



**2008 LETTER TO SHAREHOLDERS**



Gary Butler, ADP President & CEO

Fiscal 2008 was a successful year for ADP. ADP reported strong revenue and earnings growth. Revenues rose 12.5% to \$8.78 billion, assisted 2% by favorable foreign exchange rates due to the weakened U.S. dollar. Diluted earnings per share from continuing operations grew a very strong 20% from a year ago to \$2.20; excluding one-time gains reported in both the current and prior fiscal years, diluted earnings per share grew 21% to \$2.18.

Fiscal 2008's strong performance is a direct result of ADP's execution against its five-point strategic growth program which consists of:

1. Strengthening the core business;
2. Growing our differentiated HR BPO offerings;
3. Focusing on international expansion;
4. Entering adjacent markets that leverage the core; and
5. Expanding pretax margins.

## **But What about the Economy?**

We have all been witness to the U.S. economy bumping along slightly above the recession level. Headline inflation has risen, but hasn't had a material impact to ADP. Rising oil prices dampened the economy in general, which is not a good thing for ADP, or most other companies for that matter. The employment market is tough, although it is better in small business than it is in large business and it is better in the service industries where ADP's client base is strong. We've been able to mitigate the impact of declines in interest rates on our client funds portfolio with our extended investment strategy. The credit markets have been chaotic and a damper on the markets and the economy like nothing I've seen in my business career. When all of these things happen concurrently, the tendency is for business executives to constrain capital investments, and defer making business investment decisions.

So what does it all mean? As I noted at the beginning of this letter, ADP posted excellent results in fiscal 2008 despite all the things just mentioned. The weak U.S. dollar lifted revenue growth by 2% as we have a sizeable presence in Europe. Fiscal 2008 was also our third consecutive year of over 20% earnings per share growth. Concerns about the economic environment resulted in a slowdown in Employer Services sales growth after a strong first half of fiscal 2008. I am, however, very pleased with the overall execution by the salesforce as we finished with 8% growth in new business sales in Employer Services and PEO Services. Client retention for Employer Services reached record levels, exceeding 90%, up 0.2 percentage points in fiscal 2008. Despite the tough economy, we continue to invest in World Class Service and increasing the penetration rate of ADP's beyond payroll solutions with our client base, both important factors in improving long-term client retention levels. We saw some contraction in the number of pays per client versus last year, but slower and less severe than the last economic downturn. Pays at our small and large clients in fiscal 2008, which normally shrink first in an economic downturn, actually shrunk less than at our medium-size clients. Overall, we anticipated no growth in pays per client looking ahead to fiscal 2009.

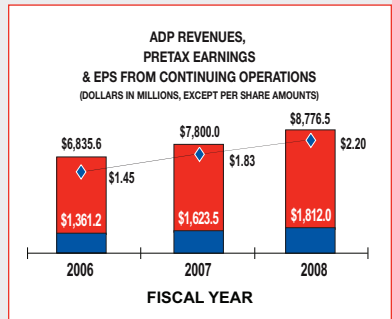
Despite the consolidation of dealerships and declining new car sales in the U.S., Dealer Services had an excellent year with strong revenue growth, an increased win-loss rate against the competition resulting in increased market share, and considerably strong growth in new business sales in both our North American and International businesses.

All in, we anticipate another good year in fiscal 2009 amidst continued choppy economic water ahead.

## Fiscal 2008 Key Strategies & Accomplishments

### Client Funds Investment Strategy

ADP moved over \$1.3 trillion of client funds, resulting in holding nearly \$16 billion in average client funds per day. I am especially pleased with the performance of the investment portfolio and the investment choices made during the year. ADP remains one of six U.S. industrial companies rated triple-A by both Standard & Poor's and Moody's. This has been extremely important to ADP's extended investment strategy where ADP borrows in the overnight commercial paper market on about 200 days a year to satisfy short-term



client liabilities, which enables us to extend the maturities of our investments. This strategy ladders the maturities of our investments, helping to minimize the impact of changes in market interest rates. During fiscal 2008, the Fed Funds rate declined 325 basis points, yet the net impact to ADP compared with a year ago was an increase of 10 basis points in the overall yield to 4.4%.

### Employer Services

Growth in new business sales of our core solutions across all market segments, along with strong sales of our HR BPO offerings, contributed to Employer Services' 9% revenue growth.

We launched the RUN Powered by ADP<sup>SM</sup> platform, our web-based payroll service for small businesses and their accountants – early results and client receptivity have been terrific. And we're really focused on the large opportunities for our Retirement Services and Workers' Compensation Pay-by-Pay<sup>®</sup> solutions as extensions of our core offering for small businesses.

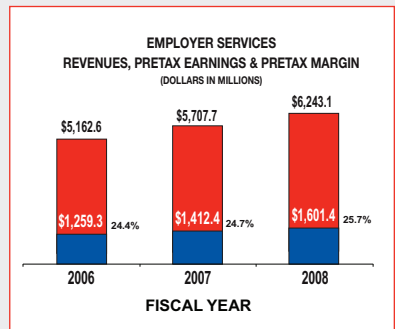
Our Administrative Services Offering, also called ADP Resource<sup>®</sup>, is our HR BPO offering for the small and mid-markets and is an excellent option for prospects that don't fit the co-employment PEO model. Sales of ADP Resource below fifty pays continue to fuel our small business growth. Additionally, sales of ADP Resource have been quite strong in the 50 to 100 pay-size market, and we've got a terrific opportunity with prospects above the 100 pay-size with the launch of an offering based on our Pay eXpert<sup>®</sup> and HR/Benefits solutions.

Our new "core" offering, a bigger, comprehensive bundled solution of our payroll, HR/Benefits, and Time & Labor Management offerings has been driving growth in the mid-market, bringing in new payroll clients with three times the revenue opportunity of a traditional payroll client.

Comprehensive Outsourcing Services (COS) fueled growth at the high end of the market above 1,000 pays, as did GlobalView® for large multinational companies. COS achieved profitability as we generated \$140 million in revenues in fiscal 2008 and significantly reduced the time it takes to get a new client up and running. More than 50 clients with over 550,000 employees in the U.S. are currently using our COS solution. In addition, GlobalView generated nearly \$40 million in revenues in fiscal 2008, exiting the year with 65 clients, representing over 375,000 employees in 33 countries. Including clients already running on GlobalView, we have signed 78 clients representing nearly one million employees in 46 countries. We currently expect GlobalView to become profitable in fiscal 2010 and to approach \$500 million in annual “live” and signed revenue by fiscal 2013.

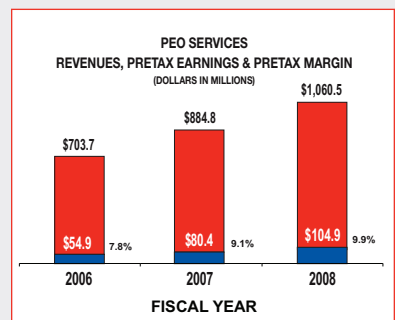
Surrounding these great ADP solutions are significantly increased investments in service and implementation which are making for an even better client experience.

Employer Services’ pretax margin expanded 90 basis points for the year. This improvement is a result of continued operating leverage from the significant scale in our business, as well as our margin expansion initiatives. We now have over 300 telesales associates supporting our direct salesforce by selling beyond payroll solutions such as workers compensation insurance to our small and mid-sized clients. With a substantially lower cost of sales compared to traditional “feet-on-the-street”, telesales sold over \$80 million of the nearly \$1.15 billion of total new business sales in fiscal 2008. We anticipate that will grow over the next few years to eventually contribute about one-third of total new business sales. We also completed the consolidation of our data centers in the last quarter of fiscal 2008 and anticipate realizing the first full-year benefit from that initiative in fiscal 2009. We continue to leverage both off-shore and smart-shore locations. We are expanding our presence in India where we have nearly 3,000 associates, and our smart-shore locations in El Paso, Texas; Augusta, Georgia; and Jackson, Mississippi, where collectively we have over 1,500 associates. Through growth in the business and margin expansion initiatives, we are committed to driving pretax margin expansion of at least 50 basis points each year while we continue to invest in new products, salesforce expansion, and implementation and client services resources to drive our five-point strategic growth program.



### PEO Services

The PEO had another great year, growing revenues 20% to cross the billion dollar revenue mark. Growth in the PEO was fueled by strong growth in California and we expanded deeper into existing geographies as well as opened a number of new markets. Nearly all of our regions had double-digit



growth, expanding the average number of paid worksite employees 18% to 176,000, and ending the year with approximately 188,000 paid worksite employees. While the challenging economy is anticipated to result in slower new business sales growth in fiscal 2009, the PEO benefits from about half of its sales coming from up-selling our PEO solution to our existing payroll clients. We are able to create substantial lead flow by leveraging the Small Business Services salesforce in addition to the direct PEO sales organization.

## Dealer Services

Dealer Services had a terrific fiscal 2008, growing revenues 8.5%. I am very pleased with the strong North American sales growth where sales of solutions beyond the core Dealer Management Systems (DMS), such as Voice Over IP Telephony and BZ Results, a web-based, on-line Digital Marketing and Advertising solution, offset slower sales in the core DMS. As a result of slower



new car sales in the U.S., there was a small decline in growth rates relating to transaction-based activities, Computerized Vehicle Registration (CVR) and credit checks. This is anticipated to continue into fiscal 2009, however, these transaction-based revenues account for only about 10% of Dealer Services revenues. I am also quite pleased with sales of our Autoline product which drove Dealer Services' strong international sales growth, and we have a healthy implementation backlog of new business. Dealer Services continues to gain market share with excellent client retention and win/loss rates that continued to improve from strong levels a year ago.

Dealer Services' pretax margin expanded 75 basis points, benefiting as well from the off-shore and smart-shore initiatives mentioned earlier for Employer Services. Additionally, we expect the international business to continue to increase margin as it grows.

## Shareholder-friendly Actions

ADP remains keenly focused on increasing shareholder value. ADP has returned excess cash to its shareholders through significant share repurchases and higher dividends.

Over the last three fiscal years ADP has returned nearly \$5 billion in the form of share repurchases, buying back nearly 18% of the company's outstanding shares, or just over 100 million shares, since the beginning of fiscal 2006. Our board of directors recently authorized an additional 50 million shares for repurchase, bringing total remaining share repurchase authorizations to about 60 million shares. We exited fiscal 2008 with \$1.7 billion in cash and marketable securities on our balance sheet and generated \$1.8 billion in operating cash flow. We continue to remain optimistic about ADP's long-term opportunities for growth, and it is our intent, depending on market conditions, to continue to repurchase shares in fiscal 2009.

We have also increased the dividend over 80% since the beginning of fiscal 2006, raising both the dividend payout ratio and yield well above historical levels, to about 50% and over 2.5%, respectively.

Return on equity from continuing operations increased over four percentage points to a very healthy 22.7% in fiscal 2008, and we anticipate continued improvement in fiscal 2009.

## Management and Board of Directors

We promoted Mark Benjamin, Mike Capone, Bob Karp, and Anish Rajparia to the position of corporate vice president in recognition of their contributions to ADP's success.

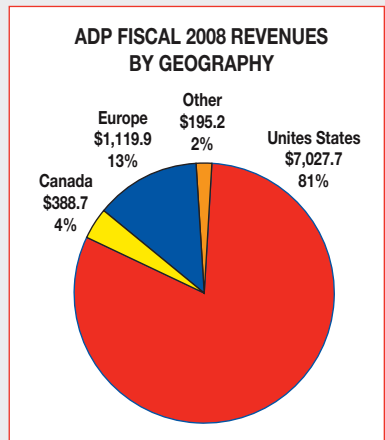
Four new members were elected to ADP's board of directors during fiscal 2008. Eric C. Fast, Charles H. Noski, Sharon T. Rowlands, and Gregory L. Summe joined the board with many years of collective business experience.

## Outlook

In July, we provided ADP's outlook for a solid fiscal 2009 with 7% to 8% revenue growth and 10% to 14% earnings per share growth compared to \$2.18, excluding a one-time gain, in fiscal 2008. As we look ahead, we expect the economic headwinds from fiscal 2008 to continue. ADP, however, is fortunate to be able to look at the challenges of a tightening economy in a different way than most companies:

- We have 90% recurring revenues;
- Our clients stay with us, on average, over ten years;
- We have excellent margins;
- We have strong and consistent cash flows and low capital expenditure requirements;
- We are one of only a handful of triple-A credit-rated companies left in U.S. industry today; and
- The markets we serve are under-penetrated and growing.

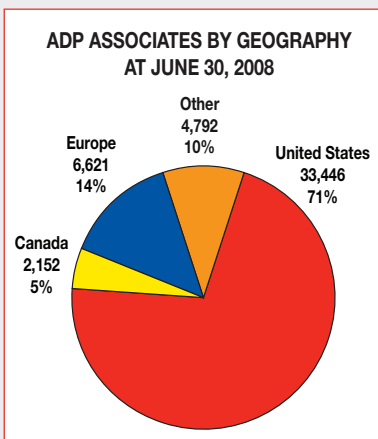
Also, even during challenging times like these, we continue to invest in product, sales, and service. Growing the business for the future despite tough economic challenges is important for ADP's long-term success. More importantly, as companies search for ways to become more efficient, in many cases they are looking for the solutions ADP provides. Clients win by using our solutions even in tight times. We're more effective, compliant, and cost efficient. It's a win-win to have solutions provided by ADP.



We are much better positioned to meet our long-term revenue, pretax margin, and earnings per share goals as ADP is not the same company it was during the last economic downturn in 2002 and 2003. The differences bear repeating here:

- We trimmed the slower-growing businesses in our portfolio, resulting in a keen focus on growing Employer Services, PEO Services and Dealer Services, all of which operate in large, under-penetrated markets.

- ADP's solution set and global reach have never been stronger. We now have a full range of HR BPO solutions to serve any size employer. This compares with five or six years ago when our HR BPO offerings were nascent with the PEO being our sole HR BPO solution. And at that time, our PEO was much smaller, serving less than half the worksite employees and generating one-third of the revenues it does today. Additionally, five or six years ago, ADP did not have a



product to meet the global needs of large multinational companies. In order to compete in that market, we developed GlobalView in 2002 with a handful of clients in the Asia/Pac region processing in just a few countries. In 2004 we took GlobalView from a region-specific solution to a truly global solution, by developing the templates to enable web-based, hosted, global payroll processing in 46 countries. And our COS offering, launched in fiscal 2004, was not as robust a solution as it is today. ADP's COS solution includes managed payroll services, where ADP becomes the client's payroll department, as well as time and labor management and benefits administration. Employee call centers and web-based portals for communications enable ADP to provide World Class Service to its clients and their employees. ADP's domain expertise and product scale uniquely position us in the marketplace.

- We have entered adjacent markets via acquisition – solutions such as HR/Benefits with Employease, applicant management with VirtualEdge, and job tax credit with Mintax, all in Employer Services, and BZ Results digital marketing and advertising in Dealer Services, are helping drive growth today.
- And, lastly, we had only just begun to put our extended investment strategy into place in late 2000. Now fully implemented, the strategy has successfully mitigated the impact of the downward movement in the interest rate environment during this last year.

So despite the challenging economic environment, I remain highly optimistic regarding ADP's ability to deliver continued strong results in fiscal 2009 and for many years to come.

Gary C. Butler  
President & Chief Executive Officer

September 26, 2008

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