We're the business behind business.®

2002 Annual Report

Automatic Data Processing, Inc. (ADP) is one of the largest providers of computerized transaction processing, data communication, and information-based business solutions in the world.

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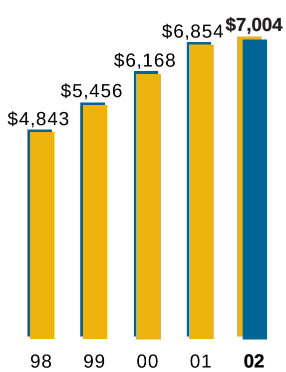
Financial Highlights

(In thousands, except per share amounts)

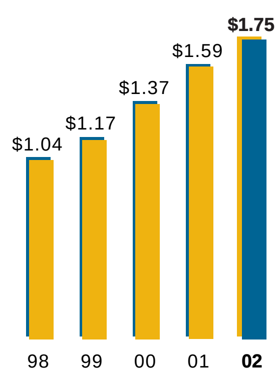
Years ended June 30,	2002	2001	% Increase
Total revenues	**$ 7,004,263**	$ 6,853,652	2%
Net earnings	**$ 1,100,770**	$ 1,025,680	7%
Basic earnings per share	**$ 1.78**	$ 1.63	9%
Diluted earnings per share	**$ 1.75**	$ 1.59	10%
Cash dividends	**$ 276,860**	$ 248,453	11%
Cash dividends per share	**$ .4475**	$ .3950	13%
Basic shares outstanding	**618,857**	629,035	
Diluted shares outstanding	**630,579**	645,989	
Return on equity	**22.4%**	19.9%	
At year end:			
Cash, cash equivalents and marketable securities	**$ 2,749,583**	$ 2,596,964	
Working capital	**$ 1,406,155**	$ 1,747,187	
Total assets before funds held for clients	**$ 7,051,251**	$ 6,549,980	
Long-term debt	**$ 90,648**	$ 110,227	
Shareholders' equity	**$ 5,114,205**	$ 4,700,997	
Number of employees	**40,000**	41,000	

2001 data excludes a $90 million ($54 million after-tax) non-cash, non-recurring write-off of the Company's investment in Bridge Information Systems, Inc. and reflects the pro forma impact relating to the July 1, 2001 adoption of Statement of Financial Accounting Standard No. 142, which eliminated goodwill amortization.

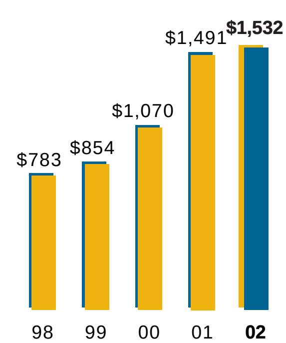
Total Revenues
(In millions)



Diluted Earnings Per Share



Operating Cash Flow
(In millions)



Dear Shareholders,

At ADP we have always measured our performance against consistently high standards. Based on these expectations, fiscal 2002 was a difficult and challenging year.

WEAK ECONOMY

The economy weakened early in the fiscal year and then stabilized, but has not rebounded, as far as we can tell. The weak economy affected us in three primary ways.

Employer Services, our largest business at 60% of revenues, had: slow new business sales; weaker retention, as client bankruptcies increased; fewer employees on our clients' payrolls; and less funds to invest, as our clients' employee compensation growth slowed markedly.

Brokerage Services, our second largest business at 25% of revenues, was impacted by: a significant reduction in individual investor trades, which generate higher revenue per trade than institutional and other trades; the continued consolidation of brokerage firms; and significantly less discretionary spending by the financial services industry.

Interest rates, which had declined 275 basis points in '01, declined an additional 200 basis points in '02. Since our average daily balance of investable funds was about $11 billion, the interest rate decline had a significant impact on our profitability.

ADP'S PERFORMANCE IN FISCAL 2002

Despite these very significant macroeconomic issues, ADP continued to grow and, by many standards of measurement, had a good year.

- Consolidated revenues for the year grew 2% to $7.0 billion.
- Pre-tax earnings increased 7%.
- Earnings per share grew 10%.
- Cash flow from operations was very strong at $1.5 billion.
- We acquired over 17 million shares of ADP stock for about $875 million.
- Cash and marketable securities balances were over $2.7 billion and our long-term debt was down to about $91 million.

Arthur F. Weinbach **Gary C. Butler**

Our Board increased ADP's dividend for the 28th consecutive year by 12% to $.46 per share.

- Return on equity was over 22%.
- Our Board increased ADP's dividend for the 28th consecutive year by 12% to $.46 per share.
- We introduced a significant number of new products and services in '02, as you'll see in the narrative body of this annual report.
- Most of ADP's businesses set new highs in client satisfaction even though client retention weakened, primarily from increased bankruptcies.
- Our associate retention was at the best level in over a decade although our associate satisfaction scores declined slightly. We recognize that associate retention is aided by the weak market alternatives and we continue to work toward being an employer of choice.
- As the economy stayed soft for the second year in a row, we instituted tight cost containment and reduced our expense run rate for '03 by about $100 million from where it would have been. This is in addition to the reduction of $150 million in '02.

As we look at our results, the surprise is not Employer Services, where the business trends are not that unusual compared to our experience in prior recessions and recoveries. The big surprise – and challenge – is Brokerage Services. While our Employer Services business typically lags an economic recovery, Brokerage Services has performed well ahead of economic rebounds. This clearly has not happened. An unprecedented series of events – including the collapse of the dot com boom, the September 11th tragedy, the well-publicized corporate accounting scandals, and the loss of confidence in stock analysts – have led to a serious erosion of individual investor confidence, significantly lower retail trading activity, and less growth in the number of different stocks held by street name shareholders. We will have to see how these stock market-related issues evolve in the future.

Our markets are solid and growing. We have leading market share in most of our markets. Our financial position is excellent.

Longer Term Outlook

As we focus on the longer term, ADP remains remarkably strong and well positioned. Our markets are solid and growing. We have leading market share in most of our markets. Our financial position is excellent. We have very strong direct sales capabilities. Our service levels and reputation are very good – and improving. Our service offerings are robust and getting more so. Associate retention – a key to building our long-term client relationships – is at record levels. Furthermore, our productivity – bolstered by tight cost containment – is also at record levels, and should position us well as revenue rebounds with an economic recovery.

Acquisitions

Our strategic acquisition activity increased during '02, as sellers' price expectations became more reasonable. During the year we acquired several businesses, the largest of which were:

- In August, we acquired Avert, Inc., a leading pre-employment background verification and human resource help desk company, and have integrated Avert's employment screening solutions with our core payroll, tax filing, human resource, and benefit services capabilities.
- In October, we acquired IBM's Output Services business, which expands our statement printing capacity, and strengthens our position as a market leader in statement production and distribution to the financial services industry.
- In April, we acquired Digital Motorworks to provide the integration of key automotive data across multiple dealer management systems utilized by automotive manufacturers and the dealer consolidators.

Our message to our associates is one of great thanks and appreciation. Our associates make ADP's results happen.

Top Rating
Standard & Poor's and Moody's

ADP is rated AAA by Standard & Poor's and Moody's ... one of only seven U.S. companies with that rating.

You can expect us to increase our acquisition activity even further, as we look to supplement our internal growth with strategic acquisitions that extend our markets and add applications to our product sets.

Our Associates

We ask a lot of our associates at ADP, especially during difficult times. In this very challenging year, ADP associates really came through in many ways, including an increase in productivity and improved associate retention. Realistically we understand that tight cost containment tests morale and, even as we are working harder and better, our associates do not always get the recognition that goes with stronger growth. Our message to our associates is one of great thanks and appreciation. Our associates make ADP's results happen.

Nothing tested our associates more than the events of September 11, 2001. Their performance in doing the right thing for our clients and other associates, even at great personal inconvenience and difficulty, can only be labeled as extraordinary. ADP's associates deserve special recognition and accolades. We have never been more proud of them.

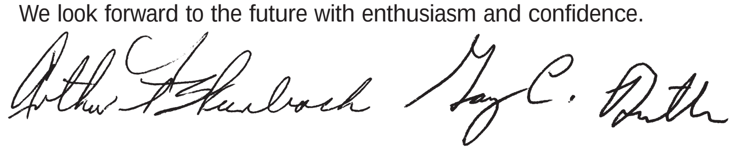
Financial/Accounting Integrity

There is a lack of confidence today in the integrity of published financial statements. It is hard to address the topic without comments that sound either superficial or gratuitous. ADP is rated AAA by Standard & Poor's and Moody's – in fact, we are one of only seven U.S. companies with that rating. Our financials are consistently conservative – and we intend to keep them that way. We do not have unusual unconsolidated ventures or unusual or undisclosed off balance sheet financing. Our consistent results over the years are a result of the strength of our recurring revenue model. We have long-term client relationships with most of our clients, and we receive revenue each period for our high quality services. We also have consistently generated strong cash flows from operations. We are proud of our financial record and our Company's integrity.

Fiscal 2003 Forecast

We are confident that ADP is well positioned for long-term growth and profitability. For fiscal 2003, despite the continuing uncertainties created by the macroeconomic environment, we are forecasting mid-single-digit growth in revenues and earnings per share. While this will break ADP's track record of consecutive years of double-digit growth in earnings per share, we believe the benefits from the investments we are making in our future are more important than continuing the record.

We look forward to the future with enthusiasm and confidence.



Arthur F. Weinbach
Chairman and
Chief Executive Officer

Gary C. Butler
President and
Chief Operating Officer

August 12, 2002

ADP

For more than 50 years, ADP has been creating business solutions for clients of all types and sizes, in virtually every industry.

We serve over 500,000 clients worldwide with products and services that help them improve their performance. Our premier business solutions are supported by approximately 40,000 talented, knowledgeable and dedicated ADP associates around the world.

At ADP, we focus our products, talents and services on what we do best.

We're the business behind business.

Product Leadership

ADP launched more new products and services this year than in any other year in our history.

New products are an essential component of ADP's business growth. They enable us to attract new clients and grow existing client relationships by selling additional solutions to them. Superior products – supported by World Class Service – enhance our longstanding position as a market leader. We continue to strengthen that leadership position by consistently striving to provide the best alternative in the marketplace.

In fiscal 2002, we worked hard to increase our competitive edge by introducing new and improved business solutions to each of the markets we serve. Here are just some of the ways that ADP's businesses added to client value through the introduction of new products this year…

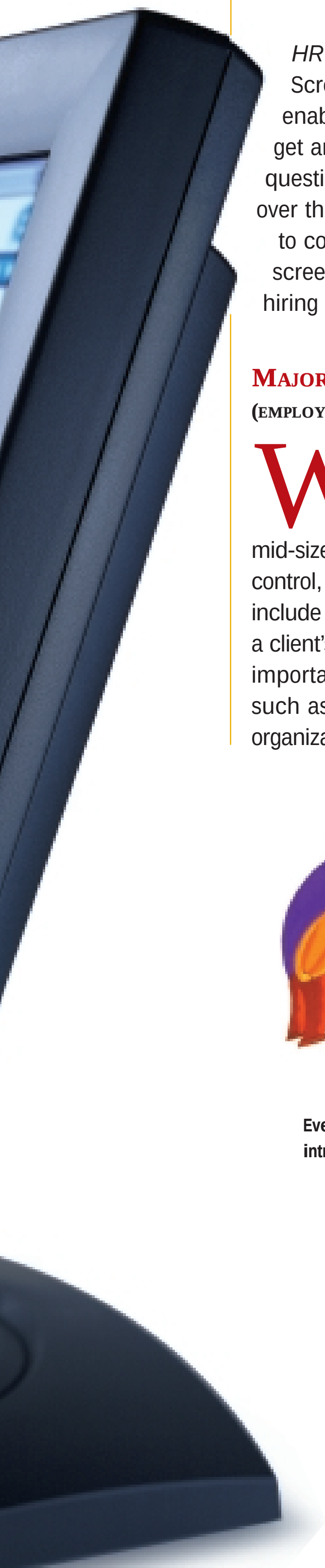
Employer Services broadened the scope and depth of its product offerings that help employers in every segment of the market. These offerings are aimed at helping employers staff, manage, pay, and retain their employees more efficiently.

Emerging Business Services
(employers with fewer than 50 employees)

Pay-by-Pay® Workers Compensation Service lets small businesses manage their cash more effectively by enabling them to pay their workers' compensation insurance premiums, based upon actual payroll data,

ADP's Internet payroll product is so convenient and easy-to-use that it took just minutes for my new bookkeeper to learn it.

Jon Adelman, Director of Operations
Nutmeg Recording



via electronic ACH deduction each pay period. This new offering eliminates significant upfront deposits and subsequent audits customarily required by traditional insurance practices.

HR Help Desk (from ADP Screening and Selection Services) enables small business owners to get answers to their HR-related questions, download important forms over the Internet, and receive access to compliance and pre-employment screening services that improve hiring practices.

Major Accounts
(employers with 50-999 employees)

We introduced two new Internet-based HR/payroll/benefits solutions that offer mid-sized employers more flexibility, control, and choice. Both solutions include employee self-service that frees a client's HR staff for more strategically important tasks and responsibilities, such as training, recruiting, and organizational development.

Expert Services℠, which targets the service bureau market, is a suite of solutions that combines with a Web-native user interface to our *AutoPay®* processing aervice. The suite provides solutions for a variety of key business needs: *Pay eXpert®* lets employers conveniently process their payroll over the Internet; *Human Resource eXpert*, enables users to manage comprehensive HR information and improves workflow; *Benefits eXpert℠* streamlines benefits administration; *Expense eXpert℠* delivers an efficient, easy-to-use expense report management system; and *Recruiting eXpert℠* provides an end-to-end recruiting solution.

TotalChoice℠ Solutions is a Web-native, ADP-hosted, integrated payroll and human resource management system that was designed to attract in-house software users. With TotalChoice Solutions, employers are able to process their payroll and print paychecks onsite (24/7), while having easy access to many ADP value-added services including payroll tax filing, new hire reporting, wage garnishment processing, and unemployment compensation management.

We also introduced *iPay Statements™*, an ADP-hosted service, which provides employees of our clients with secure Internet access to their pay statements and W-2s.

National Account Services
(Employers with 1,000 or more employees)

ADP continues to deliver new and enhanced solutions to meet the unique HR, benefits and payroll administration needs of the market's largest employers.

Enterprise HRMS v2 supplies expanded Web functionality and enhancements in its HR, benefits and payroll modules, including manager and employee self-service.

Enterprise 2000, an integrated, ADP-hosted application, provides very large employers with 24/7 control over payroll processing and easy access to the benefits of outsourcing.

Every ADP strategic business unit introduced new products this year.

Ordinarily, the last thing I would want to spend time on is a change in the payroll environment. TotalChoice makes the change worthwhile.

Charles Gaenslen, Chief Financial Officer & Vice President, Bardwil Industries

Product Leadership *continued*

Enterprise eTIME® delivers an outsourced, hosted time and labor management solution that interfaces with ADP's *Enterprise* processing platform.

ADP Connection® for General Ledger expands our ongoing initiative to integrate enterprise resource planning (ERP) applications of large employers with ADP's payroll and other services.

Benefit Services

We further enhanced our Benefit Services leadership position with new value-added services.

Enterprise HRM 3000 provides an integrated HR, benefits and payroll solution, including self service capabilities. We also introduced an enhanced version of our standalone Health & Welfare administration service that streamlines implementations and reduces ongoing administration fees.

ADP Screening and Selection Services offers valuable and timely pre-employment background checking and job fit assessment solutions to employers.

Section 529 College Savings Plans enable our clients' employees to make contributions to these plans through the convenience of payroll deductions and ADP's efficient money movement process.

TotalSource® - Professional Employer Organization (PEO)

TotaleConnect℠ offers our PEO clients secure and efficient Web access to their payroll and HR information. The Web site makes payroll entry much faster and far easier.

ES International

In Europe, we extended beyond the traditional outsourced payroll solution and offer a full, managed payroll service (MPS). MPS relationships – where ADP virtually serves as the client's entire payroll department – can generate, on average, about three times the revenue of a traditional outsourcing relationship.

ADP also launched Internet-based, payroll solutions to serve employers in Australia and Brazil. These Web products – which allow employers to access their payroll information at anytime, from anywhere, via a Web browser – helped to increase sales and improve client satisfaction in those markets.

Additionally, we expanded our capabilities to serve multinational firms with operations on multiple continents through a joint venture with Pasona, Inc., a provider of temporary staffing services based in Tokyo, Japan. ADP's entry into the Japanese market – the second largest national market – extends the ADP Global Connection for payroll services to 26 countries worldwide.

In my 28-year career, I have always been involved with managing payroll systems – most of the time in-house systems. Twelve years ago, I began working for an employer who outsourced to ADP. It's my belief outsourcing to ADP is the only way to do payroll.

Lari Anctil, Corporate HRMS Manager
Oregon Steel Mills

100%
Pre-employment Screening Services

We grew our Screening and Selection Services business 100% this year.

The Pay-by-Pay Workers' Compensation product is based upon actual payroll data, not an estimate that is made at the beginning of the year. We pay precise premiums conveniently with each payroll.

Barbara Salvanto, Controller
Taramax USA, Inc.

Brokerage Services continued to launch new and enhanced products and services in fiscal 2002, reinforcing its position as a premier partner of many leading financial services firms and public companies worldwide. Our offerings range from traditional service bureau and value-added solutions to licensed software and Internet-driven products and services.

Brokerage Processing Services

Our browser-based *Corporate Actions System* employs a data-scrubbing engine with built-in, exception handling functionality to help simplify corporate actions processing, including shareholder decisions on voluntary reorganizations. It is integrated with our back-office securities processing system and our investor communication services.

We introduced our *Tax Lot Engine*, which is integrated with our brokerage services back-office system. It updates holdings in real-time, allowing gains and losses to be marked to the market using real-time data.

*ProVisor*SM, a browser-based desktop tool, improves productivity in the front office and is integrated with our securities processing engine to streamline the client's back-office operations.

*FinancePro*TM offers a front-end, fixed-income trading solution for financial institutions engaged in various types of trade financing activities.

In addition, we:

- Announced a new Java-based corporate actions system for firms requiring very high volume processing of entitlements and benefits to shareholders and bondholders.
- Introduced a Japanese language version of our *Gloss*SM international securities trade processing system.
- Enhanced our *Xacct*SM fund administration service to now include off-shore services through an alliance with Caledonian Bank and Trust in Grand Cayman.
- Acquired ISAM GmbH, which provides a portfolio of tax and regulatory reporting software products and services for the German securities markets.

Investor Communication Services (ICS)

*ICSOne*SM provides a single-source solution that combines proxy processing, printing and distribution services.

Enhanced versions of *ProxyEdge*® and *ProxyEdge® Lite* – our automated proxy management systems – enable users to vote their domestic, as well as their international, securities electronically.

*icsonline*SM provides 14,000 public companies with real-time job status, vote summaries, material estimates, and proxy season statistics, 24/7.

ADP provides an infrastructure to support high volume investor communications and voting in North America with remarkable timeliness and accuracy. By leveraging this infrastructure for global institutions and global fund managers, ADP leads the proxy process worldwide.

Kurt Holweger, Sr. VP and Global Processing Head For Corporate Actions at Citigroup's Corporate and Investment Bank

ADP's ProVisor is an excellent sales productivity tool. It offers direct integration with real-time market data, and navigation that's fast, easy and flexible. We believe it will improve the efficiency of our investment executives and sales assistants by providing them with quicker access to the information they need.

Laura Kogut, Managing Director
Wayne Hummer Investments

Product Leadership *continued*

Global Proxy® provides meeting and agenda notification and allows online voting for 98 global markets.

Electronic Pre-Sale (through NewRiver) offers a complete electronic warehouse of all prospectuses and related fund disclosures.

Electronic Reorg and Consent Gathering enables users to view all the documents associated with a current reorganization offer, conveniently over the Internet.

This year, ADP also implemented an industry-wide answer for "householding." It allows us – with the permission of recipients – to mail one annual report to a single address, where multiple copies previously had been received.

Dealer Services strengthened its efforts to serve vehicle dealers and their manufacturers with a full complement of new products and services that utilize advanced technology and Internet delivery.

Application Service Provider (ASP) Managed Services lets dealerships focus more completely on selling cars, parts and service by outsourcing all IT management, computing and network infrastructure, technology decisions, and system support to ADP.

The Web-based *ADP Customer Relationship Management (CRM)* system provides auto dealers with an integrated approach and capabilities for finding, selling and retaining customers.

Dealersuite.com℠ – our interactive Web site, which enables auto industry clients to interact with us and conduct e-commerce – was significantly enhanced this year with an expanded array of online business solutions. One of the new features on the site is *AutoCheck*℠ *Express*, which lets dealers review the major damage history, title analysis, and usage of previously owned vehicles in their inventories.

ADP has competitive pricing, a strong product line, considerable experience in providing support to auto retailers, and a service staff that cares about me and my business.

Larry T. Brown, President Ottawa Ford Lincoln Mercury, Kia of Ottawa, Star Toyota

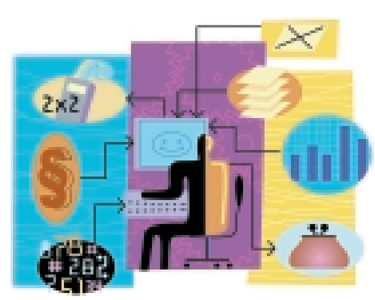
ADP Network Solutions introduced new offerings in fiscal '02 that improve a dealership's ability to communicate with its suppliers and customers. *Enterprise Observer* presents a comprehensive network monitoring service that identifies potential or current

ADP's CRM system is very useful in tracking our showroom traffic, current customers and their history. We are able to do anything you can imagine or would want to do with a CRM tool.

Jordan Aron, General Manager
Imperial Motors Jaguar of Lake Bluff

95%
Dealer Services Client Retention

Our client retention in Dealer Services is the best it's been in 5 years.



Our clients come from virtually every business and industry.

problems with a dealership's network. *Enterprise VPN* links a dealership or telecommuter locations with a corporate network.

This year, we also demonstrated our next-generation dealer management product at the National Auto Dealers Association annual conference. Based upon overwhelming positive feedback, we plan to bring major elements of this product to market in fiscal '03.

Claims Services expanded and Web-enabled its existing product suite and introduced new products, offering improved system and work-flow efficiencies to the property and casualty insurance, auto collision repair, and auto parts recycling industries.

*Claims Connectivity Services*SM is our Internet-based claims management and workflow platform that efficiently connects all parties in the automotive claims cycle, accelerating the review and settlement process.

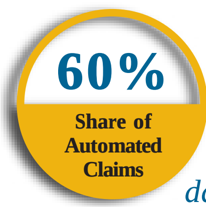
*Censeo*TM provides an integrated bill review solution for the auto casualty and workers' compensation markets. It is deployable at the client-site via the Web; on an ASP basis; or as part of ADP's traditional outsourcing service.

Our commitment

In each of our businesses, ADP remains committed to product leadership.

Our long-term objective is to consistently combine innovative ideas with proven technologies to deliver products – effective business solutions – that our clients can use to improve their operations.

ADP's client satisfaction scores increased this year – many to record levels.



ADP handles 60% of the automated auto damage claims processing in major markets worldwide.

As an ADP ASP client with 23 stores around the country, we can grow and change without ever worrying about how and when we need to upgrade hardware or systems. ASP lets us focus on the most important aspects of running a dealership – selling vehicles, delivering service, and keeping in touch with our customers.

Ernest Hodge, Co-CEO
March/Hodge Automotive Group

ADP provides quality products and professional services which help us meet our service commitment to our customers.

Steven P. Larsen, Vice President Claims
Allied Insurance

World Class Service

Our ongoing investment in World Class Service continues to strengthen client satisfaction.

At ADP, we believe that World Class Service is not just another business goal to be met. It is an ongoing journey toward continuous service excellence that challenges us to consistently reset the high bar of our performance levels, in order to meet or exceed the service expectations of an ever-more-competitive marketplace.

World Class Service demands consistent improvement, and a sustained investment in tools, training and staffing. One of the ways we measure our return on that investment is *client satisfaction*. This year, Employer Services', Brokerage Services', and Dealer Services' client satisfaction scores reached record levels. It is also the 4th consecutive year in which Claims Services successfully renewed all of its contracts with our clients among the top 25 automotive insurance companies to whom we provide collision estimating services.

Clearly, World Class Service is an integral part of ADP's service culture and will always be at the core of our relationship with our clients and associates. The linkage between client and associate satisfaction is direct and compelling: Associate satisfaction leads to greater client satisfaction and higher associate productivity, creating an environment of increased client loyalty.

Employer of Choice initiative

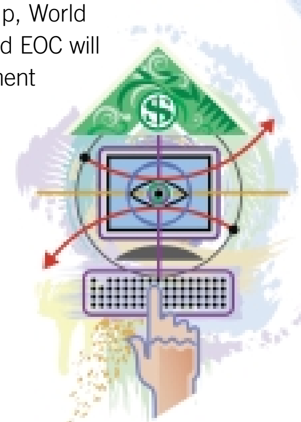
As technology drives the creation of new and improved business solutions – and the competition for limited human resources increases – recruiting and retaining highly skilled associates will continue to be a high priority for ADP. Several years ago, we introduced ADP's Employer of Choice (EOC) initiative to improve our ability to attract and retain associates with the skills, shared values and motivation to assist us in our continued success. Like World Class Service, we consider EOC a core investment in the future of ADP.

We really appreciate the conscientiousness and responsiveness of our ADP account representative, who makes it her business to know our needs.

Vicki Childs, HRIS Director
City of Seattle, WA

Our EOC initiative has helped us retain and develop a strong management team and talented associates at every level of the business. This year, in fact, associate retention levels are the best they've been in a decade.

We believe that our sustained commitment to Product Leadership, World Class Service standards, and EOC will continue to aid our recruitment and retention efforts.



ADP associate retention levels are the best they've been in a decade.

Our experience with ADP has been extremely positive. We do hundreds of background checks per month and the turn around time has been excellent.

Krissy Janz, HR Manager
Guardian Industries Corp.

40
Hours of Training

ADP associates, on average, receive about 40 hours of professional training every year.

ADP was the only provider that could manage the entire proxy process for us – for both beneficial and registered shareowners, offering us both the cost-efficiency and single-source convenience we were looking for.

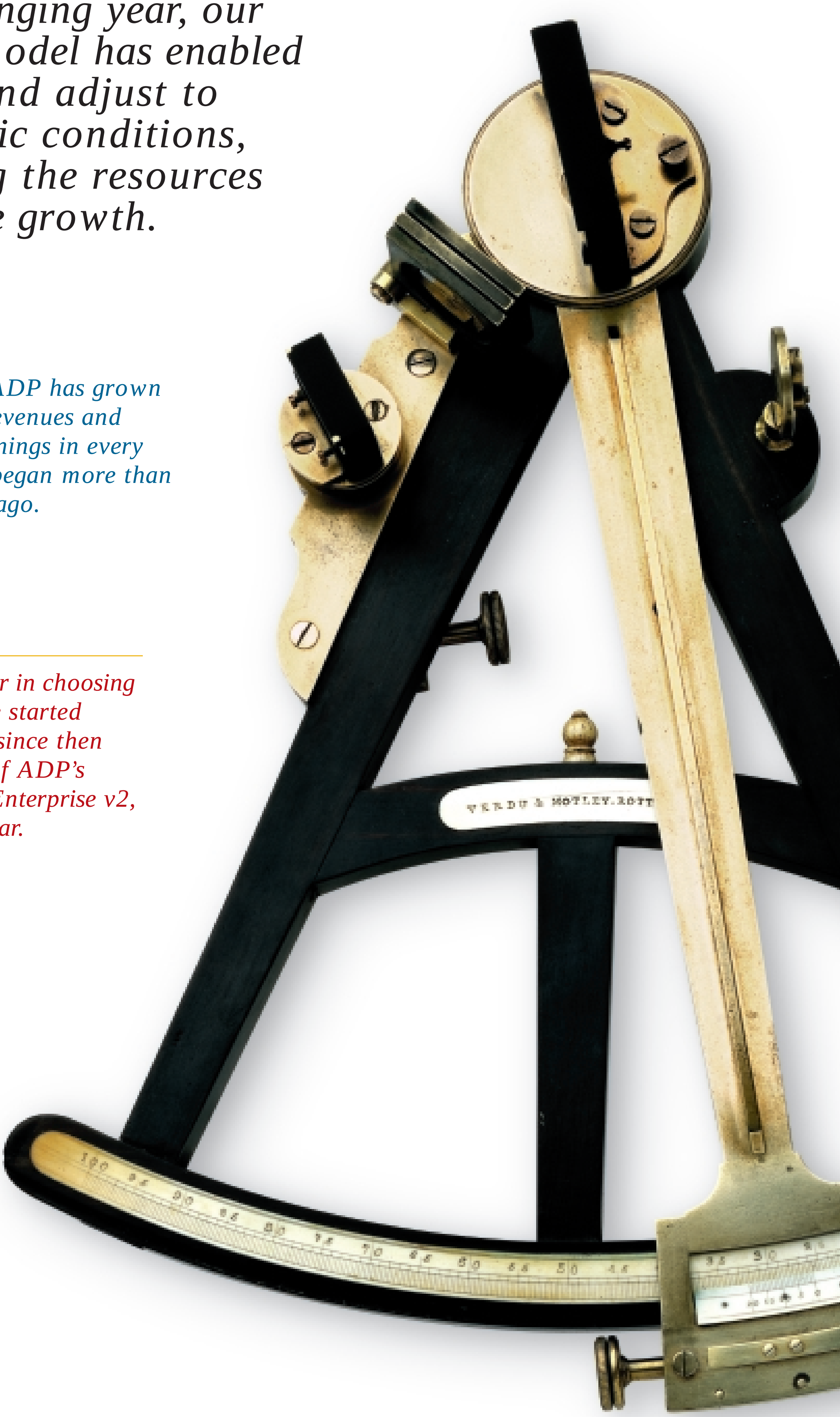
Bonnie Martin, Assistant Secretary
Hershey Foods Corporation

Pay eXpert® has proven to be a great product for us in that it's secure, versatile, and easy-to-use, providing a comfort level for all users, whether beginner or expert.

Laura Saliba, Generalist, Organization Effectiveness
PersonalPath Systems

Proven Business Model

In this very challenging year, our proven business model has enabled us to anticipate and adjust to changing economic conditions, while maintaining the resources we need for future growth.



53
Years of Continuous Growth

ADP has grown revenues and earnings in every year since we began more than a half century ago.

I believe that the deciding factor in choosing ADP was their reputation. We started using ADP back in 1979 and since then we've added more and more of ADP's services, most recently ADP's Enterprise v2, which we implemented this year.

Kelley Jozefick, Payroll Manager
The William Carter Company

We are committed to Product Leadership, World Class Service and being an Employer of Choice.

ADP's longstanding business model is built upon providing vital solutions that allow us to serve clients on a regular and sustained basis, in return for reliable and predictable streams of revenue.

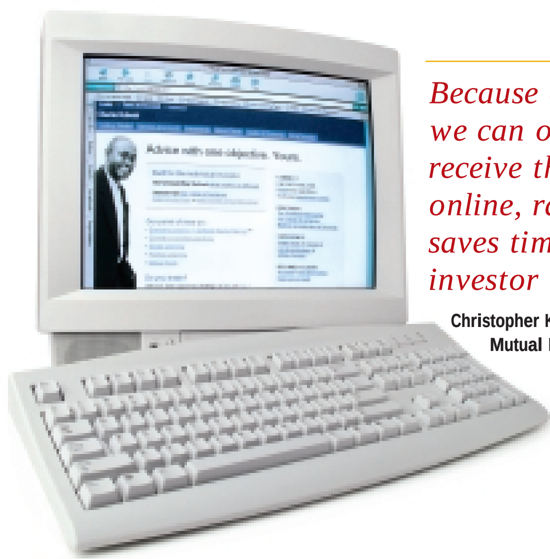
This business model has served us well over the past 50 years, and this year it helped us to anticipate and respond in a timely way to the many challenges presented by a very difficult economic environment.

As we recognized a softening in predictable revenue flows, we were able to implement measures early on to reduce discretionary costs, minimize fixed costs, and keep our sales and service capabilities intact. Most importantly, we were able to move ahead with planned investments in new products and services that will continue to support future growth.

We thank our associates worldwide

ADP emerged from fiscal '02 – one of the most demanding periods in our Company's history – with a renewed appreciation for the capabilities that our proven business model gives us.

We also come away from this year with a heightened regard for the abilities, resourcefulness and determination of our associates. We especially admire how our associates met the challenges of fiscal '02 with their hard work, teamwork, and sacrifices. Through it all, they remained focused on their performance and used their extraordinary talents to make a difference each and every day.



Because of the ADP/NewRiver alliance, we can offer our customers the ability to receive their mutual fund prospectuses online, rather than in paper format. This saves time and money, and allows the investor to choose his or her preference.

Christopher Kershaw, Vice President Electronic Delivery Mutual Funds Marketing, Charles Schwab

We became interested in ADP's TotalChoice℠ not just because of what it can do for us today. It's also a case of what it will help us do down the road, utilizing technology that will enable us to implement changes when we are ready to make them.

Daniel J. Muhlfelder,
Executive Vice President
L. J. Gonzer Associates

Employer Services

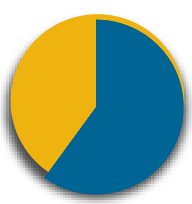
ADP Employer Services is the leading full-service provider of a comprehensive range of human resource services, including traditional and Internet-based outsourcing solutions that, on a global basis, help over 450,000 employers staff, manage, pay, and retain their employees.

ADP pays approximately 30 million people worldwide every payday.

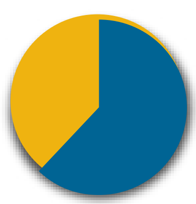
ADP provides us with a very effective, large-scale payroll solution.

Richard Irwin, Manager of HRIS
International Specialty Products

60%
Contributed Revenues



62%
Contributed Earnings



Markets Served

Employer Services focuses on client needs in three distinct market segments: National Account Services (employers with 1,000 or more employees); Major Accounts (50-999 employees); and Emerging Business Services (fewer than 50 employees).

ADP also seeks PEO relationships with companies that have less than 100 employees.

Geographical markets include: **North America, Europe, Australia, Asia, and Brazil.**

Products & Services

- Human resource information systems.
- Benefits administration.
- Payroll processing.
- Payroll and business tax filing.
- Regulatory compliance management services (including new hire reporting, wage garnishment processing, COBRA administration).
- Pre-employment candidate screening.
- Retirement plan services (401(k) plans).
- Section 529 college plan administration.
- Professional Employer Organization (PEO) – provides small companies with comprehensive employment administration outsourcing solutions including: payroll, tax filing, human resources, 401(k) plan administration, benefits administration, regulatory compliance, and workers' compensation insurance.
- Time and labor management.
- Unemployment compensation management.
- Full outsourcing of payroll and personnel administration services including: data gathering, data entry, payroll control and other administrative tasks, depending on the client's needs and each country's regulations (predominantly in Europe, Asia, and Brazil).

FY ’02 Employer Services Highlights

- Launched more new products and services than in any other year.
- Earned the highest client satisfaction scores in our history.
- Attained World Class Service performance levels at our call centers.
- Acquired Zurich Payroll, a provider of payroll and tax filing services to mid-size and large companies.
- Entered Japan’s payroll outsourcing market through a joint venture with Pasona, Japan’s leading temporary staffing company.
- Acquired Avert, Inc., a leading provider of employment screening solutions; and AtWork Technologies, Inc., a provider of Web-based benefits administration and employee self-service solutions.

As the world’s leading provider of networked information storage solutions, EMC is a multi-billion-dollar technology company that must move with speed and flexibility in all corners of the globe. ADP has helped us solve our international payroll delivery challenges. We’re looking to use ADP Connection as a primary source connection for our payrolls in the international theater.

Edward T. Golitko, Senior Director Compensation, Benefits and HRIS, EMC, Inc.

FY ’02 Payroll Highlights

- Paid approximately 30 million people each payday.
- Increased our EasyPayNet℠ Web-based, small business payroll offering to more than 7,000 clients.
- Expanded Pay eXpert®, our Web-based solution for mid-sized companies, to over 1,100 clients from a standing start.
- Provided payroll solutions in 26 countries to many of the largest multinational companies, including companies in the Asia-Pacific region.
- Sustained our market leading position as the largest provider of outsourced payroll services in the combined global markets we serve.

20%
TotalPay Increase

Our TotalPay direct deposit and check product grew 20% this year – its 6th consecutive year of growth.

FY ’02 Beyond Payroll Highlights

- Grew our TotalPay℠ direct deposit and payroll check product by 20% – its 6th consecutive year of substantial growth.
- Increased revenues of our standalone tax services 140%, and expanded these services to mid-sized employers.
- Launched ADP Screening and Selection Services after completing the acquisition of Avert, Inc.; increased sales 100% within its first year.
- Increased our time and labor management business by 20%.
- Successfully integrated our PEO business into more white and grey collar companies, improving profitability; sales this year increased 14%.
- Launched our new Pay-by-Pay® Workers Compensation insurance program for small businesses.
- Grew our retirement services business 11%; we are among the ten largest providers of 401(k) retirement plans.
- Established a 401(k) plan alliance with Morgan Stanley.
- Nearly doubled the number of users of our Enterprise HR, Payroll & Benefits product.
- Printed 60 million checks in our Print Services Division that serves clients with in-house payroll systems.

Utilizing TotaleConnect allows me to focus on the operation of the business rather than the payroll function.

Rochelle M. Haber, Associate Executive Director
Bennett Family Practice, PA

11%
ADP Retirement Services Growth

Now one of the largest providers of 401(k) plans, we expanded our Retirement Services business 11% in FY ’02.

Brokerage Services

ADP Brokerage Services is a leading provider of transaction processing systems, desktop productivity applications, and investor communication services to the financial services industry worldwide. Our clients include: full-service, discount, and online brokerage firms; global banks; mutual funds; annuity companies; institutional investors; specialty trading firms; clearing firms; as well as publicly owned corporations.

1.4
Million Daily Trades

ADP provides securities transaction processing services to many brokerage firms.

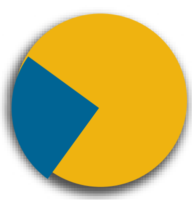
PRODUCTS & SERVICES

- Global order entry, trade processing and settlement systems which enable firms to trade virtually any financial instrument, in any market, at any time.
- Full-service investor communications services including: convenient electronic delivery and Internet solutions; cost efficient workflow services; financial and sophisticated on-demand printing; proxy distribution and vote processing; householding; regulatory mailings; fulfillment; and advanced document management solutions that allow clients to communicate with investors on a highly personalized level.
- Easy-to-use, browser-based, desktop tools to increase the efficiency and productivity of financial consultants and back-office personnel, enabling firms to gather and retain more assets.
- Our Global Processing Solution provides a comprehensive, best-of-breed product set over one platform, allowing firms to outsource all of their transaction processing worldwide.

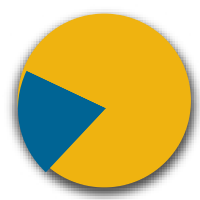
MARKETS SERVED

ADP Brokerage Services provides securities transaction processing, printing and distribution of investor communications, and other services to clients in: **North America, Europe, Asia, South America, and Australia.**

25%
Contributed Revenues



20%
Contributed Earnings



ADP enables us to provide comprehensive securities operations services to our customers by bringing together our books and records through an integrated cash securities back office platform.

Bob Hogan, Managing Director & Chief Operations Officer
Banc of America Securities LLC

FY ’02 Brokerage Processing Highlights

- Increased overall client satisfaction.
- Processed an average of 1.4 million trades per day.
- Served the North American processing needs of most global banks.
- Received ISO 9001:2000 certification for our Brokerage Processing Services system, an international standard for the highest quality.
- Converted Bank of America to *impact*™, our fixed income transaction processing system, and Gloss, our international trading system, completing two phases of their implementation to our Global Processing Solution.
- Delivered a pan-European securities processing solution for SG Securities.
- Entered new markets: retail equities processing in the United Kingdom and Germany, and the non-US, offshore hedge fund market.
- Formed a joint venture with Hong Kong Exchanges and Clearing Limited to provide securities markets’ transaction processing services in the Asia-Pacific region.
- Acquired ISAM GmbH, a specialist software provider for tax processing, regulatory reporting and the distribution of German securities and corporate actions data.
- Signed an agreement with BNY Securities Ltd., a UK subsidiary of the Bank of New York, to support their new retail clearing operations in the UK.
- Extended our Wilco International global trade processing and settlement operations in the Japanese market including a Japanese version of our Gloss international trading system and new functionality for the Jasdec Pre-Settlement Matching Service.
- Created a strategic alliance with Caledonian Bank & Trust in Grand Cayman for offshore funds administration.

870
Million Communications

In FY ’02, we distributed more than 870 million investor communications for our clients – 8% more than the year prior.

FY ’02 Investor Communication Highlights

- Increased overall client satisfaction.
- Distributed more than 870 million investor communications – an increase of 8% over last year – and processed over 475 billion shares.
- Served approximately 14,000 publicly traded companies and 450 mutual funds and annuity companies on behalf of more than 800 brokerage firms and banks.
- Electronically delivered more than 14 million investor communications via the Internet – 172% more than last year.
- Consolidated or electronically delivered 24% of all shareowner positions, saving clients approximately $300 million in printing and postage costs.
- Surpassed the 4 million mark for our electronic delivery shareholder enrollment program – an increase of over 100% from last year.
- Acquired the output services business of IBM Global Services, significantly enhancing ADP’s distributive printing capabilities; and the Argus Group, which provides us with a state-of-the-art, online content management system.
- Introduced ICSOne, our single-source solution that combines proxy processing, printing and distribution for corporations and mutual funds.
- Rolled out enhanced versions of ProxyEdge® and ProxyEdge® Lite – our electronic proxy management systems – which now allow institutions and money managers to receive information and vote electronically for positions held around the world; and our ReorgPlus® service that delivers reorganization materials online.
- Formed an alliance with NewRiver, enabling ADP to offer a comprehensive, electronic, online library of prospectuses and related fund disclosures.
- Printed over 6.4 billion document pages for the financial services industry this year through our financial printing business.
- Awarded multi-year outsourcing contract by Prudential Securities for financial printing services.

172%
Increase in Internet Deliveries

ADP more than doubled the number of investor communications sent via the Internet this year.

Dealer Services

ADP Dealer Services is a leading provider of integrated dealer management systems (DMS) and business performance solutions for automotive (car and heavy truck) retailers, and their manufacturers.

400%
Increase in Managed Services Revenue

Dealer Services increased the stream of ASP Managed Services revenue substantially this year.

Products & Services

- Networking and telecommunications systems that link automotive retailers with manufacturers, business partners, and consumers.
- Solutions that enable retailers to manage relationships with consumers and business partners by leveraging the Internet.
- Integrated information systems that help dealerships gather, manage, and use information more effectively.
- Business performance (consulting and training) services to help retailers improve their profitability.
- Marketing and technology solutions for manufacturers.

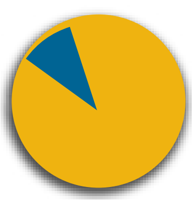
Markets Served

Dealer Services provides business solutions to new vehicle franchise retailers, heavy truck retailers and service centers, consolidators, and automotive and heavy truck manufacturers. Geographical markets include: **North America and Europe.**

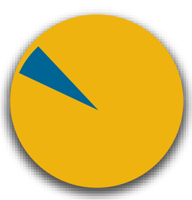
ADP's CRM offering helps us to accomplish much more as an organization… Now we can more accurately assess the effectiveness of our advertising and spend our valuable marketing dollars with greater impact.

Karl Wuesthoff, President
Concours Motors

10%
Contributed Revenues



6%
Contributed Earnings



FY '02 Highlights

- Served more than 16,000 automobile and truck dealers throughout North America and Europe.
- Provided over 30 vehicle manufacturers with network solutions, data integration, consulting, and marketing services.
- Earned a record-high client retention rate of 95%.
- Raised client satisfaction scores to record levels for a third consecutive year.
- Completed fiscal '02 with the best associate retention in 10 years – over 93%.
- Grew our Network Services business revenue by 50%, which includes sales to some of the largest North American dealers. In addition, we installed our Get Wired Internet access solution in more than 1,000 dealer sites.
- Installed over 100 dealership locations with ADP's Customer Relationship Management (Right Relationship 360) application.
- Increased ASP Managed Services solution revenue by 400% with 254 locations and 13,000 user connections installed. We also were selected by AutoNation to provide ASP Managed Services for 75 of their locations and 7,000 of their users.
- Increased traffic on dealersuite.com – ADP's Dealer Services Web portal – by over 200%.
- Launched our e-Support Web initiative at over 5,000 client sites, enabling clients to report and resolve problems via ADP's dealersuite.com site.
- Introduced our Pre-Owned Vehicle Analyzer application.
- Entered a strategic alliance with Ford Motor Company using the Myautogarage.com® engine to deliver the Virtual Sales Advisor application to its U.S. Ford and Lincoln Mercury dealers.
- Increased to 17 the number of states in which CVR electronic vehicle registration service is offered. These states represent about 55% of all new vehicle registrations in the U.S.
- Acquired Digital Motorworks, the leader in data integration services in the automotive retail marketplace.

Claims Services

ADP Claims Services is a leading international provider of integrated business solutions for clients in the insurance, auto collision repair, and auto parts recycling industries. Our products help clients manage costs and improve efficiency, streamline workflow, and accelerate the claim review and settlement process.

18%
Growth in Transactions

In FY '02, the number of transactions in our total loss valuation business grew by 18%.

Products & Services

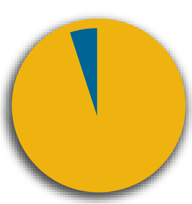
- Automated repair estimating applications and total loss vehicle valuation applications and databases.
- Auto casualty and workers' compensation medical cost management applications and services.
- Parts locator and body shop management systems.
- Workflow applications to streamline the end-to-end claims process.
- Other applications, databases, and services that enhance and optimize the claims process.

Markets Served

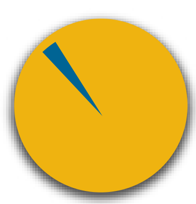
ADP Claims Services focuses on seven market segments including: auto insurance claims, auto insurance assessors, auto collision repair centers, auto recyclers, auto accident medical cost management, workers' compensation medical cost management, and other claims-related businesses.

Geographical markets include: **North America, Europe, Brazil, Israel, and South Africa.**

5%
Contributed Revenues



3%
Contributed Earnings



FY '02 Highlights

- Served over one-third of all property and casualty insurance companies in North America and Europe.
- Completed the acquisition of Auto Vista from Computer Logic, Inc. Auto Vista's technology enhances Claims Connectivity Services, our Internet-based claims processing solution for insurance companies, collision repair facilities and independent appraisers.
- Launched Censeo, our new medical bill review product, into the workers' compensation market.
- Released a series of next-generation products, including Penpro® 4.05, Shoplink® 6.3, and Powerlink® 2.0.
- Achieved an 18% growth in transactions in our Autosource® total loss valuation business, and currently serve over 40% of the total loss market.
- Grew North American transactions approximately 5% in our core repair estimating business.
- Expanded our Audatex international claims processing business. We now provide about 60% of all automated systems in the markets we serve.
- For the 4th consecutive year, we renewed all contracts with the top 25 automotive insurance companies to whom we provide estimating services.

The advantage of the Claims Connectivity Services product is that it ties together a number of products that ADP sells, and integrates them seamlessly with the body shops, insurance companies and auto recyclers.

Harry Haluptzok, President/CEO
John's Auto Parts

Selected Financial Data

(In thousands, except per share amounts) Years ended June 30,	2002	2001	2000	1999	1998
Total revenues	**$ 7,004,263**	$ 6,853,652	$ 6,168,432	$ 5,455,707	$ 4,843,496
Earnings before income taxes	**$ 1,786,970**	$ 1,525,010	$ 1,289,600	$ 1,084,500	$ 890,717
Net earnings	**$ 1,100,770**	$ 924,720	$ 840,800	$ 696,840	$ 608,262
Pro forma net earnings*		$ 971,680	$ 881,890	$ 739,260	$ 648,030
Basic earnings per share	**$ 1.78**	$ 1.47	$ 1.34	$ 1.13	$ 1.01
Diluted earnings per share	**$ 1.75**	$ 1.44	$ 1.31	$ 1.10	$ .98
Pro forma basic earnings per share*		$ 1.54	$ 1.41	$ 1.20	$ 1.08
Pro forma diluted earnings per share*		$ 1.51	$ 1.37	$ 1.17	$ 1.04
Basic shares outstanding	**618,857**	629,035	626,766	615,630	600,803
Diluted shares outstanding	**630,579**	645,989	646,098	636,892	628,196
Cash dividends per share	**$ .4475**	$ .3950	$ .3388	$ .2950	$ .2563
Return on equity	**22.4%**	19.9%	19.7%	18.7%	20.0%
At year end:					
Cash, cash equivalents and marketable securities	**$ 2,749,583**	$ 2,596,964	$ 2,452,549	$ 2,169,040	$ 1,673,271
Working capital	**$ 1,406,155**	$ 1,747,187	$ 1,767,784	$ 907,864	$ 626,063
Total assets before funds held for clients	**$ 7,051,251**	$ 6,549,980	$ 6,429,927	$ 5,824,820	$ 5,242,867
Total assets	**$18,276,522**	$17,889,090	$16,850,816	$12,839,553	$11,787,685
Long-term debt	**$ 90,648**	$ 110,227	$ 132,017	$ 145,765	$ 192,063
Shareholders' equity	**$ 5,114,205**	$ 4,700,997	$ 4,582,818	$ 4,007,941	$ 3,439,447

2001 data includes a $90 million ($54 million after-tax) non-cash, non-recurring write-off of the Company's investment in Bridge Information Systems, Inc.

1999 data includes non-recurring charges totaling approximately $17 million (after-tax), associated with certain acquisitions and dispositions.

* Pro forma net earnings and earnings per share reflect the impact relating to the July 1, 2001 adoption of Statement of Financial Accounting Standard No. 142, which eliminated goodwill amortization.

Management's Discussion and Analysis

Critical Accounting Policies

The Company's 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 the Company's management to make estimates, judgments, and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses. The Company continually evaluates the accounting policies and estimates it uses to prepare the consolidated financial statements. The Company bases its estimates 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 the Company's results of operations or financial position are discussed below.

Intangible assets and goodwill. We have reviewed the carrying value of all our goodwill and other intangible assets in connection with the implementation of Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," by comparing such amounts to their fair values. We determined that the carrying amounts of all our goodwill and other intangible assets did not exceed their respective fair values. Accordingly, the initial implementation of this standard did not impact earnings during fiscal 2002. We are required to perform this comparison at least annually or more frequently if circumstances indicate possible impairment. When determining fair value, we utilize various assumptions, including projections of future cash flows. Any significant adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions will cause a change in the estimation of fair value and could result in an impairment charge. Given the significance of our goodwill and other intangibles, an adverse change to the fair value could result in an impairment charge, which could be material to our financial statements.

Income taxes. The Company accounts 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 assessing the future tax consequences of events that have been recognized in our financial statements or tax returns (*e.g.,* realization of deferred tax assets). Fluctuations in the actual outcome of these future tax consequences could materially impact our financial statements.

Operating Results

ADP continued to achieve record revenues, earnings and cash generation in fiscal '02 signifying the benefits of its longstanding proven business model, product leadership and commitment to world-class service. Despite the difficult economic environment, ADP grew fiscal '02 revenues by 2% to $7.0 billion. Adjusted for the pro forma impact of adopting SFAS No. 142 and excluding non-recurring charges in '01, pre-tax earnings increased 7% and diluted earnings per share increased 10% to $1.75. In fiscal '01, revenues increased 11% to almost $6.9 billion. Adjusted for the pro forma impact of SFAS No. 142 and excluding the non-cash, non-recurring charge in '01, pre-tax earnings increased 25% and diluted earnings per share increased 16% to $1.59.

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

	Revenues			Revenue Growth		
	Years ended June 30,			Years ended June 30,		
(In millions)	2002	2001	2000	2002	2001	2000
Employer Services	**$4,184**	$3,968	$3,539	**5%**	12%	11%
Brokerage Services	**1,758**	1,742	1,469	**1**	19	29
Dealer Services	**706**	683	715	**3**	(4)	—
Other	**356**	461	445	**(23)**	3	9
Consolidated	**$7,004**	$6,854	$6,168	**2%**	11%	13%

Consolidated revenue growth in fiscal '02 slowed to 2% as compared to the prior corresponding periods, primarily due to the following major factors: In Employer Services, continued weak economic conditions resulted in slower sales, lower client retention due primarily to bankruptcies, and fewer employees on our clients' payrolls; in Brokerage Services, weakness in the brokerage and financial services industry significantly reduced discretionary spending and investments in new initiatives, and the change in the mix of retail versus institutional transactions lowered revenue per trade; and interest rates in the U.S. declined precipitously last year significantly impacting interest earnings on our client funds. Prior to acquisitions and dispositions of businesses, consolidated revenues increased approximately 1%.

As a result of the continued weak economic conditions and the precipitous decreases in interest rates during fiscal '02, we instituted a series of initiatives during the year to bring our expense structure in line with lower revenue expectations. These actions have resulted in approximately $100 million of lower annual expense run rate as of June 30, 2002 (after a $150 million reduction in run rate exiting 2001) while we continued to increase overall productivity. At the same time we have continued to pursue several promising opportunities, primarily in new and improved products and services.

The consolidated pre-tax margin was 25.5% in '02 compared to 24.4% in '01 (prior to non-recurring charges), and 21.6% in '00 adjusted for the pro forma impact of SFAS No. 142. Pre-tax margin increased over the previous year as the Company continued to focus on margin improvements by increasing automation, operating efficiencies and general expense controls. Systems development and programming costs decreased due to cost containment initiatives primarily related to the maintenance of existing applications, while funding of investments in new products continued. The impact of transitioning the investment portfolio from tax-exempt to taxable investments also contributed to the margin improvements.

During fiscal '01, the Company recorded a $90 million ($54 million net of tax) write-off of its investment in Bridge Information Systems, Inc. (Bridge), which is reflected in "other (income) expense." This non-cash, non-recurring write-off represented the Company's total recorded investment in Bridge.

During fiscal '00, the Company transitioned a portion of its corporate and client fund investments from tax-exempt to taxable instruments in order to increase liquidity of the overall portfolio. Approximately $2.6 billion of tax-exempt investments were sold prior to maturity at a pre-tax loss of approximately $32 million ($10 million corporate funds, $22 million funds held for clients), and the proceeds were reinvested at higher prevailing interest rates.

In July 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. The decrease in amortization expense is due to the adoption of SFAS 142. The Company completed its annual assessment of impairment as of June 2002, which indicated no impairment of goodwill.

In '02 the Company's effective tax rate was 38.4% of pre-tax earnings as compared to 39.4% in '01 and 34.8% in '00. The decrease in the effective tax rate in fiscal '02 was primarily due to the impact of adopting SFAS No. 142 and the resulting elimination of goodwill amortization expense in the current year. Adjusting the prior years for the pro forma impact of SFAS No. 142 the effective income tax rate was 38.5% in '01 and 33.9% in '00. The increased rate in '01 is primarily a result of the transition, referred to above, of a portion of the Company's investment portfolio to taxable investments.

For '03 ADP is forecasting another record year of revenue and earnings per share growth in the mid-single digits.

Major Business Units

Certain revenues and expenses are charged to business units at a standard rate for management and motivational reasons. Other costs are recorded based on management responsibility. As a result, various income and expense items, including certain non-recurring gains and losses, are recorded at the corporate level and certain shared costs are not allocated. The prior years' business unit revenues and pre-tax earnings have been restated to reflect fiscal year '02 budgeted foreign exchange rates.

Employer Services

Employer Services' revenues grew 5% in fiscal '02, and in the absence of acquisitions and dispositions, revenue growth would have been 5% in '02, 11% in '01 and 12% in '00. Employer Services' revenue growth continued to be impacted by weak economic conditions, which resulted in slower sales, lower client retention due primarily to bankruptcies, and fewer employees on our clients' payrolls.

Employer Services' operating margin was 27% in '02, 24% in '01 and 22% in '00. Employer Services' operating margin improved due to operating efficiencies, cost containment initiatives, and continued improvements in Europe, offset by investments in new products.

Employer Services' revenues shown above include interest earned on collected but not yet remitted funds held for clients at a standard rate of 6%, or $505 million in '02, $489 million in '01 and $411 million in '00.

Brokerage Services

Brokerage Services' revenue growth was 1%. Excluding acquisitions, fiscal '02 revenues would have decreased 4%, compared to increases of 7% in '01 and 31% in '00. The mix of back office client transactions, brokerage industry consolidations and pricing pressure resulted in lower revenue per trade. The continued reduction in discretionary spending in the financial services industry, particularly in research and implementation services, also contributed to the decline in fiscal '02 revenue growth. Ongoing efforts to transition the proxy mailing and voting process towards electronic delivery and the "householding," or consolidation of customer accounts resulted in an increase in mailing suppressions. Suppressed mailings increase service fees, but lower postage revenues and expenses in the Investor Communications business.

Brokerage Services' operating margin was 20% in '02 compared to 19% in '01 and 23% in '00. The higher margin in fiscal '02 resulted primarily from operating efficiencies, the impact of cost containment initiatives, and the transition of the proxy mailings and voting process to electronic delivery. These increases in operating margin were offset by a higher mix of lower-margin institutional trades, the impact of pricing pressure in the industry, and investments in new products and acquisitions.

Dealer Services

Dealer Services' revenues increased 3% in '02. In the absence of acquisitions and dispositions, '02 revenues would have increased 2%, compared to a 3% decline in revenue growth in '01 and flat revenues in '00. Dealer Services' operating margin was 16% in fiscal '02 compared to 14% in '01 and 16% in '00. Dealer Services' operating margin increased due to operating efficiencies and cost containment initiatives, offset by investments in new products and acquisitions.

Other

The primary components of "Other" revenues are Claims Services, foreign exchange differences, and miscellaneous processing services. In addition, "Other" revenues have been adjusted for the difference between actual interest earned on invested funds held for clients and interest credited to Employer Services at a standard rate of 6%.

Financial Condition

ADP's financial condition and balance sheet remain exceptionally strong. At June 30, 2002, cash and marketable securities approximated $2.7 billion. Shareholders' equity was approximately $5.1 billion, and return on average equity for the year was approximately 22%. The ratio of long-term debt to equity at June 30, 2002 was 2%.

In '02 zero coupon convertible subordinated notes were converted to 0.7 million shares of common stock.

During '02 the Company purchased several businesses for approximately $232 million (including $12 million in stock). The cost of acquisitions in '01 and '00 aggregated $75 million and $200 million (including $25 million in common stock), respectively.

Capital expenditures during '02 were $146 million following investments of $185 million in '01 and $166 million in '00. Capital spending in fiscal '03 should approximate $150 million.

Liquidity and Capital Resources

Cash flows generated from operations were $1.5 billion for the twelve months ended June 30, 2002, adding to our strong cash position.

Cash flows used in investing activities totaled $1.1 billion, primarily as a result of additions to our investment portfolio, acquisitions and capital expenditures.

Cash flows used in financing activities totaled $0.9 billion. In fiscal 2002, the Company purchased approximately 17.4 million shares of common stock at an average price per share of approximately $50. As of June 30, 2002, the Company has remaining Board of Directors' authorization to purchase up to 35.9 million additional shares.

Approximately thirty percent of the Company's overall investment portfolio is invested in overnight interest-bearing instruments, which are therefore impacted immediately by changes in interest rates. The other seventy percent of the Company's investment portfolio is invested in fixed-income securities, with maturities up to ten years, which are also subject to interest rate risk including reinvestment risk. The Company has historically had the ability to hold these investments until maturity, and therefore this has not had an adverse impact on income or cash flows.

Details regarding the Company's combined corporate investments and funds held for clients portfolios are as follows:

Years ended June 30:	**2002**	**2001**	**2000**
Average investment balances (In millions):			
Corporate investments	**$ 2,548.4**	$ 2,598.9	$2,168.5
Funds held for clients	**8,376.6**	8,188.6	6,854.0
Total	**$10,925.0**	$10,787.5	$9,022.5
Average interest rates earned exclusive of realized gains/(losses) for the total combined corporate investments and funds held for clients' portfolios	**4.9%**	6.2%	5.1%
Realized gains/(losses) (in millions)	**$ 16.5**	$ (77.6)*	$ (32.4)
As of June 30:			
Unrealized pre-tax gains on available-for-sale portfolios (in millions)	**$ 208.8**	$ 140.2	$ 11.3
Total available-for-sale securities (in millions)	**$ 9,856.4**	$ 7,729.4	$4,588.0

* Includes a $90 million ($54 million after-tax) non-cash, non-recurring write-off of the Company's investment in Bridge Information Systems, Inc.

The earnings impact of future interest rate changes is based on many factors, which influence the return on the Company's portfolio. These factors 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 interest rates of 25 basis points applied to the forecasted average balances in fiscal 2003 would result in approximately a $9.0 million pre-tax earnings impact over the twelve-month period.

In April 2002, the Company authorized a short-term commercial paper program providing for the issuance of up to $4.0 billion in aggregate maturity value of commercial paper at any given time. The Company's commercial paper program is rated A–1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote high quality investment grade securities. Maturities of commercial paper can range from overnight to 270 days. At June 30, 2002, there was no commercial paper outstanding. From the inception of the commercial paper program in April through the fiscal year ended June 30, 2002, the Company had average borrowings of $667 million at an effective weighted average interest rate of 1.8%. The Company will use the commercial paper issuances as a primary instrument to meet short-term funding needs.

In October 2001, the Company entered into a new $4.0 billion, unsecured revolving credit agreement with certain financial institutions, replacing an existing $2.5 billion credit agreement. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided to the syndicated financial institutions prior to borrowing. The Company is also required to pay a facility fee on the credit agreement. The agreement, which expires in October 2002, has no borrowings to date.

The Company's short-term financing is sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by U.S. government securities. These agreements generally have terms ranging from overnight to up to ten days. At June 30, 2002 and 2001, there were no outstanding repurchase agreements. For the fiscal years ended June 30, 2002 and 2001, the Company had an average outstanding balance of $361 million and $41 million, respectively, at an average interest rate of 2.6% and 4.3%, respectively.

Market Price, Dividend Data and Other

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

	Price Per Share		Dividends
	High	Low	Per Share
Fiscal 2002 quarter ended			
June 30	**$58.00**	**$42.35**	**$.1150**
March 31	**59.53**	**51.00**	**.1150**
December 31	**60.37**	**46.70**	**.1150**
September 30	**53.97**	**41.00**	**.1025**
Fiscal 2001 quarter ended			
June 30	$57.15	$49.57	$.1025
March 31	63.56	48.47	.1025
December 31	69.94	58.50	.1025
September 30	67.88	49.50	.0875

As of June 30, 2002 there were approximately 32,679 holders of record of the Company's common stock. Approximately 400,323 additional holders have their stock in "street name."

New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and expands the scope of a discontinued operation. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001 and generally are to be applied prospectively. The Company adopted this statement on July 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2003 financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets," which revise the standards for accounting for business combinations and goodwill and other intangible assets acquired in a business combination. The Company adopted SFAS No. 141 and SFAS No. 142 in fiscal 2002.

This report contains "forward-looking statements" based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ from those expressed. Factors that could cause differences include but are not limited to: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of products and services; changes in laws regulating payroll taxes and employee benefits; overall economic trends, including interest rate and foreign currency trends; stock market activity; auto sales and related industry changes; employment levels; changes in technology; availability of skilled technical associates; and the impact of new acquisitions. ADP disclaims any obligations to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Statements of Consolidated Earnings

(In thousands, except per share amounts) Years ended June 30,	2002	2001	2000
Revenues other than interest on funds held for clients and PEO revenues	**$6,305,206**	$6,100,112	$5,609,962
Interest on funds held for clients	**431,236**	518,956	348,596
PEO revenues (A)	**267,821**	234,584	209,874
Total revenues	**7,004,263**	6,853,652	6,168,432
Operating expenses	**2,970,645**	2,900,124	2,564,496
General, administrative and selling expenses	**1,606,690**	1,665,447	1,643,360
Systems development and programming costs	**474,843**	514,279	460,275
Depreciation and amortization	**279,077**	320,856	284,282
Other (income) expense	**(113,962)**	(72,064)	(73,581)
	5,217,293	5,328,642	4,878,832
Earnings before income taxes	**1,786,970**	1,525,010	1,289,600
Provision for income taxes	**686,200**	600,290	448,800
Net earnings	**$1,100,770**	$ 924,720	$ 840,800
Basic earnings per share	**$ 1.78**	$ 1.47	$ 1.34
Diluted earnings per share	**$ 1.75**	$ 1.44	$ 1.31
Basic shares outstanding	**618,857**	629,035	626,766
Diluted shares outstanding	**630,579**	645,989	646,098

(A) Net of pass-through costs of $2,648,321, $2,446,768, and $2,197,323, respectively.

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands, except per share amounts) June 30,	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	**$ 798,810**	$ 1,275,356
Short-term marketable securities	**677,005**	515,245
Accounts receivable	**1,045,170**	976,638
Other current assets	**296,272**	316,221
Total current assets	**2,817,257**	3,083,460
Long-term marketable securities	**1,273,768**	806,363
Long-term receivables	**192,769**	224,964
Property, plant and equipment:		
Land and buildings	**458,478**	457,110
Data processing equipment	**696,829**	653,641
Furniture, leaseholds and other	**540,217**	533,883
	1,695,524	1,644,634
Less accumulated depreciation	**(1,099,073)**	(1,029,984)
	596,451	614,650
Other assets	**293,808**	219,133
Intangibles	**1,877,198**	1,601,410
Total assets before funds held for clients	**7,051,251**	6,549,980
Funds held for clients	**11,225,271**	11,339,110
Total assets	**$18,276,522**	$17,889,090
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 148,694**	$ 156,324
Accrued expenses and other current liabilities	**1,035,389**	1,032,273
Income taxes	**227,019**	147,676
Total current liabilities	**1,411,102**	1,336,273
Long-term debt	**90,648**	110,227
Other liabilities	**233,671**	208,880
Deferred income taxes	**237,633**	207,928
Deferred revenue	**138,893**	85,931
Total liabilities before client funds obligations	**2,111,947**	1,949,239
Client funds obligations	**11,050,370**	11,238,854
Total liabilities	**13,162,317**	13,188,093
Shareholders' equity:		
Preferred stock, $1.00 par value:		
Authorized, 300 shares; issued, none	**—**	—
Common stock, $.10 par value:		
Authorized, 1,000,000 shares; issued, 638,702 shares at June 30, 2002 and 2001	**63,870**	63,870
Capital in excess of par value	**333,371**	553,927
Retained earnings	**5,977,318**	5,153,408
Treasury stock — at cost 22,385 and 14,766 shares, respectively	**(1,142,041)**	(837,244)
Accumulated other comprehensive income (loss)	**(118,313)**	(232,964)
Total shareholders' equity	**5,114,205**	4,700,997
Total liabilities and shareholders' equity	**$18,276,522**	$17,889,090

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

Automatic Data Processing, Inc. and Subsidiaries

(In thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Comprehensive Income	Accumulated Other Comprehensive Income
Balance at June 30, 1999	628,576	$62,858	$421,333	$3,848,421	$ (189,204)		$(135,467)
Net earnings	—	—	—	840,800	—	$ 840,800	—
Currency translation						(86,277)	(86,277)
Unrealized net loss on securities						(7,690)	(7,690)
Comprehensive income						$ 746,833	
Employee stock plans and related tax benefits	2,867	286	(7,841)	498	207,322		
Treasury stock acquired (4,648 shares)	—	—	—	—	(201,007)		
Acquisitions (478 shares)	—	—	4,359	—	20,122		
Debt conversion (808 shares)	—	—	(15,084)	—	31,967		
Dividends ($.3388 per share)	—	—	—	(212,578)	—		
Balance at June 30, 2000	631,443	63,144	402,767	4,477,141	(130,800)		(229,434)
Net earnings	—	—	—	924,720	—	$ 924,720	—
Currency translation						(80,816)	(80,816)
Unrealized net gain on securities						77,286	77,286
Comprehensive income						$ 921,190	
Employee stock plans and related tax benefits	6,878	688	163,464	—	187,058		
Treasury stock acquired (16,558 shares)	—	—	—	—	(935,064)		
Acquisitions (22 shares)	—	—	234	—	839		
Debt conversion (1,303 shares)	381	38	(12,538)	—	40,723		
Dividends ($.395 per share)	—	—	—	(248,453)	—		
Balance at June 30, 2001	638,702	63,870	553,927	5,153,408	(837,244)		(232,964)
Net earnings	**—**	**—**	**—**	**1,100,770**	**—**	**$1,100,770**	**—**
Currency translation						**73,504**	**73,504**
Unrealized net gain on securities						**41,147**	**41,147**
Comprehensive income						**$1,215,421**	
Employee stock plans and related tax benefits	**—**	**—**	**(197,083)**	**—**	**515,729**		
Treasury stock acquired (17,412 shares)	**—**	**—**	**—**	**—**	**(875,449)**		
Acquisitions (226 shares)	**—**	**—**	**(423)**	**—**	**12,848**		
Debt conversion (705 shares)	**—**	**—**	**(23,050)**	**—**	**42,075**		
Dividends ($.4475 per share)	**—**	**—**	**—**	**(276,860)**	**—**		
Balance at June 30, 2002	**638,702**	**$63,870**	**$333,371**	**$5,977,318**	**$(1,142,041)**		**$(118,313)**

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

Automatic Data Processing, Inc. and Subsidiaries

(In thousands) Years ended June 30,	2002	2001	2000
Cash Flows From Operating Activities			
Net earnings	**$ 1,100,770**	$ 924,720	$ 840,800
Adjustments to reconcile net earnings to net cash flows provided by operating activities:			
Depreciation and amortization	**279,077**	320,856	284,282
Write-off of investment in Bridge	**—**	90,000	—
Deferred income taxes	**8,680**	29,450	8,885
Increase in receivables and other assets	**(73,511)**	(70,699)	(149,913)
Increase in accounts payable and accrued expenses	**138,141**	182,634	39,339
Other	**78,547**	14,063	46,708
Net cash flows provided by operating activities	**1,531,704**	1,491,024	1,070,101
Cash Flows From Investing Activities			
Purchases of marketable securities	**(4,597,320)**	(3,973,434)	(7,372,892)
Proceeds from sale of marketable securities	**4,167,028**	3,087,406	4,001,848
Net change in client fund obligations	**(188,484)**	818,082	3,406,039
Capital expenditures	**(145,621)**	(185,406)	(166,012)
Additions to intangibles	**(109,799)**	(97,448)	(67,303)
Acquisitions of businesses, net of cash acquired	**(219,783)**	(73,667)	(175,248)
Disposals of businesses	**7,200**	900	14,634
Other	**6,286**	(32,267)	(11,664)
Net cash flows used in investing activities	**(1,080,493)**	(455,834)	(370,598)
Cash Flows From Financing Activities			
Payments of debt	**(3,919)**	(48,567)	(106,090)
Proceeds from issuance of notes	**358**	26,435	13,940
Repurchases of common stock	**(875,449)**	(935,064)	(201,007)
Proceeds from issuance of common stock	**228,113**	218,178	172,589
Dividends paid	**(276,860)**	(248,453)	(212,578)
Net cash flows used in financing activities	**(927,757)**	(987,471)	(333,146)
Net change in cash and cash equivalents	**(476,546)**	47,719	366,357
Cash and cash equivalents, at beginning of period	**1,275,356**	1,227,637	861,280
Cash and cash equivalents, at end of period	**$ 798,810**	$ 1,275,356	$ 1,227,637

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

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

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

B. Revenue Recognition. A majority of the Company's revenues are attributable to fees for providing services (*e.g.,* Employer Services' payroll processing fees, Brokerage Services' trade processing fees) as well as investment income on payroll and tax filing funds. 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. Investment income on collected but not yet remitted funds held for clients are recognized in revenues as earned (Refer to Note 9 "Funds Held for Clients and Client Fund Obligations").

The Company also recognizes revenues associated with the sale of software systems and associated software licenses. Revenues are recognized when the fair value of each element of a sales arrangement containing a software product, implementation, conversion and post-implementation services can be objectively determined. The amounts and timing of revenue recognition are determined for each element in an arrangement. When the fair values in an arrangement are not determinable, all revenues are recognized equally over the life of the respective agreement. As part of the sale of software systems, the Company recognizes revenue from the sale of hardware, which is recorded net of the associated costs.

Postage fees for client mailings are included in revenues and the associated postage expenses are included in operating expenses. Professional Employer Organization (PEO) service revenues are included in revenues and are reported net of direct costs billed and incurred for PEO worksite employees, which include wages and taxes.

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

D. Investments. Corporate investments and funds held for clients at June 30, 2002 and 2001.

(In thousands)	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Money market securities and other cash equivalents:				
Corporate Investments	**$ 798,810**	**$ 798,810**	$ 1,275,356	$ 1,275,356
Funds held for clients	**3,319,646**	**3,319,646**	4,931,350	4,931,350
Total money market securities and other cash equivalents	**4,118,456**	**4,118,456**	6,206,706	6,206,706
Available-for-sale securities:				
Corporate investments	**1,916,896**	**1,950,773**	1,281,664	1,321,608
Funds held for clients	**7,730,724**	**7,905,625**	6,307,504	6,407,760
Total available-for-sale securities	**9,647,620**	**9,856,398**	7,589,168	7,729,368
Total corporate investments and funds held for clients	**$13,766,076**	**$13,974,854**	$13,795,874	$13,936,074
Classification of investments on the Consolidated Balance Sheet:				
Corporate investments	**$ 2,715,706**	**$ 2,749,583**	$ 2,557,020	$ 2,596,964
Funds held for clients	**11,050,370**	**11,225,271**	11,238,854	11,339,110
Total corporate investments and funds held for clients	**$13,766,076**	**$13,974,854**	$13,795,874	$13,936,074

All of the Company's marketable securities are considered to be "available-for-sale" at June 30, 2002 and accordingly are carried on the Consolidated Balance Sheet at fair value. Expected maturities of available-for-sale securities for both corporate investments and funds held for clients at June 30, 2002 are as follows:

(In thousands)	
Maturity Dates:	
Due in one year or less	**$2,598,701**
Due after one year through two years	**2,503,897**
Due after two years through three years	**2,141,256**
Due after three years through four years	**1,187,277**
Due after four years through ten years	**1,425,267**
Total available-for-sale	**$9,856,398**

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

The estimated useful lives of assets are primarily as follows:

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

F. Intangibles. Intangible assets are recorded at cost and are amortized primarily on the straight-line basis over their estimated useful lives. In July 2001, the company adopted SFAS 142 "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead tested for impairment at least annually at the reporting unit level. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Intangible assets with finite lives will continue to be amortized primarily on the straight-line basis over their estimated useful lives.

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

H. Earnings Per Share (EPS). The calculation of basic and diluted EPS is as follows:

(In thousands, except EPS)	Basic	Effect of Zero Coupon Subordinated Notes	Effect of Stock Options	Diluted
2002				
Net earnings	**$1,100,770**	**$1,611**	**$ —**	**$1,102,381**
Average shares	**618,857**	**2,352**	**9,370**	**630,579**
EPS	**$ 1.78**			**$ 1.75**
2001				
Net earnings	$ 924,720	$2,340	$ —	$ 927,060
Average shares	629,035	3,472	13,482	645,989
EPS	$ 1.47			$ 1.44
2000				
Net earnings	$ 840,800	$2,912	$ —	$ 843,712
Average shares	626,766	4,509	14,823	646,098
EPS	$ 1.34			$ 1.31

I. Reclassification of Prior Financial Statements. Certain reclassifications have been made to previous years' financial statements to conform to the 2002 presentation.

J. Income taxes. The provision for income taxes, income taxes payable and deferred income taxes are determined using the liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. A valuation allowance is provided when the Company determines that it is more likely than not that a portion of the deferred tax asset balance will not be realized.

K. Adoption of New Accounting Pronouncements. On July 1, 2001, the Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standard No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" (SFAS 142).

SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have a material effect on the Company results of operations or financial position.

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually at the reporting unit level. SFAS 142 also requires intangible assets with finite useful lives to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

The Company completed its assessment of impairment as of July 1, 2001, which indicated no impairment of goodwill.

Prior to fiscal year 2002, the Company amortized goodwill over periods from 10 to 40 years. Pro forma net income and earnings per share for the years ended June 30, 2001 and 2000 adjusted to eliminate historical amortization of goodwill and related tax effects, are as follows:

(In thousands, except EPS) Years ended June 30,	2001	2000
Previously reported net earnings	$924,720	$840,800
Goodwill amortization	53,936	44,663
Tax provision	(6,976)	(3,573)
Pro forma net earnings	$971,680	$881,890
Previously reported basic EPS	$ 1.47	$ 1.34
Previously reported diluted EPS	$ 1.44	$ 1.31
Pro forma basic EPS	$ 1.54	$ 1.41
Pro forma diluted EPS	$ 1.51	$ 1.37

L. New Accounting Pronouncements. In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and expands the scope of a discontinued operation. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001 and generally are to be applied prospectively. The Company adopted this statement on July 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2003 financial statements.

Note 2. Other (Income) Expense Consists of the Following:

(In thousands)

Years ended June 30,	2002	2001	2000
Interest income on corporate funds	**$(118,672)**	$(163,918)	$(119,080)
Realized (gains) losses on investments	**(16,454)**	77,594	32,359
Interest expense	**21,164**	14,260	13,140
Total other (income) expense	**$(113,962)**	$ (72,064)	$ (73,581)

Note 3. Acquisitions and Dispositions

The Company purchased several businesses for approximately $232 million in fiscal 2002 (including $12 million in common stock), $75 million in fiscal 2001, and $200 million (including $25 million in common stock) in fiscal 2000, net of cash acquired. The results of these acquired businesses are included in operations from the dates of acquisition.

Goodwill recognized in these transactions amounted to $167 million, of which $48 million is expected to be fully deductible for tax purposes. Other intangible assets acquired in these transactions amounted to $51 million. Additionally, ADP made contingent payments totaling $21 million, relating to previously consummated acquisitions. Goodwill and other intangible assets related to these transactions were allocated to the Company's reportable segments as follows for the twelve months ended June 30, 2002:

(In thousands)	Goodwill	Software	Customer Lists	Other Intangibles
Employer Services	**$ 88,475**	**$10,353**	**$ 7,305**	**$ —**
Brokerage Services	**47,681**	**—**	**9,585**	**—**
Dealer Services	**45,473**	**7,745**	**9,000**	**200**
Other	**6,569**	**7,023**	**—**	**—**
Total	**$188,198**	**$25,121**	**$25,890**	**$200**
Weighted average amortization period	**N/A**	**3.8 years**	**8.3 years**	**6.0 years**

Note 4. Non-recurring Item

In fiscal 1999 the Company divested its Brokerage front-office business to Bridge Information Systems, Inc. (Bridge), and received $90 million of Bridge convertible preferred stock as part of the proceeds. In fiscal 2001 Bridge filed for bankruptcy and the Company recorded a $90 million ($54 million net of tax) write-off of its investment, reflected in the "other (income) expense" line item.

Note 5. Receivables

Accounts receivable is net of an allowance for doubtful accounts of $53 million and $42 million at June 30, 2002 and 2001, respectively.

The Company finances the sale of computer systems to certain of its clients. These finance receivables, most of which are due from automobile and truck dealerships, are reflected in the consolidated balance sheets as follows:

(In thousands)

June 30,	2002		2001	
	Current	Long-term	Current	Long-term
Receivables	**$181,609**	**$227,422**	$189,079	$267,394
Less:				
Allowance for doubtful accounts	**(9,216)**	**(16,020)**	(9,717)	(16,666)
Unearned income	**(23,100)**	**(18,633)**	(28,603)	(25,764)
	$149,293	**$192,769**	$150,759	$224,964

Unearned income from finance receivables represents the excess of gross receivables over the sales price of the computer systems financed. Unearned income is amortized using the interest method to maintain a constant rate of return on the net investment over the term of each contract.

Long-term receivables at June 30, 2002 mature as follows:

(In thousands)	
2004	**$122,570**
2005	**64,567**
2006	**30,457**
2007	**9,430**
2008	**364**
Thereafter	**34**
	$227,422

Note 6. Intangible Assets

Components of intangible assets are as follows:

(In thousands)

June 30,	2002	2001
Goodwill	**$1,375,654**	$1,151,873
Intangibles		
Software licenses	**462,474**	343,228
Customer lists	**360,268**	317,087
Other	**398,495**	426,172
Total intangibles	**1,221,237**	1,086,487
Total goodwill and intangibles	**2,596,891**	2,238,360
Less accumulated amortization	**(719,693)**	(636,950)
	$1,877,198	$1,601,410

Other intangibles consist primarily of purchased rights, covenants, and patents (acquired directly or through acquisitions) amortized over periods from 3 to 25 years. Amortization of intangibles totaled $115 million for fiscal 2002, $103 million for 2001 and $89 million for 2000.

Changes in goodwill for the year ended June 30, 2002 are as follows:

(In thousands)	Employer Services	Brokerage Services	Dealer Services	Other	Total
Balance as of June 30, 2001	$631,541	$299,864	$138,701	$81,767	$1,151,873
Additions	88,475	47,681	45,473	6,569	188,198
Sale of business	(2,669)	—	—	—	(2,669)
Cumulative translation adjustments	34,104	1,415	(1,532)	4,265	38,252
Balance as of June 30, 2002	**$751,451**	**$348,960**	**$182,642**	**$92,601**	**$1,375,654**

No impairment losses were recognized during the year.

Note 7. Short-term Financing

In April 2002, the Company authorized a short-term commercial paper program providing for the issuance of up to $4.0 billion in aggregate maturity value of commercial paper at any given time. The Company's commercial paper program is rated A-1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote high quality investment grade securities. Maturities of commercial paper can range from overnight to 270 days. At June 30, 2002, there was no commercial paper outstanding. From the inception of the commercial paper program in April through the fiscal year ended June 30, 2002, the Company had average borrowings of $667 million at an effective weighted average interest rate of 1.8%. The Company will use the commercial paper issuances as a primary instrument to meet short-term funding needs.

In October 2001, the Company entered into a new $4.0 billion, unsecured revolving credit agreement with certain financial institutions, replacing an existing $2.5 billion credit agreement. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided to the syndicated financial institutions prior to borrowing. The Company is also required to pay a facility fee on the credit agreement. The agreement, which expires in October 2002, has no borrowings to date.

The Company's short-term financing is sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by U.S. government securities. These agreements generally have terms ranging from overnight to up to ten days. At June 30, 2002 and 2001, there were no outstanding repurchase agreements. For the fiscal years ended June 30, 2002 and 2001, the Company had an average outstanding balance of $361 million and $41 million, respectively, at an average interest rate of 2.6% and 4.3%, respectively.

Note 8. Debt

Components of long-term debt are as follows:

(In thousands) June 30,	2002	2001
Zero coupon convertible subordinated notes (5.25% yield)	**$45,614**	$ 62,312
Industrial revenue bonds (with fixed and variable interest rates from 1.50% to 2.05%)	**36,474**	36,449
Other	**8,685**	12,681
	90,773	111,442
Less current portion	**(125)**	(1,215)
	$90,648	$110,227

The zero coupon convertible subordinated notes have a face value of approximately $80 million at June 30, 2002 and mature February 20, 2012, unless converted or redeemed earlier. At June 30, 2002, the notes were convertible into approximately 2.1 million shares of the Company's common stock. The notes are callable at the option of the Company, and the holders of the notes can convert into common stock at any time or require redemption in fiscal 2007. During fiscal 2002 and 2001, approximately $27 million and $50 million face value of notes were converted, respectively. As of June 30, 2002 and 2001, the quoted market prices for the zero coupon notes were approximately $90 million and $139 million, respectively. The fair value of the other debt, included above, approximates its carrying value.

Long-term debt repayments at June 30, 2002 are due as follows:

(In thousands)	
2004	**$ 99**
2005	**161**
2006	**167**
2007	**173**
2008	**1,070**
Thereafter	**88,978**
	$90,648

Interest payments were approximately $18 million in fiscal 2002, $10 million in fiscal 2001, and $10 million in fiscal 2000.

Note 9. Funds Held for Clients and Client Funds Obligations

As part of its integrated payroll and payroll tax filing services, the Company impounds funds for federal, state and local employment taxes from approximately 354,000 clients; handles all regulatory payroll tax filings, correspondence, amendments, and penalty and interest disputes; remits the funds to the appropriate tax agencies; and handles other employer-related services. In addition to fees paid by clients for these services, the Company receives interest during the interval between the receipt and disbursement of these funds by investing the funds primarily in fixed-income instruments. The amount of collected but not yet remitted funds for the Company's payroll and tax filing and certain other services varies significantly during the year and averaged approximately $8.4 billion in fiscal 2002, $8.2 billion in fiscal 2001, and $6.9 billion in fiscal 2000.

Note 10. Employee Benefit Plans

A. Stock Plans. The Company has stock option plans which provide for the issuance to eligible employees of incentive and non-qualified stock options, which may expire as much as 10 years from the date of grant, at prices not less than the fair market value on the date of grant. At June 30, 2002 there were 10,624 participants in the plans. The aggregate purchase price for options outstanding at June 30, 2002 was approximately $2.1 billion. The options expire at various points between 2002 and 2012.

A summary of changes in the stock option plans for the three years ended June 30, 2002 is as follows:

(In thousands, except per share amounts)	Number of Options			Weighted Average Price		
Years ended June 30,	2002	2001	2000	2002	2001	2000
Options outstanding, beginning of year	**47,496**	46,694	47,467	**$37**	$29	$24
Options granted	**12,325**	10,740	9,646	**$49**	$57	$46
Options exercised	**(6,481)**	(7,956)	(6,736)	**$22**	$18	$16
Options canceled	**(2,497)**	(1,982)	(3,683)	**$47**	$38	$32
Options outstanding, end of year	**50,843**	47,496	46,694	**$41**	$37	$29
Options exercisable, end of year	**21,626**	19,929	18,719	**$31**	$25	$19
Shares available for future grants, end of year	**13,892**	1,720	10,478			
Shares reserved for issuance under stock option plans	**64,735**	49,216	57,172			

Summarized information about stock options outstanding as of June 30, 2002 is as follows:

	Outstanding			Exercisable	
Exercise Price Range	Number of Options (In thousands)	Remaining Life (In years)	Average Exercise Price	Number of Options (In thousands)	Average Exercise Price
Under $15	**3,173**	**1.7**	**$13**	**3,131**	**$13**
$15 to $25	**6,222**	**3.9**	**$20**	**5,920**	**$20**
$25 to $35	**5,740**	**5.5**	**$29**	**4,219**	**$29**
$35 to $45	**12,761**	**7.0**	**$42**	**5,264**	**$41**
$45 to $55	**16,535**	**9.1**	**$50**	**1,789**	**$51**
Over $55	**6,412**	**8.2**	**$60**	**1,303**	**$60**

The Company has stock purchase plans under which eligible employees have the ability to purchase shares of common stock at 85% of the lower of market value as of the date of purchase election or as of the end of the plans. Approximately 2.8 million and 1.8 million shares are scheduled for issuance on December 31, 2003 and 2002, respectively. Approximately 2.3 million and 2.5 million shares were issued during the years ended June 30, 2002 and 2001, respectively. At June 30, 2002 and 2001, there were approximately 3.3 million and 5.7 million shares, respectively, reserved for purchase under the plans. Included in liabilities as of June 30, 2002 and 2001 are employee stock purchase plan withholdings of approximately $93 million and $94 million, respectively.

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" to account for its stock option and employee stock purchase plans. An alternative method of accounting for stock options is SFAS 123, "Accounting for Stock-Based Compensation." Under SFAS No. 123 employee stock options are valued at grant date using the Black-Scholes valuation model, and this compensation cost is recognized ratably over the vesting period. Had compensation cost of the Company's stock option and employee stock purchase plans been determined as prescribed by SFAS No. 123, the pro forma net earnings impact of options and stock purchase plan rights granted subsequent to July 1, 1995 is shown below. The fair value for these instruments was estimated at the date of grant using a Black-Scholes valuation model with the following weighted average assumptions:

Years ended June 30,	2002	2001	2000
Risk-free interest rate	**4.3-5.2%**	5.3-6.0%	6.0-6.7%
Dividend yield	**.7-.8%**	.7-.8%	.8-.9%
Volatility factor	**25.9-27.9%**	27.9-28.2%	22.0-26.7%
Expected life:			
Options	**6.3**	6.3	6.4
Purchase rights	**2.0**	2.0	2.0
Weighted average fair value:			
Options	**$16.54**	$21.31	$16.89
Purchase rights	**$21.55**	$20.58	$19.73

The Company's pro forma earnings recognize compensation expense based upon the fair value of the stock options and stock purchase plan rights issued subsequent to July 1, 1995 over their vesting period, is as follows:

(In millions, except per share amounts)

Years ended June 30,	2002	2001	2000
Pro forma net earnings	**$ 981**	$ 818	$ 762
Pro forma basic earnings per share	**$1.58**	$1.30	$1.22
Pro forma diluted earnings per share	**$1.56**	$1.27	$1.18

The Company has a restricted stock plan under which shares of common stock have been sold for nominal consideration to certain key employees. These shares are restricted as to transfer and in certain circumstances must be resold to the Company at the original purchase price. The restrictions lapse over periods of up to six years. During the years ended June 30, 2002, 2001 and 2000 the Company issued 143,500, 172,500, and 171,900 restricted shares, respectively.

B. Pension Plans. The Company has a defined benefit cash balance pension plan covering substantially all U.S. employees, under which employees are credited with a percentage of base pay plus interest. Effective January 1, 2001, the plan interest credit rate was changed from a fixed rate of 7% to a rate that will vary from year-to-year with the 10-year treasury constant. This change is the primary reason for the decrease in service cost in 2002. Employees are fully vested on completion of five years' service. The Company's policy is to make contributions within the range determined by generally accepted actuarial principles. In addition, the Company has various retirement plans for its non-U.S. employees and maintains a Supplemental Officer Retirement Plan ("SORP"). The SORP is a defined benefit plan pursuant to which the Company will pay supplemental pension benefits to certain key officers upon retirement based upon an officer's years of service and compensation.

The plans' funded status as of June 30, 2002 and 2001 follows:

(In thousands)

June 30,	2002	2001
Change in plan assets:		
Funded plan assets at market value at beginning of year	**$469,300**	$485,700
Actual return on plan assets	**(54,800)**	(44,700)
Employer contributions	**33,400**	36,200
Benefits paid	**(11,800)**	(7,900)
Funded plan assets at market value at end of year	**$436,100**	$469,300
Change in benefit obligation:		
Benefit obligation at beginning of year	**$399,300**	$328,500
Service cost	**16,900**	32,800
Interest cost	**28,400**	24,600
Actuarial and other gains	**41,200**	21,300
Benefits paid	**(11,800)**	(7,900)
Projected benefit obligation at end of year	**$474,000**	$399,300
Plan assets in excess of projected benefits	**$ (37,900)**	$ 70,000
Transition obligation	**—**	300
Unrecognized net actuarial gain due to different experience than assumed	**181,500**	44,600
Prepaid pension cost	**$143,600**	$114,900

The components of net pension expense were as follows:

(In thousands)

Years ended June 30,	2002	2001	2000
Service cost — benefits earned during the period	**$ 16,900**	$ 32,800	$ 30,800
Interest cost on projected benefits	**28,400**	24,600	20,900
Expected return on plan assets	**(45,600)**	(40,200)	(32,900)
Net amortization and deferral	**(600)**	400	(300)
	$ (900)	$ 17,600	$ 18,500

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

Years ended June 30,	2002	2001
Discount rate	**6.75%**	7.25%
Expected long-term rate on assets	**8.50%**	8.75%
Increase in compensation levels	**6.0%**	6.0%

C. Retirement and Savings Plan. The Company has a 401(k) retirement and savings plan, which allows eligible employees to contribute up to 20% of their compensation annually. The Company matches a portion of employee contributions, which amounted to approximately $35 million, $31 million and $27 million for calendar years 2001, 2000 and 1999, respectively.

Note 11. Income Taxes

Earnings before income taxes shown below are based on the geographic location to which such earnings are attributable.

(In thousands) Years ended June 30,	2002	2001	2000
Earnings before income taxes:			
U.S.	**$1,618,885**	$1,375,220	$1,197,030
Non-U.S.	**168,085**	149,790	92,570
	$1,786,970	$1,525,010	$1,289,600

The provision for income taxes consists of the following components:

(In thousands) Years ended June 30,	2002	2001	2000
Current:			
Federal	**$542,980**	$439,745	$326,875
Non-U.S.	**67,380**	77,435	56,505
State	**67,160**	53,660	56,535
Total current	**677,520**	570,840	439,915
Deferred:			
Federal	**6,525**	24,895	5,750
Non-U.S.	**(20)**	(3,743)	1,220
State	**2,175**	8,298	1,915
Total deferred	**8,680**	29,450	8,885
Total provision	**$686,200**	$600,290	$448,800

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

(In thousands, except percentages) Years ended June 30,	2002	%	2001	%	2000	%
Provision for taxes at U.S. statutory rate	**$625,415**	**35.0**	$533,800	35.0	$451,400	35.0
Increase (decrease) in provision from:						
Investments in municipals	**(3,255)**	**(0.2)**	(5,700)	(0.4)	(68,180)	(5.3)
State taxes, net of federal tax benefit	**45,070**	**2.5**	40,270	2.6	37,990	2.9
Other	**18,970**	**1.1**	31,920	2.2	27,590	2.2
	$686,200	**38.4**	$600,290	39.4	$448,800	34.8

2001 data includes impact of non-recurring adjustments.

The significant components of deferred income tax assets and liabilities and their balance sheet classifications are as follows:

(In millions) June 30,	2002	2001
Deferred tax assets:		
Accrued expenses not currently deductible	**$135,604**	$128,566
Foreign net operating losses	**30,861**	27,682
Other	**18,320**	20,469
	184,785	176,717
Less: Valuation allowances	**(40,140)**	(41,930)
Deferred tax assets — net	**$144,645**	$134,787
Deferred tax liabilities:		
Unrealized investment gains	**$ 83,512**	$ 56,080
Accrued retirement benefits	**81,883**	75,217
Depreciation and amortization	**164,160**	137,371
Other	**50,660**	47,485
Deferred tax liabilities	**$380,215**	$316,153
Net deferred tax liabilities	**$235,570**	$181,366

There are $2.1 million and $26.6 million net current deferred tax assets included in other current assets in the balance sheet at June 30, 2002 and June 30, 2001, respectively.

Income taxes have not been provided on undistributed earnings of foreign subsidiaries as the Company considers such earnings to be permanently reinvested as of June 30, 2002 and June 30, 2001.

The Company has estimated foreign net operating loss carry forwards of approximately $85.2 million and $70.5 million at June 30, 2002 and June 30, 2001, respectively.

The Company has recorded valuation allowances of $40.1 million and $41.9 million (all of which relate to foreign entities) at June 30, 2002 and June 30, 2001, respectively, to reflect the estimated amount of deferred tax assets that may not be realized. A portion of the valuation allowances in the amounts of approximately $17.7 million and $23.2 million at June 30, 2002 and June 30, 2001, respectively, relate to net deferred tax assets which were recorded in purchase accounting. The recognition of such amounts in future years will be allocated to reduce the excess purchase price over the net assets acquired.

Income tax payments were approximately $518 million in 2002, $437 million in 2001 and $375 million in 2000.

Note 12. Commitments and Contingencies

The Company has obligations under various facilities and equipment leases, and software license agreements. Total expense under these agreements was approximately $272 million in 2002, $269 million in 2001 and $243 million in 2000, with minimum commitments at June 30, 2002 as follows:

(In millions) Years ending June 30,	
2003	**$245**
2004	**175**
2005	**109**
2006	**68**
2007	**43**
Thereafter	**75**
	$715

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

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

Note 13. Financial Data By Segment

Employer Services, Brokerage Services and Dealer Services are the Company's largest business units. ADP evaluates performance of its business units based on recurring operating results before interest on corporate funds, income taxes and foreign currency gains and losses. Certain revenues and expenses are charged to business units at a standard rate for management and motivation reasons. Other costs are recorded based on management responsibility. As a result, various income and expense items, including certain non-recurring gains and losses, are recorded at the corporate level and certain shared costs are not allocated. Goodwill amortization is charged to business units as a surrogate for the cost of capital for acquisitions, which is subsequently eliminated in consolidation. Interest on invested funds held for clients is recorded in Employer Services' revenues at a standard rate of 6%, with the adjustment to actual revenues included in "Other." Prior years' business unit revenues and pre-tax earnings have been restated to reflect fiscal year 2002 budgeted foreign exchange rates. Business unit assets include funds held for clients but exclude corporate cash, marketable securities and goodwill. "Other" consists primarily of Claims Services, corporate expenses, non-recurring items and the reconciling items referred to above.

(In millions)	Employer Services	Brokerage Services	Dealer Services	Other	Total
Year ended June 30, 2002					
Revenues	**$ 4,184**	**$1,758**	**$706**	**$ 356**	**$ 7,004**
Pre-tax earnings	**$ 1,110**	**$ 354**	**$116**	**$ 207**	**$ 1,787**
Assets	**$12,244**	**$ 566**	**$181**	**$5,286**	**$18,277**
Capital expenditures	**$ 71**	**$ 33**	**$ 21**	**$ 21**	**$ 146**
Depreciation and amortization	**$ 208**	**$ 108**	**$ 40**	**$ (77)**	**$ 279**
Year ended June 30, 2001					
Revenues	$ 3,968	$1,742	$683	$ 461	$ 6,854
Pre-tax earnings	$ 936	$ 332	$ 99	$ 158	$ 1,525
Assets	$12,320	$ 523	$183	$4,863	$17,889
Capital expenditures	$ 106	$ 33	$ 23	$ 23	$ 185
Depreciation and amortization	$ 196	$ 109	$ 38	$ (22)	$ 321
Year ended June 30, 2000					
Revenues	$ 3,539	$1,469	$715	$ 445	$ 6,168
Pre-tax earnings	$ 775	$ 333	$112	$ 70	$ 1,290
Assets	$11,264	$ 522	$202	$4,863	$16,851
Capital expenditures	$ 94	$ 27	$ 24	$ 21	$ 166
Depreciation and amortization	$ 177	$ 81	$ 38	$ (12)	$ 284

Revenues and assets by geographic area are as follows:

(In millions)	United States	Europe	Canada	Other	Total
Year ended June 30, 2002					
Revenues	**$ 5,978**	**$ 673**	**$ 270**	**$ 83**	**$ 7,004**
Assets	**$16,055**	**$1,214**	**$ 843**	**$165**	**$18,277**
Year ended June 30, 2001					
Revenues	$ 5,827	$ 641	$ 279	$107	$ 6,854
Assets	$15,799	$1,055	$ 910	$125	$17,889
Year ended June 30, 2000					
Revenues	$ 5,210	$ 645	$ 259	$ 54	$ 6,168
Assets	$14,640	$1,126	$1,014	$ 71	$16,851

Note 14. Quarterly Financial Results (unaudited)

Summarized quarterly results of operations for the two years ended June 30, 2002 are as follows:

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended June 30, 2002				
Revenues	**$1,607,883**	**$1,681,028**	**$1,870,036**	**$1,845,316**
Net earnings	**$ 196,600**	**$ 264,600**	**$ 352,260**	**$ 287,310**
Basic earnings per share	**$ .32**	**$ .43**	**$ .57**	**$ .47**
Diluted earnings per share	**$ .31**	**$ .42**	**$ .56**	**$ .46**
Year ended June 30, 2001*				
Revenues	$1,544,129	$1,639,822	$1,853,765	$1,815,936
Net earnings	$ 173,400	$ 207,440	$ 288,880	$ 255,000
Basic earnings per share	$ .28	$ .33	$ .46	$ .41
Diluted earnings per share	$ .27	$ .32	$ .45	$ .40

* After impact of non-cash, non-recurring item. See note 4 to the consolidated financial statements.

Report of Management

Management is responsible for the preparation of the accompanying financial statements. The financial statements, which include amounts based on the application of business judgments, have been prepared in conformity with generally accepted accounting principles. Deloitte & Touche LLP, independent certified public accountants, have audited our consolidated financial statements as described in their report.

The Company maintains financial control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management authorization. The control systems are supported by written policies and the control environment is regularly evaluated by both the Company's internal auditors and Deloitte & Touche LLP.

The Board of Directors has an Audit Committee comprised of three outside directors. The Audit Committee meets with both Deloitte & Touche LLP and the internal auditors with and without management's presence. It monitors and reviews the Company's financial statements and internal controls, and the scope of the internal auditors' and Deloitte & Touche LLP's audits. Deloitte & Touche LLP and the internal auditors have free access to the Audit Committee.

Arthur F. Weinbach

Arthur F. Weinbach
Chairman and Chief Executive Officer

Karen E. Dykstra

Karen E. Dykstra
Vice President Finance
(Principal Financial Officer)

Roseland, New Jersey
August 12, 2002

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Automatic Data Processing, Inc. and subsidiaries as of June 30, 2002 and 2001, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Automatic Data Processing, Inc. and subsidiaries as of June 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

New York, New York
August 12, 2002

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Directors

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Honorary Chairman of the Board

Josh S. Weston[3]
Honorary Chairman of the Board

Arthur F. Weinbach[3]
Chairman and Chief Executive Officer

Gary C. Butler
President and Chief Operating Officer

Gregory D. Brenneman[2]
President and Chief Executive Officer, PWC Consulting

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

Leon G. Cooperman[1,3,4]
Chairman and Chief Executive Officer of Omega Advisors, Inc.
Chairman, ADP Audit Committee

George H. Heilmeier[2,3,4]
Chairman Emeritus of Bellcore,
Chairman, ADP Nominating Committee

Ann Dibble Jordan[1]
Consultant
Member of various boards

Harvey M. Krueger[3]
Vice Chairman of Lehman Brothers
Chairman, ADP Executive Committee

Frederic V. Malek[2,3,4]
Chairman, Thayer Capital Partners
Chairman, ADP Compensation Committee

Laurence A. Tisch[2]
Co-Chairman of Loews

(1) Audit Committee
(2) Compensation Committee
(3) Executive Committee
(4) Nominating Committee

Honorary Director

Frank R. Lautenberg
Retired U.S. Senator

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Chairman and Chief Executive Officer

Gary C. Butler
President and Chief Operating Officer

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Russell P. Fradin
John P. Hogan
S. Michael Martone

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John D. Barfitt
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Dante F. Terzo
Thomas J. Tremba

Staff Vice President
Gary E. Tarino

Automatic Data Processing, Inc.

Corporate Headquarters
Automatic Data Processing, Inc.
One ADP Boulevard
Roseland, New Jersey 07068-1728
(973) 974-5000

Transfer Agent
Mellon Investor Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660

Corporate Counsel
Paul, Weiss, Rifkind
Wharton & Garrison

Auditors
Deloitte & Touche LLP

Additional Information
The Form 10-K Annual Report to the Securities and Exchange Commission provides certain additional information and is available upon request to James B. Benson, Secretary of the Company.

Internet Home Page
To obtain financial, product and other information, visit ADP's registered home page address:
http://www.adp.com

Electronic Delivery
Enroll for electronic delivery of ADP shareholder communications at:
http://www.icsdelivery.com/adp

Corporate Governance
Visit ADP's website, at **http://www.adp.com**, to see the following corporate governance documents: Corporate Philosophy, Code of Business Conduct and Ethics, Corporate Governance Principles, Audit Committee Charter, Compensation Committee Charter, and Nominating/Corporate Governance Committee Charter. Copies of the documents are also available to shareholders upon request to James B. Benson, Secretary of the Company.

Annual Meeting
This year's shareholders' meeting will be held at Automatic Data Processing, Inc., One ADP Boulevard, Roseland, New Jersey, on November 12, 2002 at 10:00 a.m. A notice of the meeting, proxy statement, and proxy voting card will be mailed to shareholders starting on or about September 23, 2002.

Automatic Data Processing, Inc.
One ADP Boulevard
Roseland, New Jersey 07068-1728
973•974•5000
www.adp.com