes	264	1,209		529	1,222	
Effect of stock options	-	6,647		-	5,862	
Diluted	<u>\$250,367</u>	<u>591,086</u>	<u>\$0.42</u>	<u>\$458,793</u>	<u>590,473</u>	<u>\$0.78</u>

	For the periods ended December 31, 2003					
	Three months ended			Six months ended		
	Net <u>Earnings</u>	Average <u>Shares</u>	<u>EPS</u>	Net <u>Earnings</u>	Average <u>Shares</u>	<u>EPS</u>
Basic	\$228,580	591,685	\$0.39	\$423,430	593,264	\$0.71
Effect of zero coupon subordinated notes	491	1,598		817	1,602	
Effect of stock options	-	4,341		-	4,376	
Diluted	<u>\$229,071</u>	<u>597,624</u>	<u>\$0.38</u>	<u>\$424,247</u>	<u>599,242</u>	<u>\$0.71</u>

Options to purchase 26.6 million and 45.8 million shares of common stock for the three months ended December 31, 2004 and 2003, respectively, and 34.9 million and 49.9 million shares of common stock for the six months ended December 31, 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 each respective period.

Note 5. 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 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 December 31,		Six Months Ended December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net earnings, as reported	\$250,103	\$228,580	\$458,264	\$423,430
Add: Stock-based employee compensation expense for restricted stock included in reported net earnings, net of related tax effects	2,439	2,242	4,614	4,059
Deduct: Total stock-based employee compensation expense determined using the fair value-based method for all awards, net of related tax effects	<u>(31,673)</u>	<u>(27,341)</u>	<u>(65,128)</u>	<u>(56,241)</u>
Pro forma net earnings	<u>\$220,869</u>	<u>\$203,481</u>	<u>\$397,750</u>	<u>\$371,248</u>
Earnings per share:				
Basic - as reported	<u>\$0.43</u>	<u>\$0.39</u>	<u>\$0.79</u>	<u>\$0.71</u>
Basic - pro forma	<u>\$0.38</u>	<u>\$0.34</u>	<u>\$0.68</u>	<u>\$0.63</u>
Diluted - as reported	<u>\$0.42</u>	<u>\$0.38</u>	<u>\$0.78</u>	<u>\$0.71</u>
Diluted - pro forma	<u>\$0.37</u>	<u>\$0.34</u>	<u>\$0.67</u>	<u>\$0.62</u>

Note 6. Other Income, net

	Three months ended December 31,		Six months ended December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Interest income on corporate funds	\$(26,114)	\$(23,642)	\$(51,984)	\$(45,742)
Interest expense	10,799	5,351	18,907	10,001
Realized gains on available-for-sale securities	(6,058)	(2,181)	(8,661)	(5,441)
Realized losses on available-for-sale securities	<u>10,024</u>	<u>6,405</u>	<u>17,808</u>	<u>8,523</u>
Other income, net	<u>\$(11,349)</u>	<u>\$(14,067)</u>	<u>\$(23,930)</u>	<u>\$(32,659)</u>

Proceeds from sales or maturities of available-for-sale securities were \$1.7 billion and \$1.8 billion for the three months ended December 31, 2004 and 2003, respectively, and \$3.6 billion and \$2.7 billion for the six months ended December 31, 2004 and 2003, respectively.

Note 7. Comprehensive Income

	Three months ended		Six months ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net earnings	\$250,103	\$228,580	\$458,264	\$423,430
Other comprehensive income:				
Foreign currency translation adjustments	109,428	89,448	129,527	25,790
Unrealized net (loss) gain on available-for-sale securities	(37,153)	(35,773)	1,167	(82,815)
Comprehensive income	<u>\$322,378</u>	<u>\$282,255</u>	<u>\$588,958</u>	<u>\$366,405</u>

Note 8. Interim Financial Data by Segment

As discussed in Note 3, the Company acquired the U.S. Clearing and BrokerDealer Business on November 1, 2004. The Company has determined that the acquired operations constitute a separate reportable segment in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information." The Company established a reportable segment called Securities Clearing and Outsourcing Services as of November 1, 2004 to report the results of this acquired business.

Employer Services, Brokerage Services, Dealer Services, and Securities Clearing and Outsourcing Services are the Company's reportable segments. The primary components of "Other" are Claims Services, miscellaneous processing services, and corporate allocations and expenses.

The Company evaluates the performance of its segments based on operating results before interest on corporate funds, foreign currency gains and losses, and income taxes. Certain revenues and expenses are charged to segments at a standard rate for management reasons. Other costs are recorded based on management responsibility. The prior year's segment 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 segment 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.

Segment Results (In millions):

	Revenues			
	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Employer Services	\$1,235	\$1,160	\$2,412	\$2,271
Brokerage Services	355	341	686	655
Dealer Services	243	218	481	429
Securities Clearing and Outsourcing Services	15	-	15	-
Other	137	124	256	235
Reconciling items:				
Foreign exchange	38	10	57	5
Client fund interest	(29)	(26)	(59)	(47)
Total revenues	<u>\$1,994</u>	<u>\$1,827</u>	<u>\$3,848</u>	<u>\$3,548</u>

	Earnings Before Income Taxes			
	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Employer Services	\$ 286	\$ 263	\$ 505	\$ 470
Brokerage Services	49	33	88	53
Dealer Services	37	37	72	69
Securities Clearing and Outsourcing Services	(5)	-	(5)	-
Other	14	24	45	64
Reconciling items:				
Foreign exchange	8	2	11	2
Client fund interest	(29)	(26)	(59)	(47)
Cost of capital charge	38	32	72	65
Total earnings before income taxes	<u>\$ 398</u>	<u>\$ 365</u>	<u>\$ 729</u>	<u>\$ 676</u>

Note 9: Corporate Investments and Funds Held for Clients

Type of issue:	December 31, 2004		June 30, 2004	
	Cost	Fair Value	Cost	Fair Value
Money market securities and other cash equivalents	\$ 8,590,125	\$ 8,590,125	\$ 2,903,284	\$ 2,903,284
Trading securities: U.S. Treasury and direct obligations of U.S. government agencies	26,450	26,450	-	-
Available-for-sale securities:				
U.S. Treasury and direct obligations of U.S. government agencies	5,900,521	5,933,517	5,449,694	5,485,632
Asset backed securities	2,126,363	2,131,866	2,570,424	2,580,609
Corporate bonds	2,303,456	2,303,298	2,342,017	2,341,015
Canadian government obligations and Canadian government agency obligations	901,975	918,535	765,908	774,877
Other debt securities	863,508	870,429	899,216	900,550
Other equity securities	1,465	1,073	5,696	10,141
Total available-for-sale securities	12,097,288	12,158,718	12,032,955	12,092,824
Total corporate investments and funds held for clients	\$20,713,863	\$20,775,293	\$14,936,239	\$14,996,108
Classification of investments on the Consolidated Balance Sheets:				
Corporate investments	\$ 2,003,662	\$ 1,999,462	\$ 2,096,014	\$ 2,092,576
Funds held for clients	18,710,201	18,775,831	12,840,225	12,903,532
Total corporate investments and funds held for clients	\$20,713,863	\$20,775,293	\$14,936,239	\$14,996,108

The Company's "trading" securities represent securities that have been pledged as collateral to exchanges and clearinghouses for security transactions of the Securities Clearing and Outsourcing Services segment. These investments are recorded at fair value with the resulting net unrealized gains and losses reflected in "Revenues, Other Than Interest on Funds Held for Employer Services Clients and PEO revenues" in the Consolidated Statements of Earnings.

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>
December 31, 2004	\$105,438	\$(44,008)	\$ 61,430
June 30, 2004	\$125,585	\$(65,716)	\$ 59,869

The Company's "available-for-sale" securities are carried on the Consolidated Balance Sheets at fair value at December 31, 2004 and June 30, 2004. The Company believes that the available-for-sale securities that 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 and intent to hold the available-for-sale securities until maturity.

Note 10. Securities Clearing and Outsourcing Services

As discussed in Note 3, the Company acquired the U.S. Clearing and BrokerDealer Business on November 1, 2004. The operations of the acquired business are reported in the newly formed Securities Clearing and Outsourcing Services segment. The summary of the significant accounting policies associated with the Securities Clearing and Outsourcing Services segment are as follows:

Receivables from and Payables to Clearing Customers

Receivables from and payables to clearing customers represent the amounts receivable from and payable to clearing customers in connection with cash and margin securities transactions. Clearing customer receivables are included in "Securities Clearing and Outsourcing Receivables" and clearing customer payables are included in "Securities Clearing and Outsourcing Payables" on the Consolidated Balance Sheets. Receivables from customers are collateralized by securities that are not reflected in the Consolidated Balance Sheets.

Securities Borrowed and Securities Loaned

Securities borrowed and loaned represent deposits made to or received from other broker-dealers. Securities borrowed and securities loaned are recorded on the settlement date based upon the amount of cash advanced or received. Securities borrowed are included in "Securities Clearing and Outsourcing Receivables" and securities loaned are included in "Securities Clearing and Outsourcing Payables" on the Consolidated Balance Sheets. The Company takes possession of securities borrowed, monitors the market value of securities loaned and obtains additional collateral as appropriate.

Revenue Recognition

Customer clearing security transactions and the related revenues, primarily consisting of customer margin interest, and expenses, primarily consisting of brokerage clearing expenses and interest expense, are recorded on a settlement date basis. Revenues for the fees charged to an introducing broker-dealer to process trades in clearing accounts are recorded on a trade date basis.

Securities clearing and outsourcing receivables and payables consist of the following as of December 31, 2004:

<u>Receivables</u>	
Clearing customers	\$865,172
Securities borrowed	53,227
Broker-dealers and other	9,335
Clearing organizations	5,779
Securities failed to deliver	<u>13,498</u>
Total	<u>\$947,011</u>

<u>Payables</u>	
Clearing customers	\$382,296
Securities loaned	315,780
Broker-dealers and other	49,220
Securities failed to receive	<u>22,669</u>
Total	<u>\$769,965</u>

Securities failed to deliver and failed to receive represent the contract value of securities that have not been delivered or received as of the settlement date.

As of December 31, 2004, the Company has received collateral, primarily in connection with securities borrowed and customer margin loans, with a market value of approximately \$2.0 billion which it can sell or repledge. Of this amount, approximately \$0.4 billion has been pledged or sold as of December 31, 2004 in connection with securities loaned and deposits with clearing organizations.

Note 11. Goodwill and Intangible Assets, net

Changes in goodwill for the six months ended December 31, 2004 are as follows:

	<u>Employer Services</u>	<u>Brokerage Services</u>	<u>Dealer Services</u>	<u>Securities Clearing and Outsourcing 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/ adjustments	(1,506)	515	28,692	109,403	2,859	139,963
Sale of business	-	-	(1,445)	-	-	(1,445)
Cumulative translation adjustments	<u>34,780</u>	<u>2,262</u>	<u>2,080</u>	<u>-</u>	<u>12,099</u>	<u>51,221</u>
Balance as of December 31, 2004	<u>\$1,347,853</u>	<u>\$369,076</u>	<u>\$353,438</u>	<u>\$109,403</u>	<u>\$205,508</u>	<u>\$2,385,278</u>

Components of intangible assets are as follows:

	December 31, 2004	June 30, 2004
Intangible assets:		
Software and software licenses	\$ 760,624	\$ 729,399
Customer contracts and lists	677,798	594,841
Other intangibles	<u>393,252</u>	<u>391,906</u>
	1,831,674	1,716,146
Less accumulated amortization	<u>(1,064,928)</u>	<u>(979,865)</u>
Intangible assets, net	<u>\$ 766,746</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 10 years (2 years for software and software licenses, 15 years for customer contracts and lists and 11 years for other). Amortization of intangibles totaled \$37.3 million and \$33.8 million for the three months ended December 31, 2004 and 2003, respectively, and totaled \$73.1 million and \$68.1 million for the six months ended December 31, 2004 and 2003, respectively. Estimated amortization expense of the Company's existing intangible assets for the remaining six months of fiscal year 2005 and the succeeding five fiscal years is as follows:

	<u>Amount</u>
2005	\$ 78,558
2006	132,971
2007	108,308
2008	79,985
2009	44,810
2010	38,071

Note 12. 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 December 31, 2004 under the two new 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 December 31, 2004 and 2003, there was no commercial paper outstanding. For the three months ended December 31, 2004 and 2003, the Company had average borrowings of \$1.5 billion and \$1.4 billion, respectively, at an effective weighted average interest rate of 2.0% and 1.0%, respectively. For the six months

ended December 31, 2004 and 2003, the Company had average borrowings of \$1.4 billion and \$1.3 billion, respectively, at an effective weighted average interest rate of 1.7% and 1.0%, respectively. The weighted average maturity of the Company's commercial paper during the three and six months ended December 31, 2004 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 to up to five business days. At December 31, 2004 and 2003, there were no outstanding repurchase agreements. At December 31, 2004, the Company held cash of \$48.7 million from a reverse repurchase transaction, for which the terms had ended, but for which the security had not yet been received by the Company. The Company has a \$48.7 million liability recorded in accrued expenses on the Consolidated Balance Sheets to settle the transaction. The security was received subsequent to December 31, 2004. For the three months ended December 31, 2004 and 2003, the Company had an average outstanding balance for repurchase agreements of \$401.4 million and \$20.2 million, respectively, at a weighted average interest rate of 1.8% and 2.2%, respectively. For the six months ended December 31, 2004 and 2003, the Company had an average outstanding balance for repurchase agreements of \$395.7 million and \$13.7 million, respectively, at a weighted average interest rate of 1.6% and 2.2%, respectively.

Note 13. Pension Plans

The components of net pension expense were as follows:

	Three months ended		Six months ended	
	December 31		December 31	
	2004	2003	2004	2003
Service Cost- benefits earned during the period	\$ 7,506	\$ 5,743	\$14,889	\$11,486
Interest cost on projected benefits	9,472	8,422	18,902	16,844
Expected return on plan assets	(13,072)	(12,624)	(26,116)	(25,248)
Net amortization and deferral	2,779	2,549	5,557	5,098
Net pension expense	<u>\$ 6,685</u>	<u>\$ 4,090</u>	<u>\$13,232</u>	<u>\$ 8,180</u>

The minimum required contribution to the Company's pension plans is \$0 in fiscal year 2005. For the six months ending December 31, 2004, the Company did not make any contributions to the pension plans; however, the Company expects to contribute approximately \$40 million during fiscal year 2005.

Note 14. 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. In addition, the securities transactions of the Securities Clearing and Outsourcing Services segment involve collateral arrangements required by various regulatory and internal guidelines that are monitored daily. The Company does not expect any material losses related to such guarantees or collateral arrangements.

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the Company believes that it is unlikely that the Company will be required to make payments under these arrangements. Accordingly, no contingent liability is recorded in the consolidated financial statements for these arrangements.

The Company's securities clearing and outsourcing subsidiary is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission. At December 31, 2004, the aggregate net capital of such subsidiary was \$235.9 million, exceeding the net capital requirement by \$215.9 million. The Company's securities clearing and outsourcing subsidiary has secured unlimited Securities Industry Protection Corporation (SIPC) insurance coverage. Under the terms of this program, the Company's securities and outsourcing subsidiary is required to maintain an aggregate net capital of \$200 million.

Note 15. Income Taxes

On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. The Company may elect to apply this provision to qualifying earnings repatriations in either the balance of fiscal year 2005 or in fiscal year 2006. The Company has started an evaluation of the effects of the repatriation provision; however, the Company does not expect to be able to complete this evaluation until Congress acts on the pending Technical Corrections Bill and the Treasury Department provides additional clarifying language on key elements of the provision. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following these actions. The range of possible amounts that the Company could repatriate under this provision is between zero and \$500 million. The related potential range of income tax is between zero and \$35 million. The actual cost to the Company is dependent on the factors discussed above.

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 single 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 \$2.4 billion of goodwill as of December 31, 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 (In millions, except per share amounts)

	Three Months Ended December 31,			Six Months Ended December 31,		
	2004	2003	Change	2004	2003	Change
Total revenues	\$1,994	\$1,827	9%	\$3,848	\$3,548	8%
Total expenses	\$1,596	\$1,462	9%	\$3,119	\$2,872	9%
Earnings before income taxes	\$ 398	\$ 365	9%	\$ 729	\$ 676	8%
Margin	19.9%	20.0%		18.9%	19.1%	
Provision for income taxes	\$ 148	\$ 136	8%	\$ 271	\$ 253	7%
Effective tax rate	37.1%	37.4%		37.1%	37.4%	
Net earnings	\$ 250	\$ 229	9%	\$ 458	\$ 423	8%
Diluted earnings per share	\$ 0.42	\$ 0.38	11%	\$ 0.78	\$ 0.71	10%

Revenues

Our consolidated revenues for the quarter ended December 31, 2004 grew 9% to \$2.0 billion primarily due to increases in Employer Services of 7%, or \$75

million, to \$1.2 billion, Brokerage Services of 4%, or \$14 million, to \$355 million, Dealer Services of 11%, or \$25 million, to \$243 million as well as \$15 million from our newly formed Securities Clearing and Outsourcing Services segment. Our consolidated revenues, excluding the impact of acquisitions and divestitures, grew 9% in the quarter ending December 31, 2004 as compared with the prior year. Revenue growth for the quarter was also favorably impacted by \$28 million, or 1.5%, due to fluctuations in foreign currency exchange rates.

Our consolidated revenues for the quarter ending December 31, 2004 includes interest on funds held for Employer Services clients of \$91 million as compared to \$82 million in the prior year. The increase in the consolidated interest earned on funds held for Employer Services clients primarily resulted from the increase of 10% in our average client fund balances to \$10.7 billion for the quarter. 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 \$29 million and \$26 million in the quarters ending December 31, 2004 and 2003, respectively.

Our consolidated revenues for the year-to-date period ended December 31, 2004 grew 8% to \$3.8 billion primarily due to increases in Employer Services of 6%, or \$141 million, to \$2.4 billion, Brokerage Services of 5%, or \$31 million, to \$686 million, Dealer Services of 12%, or \$52 million, to \$481 million, as well as \$15 million from our newly formed Securities Clearing and Outsourcing Services segment. Our consolidated revenues, excluding the impact of acquisitions and divestitures, grew 8% in the year-to-date period ending December 31, 2004 as compared with the prior year. Revenue growth for the year-to-date period was also favorably impacted by \$52 million, or 1.5%, due to fluctuations in foreign currency exchange rates.

Our consolidated revenues for the year-to-date period ending December 31, 2004 includes interest on funds held for Employer Services clients of \$176 million, as compared to \$165 million in the prior year. The increase in the consolidated interest earned on funds held for Employer Services clients resulted from the increase of 10% in our average client fund balances to \$10.4 billion for the year-to-date period. 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 \$59 million and \$47 million in the year-to-date periods ending December 31, 2004 and 2003, respectively.

Expenses

Our consolidated expenses for the quarter ending December 31, 2004 increased by \$134 million, from \$1.5 billion to \$1.6 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 \$22 million, or 1.5%, due to fluctuations in foreign currency exchange rates. Operating expenses increased by \$105 million, or 13%, primarily due to the increase in revenues, including the increases in the Professional Employer Organization (PEO) business and investor communications activity, which both have pass-through costs. Selling, general and administrative expenses increased by \$6 million to \$465 million primarily due to the additional sales force to support the revenue growth. Systems development and programming costs increased by \$17 million to \$150 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.

Our consolidated expenses for the year-to-date period increased by \$248 million, from \$2.9 billion to \$3.1 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 \$44 million, or 1.5%, due to fluctuations in foreign currency exchange rates. Operating expenses increased by \$178 million, or 11%, primarily due to the increase in revenues, primarily in the PEO business and investor communications activity. Selling, general and administrative expenses increased by \$25 million to \$912 million primarily due to the additional sales force to support the revenue growth. Systems development and programming costs increased by \$34 million to \$299 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 \$9 million primarily due to the increase in interest expense of \$9 million due to the increase in the interest rates on our short-term financing arrangements.

Earnings Before Income Taxes

Earnings before income taxes increased by \$32 million, or 9%, to \$398 million for the quarter ending December 31, 2004 and \$52 million, or 8%, to \$729 million during the year-to-date period ending December 31, 2004 due to the increase in revenues and expenses discussed above.

Provision for Income Taxes

Our effective tax rate for both the quarter and year-to-date period ending December 31, 2004 was 37.1% as compared to 37.4% for the comparable period of the prior year. The decrease in the effective tax rate for both periods is attributable to a favorable mix in income among tax jurisdictions.

Net Earnings

Net earnings for the quarter increased 9% to \$250 million from \$229 million and the related diluted earnings per share increased 11% to \$0.42. Net earnings for the year-to-date period increased 8% to \$458 million from \$423 million and the related diluted earnings per share increased 10% to \$0.78. The increase in net earnings for both the quarter and year-to-date period reflects the increase in earnings before income taxes and the impact of the lower effective tax rate. The increase in diluted earnings per share for both the quarter and year-to-date period reflects the increase in net earnings and the impact of fewer shares outstanding due to the repurchase of 6.3 million shares during the year-to-date period and 15.8 million shares in fiscal year 2004.

Analysis of Business Segments**Revenues**

(In millions)

	Three Months Ended			Six Months Ended		
	December 31,			December 31,		
	2004	2003	Change	2004	2003	Change
Employer Services	\$1,235	\$1,160	7%	\$2,412	\$2,271	6%
Brokerage Services	355	341	4	686	655	5
Dealer Services	243	218	11	481	429	12
Securities Clearing and Outsourcing Services	15	-	-	15	-	-
Other	137	124	10	256	235	9
Reconciling items:						
Foreign exchange	38	10		57	5	
Client fund interest	(29)	(26)		(59)	(47)	
Total revenues	<u>\$1,994</u>	<u>\$1,827</u>	9%	<u>\$3,848</u>	<u>\$3,548</u>	8%

Earnings Before Income Taxes

(In millions)

	Three Months Ended			Six Months Ended		
	December 31,			December 31,		
	2004	2003	Change	2004	2003	Change
Employer Services	\$ 286	\$ 263	9%	\$ 505	\$ 470	8%
Brokerage Services	49	33	52	88	53	68
Dealer Services	37	37	-	72	69	4
Securities Clearing and Outsourcing Services	(5)	-	-	(5)	-	-
Other	14	24	(42)	45	64	(30)
Reconciling items:						
Foreign exchange	8	2		11	2	
Client fund interest	(29)	(26)		(59)	(47)	
Cost of capital charge	38	32		72	65	
Total earnings before income taxes	<u>\$ 398</u>	<u>\$ 365</u>	9%	<u>\$ 729</u>	<u>\$ 676</u>	8%

Employer Services**Revenues**

Employer Services' revenues increased 7% for the quarter and 6% for the year-to-date period ended December 31, 2004 as compared to the prior year primarily due to new business started in the period, the number of employees on our clients' payrolls, strong client retention and an increase in interest earned on client fund balances. Internal revenue growth, which represents revenue growth excluding the impact of acquisitions and divestitures, was approximately 6% for both the quarter and year-to-date period. New business sales grew 8% during the quarter due to the increased growth in the salesforce and productivity. The number of employees on our clients' payrolls, "pays per control," increased 2.0% for the quarter and 1.9% for the year-to-date period 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 improved by one percentage point in the quarter and 0.7 percentage points for the year-to-date period from record retention levels in fiscal year 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%. Interest income increased for the quarter and year-to-date periods due to the increase in the average client fund balances as compared to the prior year. The average client funds balance was \$10.7 billion during the quarter as compared to \$9.7 billion in the second quarter of fiscal year 2004 and \$10.4 billion during the year-to-date period as compared to \$9.5 billion for the prior year, representing an increase of 10% for both periods.

Revenues from our "beyond payroll" products continued to grow at a faster rate than the traditional payroll and payroll tax revenues. Our PEO revenues grew 23%, to \$133 million, during the quarter and 21%, to \$259 million, for the year-to-date period 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 9%, from \$263 million to \$286 million for the quarter and 8%, from \$470 million to \$505 million, for the year-to-date period, primarily due to the increase in revenues in the respective periods. Operating expenses, selling, general and administrative expenses and systems development and programming costs increased 6% for the quarter and year-to-date period due to the increase in operating and sales personnel, and maintenance of our products and services to support the revenue growth. Our expenses at Employer Services did not increase comparably with our revenue primarily due to the leveraging of our increasing revenues, which favorably impacted certain selling, general and administrative expenses. In addition, earnings before income taxes increased approximately \$7 million during the quarter and \$11 million during the year-to-date period as a result of the completion of integration of certain acquisitions, primarily ProBusiness Services, Inc., in the prior year.

Brokerage Services

Revenues

Brokerage Services' revenues increased 4% for the quarter and 5% for the year-to-date period ended December 31, 2004 primarily due to an increase in certain investor communications activity. Revenues from investor communications increased by 8% to \$245 million for the quarter and by 8% to \$469 million for the year-to-date period 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 statements and new business sales. Our proxy and interim communication pieces delivered increased 18% for the quarter, from 167 million to 197 million, and 19% for the year-to-date period, from 311 million to 372 million. The increase in the quarterly and year-to-date proxy and interim communication activity resulted from more holders of equities and increased activity related to additional mutual fund meetings. Our back-office trade processing revenues of \$84 million for the quarter and \$166 million for the year-to-date period remained flat for both periods due to a number of offsetting items. The acquisition of the U.S. Clearing and BrokerDealer

Services Divisions of Bank of America, which was previously a customer of Brokerage Services, reduced revenues slightly, as the back-office services previously provided to such third-party became an internal (intercompany) service. The average trades per day increased 18%, from 1.31 million to 1.55 million, for the quarter and 14%, from 1.28 million to 1.46 million, for the year-to-date period. These increases are primarily due to net new business sales and growth in our existing client base. These increases were offset by the decline in the average revenue per trade of 15% for both the quarter and the year-to-date period primarily due to the volume processed under tiered pricing agreements and the increase in electronic retail trades.

Earnings Before Income Taxes

Earnings before income taxes increased \$16 million, to \$49 million, for the quarter and \$35 million, to \$88 million, for the year-to-date period primarily due to increased revenues in our investor communication activities. Selling, general and administrative expenses for the quarter and year-to-date period were favorably impacted due to collections of receivables which were previously reserved. In addition, earnings before income taxes increased approximately \$3 million during the quarter and \$8 million during the year-to-date period as a result of the elimination of unprofitable business lines and alignment of our cost structure in our underperforming businesses that occurred during fiscal year 2004.

Dealer Services

Revenues

Dealer Services' revenues increased 11% for the quarter and 12% for the year-to-date period ended December 31, 2004 when compared to the prior year. Internal revenue growth was approximately 6% for both the quarter and year-to-date period. Revenues increased for our dealer business systems in North America by \$26 million to \$199 million for the quarter and by \$53 million to \$398 million for the year-to-date period 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 remained flat for the quarter and increased by 4% for the year-to-date period primarily due to the increase in revenues offset by costs relating to the integration of acquisitions that occurred during the fourth quarter of fiscal year 2004 and additional sales expenses relating to headcount additions to support the revenue growth for both periods.

Securities Clearing and Outsourcing Services

On November 1, 2004, the Company acquired the U.S. Clearing and BrokerDealer Services divisions of Bank of America Corporation (U.S. Clearing and BrokerDealer Business), which provides third-party clearing operations. The results of the acquired business are reported in the newly formed Securities Clearing and Outsourcing Services segment.

The Securities Clearing and Outsourcing Services segment provides execution, clearing, margin lending and securities borrowing to facilitate customer short

sales to clearing clients. Prime brokerage clients include hedge funds and clients of money managers, short sellers, arbitrageurs and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business.

Revenues

Revenues for Securities Clearing and Outsourcing Services was \$15 million for the quarter and year-to-date period ended December 31, 2004 as compared to \$0 in the prior year due to the acquisition of the business on November 1, 2004. Average customer margin balances were \$1.1 billion during the quarter and the year-to-date period. The average number of trades that were cleared per day was 27 thousand for both the quarter and the year-to-date period.

Loss Before Income Taxes

Loss before income taxes was \$5 million for the quarter and year-to-date period due to the current alignment of the cost structure associated with the revenues of the business as well as the integration costs incurred since the acquisition of the business on November 1, 2004.

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 December 31, 2004, cash and marketable securities were \$2.0 billion. Stockholders' equity was \$5.7 billion and the ratio of long-term debt-to-equity was 1.3% at December 31, 2004.

At December 31, 2004, working capital was \$1.6 billion compared to \$1.0 billion at June 30, 2004. The increase in the Company's working capital arose primarily from the movement of long-term marketable securities to cash and cash equivalents and the increase in working capital as a result of the acquisition of the Securities Clearing and Outsourcing Services segment.

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 up to \$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 \$692 million for the six months ended December 31, 2004. This amount compares to cash flows from operations of \$557 million in the comparable period for the prior fiscal year. The increase in cash flow from operations was primarily due to the increase in net earnings of \$35 million and the change in accounts receivable and other assets of \$48 million, primarily due to the funding of the pension plans in the prior fiscal year. These increases in cash generated from operations were offset by the change in deferred income taxes of \$18 million and the net change of \$18 million in securities clearing and outsourcing receivables and payables.

Cash flows provided by investing activities in the six months ended December 31, 2004 totaled \$15 million compared to cash flows used in investing activities in the comparable period for the prior fiscal year of \$792 million. The fluctuation between periods was primarily due to the timing of purchases and proceeds of marketable securities and the net change in client fund obligations, offset by the increase in cash paid for acquisitions in the current year-to-date period.

Cash flows used in financing activities in the six months ended December 31, 2004 totaled \$289 million compared to \$339 million in the comparable period for the prior fiscal year. The decrease in cash used in financing activities was primarily due to cash received for a reverse repurchase agreement transaction for which the security had not been received at December 31, 2004. We purchased 6.3 million shares of our common stock at an average price per share of \$40.77 during the year-to-date period. As of December 31, 2004, we had remaining Board of Directors' authorization to purchase up to 21.3 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 December 31, 2004 under the two new 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 December 31, 2004 and 2003, there was no commercial paper outstanding. For the three months ended December 31, 2004 and 2003, the Company had average borrowings of \$1.5 billion and \$1.4 billion, respectively, at an effective weighted average interest rate of 2.0% and 1.0%, respectively. For the six months ended December 31, 2004 and 2003, the Company had average borrowings of \$1.4 billion and \$1.3 billion, respectively, at an effective weighted average interest rate of 1.7% and 1.0%, respectively. The weighted average maturity of our commercial paper during the three and six months ended December 31, 2004 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 to up to five business days. At December 31, 2004 and 2003, there were no outstanding repurchase agreements. For the three months ended December 31, 2004 and 2003, the Company had an average outstanding balance of \$401.4 million and \$20.2 million, respectively, at a weighted average interest rate of 1.8% and 2.2%, respectively. For the six months ended December 31, 2004 and 2003, the Company had an average outstanding balance of \$395.7 million and \$13.7 million, respectively, at an average interest rate of 1.6% and 2.2%, respectively.

For the six months ended December 31, 2004, capital expenditures were \$86 million. Capital expenditures for fiscal year 2005 are expected to be approximately \$225 to \$245 million compared to \$204 million in fiscal year 2004.

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. In addition, the securities transactions of the Securities Clearing and Outsourcing Services segment involve requiring collateral arrangements in compliance with various regulatory and internal guidelines, which are monitored daily. We do

not expect any material losses related to such guarantees or collateral arrangements.

We are a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our maximum potential liability under these arrangements cannot be quantified. However, we believe that it is unlikely that the Company will be required to make payments under these arrangements. Accordingly, no contingent liability is recorded in the consolidated financial statements for these arrangements.

Quantitative and Qualitative Disclosures about Market Risk

During the six months ended December 31, 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 December 31,		Six Months Ended December 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Average investment balances at cost:				
Corporate investments	\$ 3,707.6	\$ 3,677.3	\$ 3,759.5	\$ 3,492.8
Funds held for clients	<u>10,667.7</u>	<u>9,736.5</u>	<u>10,447.4</u>	<u>9,494.7</u>
Total	<u>\$14,375.3</u>	<u>\$13,413.8</u>	<u>\$14,206.9</u>	<u>\$12,987.5</u>
Average interest rates earned exclusive of realized gains/ (losses) on corporate investments and funds held for clients	3.3%	3.2%	3.2%	3.3%
Realized gains on available- for-sale securities	\$ 6.0	\$ 2.2	\$ 8.7	\$ 5.4
Realized losses on available- for-sale securities	<u>(10.0)</u>	<u>(6.4)</u>	<u>(17.8)</u>	<u>(8.5)</u>
Net realized losses	<u>\$ (4.0)</u>	<u>\$ (4.2)</u>	<u>\$ (9.1)</u>	<u>\$ (3.1)</u>
	December 31,	June 30,		
	<u>2004</u>	<u>2004</u>		
Net unrealized pre-tax gains on available-for-sale securities	\$ 61.4	\$ 59.9		
Total available-for-sale securities	\$12,158.7	\$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 year 2005 average investment balances and any related borrowings would result in approximately a \$12.0 million impact to interest revenues on funds held for Employer Services 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 year 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 December 31, 2004, approximately 95% of our available-for-sale securities held a AAA or AA rating.

In the normal course of business, the securities activities of the Securities Clearing and Outsourcing Services segment involve execution, settlement and financing of various securities transactions for a nationwide client base. These activities may expose the Company to risk in the event customers, other broker-dealers, banks, clearing organizations or depositories are unable to fulfill contractual obligations.

For securities activities of the Securities Clearing and Outsourcing Services segment in which the Company extends credit to customers and non-customers, we seek to control the risk associated with these activities by requiring customers and non-customers to maintain margin collateral in compliance with various regulatory and internal guidelines. We monitor margin levels and, pursuant to such guidelines, request the deposit of additional collateral or the reduction of securities positions, when necessary. In addition, broker-dealers may be required to maintain deposits relating to any security clearance activities we perform on their behalf.

We record customers' security clearing transactions on a settlement date basis, which is generally three business days after trade date. The Company is therefore exposed to off-balance sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill contractual obligations.

New Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R is effective for our quarterly period ending September 30, 2005. Among other things, SFAS No. 123R requires that compensation cost relating to share-based payment transactions be recognized in the consolidated financial statements. Note 5, Fair Value Accounting for Stock-Based Compensation, of the Notes to the Consolidated Financial Statements of this Quarterly Report on Form 10-Q contains pro forma disclosures regarding the effect on net earnings and earnings per share as if we had applied the fair value method of accounting for

stock-based compensation under SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123). However, the calculation of compensation cost for share-based payment transactions in accordance with SFAS No. 123R may be different from the calculation of compensation cost under SFAS No. 123. We are currently evaluating the new standard and models which may be used to calculate the expense for future share-based payment transactions.

Income Taxes

On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. We may elect to apply this provision to qualifying earnings repatriations in either the balance of fiscal year 2005 or in fiscal year 2006. We have started an evaluation of the effects of the repatriation provision; however, we do not expect to be able to complete this evaluation until Congress acts on the pending Technical Corrections Bill and the Treasury Department provides additional clarifying language on key elements of the provision. We expect to complete our evaluation of the effects of the repatriation provision within a reasonable period of time following these actions. The range of possible amounts that the Company could repatriate under this provision is between zero and \$500 million. The related potential range of income tax is between zero and \$35 million. The actual cost to the Company is dependent on the factors discussed above.

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, employee benefits and registered clearing agencies and broker-dealers; 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 December 31, 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 December 31, 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, Use of Proceeds And Issuer Purchases of Equity Securities.

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>
October 1, 2004 to October 31, 2004	24,072	\$40.98	17,400	22,209,400
November 1, 2004 to November 30, 2004	-	-	-	22,209,400
December 1, 2004 to December 31, 2004	<u>859,000</u>	\$44.58	<u>852,000</u>	21,357,400
Total	883,072(2)		869,400	

(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 program.

(2) During fiscal year 2005, pursuant to the terms of the Registrant's restricted stock plan, the Registrant made purchases of 6,672 shares during October 2004 and 7,000 shares during December 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 the preceding footnote.

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

The Company's Annual Meeting of the Stockholders was held on November 9, 2004. There were present at the meeting, either in person or by proxy, holders of 493,526,698 shares of common stock. The following nominees were elected to the Company's Board of Directors to hold office for the ensuing year. The votes cast for each nominee were as follows:

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
Gregory D. Brenneman	468,787,585	24,739,113
Leslie A. Brun	471,180,266	22,346,432
Gary C. Butler	483,405,243	10,121,455
Joseph A. Califano, Jr.	465,050,117	28,476,581
Leon G. Cooperman	483,669,485	9,857,213
R. Glenn Hubbard	488,841,402	4,685,296
Ann Dibble Jordan	483,320,701	10,205,997
Harvey M. Krueger	471,844,932	21,681,766
Frederic V. Malek	465,310,516	28,216,182
Henry Taub	441,181,280	52,345,418
Arthur F. Weinbach	482,698,268	10,828,430

The results of the voting to ratify the appointment of Deloitte & Touche LLP to serve as the Company's independent certified public accountants for the fiscal year that began on July 1, 2004 were as follows:

<u>For</u>	<u>Against</u>	<u>Abstained</u>
484,987,608	5,267,934	3,271,156

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Exhibit</u>
10.4	Supplemental Officers' Retirement Plan, as amended
10.8	2000 Stock Option Plan, as amended
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: February 8, 2005

/s/ Karen E. Dykstra
Karen E. Dykstra

Chief Financial Officer
(Title)

Exhibit 10.4

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

(as amended on May 14, 2002 and as further amended on January 27, 2005)

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

The Plan is as follows:

ARTICLE I

DEFINITIONS

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

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

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

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

1.4 **Board.** The Board of Directors of the Company.

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

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

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

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

1.9 **Future Service.** A Participant's period of full calendar years of continuous employment with the Company after his Plan participation has begun. Leaves of absence of less than six months may be taken into account as Future Service, to the extent provided by the Committee. The Committee may, in the applicable Supplement, grant a Participant prior service credit for determining the length of his Future Service period.

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

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

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

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

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

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

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

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

1.18 **Vested Percentage.** Except to the extent set forth in Sections 3.4 and 5.5, until a Participant completes 5 full calendar years of Future Service, such Participant's Vested Percentage shall be 0% and he shall not be entitled to any Plan benefits hereunder.

Upon completing 5, 6, 7, 8, 9, and 10 or more full calendar years of Future Service, a Participant's Vested Percentage shall be 50%, 60%, 70%, 80%, 90%, and 100%, respectively. The Committee may, in the applicable Supplement, grant a Participant prior service credit for determining his Vesting Percentage purposes. Any Participant who has passed the age of 55 and served as a corporate officer for more than 5 years as of the effective date of this Plan, January 1, 1989, shall be 100% vested in all of his plan benefits hereunder.

ARTICLE II

ELIGIBILITY

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

(b) A person shall automatically cease to be a Participant on the earlier to occur of the date on which: (i) he is no longer a corporate vice president or a more senior corporate officer of the Company; or (ii) he ceases to participate to the maximum extent permissible in the Company's retirement plans (including, without limitation, the Automatic Data Processing, Inc. Retirement and Savings Plan and the Automatic Data Processing, Inc. Pension Retirement Plan).

ARTICLE III

RETIREMENT BENEFITS

3.1 In General.

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

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

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

3.2 Normal Retirement Benefit. If a Participant wishes to receive Plan benefits on and after his Normal Retirement Date, the Company will pay the Participant a monthly benefit, starting on the first of the month after Normal Retirement Date and ending with the payment for the month in which his death occurs; provided that no benefit shall be paid hereunder unless and until such Participant has ceased to be employed by the Company. Such monthly benefit shall be one-twelfth of such Participant's Annual Plan Benefit determined in accordance with the provisions of Section 3.1 above.

3.3 Early Retirement Benefit. If a Participant wishes to receive Plan benefits commencing on or after his Early Retirement Date and before his Normal Retirement Date, the Company will, at Participant's request, pay the Participant a monthly benefit starting on the first of the month after his Early Retirement Date after which he requested that he begin receiving benefits under the Plan and ending with the payment for the month in which his death occurs; provided that no benefit shall be paid hereunder unless and until such

Participant has ceased to be employed by the Company. Such monthly benefit shall be in an amount equal to the product of the monthly benefit the Participant would have received under Section 3.2 if the Participant had elected to commence receiving payments under the Plan on his Normal Retirement Date, actuarially reduced to reflect the commencement of the payment of Plan benefits before his Normal Retirement Date. The Committee may, in its discretion, reduce a Participant's Plan benefits by less than a straight actuarially reduced amount if Participant begins to receive Plan benefits after his Early Retirement Date and before his Normal Retirement Date.

3.4 **Disability Retirement Benefit.** If a Participant shall incur a Disability while employed by the Company, the Company shall pay such Participant a monthly benefit starting on the first day of the calendar month after the date his Disability begins and ending with the payment for the calendar month in which his death occurs or his disability ends, whichever occurs first. Such monthly benefit (which shall not be reduced by, and shall not reduce, the benefits, if any, payable to a Participant under the Company's Long Term Disability Insurance Program) shall be calculated in the same way as an Early Retirement benefit under Section 3.3, based on his Final Average Annual Pay when his Disability begins (which will, for purposes of this Section 3.4 only, be determined over less than five full consecutive calendar years to the extent that his Future Service period is less than five years), except that (i) the Vested Percentage shall always be 100%, (ii) there shall not be any actuarial reduction to reflect the commencement of the payment of benefits before his Normal Retirement Date, and (iii) there shall not be any Future Service period accrual during his Disability. For purposes of this Section 3.4, "Disability" shall have the same meaning, and shall be determined in the same manner, as it is determined under the Company's Long Term Disability Insurance Program as in effect on the date the Disability begins.

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

ARTICLE IV

FORFEITURES

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

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

ARTICLE V

CONDITIONS RELATED TO BENEFITS

5.1 **Administration of Plan.** The Committee shall administer the Plan and shall have the sole and exclusive authority to interpret, construe and apply its provisions. The Committee shall have the power to establish, adopt and revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan and the operation of the Committee's activities in connection therewith. All decisions of the Committee shall be by vote or written consent of the majority of its members and shall be final and binding. Members of the Committee shall be eligible to participate in the Plan while serving as a member of the Committee, but a member of the Committee shall not vote or act upon any matter which relates solely to such member in his capacity as a Participant.

5.2 **Grantor Trust.** The Committee may, at its discretion, have the Company create a grantor trust (within the meaning of section 671 of the Code) in connection with the adoption of this Plan to which it may from time to time contribute amounts to accumulate an appropriate reserve against its obligations hereunder. Notwithstanding the creation of such trust, the benefits hereunder shall be a general obligation of the Company. Except to the extent that the benefit amounts payable hereunder have been specifically transferred for an identified Participant into the Automatic Data Processing, Inc. Retirement and Savings Plan

(the "Pension Plan") pursuant to the terms and conditions of the Pension Plan and are payable thereunder, a Participant shall have only a contractual right as a general creditor of the Company to the amounts, if any, payable hereunder and such right shall not be secured by any assets of the Company or the trust.

5.3 **No Right to Company Assets.** Except to the extent that benefit amounts have been specifically transferred for an identified Participant into the Pension Plan pursuant to the terms and conditions of the Pension Plan and are payable thereunder, neither a Participant nor any other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of the Company whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which the Company may set aside in anticipation of a liability hereunder, nor in any policy or policies of insurance on the life of a Participant owned by the Company.

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

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

Service, (iv) 10% if he has completed 1 year of Future Service, and (v) 0% if he has not completed 1 year of Future Service.

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

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

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

ARTICLE VI

MISCELLANEOUS

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

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

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

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

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

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

ARTICLE VII

SPOUSAL BENEFITS

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

AUTOMATIC DATA PROCESSING, INC.

2000 STOCK OPTION PLAN

(originally effective as of August 10, 1999,
amended and restated as of August 11, 2003,
and further amended and restated as of January 27, 2005)

Automatic Data Processing, Inc., a Delaware corporation (the "Company"), hereby formulates and adopts the following amended and restated 2000 Stock Option Plan (the "Plan") for employees of the Company and its Subsidiaries (as defined in Paragraph 5) and non-employee directors of the Company:

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

2. ADMINISTRATION. Except to the extent required in order to qualify for exemptive relief under Rule 16b-3 or its successor provision under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), in which case the Board of Directors of the Company (the "Board of Directors"), or a committee appointed by the Board of Directors which satisfies the requirements of such provisions shall administer the Plan (and all applicable provisions of the Plan, including any reference herein to the "Committee," shall be construed accordingly), the Plan shall be administered by the Compensation Committee of the Board of Directors (the "Committee"). The Committee shall select one of its members as Chairman and shall make such rules and regulations as it shall deem appropriate concerning the holding of its meetings and transaction of its business. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board of Directors, and any vacancy on the Committee may at any time be filled by resolution adopted by the Board of Directors.

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

3. STOCK SUBJECT TO OPTIONS. Subject to the adjustment provisions of Paragraph 13 below, a maximum of 71,750,000 shares of Common Stock may be made subject to Options (as defined below) granted under the Plan. In addition, subject to the adjustment provisions of Paragraph 13 below, no person may be granted Options under the Plan during any of the Company's fiscal years with respect to more than 500,000 shares of Common Stock.

If, and to the extent that, Options granted under the Plan shall terminate, expire or be canceled for any reason without having been

exercised, new Options may be granted in respect of the shares covered by such terminated, expired or canceled Options. The granting and terms of such new Options shall comply in all respects with the provisions of the Plan.

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

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

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

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

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

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

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

Any employee who would own, directly or indirectly, immediately after the granting of an Option to such person, more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries shall only be eligible to receive an Incentive Option under the Plan if it satisfies the requirements of Section 422(c)(5) of the Code.

A person receiving an Option pursuant to the Plan is hereinafter referred to as an "Optionee".

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

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

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

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

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

(b) The expiration of 60 days (or such longer period as the Committee may provide in the event of the Optionee's Permanent and Total Disability (as defined in Section 22(a)(3) of the Code) from the date of termination of the Optionee's employment or service with the Company or any of its Subsidiaries; provided, however, that if the Optionee shall die during such 60-day period (or such longer period as the Committee may provide in the event of the Optionee's Permanent and Total Disability) the provisions of subparagraph (c) below shall apply;

(c) The expiration of six months after the appointment and qualification of the executor or administrator of the Optionee's estate or 12 months after the date of the Optionee's death, whichever occurs earlier, if such death occurs either during employment by, or service with, the Company or any of its Subsidiaries or during the 60-day period (or such longer period as the Committee may provide in the event of the Optionee's Permanent and Total Disability) following the date of termination of such employment or service; and

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

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

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

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

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

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

12. NONALIENATION OF BENEFITS. No right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, hypothecation, pledge, exchange, transfer, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. To the extent permitted by applicable law, no right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the person entitled to such benefits.

13. ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC. In the event of any stock split, stock dividend, stock change, reclassification, recapitalization or combination of shares which changes the character or amount of Common Stock prior to exercise of any portion of an Option theretofore granted under the Plan, such Option, to the extent that it shall not have been exercised, shall entitle the Optionee (or the Optionee's executor or administrator) upon its exercise to receive in substitution such number and kind of shares as the Optionee would be entitled to receive if the Optionee had actually owned the

stock subject to such Option at the time of the occurrence of such change and the Options shall be subject to such adjustments, as determined by the Committee, as to the number, price or kind of stock as determined to be equitable; provided, however, that if the change is of such a nature that the Optionee, upon exercise of the Option, would receive property other than shares of stock, then the Committee shall make an appropriate adjustment in the Option to provide that the Optionee (or the Optionee's executor or administrator) shall acquire upon exercise only shares of stock of such number and kind as the Committee, in its sole judgment, shall deem equitable; and, provided further, that any such adjustment shall be made so as to conform to the requirements of Section 424(a) or 162(m) of the Code and the regulations promulgated thereunder. The Committee shall also make appropriate adjustment in the number of shares subject to Options under the Plan and the maximum number of shares to be granted to any person in any fiscal year as determined to be equitable.

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

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

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

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

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

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

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

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

17. EFFECTIVE DATE OF PLAN. The Plan originally became effective on August 10, 1999, the date of its adoption by the Board of Directors (the "Effective Date").

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

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

20. SEPARABILITY. If any of the terms or provisions of the Plan conflict with the requirements of Rule 16b-3 under the Exchange Act and/or Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Rule 16b-3 under the Exchange Act and/or Section 422 of the Code. With respect to Incentive Options, if the Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein; provided, further, that to the extent any Option which is intended to qualify as an Incentive Option cannot so qualify such Option, to the extent, shall be deemed to be a Nonqualified Option for all purposes of the Plan.

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

22. EXCLUSION FROM PENSION AND PROFIT-SHARING COMPUTATION. By acceptance of an Option, each Optionee shall be deemed to have agreed that such grant is special incentive compensation that will not be taken into account, in any manner, as salary, compensation or bonus in determining the amount of any payment under any pension, retirement or other employee benefit plan of the

Company or any of its Subsidiaries. In addition, each beneficiary of a deceased Optionee shall be deemed to have agreed that such Option will not affect the amount of any life insurance coverage, if any, provided by the Company on the life of the Optionee which is payable to such beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

23. GOVERNING LAW. The Plan 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: February 8, 2005

/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: February 8, 2005

/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 December 31, 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
February 8, 2005

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 December 31, 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
February 8, 2005