# FOCUS ON GROWTH

2006 SUMMARY ANNUAL REPORT

# Contents

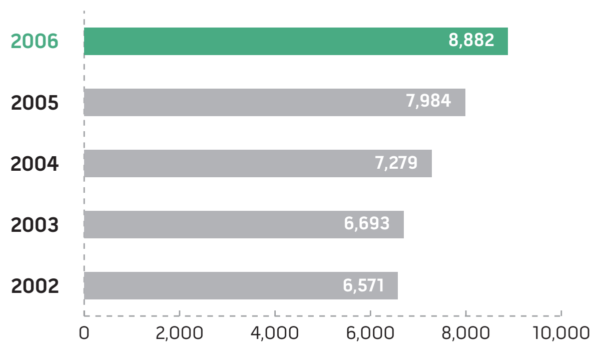


# Financial Highlights

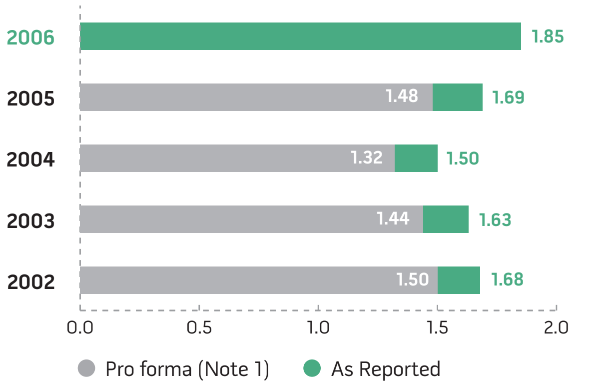
(Dollars and shares in millions, except per share amounts)

| Years ended June 30, | 2006 | 2005 | Change |
|---|---|---|---|
| Total revenues | $ 8,881.5 | $ 7,983.7 | 11% |
| Net earnings from continuing operations, as reported | $ 1,072.4 | $ 998.3 | 7% |
| Pro forma net earnings from continuing operations, as adjusted for stock compensation expense in fiscal 2005 (Note 1) | $ 1,072.4 | $ 873.8 | 23% |
| Basic earnings per share from continuing operations, as reported | $ 1.87 | $ 1.71 | 9% |
| Diluted earnings per share from continuing operations, as reported | $ 1.85 | $ 1.69 | 9% |
| Pro forma diluted earnings per share from continuing operations, as adjusted for stock compensation expense in fiscal 2005 (Note 1) | $ 1.85 | $ 1.48 | 25% |
| Cash dividends | $ 408.6 | $ 352.7 | 16% |
| Cash dividends declared per share | $ .7100 | $ .6050 | 17% |
| Basic weighted average shares outstanding | 574.8 | 583.2 | |
| Diluted weighted average shares outstanding | 580.3 | 590.0 | |
| Return on equity (Note 2) | 19.5% | 18.3% | |
| At year end: | | | |
| Cash, cash equivalents, and marketable securities | $ 2,602.5 | $ 1,997.3 | |
| Total assets before funds held for clients | $10,006.2 | $ 9,717.9 | |
| Long-term debt | $ 74.3 | $ 75.7 | |
| Stockholders' equity | $ 6,011.6 | $ 5,783.9 | |
| Number of employees | 46,000 | 44,000 | |

TOTAL REVENUES (Dollars in millions)




DILUTED EPS AND PRO FORMA DILUTED EPS (NOTE 1) FROM CONTINUING OPERATIONS (In dollars)




Note 1. The Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS No. 123R"), effective July 1, 2005, using the modified prospective method. The adoption of SFAS No. 123R requires the recognition of stock-based compensation expense in the consolidated financial statements beginning in fiscal 2006. The financial information stated includes pro forma stock-based compensation expense based on the amounts disclosed previously in the consolidated financial statements.

Note 2. Return on equity has been calculated as net earnings from continuing operations divided by average stockholders' equity, excluding the average cumulative net earnings from discontinued operations for each of the five years since fiscal 2002. See our Selected Financial Data table within the 2006 Annual Report on Form 10-K for additional information on our return on equity calculation.

# FOCUS ON LONG-TERM GROWTH

At ADP, building long-term shareholder value is our primary goal.

Accelerating revenue growth and improving our margins are the pathways to achieving it...

# Letter to Shareholders

ARTHUR F. WEINBACH, *(left)*
Chairman & Chief Executive Officer

GARY C. BUTLER, *(right)*
President & Chief Operating Officer, CEO-elect

We have completed a very successful fiscal 2006 and have a strong foundation for future growth. This is an excellent time to have this strength as fiscal 2007 will be an important transition period during which we (1) have a new CEO, (2) expect to spin off our Brokerage Services Group, and (3) forecast delivering solid growth in revenues and earnings. We will expand on each of these items in this letter.

**FISCAL 2006**

Fiscal 2006 was the second year of our rebound. We grew our revenues 11%, had our best earnings per share growth year in over a decade at 25% (assuming stock compensation was expensed in fiscal 2005), and had very strong cash flows.

We also changed the mix of our business units with the sale of our Claims Services business – we had entered this business in 1980 with an investment of about $10 million and sold it in 2006 for about $975 million – and the addition of Kerridge Computer in the U.K. to our Dealer Services business. Kerridge more than doubled Dealer's international presence with about $150 million of revenue.

> *"We have completed a very successful fiscal 2006 and have a strong foundation for future growth...We grew our revenues 11%, had our best earnings per share growth year in over a decade at 25%...and had very strong cash flows."*

In May, we introduced the *ADP National Employment Report*℠ which provides a measure of non-farm private employment in the United States and will add meaningfully to ADP's overall brand awareness.

Also, our key leading indicators of future growth led by Employer Services sales and retention are giving us high confidence in future results.

### FISCAL 2007

In early August, we forecast our results for fiscal 2007 with revenue growing about 10%, earnings per share growing at 17% to 20%, and another year of strong cash flows.

### STRATEGIC PRIORITIES

We also expect to make meaningful progress on our strategic priorities. Our highest priority is increasing shareholder value. We have been disappointed that our recent performance has not been reflected in our market value. Nevertheless, our strategies and future direction are clear. They are discussed in the following Q&A with Gary Butler on pages 5 to 8.

### NEW CEO

As we announced in January, Art Weinbach is retiring as CEO effective August 31, 2006 and is being succeeded by Gary Butler, a 30-year ADP veteran, most recently as President and COO and before that, among many other positions, as head of ADP's Employer Services and Dealer Services businesses. This has been a very orderly and expected transition.

***"...our key leading indicators of future growth led by Employer Services sales and retention are giving us high confidence in future results."***

### SPIN-OFF OF BROKERAGE SERVICES GROUP

On August 2, 2006, we announced the spin-off of our Brokerage Services Group. The spin-off is expected to create two well-positioned public companies: a double-digit organic growth company focused on the excellent opportunities in the payroll, human resources, and benefits market, as well as the large automotive market; and a steady growth company with excellent cash flows focused on the financial services industry, primarily brokerage. It will permit both companies to focus on the opportunities in their core markets, improve the capital structures required in their respective markets, and, we believe ultimately benefit our shareholders.

We anticipate completing the spin-off before the end of fiscal 2007. While there will be some one-time costs not included in the forecast referred to above, we are striving to have no increase in continuing costs even as we add the additional costs related to a second public entity.

### IMPORTANCE OF PEOPLE

ADP's greatest strength is our team of 46,000 trained, dedicated, and committed associates who deliver World Class Service to our clients every day of the year. We are fortunate to attract and retain extremely motivated and talented associates whose most important attribute is that they really care for our clients and for ADP.

We want to especially thank Harvey Krueger, who retired from the Board after serving 39 years. Harvey has been an inspiration and a leader and we will miss his insights and contributions.

### CONFIDENCE IN THE FUTURE

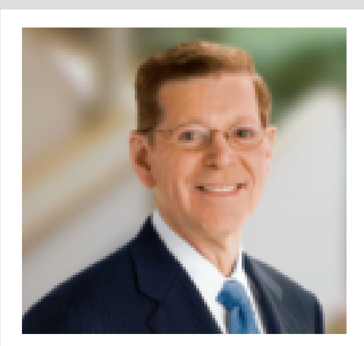
These are exciting times. We look forward to the opportunities ahead from a strong financial position, with excellent operational momentum, and strong and deep leadership and, as a result, have high confidence in the future.

**Arthur F. Weinbach**
Chairman & Chief Executive Officer

**Gary C. Butler**
President & Chief Operating Officer, CEO-elect

August 28, 2006

## Farewell



As I retire after 26 years at ADP, including the last 10 as CEO, there are many people to thank including the Board of Directors, our clients, ADP associates, our shareholders and our executive team. I'm very proud to have been able to work in an environment with so much support, where so many care so much about the Company, and where there was so much for me to learn from each of you.

I look back with pride and satisfaction. Serving you has been a great honor and I have had a ball. As I exit my CEO role, ADP is a very strong and solid company with great leadership and great optimism for a very exciting future. Thank you for the opportunity.

ARTHUR F. WEINBACH
Chairman & Chief Executive Officer

# Q&A with Gary Butler, CEO-elect: What ADP Stakeholders Are Asking

GARY C. BUTLER
President & Chief Operating Officer, CEO-elect

Let me first take a moment to thank Art Weinbach, the fourth CEO in our company's 45-year public history. It has been my privilege to work with Art for about 25 years, enjoying the benefit of his guidance, support, and partnership. His experience, integrity, and unrelenting commitment to our clients and associates have left a positive and enduring mark on our business and our business culture.

**HOW ARE YOURS AND ART'S LEADERSHIP STYLES SIMILAR AND DIFFERENT?**

Art and I have known each other for about 25 years – I came up through the sales side of the business; Art was on the financial side. While we naturally tend to approach challenges and opportunities from different perspectives, more times than not, we usually reach the same conclusion on big decisions.

You should expect me to bring new thoughts and ideas to the table – and I do have ideas that I believe will help to accelerate our growth and build long-term shareholder value. However, if you were to perceive any change, it probably would be that I will be more aggressive in pursuing promising growth opportunities.

Art relied on the strength and wisdom of ADP's business culture – as will I. A key aspect of our culture is what differentiates ADP in the marketplace – "the service-profit chain."

**GOING FORWARD, WHAT ARE YOUR TOP PRIORITIES AS ADP'S NEW CEO?**

My number one priority is to increase shareholder value by accelerating revenue growth in conjunction with margin expansion. Additionally, an important priority for fiscal 2007 is to execute on the recently announced spin-off of our Brokerage Services Group, facilitating our refocus on Employer Services and Dealer Services where I am confident in our ability to convert recurring revenue growth into quality, recurring, bottom-line dollars. With this renewed focus and a stable economic environment with no significant upturns or downturns, the new ADP will be well-positioned to achieve my objectives of at least 10% annual revenue growth yielding at least 15% earnings per share growth over the next number of years.

**HOW WILL ADP GROW ITS REVENUES UNDER YOUR WATCH?**

We need to continue doing what we do well – only do it better. To achieve this type of ever-higher level of performance, we are going to focus on five initiatives to help us grow revenues:

> *Consistent incremental expansion of our sales and implementation resources* – Historically this has been the most reliable way to grow the business, and we do this very well.

> *Focus on global expansion* – There is a large international market opportunity for ADP services and minimal outsourced service penetration outside North America, making conditions very favorable for ADP to grow in this environment.

> *Accelerate BPO-like services* – A BPO relationship will typically generate three-to-ten times the revenue we receive from a traditional payroll outsourcing client.

***"We will improve our strategic focus on business development ...and dedicate resources to explore and develop new products and markets across the enterprise."***

> *Enter adjacent domestic markets, especially in ES* – We see big opportunities in selling: ancillary services through "worksite marketing" to the tens of millions of people we already pay on payday; workers' compensation and healthcare insurance products to the hundreds of thousands of clients we serve; and vertical solutions for the public sector as well as the construction, healthcare, and hospitality industries that expand the reach of our core products.

> *Improve business development across ADP* – We will dedicate more resources to explore and develop new markets and new products that contribute new streams of revenue. We also need to continue to expand M&A as an important way to accelerate our growth in new products and markets.

**HOW WILL ADP ACHIEVE MARGIN IMPROVEMENT OVER THE LONG-TERM?**

Over time, we expect to see margin improvement with the help of these initiatives:

> *The traditional scale of our infrastructure* – Using our size to deliver services for less.

> *Productivity improvements in both sales and implementation* – We are improving the speed and quality of client implementations. To augment the fine work of our traditional field salesforce, which will continue to generate most of our new sales, we are utilizing alternate distribution channels, such as telesales, to bring on new revenue streams faster.

> *Offshore and smartshore facilities* – Further enhancing our competitiveness by leveraging low-cost geographies that offer economies of scale, best practices, and service coverage across multiple time zones.

> *Data center consolidation* – Essentially this involves combining our Employer Services and Brokerage Services data processing functions to benefit from shared services engineering and operations. We anticipate maintaining this shared environment after the Brokerage Services Group spin-off, and expect to see savings here beginning in fiscal 2008.

> *Leveraging the powerful growth engine of our "service-profit chain"* – As more clients use our services and stay with us longer, we retain revenues at higher margins.

### WHY DID ADP DECIDE TO EXIT THE BROKERAGE BUSINESS?

Fiscal 2006 was a great year for ADP with strong growth in both revenues and earnings per share and we exited the year with continued momentum and a good economy. Key metrics in our Employer Services business are solid. Building off this strong base, we decided to reposition ADP, which we believe is in the best interest of our shareholders. The brokerage industry has changed in recent years, and while still attractive in terms of long-term growth opportunities, as part of ADP, the growth profile of Brokerage Services Group is below the potential that we believe exists in Employer Services and Dealer Services. As a result, after in-depth analyses and discussions with our Board, we concluded this transaction will best support the long-term growth potential of the new ADP and the new Brokerage entity.

Fit and focus is the underlying theme of this transaction. I believe that shareholders, clients, and associates will benefit from a more concentrated focus by each management team on its own core business, each with different operating models, long-term strategic growth plans, and industry appropriate capital deployment. ADP's efforts and commitment will be refocused on the Employer Services and Dealer Services businesses. Employer Services' forecasted fiscal 2007 revenue growth is over 10%, and we believe Dealer Services represents a comparable double-digit annual revenue growth opportunity over our strategic planning horizon.

### WHAT MAKES THE BROKERAGE BUSINESS ATTRACTIVE TO INVESTORS AS A STAND-ALONE COMPANY?

The Brokerage Services Group is a financially strong global organization with nearly $2 billion in revenues and good profitability, 4,000 associates, strong cash flows, a highly-recurring revenue model, good long-term growth prospects, operations in North America, Europe, and Asia-Pacific, and long-term relationships with the world's leading financial institutions. The Brokerage Services Group is a market leader in providing integrated outsourcing solutions to the financial services industry and we believe with its long-term growth opportunities it will be a strong and viable stand-alone public company.

***"My number one priority is to increase shareholder value by accelerating revenue growth in conjunction with margin expansion."***

### WILL ADP'S ACQUISITION STRATEGY CHANGE?

We will improve our strategic focus on business development. It will not just be about M&A going forward, because we need a broader mindset to increase the number and quality of acquisitions in the future in support of our growth strategies. At both the corporate and business unit levels, we are going to focus on and dedicate resources to explore and develop new products and markets across the enterprise.

As a general rule of thumb, we are looking for acquisitions close to our core that will leverage our existing capabilities and make a positive contribution to ADP's overall growth while avoiding multi-year dilution at the onset.

**WHAT IS YOUR CAPITAL ALLOCATION STRATEGY?**

Going forward, ADP expects to lower overall corporate cash balances and return excess cash to shareholders over time. ADP also intends to utilize its strong cash flows and the one-time proceeds from the Brokerage Services spin-off to increase share buybacks and/or dividends depending on market conditions and acquisition funding requirements. ADP's dividend has increased every year since ADP began paying a dividend in 1974, and this year we anticipate the Board of Directors will authorize a dividend increase in-line with or higher than the increase last year of 19%. After the spin-off, ADP will maintain the 2007 dividend at the same dollar amount as before the spin-off.

**WHY IS THE "SERVICE-PROFIT CHAIN" MODEL IMPORTANT TO ADP'S CONTINUING SUCCESS?**

The "service-profit chain" is a highly productive repetitive business process that simply states: when happy, engaged associates provide higher levels of client service, in turn, clients stay with ADP longer; they buy more products and services; and refer others to use our products and services.

Making the "service-profit chain" work takes a perpetual commitment to World Class Service and to being an Employer of Choice – so you can expect those commitments to remain at the forefront of our strategic priorities.

All this makes good business sense and drives long-term profitability for ADP shareholders.

**HOW WILL ADP EXPAND ITS INTERNATIONAL FOOTPRINT?**

All of our businesses already have international operations. The two most promising areas for international growth are in Employer Services and Dealer Services.

GlobalView℠ is an exciting new payroll and HR solution from Employer Services that uses SAP Human Capital Management software as an underlying platform. This solution, operating today in 30 countries, is designed to serve global and multinational clients and represents a very large and important opportunity.

The acquisition of U.K.-based Kerridge Computer this year opens the door for ADP to become a global provider in the Dealer Services market. Kerridge is the largest DMS provider in the U.K. and expands our Dealer Services footprint into over 40 countries including the Asia-Pacific market.

Our entry into China and Asia-Pacific is another strategic step for ADP. China, which is by far the most important developing market in the world, is a key growth opportunity for ADP. We opened our first two representative offices in China this year. Our Shanghai facility includes Employer Services staff to support our GlobalView payroll and HR offering for multinational firms, and Dealer Services associates to serve the emerging retail dealership industry in the country with our high-tech, end-to-end solutions.

Certainly, international growth is important to our future expansion plans. Yet, while we will actively pursue international growth, we also remain committed to growing and serving our North American client base.

I think this is a great time to be at ADP, and it's my honor and privilege to lead ADP's dedicated and talented team of associates worldwide.

ADP is one of the largest providers of computerized transaction processing and information-based business solutions.

We measure our success through the performance of our strategic businesses.

Each has achieved market leadership by demonstrating consistency in Product Leadership, World Class Service, and being an Employer of Choice.

Our focus on growth begins with a commitment to our clients.

We thank our clients for the opportunity to serve them, and in several case studies on the pages that follow we are proud to show how ADP solutions help make a difference...

# Employer Services

Building on strong momentum from fiscal 2005, Employer Services (ES) is focused on capturing new market opportunities, accelerating sales and revenue growth, and expanding the client base through superior product offerings supported by World Class Service.

### LARGE MARKETS AND OPPORTUNITIES

ES provides leading HR, payroll, time and labor management, and benefits administration solutions to employers throughout the United States and in major markets around the world. The markets we serve are large and growing. Each offers the opportunity for future growth and we have a very broad range of proven products and services to address the needs of virtually every size employer.

### EXCELLENT INTERNAL GROWTH

In fiscal 2006, ES revenues increased 10% year over year. We added over 26,000 net new ES clients. Traditional payroll and tax filing revenues grew 7%, the highest growth level in four years. Our "beyond payroll" product revenues in the United States grew 15%, led by higher growth solutions such as our Professional Employer Organization, Time and Labor Management Services, Tax Credit Services, Flexible Spending Account Administration Services, and Screening and Selection Services.

New business sales, representing annualized recurring revenues anticipated from new orders, increased 13% year over year, with particular strength in National Account Services, TotalSource®, and GlobalView℠. Client retention once again reached an all-time high; ES clients stay with us longer, approaching an average of almost 10 years, based on revenue life cycle. This retained revenue stream is important to our margins because existing clients are more profitable than new clients, where there are offsetting selling and implementation expenses.

ES is committed to accelerating sales and revenue growth through expanding our salesforce, improving sales productivity, and growing alternate channel sales.

### WELL-FOCUSED BPO SERVICES

The fast-growing HR BPO (business process outsourcing) market represents a compelling growth opportunity for ADP. There is increased demand from employers across all markets for broad, integrated solutions.

Unlike traditional outsourcing that emphasizes single-application processing, HR BPO focuses on the outsourcing of integrated, multiple processes – such as payroll, HR, and benefits and related administration, including compliance and employee call center support. BPO services also generate three-to-ten times the revenue of clients that simply outsource individual applications.

ES is well suited to grow profitably in the HR BPO marketplace. We offer a suite of broad-based solutions for companies of all sizes, with product and service components that are highly valued by our clients. Our scalable proprietary platforms deliver unparalleled domain expertise in payroll, time and labor management, benefits, HR, and money movement, as well as proven delivery and process-focused best practices. Combining these core offerings with the administration of payroll and HR relieves our clients of back-office tasks and allows them to focus their resources on running their business.

# MICROSOFT® CORPORATION


"ADP brings great value to Microsoft: country knowledge, best practices, proven solutions, world class service, expert inquiry management, multilingual/multicurrency capability, and a responsive service organization."

**DIANNE GREENE** (left), Sr. Director, GlobalView℠ Client Service
ADP Employer Services International

"With GlobalView, Microsoft has an enterprise-wide, single platform solution to serve its international payroll operations."

**KIRSTEN FOLKEDAL** (right), Global Marketing Director
ADP Employer Services International

**ONE PLATFORM >**
GlobalView leverages the SAP Human Capital Management (HCM) solution to deliver an international payroll solution for Microsoft on a single platform.

**ONE DATABASE >**
Microsoft benefits from an efficient, highly scalable, multi-client, template-driven database that enables implementation that is faster than conventional installations.

**ONE GLOBAL REPORTING SYSTEM >**
Leveraging standard reports across its enterprise, Microsoft has global visibility for strategic decision-making.

**ONE SEAMLESS INTEGRATION >**
GlobalView provides an interface to general ledger and other corporate systems.

**ONE SERVICE LEVEL AGREEMENT >**
While its employees enjoy service consistency worldwide, Microsoft eliminates the need to manage multiple vendors across different geographies.

**COST-EFFECTIVE, COMPLIANT SOLUTION >**
Microsoft receives multilingual, multicurrency, legislatively compliant, and scalable payroll outsourcing services at a predictable cost worldwide.

# ADVANCE REALTY GROUP


"In my role as an ADP TotalSource® Human Resources professional, I'm focusing on Advance Realty Group's HR-related tasks such as employee relations, training, and development. I help administer employee benefits and payroll, and provide compliance guidance on employment-related matters so the owners can focus on the business initiatives that drive top-line growth and margin expansion."

**LISA M. RAINHA**, Human Resources Generalist
ADP TotalSource, Northeast Region

**PAYROLL, TAX, HR, AND BENEFITS ADMINISTRATION >**
As an owner and developer of office, flex, industrial, retail, and multi-family properties in the New Jersey and Washington, D.C. markets, Advance Realty Group offers a suite of healthcare benefits and workers' compensation coverage for its 120 employees through a co-employment arrangement with ADP's Professional Employer Organization (PEO) – ADP TotalSource.

**COMPLIANCE AND RISK MANAGEMENT ASSISTANCE >**
Firms like Advance Realty Group that operate within multiple states benefit from ADP's compliance expertise and state-specific knowledge of employment laws. Tangible results range from reduced risk of tax filing errors and related penalties, to providing a safer workplace and minimizing downtime in the event of workplace injuries.

**ECONOMICAL AND EFFICIENT >**
By providing access to information and assistance as needed from dedicated ADP representatives, ADP TotalSource helps Advance Realty Group to lower its employer-related administrative costs of doing business, while enhancing its HR services to employees.

ES offers BPO-like solutions across all markets: TotalSource, our PEO (Professional Employer Organization), and ADP Resource℠, our ASO (Administrative Services Offering), for small to mid-size employers; COS (Comprehensive Outsourcing Services) for larger employers; and GlobalView for multinational organizations.

*PEO GROWTH AND THE ASO OPTION*

ADP's PEO, TotalSource – where ADP is a co-employer – includes a full range of outsourced payroll, tax and benefits administration and HR support, including health and workers' compensation coverage.

TotalSource continues to be one of ADP's fastest growing businesses. Sales activity is robust and we serve over 5,700 clients that represent 139,000 worksite employees. TotalSource is now the largest PEO in the United States, when measured in terms of total worksite employees paid.

This year, TotalSource expanded into the large California PEO market. California's small and mid-size businesses face many regulatory challenges that create strong demand for an employment administration and compliance solution, making the state an excellent PEO growth market. Our relationship with leading providers of health and welfare benefits in California adds to the attractiveness of our PEO offering for employers who want to provide a full suite of HR services and benefits to attract and retain the best employees.

ADP Resource, our ASO offering, is a natural outgrowth of the PEO business. Its distinguishing features are the absence of co-employment and the use of the client's own health and workers' compensation coverage. We expect ASO to appeal to an under-penetrated market of companies with 5 to 250 employees that value outsourced HR/payroll services, but either do not want or cannot meet the underwriting requirements for a PEO co-employment arrangement, or would prefer to retain their existing benefit structure.

*COS SERVES AN EXPANDING CLIENT BASE*

COS – our BPO solution for larger employers – enables employers to fully outsource payroll, time and labor management, and HR, as well as payroll and HR administration. Like other BPO offerings that provide added value, COS helps to deepen client relationships across multiple products, which we believe will lead to higher client retention.

Launched in 2004, our COS solution now serves nearly 250,000 employees from a wide variety of businesses in the United States. COS has been well-received in the marketplace and has a healthy sales pipeline. We have continued to add resources to support and build out the COS infrastructure to meet the needs of this growing market.

*OUR GROWING GLOBAL FOOTPRINT*

ES continues to expand its international presence, serving multinational and local enterprises with payroll and human resource information services. Between our best-of-breed local country and GlobalView offerings, we provide solutions to clients in 31 countries throughout North and South America, Europe, and Asia.

GlobalView – which uses the mySAP™ 2004 ERP Human Capital Management software – is a unique offering in the marketplace, providing payroll, human resource management, and self-service solutions across an international landscape, giving multinational clients access to their employees' records through a single database with robust reporting capabilities.

Understanding the added value that knowledgeable and fluent local support personnel bring to our growing international business, we have opened dedicated regional service centers in Prague (Czech Republic), Halifax (Canada), and Hyderabad (India). These are in addition to our live hosting centers in Australia, France, and Canada.

This year, we opened two representative offices in China, the largest developing market in the world, in the cities of Shanghai and Beijing. Through our Shanghai facility, we support global and multinational firms that have employees in China on our GlobalView solution.

### ALLIANCES

Alliances are another important way to expand our distribution model. By partnering with other market-leading companies whose offerings complement ours, we reach out in a cost-effective manner more broadly and deeply into our markets, connecting with businesses that we would not normally reach.

In the small business payroll segment, we “wholesale” ADP services to CPAs, who input and process their clients’ payrolls using our applications, services, and back-end infrastructure. We also provide these accountants with the ability to print checks and reports from their office or have ADP deliver the payroll directly to their clients, while the accountants maintain direct contact with their clients.

### SMARTSHORE AND OFFSHORE INITIATIVES

Future success depends on our ability to remain competitive in the marketplace. That recognition has led us to create a new generation of service hubs: smartshore and offshore facilities that are designed to deliver World Class Service, and concurrently improve productivity and margins by leveraging the advantages of low-cost geographies, economies of scale, and best practices.

Smartshore centers – we recently created a centralized service environment that helps to improve the overall client experience. Our newly operational facility in El Paso, Texas, is an example of this centralized service strategy, which is an important part of our long-term investment in World Class Service and will help us to improve our competitive position.

Offshore centers – we enhance our global competitiveness by serving clients across multiple time zones through service facilities such as our office in Hyderabad, India, which provides IT support services to clients globally for all ADP businesses.

Offshoring and smartshoring certain non-client-facing functions help to accelerate time to market.

### SUBSTANTIAL MARKET OPPORTUNITY REMAINS

As ADP’s oldest business with more than 55 years of experience serving the needs of employers, ES still enjoys a wide array of new growth opportunities. Consider this sampling:

> we pay 1-in-6 workers in the U.S. private sector;

> the HR BPO opportunity, which remains under-penetrated in all market segments, has a multi-billion dollar potential in the U.S. market and abroad;

> we pay a very small percentage of all employees in the international markets we serve; and

> cross-selling of our beyond payroll products into our traditional payroll/payroll tax filing base continues to offer a significant opportunity.

# CHRISTIANSON ACCOUNTING SERVICES


"ADP's Accountant Wholesaler Program enables Christianson Accounting Services to process its clients' payrolls with ADP and offer other value-added ADP services."

**ERIC W. ARMSTRONG** (left), Senior Client Service Representative
ADP ES Small Business Services

"The wholesaler program is valuable to accountants because it helps them increase their firm's profit margin. By transferring administrative processing tasks to ADP, they have more time to advise clients on pertinent accounting matters. Using ADP as a resource, they also have a competitive advantage over other accountants."

**ANTIONETTE TURK**, CPP (right), Client Service Manager
ADP ES Small Business Services

**THE ACCOUNTANT WHOLESALER PROGRAM >**
Christianson Accounting Services of Alexandria, Virginia, processes the payrolls of nearly 20 of its clients through ADP's Accountant Wholesaler Program, using a Web-based interface.

**HEADACHE-FREE, REGULATORY COMPLIANT SERVICE >**
Accountants have the assurance that the services they offer to their clients through ADP comply with applicable tax laws and regulations.

**"BACK-OFFICE" PROCESSING >**
Accountants in the wholesaler program send their clients' payroll information to ADP via secure Web access. ADP processes the payrolls, and the accountants can choose to print paychecks and related reports, or have ADP deliver them. Throughout the entire payroll process, the accountant remains the single point of contact for his or her clients.

# Brokerage Services

Continued growth in our investor communications business, strong trade volumes in the back office, increased sales, and strong client retention throughout Brokerage Services contributed to a year of positive performance. Brokerage Services posted revenue growth of 11% for the year, which includes the first full year of operations for ADP Clearing & Outsourcing Services℠.

**BACK-OFFICE PROCESSING**

Brokerage Services processed a higher volume of equity trades this year. Institutional, retail, and Internet trade volumes all grew year over year, while average revenues per trade continued to decline due to both trade mix and higher volumes from our largest institutional clients. Client retention was positive and new sales were strong. We also expanded our margin by leveraging the high scalability of the business.

**SECURITIES CLEARING AND OPERATIONS OUTSOURCING**

An important new component of our back-office business, ADP Clearing & Outsourcing Services creates a BPO offering that serves retail and institutional businesses in the financial services industry. It enables us to create a full-service back-office solution and is a vital part of the growth strategy for the back-office business. ADP Clearing & Outsourcing Services completed its first full year with a growing client list and an active sales pipeline. This business provides two BPO-like options:

> The Clearing solution enables clients to outsource their entire back-office function while using ADP's balance sheet to finance inventory and margin balances. Entering the Clearing business enables Brokerage Services to offer an end-to-end solution to approximately 4,000 smaller broker-dealers that desire a single source to process and clear their trades.

> The Operations Outsourcing solution allows brokers of all sizes to outsource the administrative functions of trade processing – from order entry to clearance and settlement – to ADP, while maintaining their ability to finance and capitalize their businesses.

Reliable, scalable, and cost-effective, ADP Clearing & Outsourcing Services has gained excellent market traction in 2006.

**INVESTOR COMMUNICATIONS**

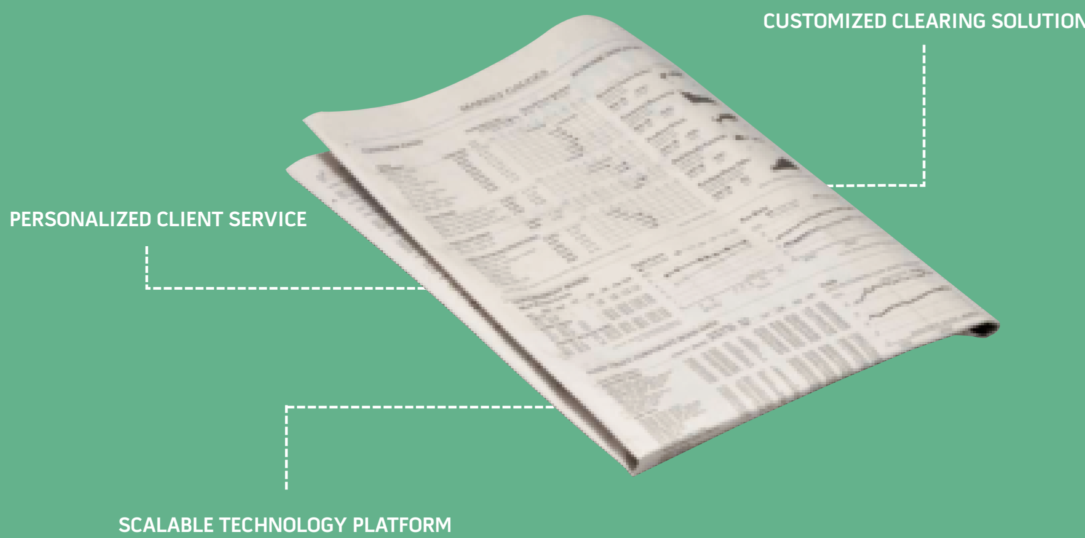
As the market's leading provider of investor communications, including proxy mailing and vote processing services, ADP helps thousands of public companies and mutual funds communicate and conduct business with their shareholders.

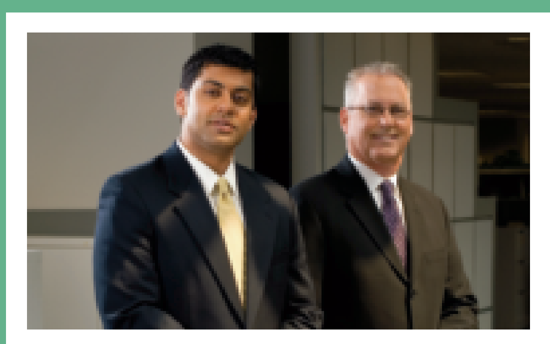
This year, our investor communications business realized increased revenue from a higher volume in mutual fund mailings and strength in our "beyond beneficial" products — primarily transaction processing of statements and confirms. In fiscal 2006, we tabulated more than 100 million shareholder ballots.

We continue to expand our global proxy service capabilities. For example, this year the electronic proxy voting platform implemented as part of our joint venture with the Tokyo Stock Exchange and the Japan Securities Dealers Association became fully operational. Based on ADP's ProxyEdge®, our automated proxy management service, this solution provides a Japanese language voting platform with Japanese content for local investors, and is fully integrated with our global proxy voting platform.

Client retention in our investor communications business continues at strong historic rates.

# MULTI-BANK SECURITIES, INC.



"ADP is a premier name in the global marketplace. Multi-Bank Securities needed a partner that provides what we offer – innovative technology solutions, as well as proven expertise in servicing institutional broker-dealers."

**MILAN DOSHI** (left), Vice President, Relationship Management
ADP Clearing & Outsourcing Services

"ADP Clearing's highly personalized service model and the service team's broad knowledge base is ideal for a diverse client like Multi-Bank Securities. We leverage the combined strength of the technology we use and our human capital to benefit our clients with a great solution."

**CHARLES LIEF** (right), Vice President of Sales
ADP Clearing & Outsourcing Services

**THEIR CHOICE WAS ADP >**
Specializing in the sales and trading of fixed-income securities, Multi-Bank Securities, Inc. chose ADP Clearing & Outsourcing Services because of ADP's financial stability, broad industry knowledge, extensive product line, commitment to its clients, and ability to handle both retail and institutional business.

**PERSONALIZED SERVICE >**
The Michigan-based investment firm, which serves more than 6,500 financial institutions, public entities, and business enterprises throughout the United States, relies on the high level of personalized service provided by ADP Clearing – beginning with a relationship manager from ADP that fully understands their business.

**MARKET-LEADING CLEARING AND SETTLEMENT SERVICES >**
Multi-Bank Securities, Inc. utilizes ADP's full range of clearing and settlement services to support institutional fixed-income trading and CD underwriting, particularly for its credit union clients.

# Dealer Services

As the leading provider of integrated dealer management system (DMS) solutions to automotive, heavy truck, motorcycle, marine and RV dealers and manufacturers in North America, Dealer Services significantly expanded into new international markets in 2006.

### THE NORTH AMERICAN MARKETPLACE

We will continue to grow our Dealer Services business in the North American market where the vast majority of vehicle dealerships already use an integrated DMS. Our strategy is to provide a superior product set with more value-added services beyond our core DMS offering to our existing clients, enabling these retailers to sell their vehicles, parts, and service more profitably. Many of these dealerships – including seven of the ten largest auto consolidators, where nine have chosen a single-source DMS provider – exclusively use the products and services of ADP Dealer Services.

Sustained high retention and superior client service position Dealer Services to considerably strengthen its role as a market leader. We also had strong year over year revenue growth in our primary product offerings, which include: ASP (Application Service Provider) managed services, which allow dealers to outsource IT management and computing and network infrastructure to ADP; CRM (Customer Relationship Management), which empowers dealers with an integrated way to find, sell, and retain customers; and Integrated IP Telephony, which provides dealers with a single network for voice and data communications.

This year, we also introduced new services that add incremental value to our client relationships. ADP's CustomerTouch℠, triggered by events stored in DMS, enables dealers to automatically contact the right clients at the right time by direct mail, e-mail, and automated or live voice methods. In addition, Screening and Selection Services from ADP's Employer Services business assists dealerships in making successful hires that reduce employee turnover and mitigate hiring liabilities. In the latter half of fiscal 2006, we acquired BZ Results, a premier provider of innovative, high-end e-marketing solutions that help dealers engage more online customers through search engine optimization, e-mail marketing, virtual test drives, Internet lead management, and automated follow-up.

### NEW INTERNATIONAL OPPORTUNITIES

Our acquisition of U.K.-based Kerridge Computer in December 2005 positions us to extend our presence to new geographies, and focus on greater global expansion. Kerridge's strong experience with European-based OEMs, vehicle distributors, and emerging global markets helps us to increase our opportunities in those areas. Our core DMS synergies will also enable us to export our successful North American growth strategy of building client relationships on solutions that are scalable and feature layered applications.

With the addition of Kerridge, ADP Dealer Services now serves nearly 25,500 clients in over 40 countries, including new markets in Western, Central, and Eastern Europe; the Middle East; South Africa; and Asia, including China.

While international growth is important to support the growing demands of OEMs for our global solutions, the majority of our Dealer Services revenues are generated in North America, where we have deep client relationships. The importance of our large North American client base will continue to drive our commitment to our investment in this market.

# GROUP 1 AUTOMOTIVE, INC.


"Group 1 Automotive is a leader in the trillion dollar automotive retailing industry. ADP's integrated solutions are helping them streamline their business processes and sell more vehicles, parts, and services more profitably."

**CRAIG R. CAPTAIN**, National Account Director
ADP Dealer Services

**A SINGLE DEALER MANAGEMENT PROVIDER >**
A Fortune 500 auto retailer headquartered in Houston, Texas, Group 1 Automotive is in the process of consolidating from three separate service providers to ADP, enabling the retailer to manage its dealership operations and accounting functions – including vehicle and parts inventory tracking – across its entire enterprise with a single DMS platform.

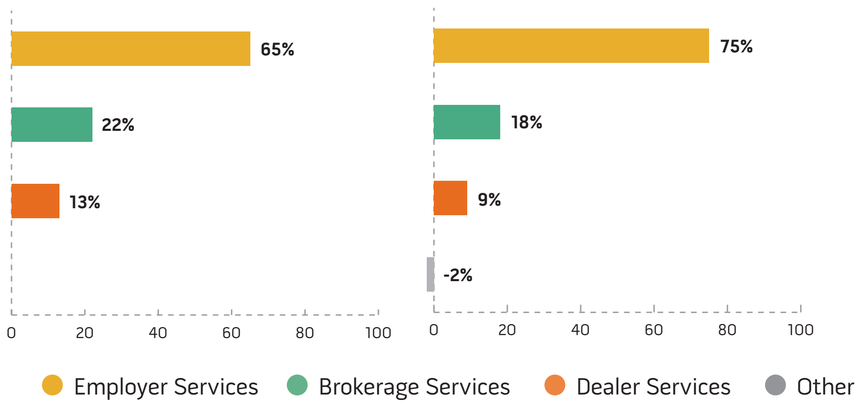
**LEVERAGING REAL-TIME INFORMATION >**
Group 1 management can access and act on real-time information at both the dealership and corporate levels using ADP's Application Service Provider managed services, a fully hosted solution featuring Internet access through secure, high-speed connections.

**INNOVATIVE AND EVOLUTIONARY SOLUTIONS >**
Through its innovative, flexible, and scalable solutions, ADP is positioned to support the client's future needs.

# ADP At A Glance

REVENUES

EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES




KEY DATA

> One of the largest independent computing services companies in the world

> $8.9 billion in annual revenues

> More than 570,000 clients worldwide

> 46,000 associates

> Rated AAA and Aaa by Standard & Poor's and Moody's, respectively

## EMPLOYER SERVICES

The leading provider of a full range of human resource information, payroll, time and labor management, benefits, and related administration, and BPO solutions that help employers increase productivity, ensure regulatory compliance, improve employee retention, and control costs.

### MAJOR GEOGRAPHIC MARKETS

North America, Europe, Australia, Asia, and Brazil

### ES BUSINESSES

***MARKET-FACING BUSINESS UNITS***

> **SMALL BUSINESS SERVICES (SBS)** Serves businesses with fewer than 50 employees

> **MAJOR ACCOUNTS SERVICES (MA)** Serves businesses with 50-999 employees

> **NATIONAL ACCOUNT SERVICES (NAS)** Serves businesses with 1,000 or more employees

> **ADP TOTALSOURCE®**
**Professional Employer Organization** — Provides comprehensive employment administration outsourcing solutions through a co-employment relationship, including payroll, payroll tax filing, employee background checks, HR guidance, 401(k) plan administration, benefits administration, compliance services, health and workers' compensation coverage, and supplemental benefits for employees
**Administrative Services Offering** — Provides an integrated, flexible HR and payroll service offering, ADP Resource℠, without the co-employment relationship, with a menu of optional services such as 401(k), FSA, and pay-as-you-go workers' compensation

> **ES INTERNATIONAL SERVICES** Serves multinational and other clients outside the United States with payroll processing and HR administration services

***PRODUCT-ORIENTED BUSINESS UNITS***

> **FINANCIAL AND COMPLIANCE SERVICES** Provides employer-related tax services and electronic money movement services to all Employer Services business segments, including SBS, MA, and NAS

> **RETIREMENT SERVICES** Provides record-keeping and related administrative services with respect to various types of retirement [primarily 401(k)] plans, deferred compensation plans, and "premium only" cafeteria plans

> **PRE-EMPLOYMENT SERVICES** Provides selection, screening, and compliance services to assist employers in making strong hires and reducing hiring-related liabilities

### FY06 BUSINESS HIGHLIGHTS

> Served approximately 545,000 clients in 31 countries around the globe

> Paid 1-in-6 U.S. workers and 32 million people worldwide

> Provided over 50 million workers with one or more of our services

> Increased client retention to an all-time high

> Achieved our first double-digit organic revenue growth year since 2001

> Grew new business sales 13% for the year — fourth quarter new business sales growth of 28% was the strongest quarterly sales growth in nearly nine years

> Expanded our "beyond payroll" services to approximately 40% of total ES revenues in the United States

> Increased average client funds balances nearly 11% over last year

> Electronically moved over one trillion dollars in client tax, direct deposit, and related client funds

> Increased the number of large employers that have selected our Comprehensive Outsourcing Services to 40

> Grew the number of companies that have chosen GlobalView℠ – our multinational BPO-like solution, launched with a single client in FY05 – to 48, representing over 450,000 employees

> Launched the *ADP National Employment Report*℠, a real-time new estimate of employment trends in the U.S. non-farm private sector, based on a monthly sampling of active payroll data

## BROKERAGE SERVICES

A leading provider of transaction processing, desktop productivity applications, investor communications solutions, and clearing and operations outsourcing services to the financial services industry worldwide.

### MAJOR GEOGRAPHIC MARKETS

North America, Europe, Asia, and Australia

### FY06 BUSINESS HIGHLIGHTS

> Processed an average of 1.7 million trades per day in major equities markets worldwide, a measure of volume-driven revenue

> Served the investor communications needs of approximately 13,000 U.S. publicly traded corporations and 450 mutual funds and annuity companies, on behalf of more than 850 brokerage firms and banks

> Distributed nearly 1.1 billion pieces of investor communications materials — 8% more than last year, including proxy ballots covering more than 565 billion shares

> Delivered nearly 50 million investor communications via the Internet — 30% more than last year

> Launched a new proxy solicitation service for mutual funds clients, including the operation of a 200-seat call center that provides us with the ability to recognize, prioritize, and initiate calls based upon shareholder profile

> Introduced a comprehensive new year-end tax information reporting service to brokers through a strategic alliance with The Depository Trust & Clearing Corporation

> Brought to market ProVisor® *Wealth*, an integrated wealth management solution that provides data integration and workflow continuity to investment advisors and their clients

## DEALER SERVICES

The leading provider of integrated dealer management systems (DMS) and business solutions for automotive, heavy truck, motorcycle, marine, and RV retailers and their manufacturers.

### MAJOR GEOGRAPHIC MARKETS

North America, Europe, the Middle East, Australia, South Africa, and Asia

### FY06 BUSINESS HIGHLIGHTS

> Served nearly 25,500 auto, truck, motorcycle, marine, and RV dealers worldwide

> Crossed the one billion dollar mark in revenue

> Achieved continued strong client retention year over year

> Successfully launched our new DMS w.e.b.Suite™*2006*, growing overall client DMS w.e.b.Suite penetration to 32%

> Selected as the exclusive DMS provider by 7 of the top 10 U.S. automotive consolidators, where nine have chosen a single-source provider

> Acquired U.K.-based Kerridge Computer, one of the premier global DMS providers with nearly 6,000 client sites worldwide

> Selected to become the sole-source DMS provider for UAG Sytner Group's 95 dealerships in the United Kingdom

> Increased our Customer Relationship Management (CRM) solution base to more than 1,000 sites — a 34% increase

> Expanded our Application Service Provider (ASP) managed network to over 130,000 users at more than 3,500 sites

> Acquired BZ Results, a provider of high-end e-marketing solutions that help vehicle dealers to more effectively spend their marketing budget by using both the Web and CRM to attract customers for sales and service

> Honored by the Service & Support Professionals Association — the leading industry association for IT professionals — for Best Practices in Support Technology

# Statements of Consolidated Earnings



(In millions, except per share amounts)

| Years ended June 30, | 2006[B] | 2005[C] | 2004[C] |
|---|---|---|---|
| Revenues, other than interest on funds held for Employer Services' clients and PEO revenues | **$ 7,628.0** | $ 6,985.3 | $ 6,457.0 |
| Interest on funds held for Employer Services' clients | **549.8** | 421.4 | 355.4 |
| PEO revenues[A] | **703.7** | 577.0 | 467.0 |
| Total revenues | **8,881.5** | 7,983.7 | 7,279.4 |
| Operating expenses | **4,289.5** | 3,764.8 | 3,308.7 |
| Selling, general, and administrative expenses | **2,035.1** | 1,832.8 | 1,789.7 |
| Systems development and programming costs | **589.8** | 550.3 | 523.7 |
| Depreciation and amortization | **288.6** | 273.9 | 277.1 |
| Other income, net | **(64.5)** | (31.2) | (54.7) |
| | **7,138.5** | 6,390.6 | 5,844.5 |
| Earnings from continuing operations before income taxes | **1,743.0** | 1,593.1 | 1,434.9 |
| Provision for income taxes | **670.6** | 594.8 | 537.2 |
| Net earnings from continuing operations | **1,072.4** | 998.3 | 897.7 |
| Earnings from discontinued operations, net of provision for income taxes of $123.2, $27.7 and $21.7 for the three years ended June 30, 2006, 2005 and 2004, respectively | **481.6** | 57.1 | 37.9 |
| Net earnings | **$ 1,554.0** | $ 1,055.4 | $ 935.6 |
| Basic earnings per share from continuing operations | **$ 1.87** | $ 1.71 | $ 1.52 |
| Basic earnings per share from discontinued operations | **0.84** | 0.10 | 0.06 |
| Basic earnings per share | **$ 2.70** | $ 1.81 | $ 1.58 |
| Diluted earnings per share from continuing operations | **$ 1.85** | $ 1.69 | $ 1.50 |
| Diluted earnings per share from discontinued operations | **0.83** | 0.10 | 0.06 |
| Diluted earnings per share | **$ 2.68** | $ 1.79 | $ 1.56 |
| Basic weighted average shares outstanding | **574.8** | 583.2 | 591.7 |
| Diluted weighted average shares outstanding | **580.3** | 590.0 | 598.7 |

(A) Professional Employer Organization (PEO) revenues are net of direct pass-through costs of $6,977.0, $5,499.2 and $4,237.0, respectively.

(B) The Statement of Consolidated Earnings for the year ended June 30, 2006 reflects the results of the Company on an "as reported" basis and includes incremental stock compensation expense relating to the Company's stock compensation plans of $30.9 in operating expenses, $85.9 in selling, general, and administrative expenses, and $31.9 in systems development and programming costs, as well as a related tax benefit of $41.7 in provision for income taxes, in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment," which the Company adopted as of July 1, 2005.

(C) The Statements of Consolidated Earnings for the years ended June 30, 2005 and 2004 reflect the results of the Company on an "as reported" basis and do not include stock compensation expense relating to our stock option plan and employee stock purchase plan.

***In order to show the results for the years ended June 30, 2006, 2005, and 2004 on a comparable basis, adjustments for incremental stock compensation expense relating to the Company's stock compensation plans are shown in the Statements of Consolidated Earnings - Comparable Basis, as Adjusted for Stock Compensation Expense for the Years Ended June 30, 2005 and 2004 on page 23.***

**Our Annual Report on Form 10-K, which includes Management's Discussion and Analysis, Financial Statements and related Footnotes, is available online under "Investor Relations" on ADP's Web site, www.adp.com.**

# Statements of Consolidated Earnings

## Comparable Basis, as Adjusted for Stock Compensation Expense for the Years Ended June 30, 2005 and 2004

(In millions, except per share amounts)

| Years ended June 30, | 2006[B] | 2005[C] | 2004[C] |
|---|---|---|---|
| Revenues, other than interest on funds held for Employer Services' clients and PEO revenues | **$ 7,628.0** | $ 6,985.3 | $ 6,457.0 |
| Interest on funds held for Employer Services' clients | **549.8** | 421.4 | 355.4 |
| PEO revenues[A] | **703.7** | 577.0 | 467.0 |
| Total revenues | **8,881.5** | 7,983.7 | 7,279.4 |
| Operating expenses | **4,289.5** | 3,803.6 | 3,344.8 |
| Selling, general, and administrative expenses | **2,035.1** | 1,925.6 | 1,888.3 |
| Systems development and programming costs | **589.8** | 591.7 | 560.4 |
| Depreciation and amortization | **288.6** | 273.9 | 277.1 |
| Other income, net | **(64.5)** | (31.2) | (54.7) |
| | **7,138.5** | 6,563.6 | 6,015.9 |
| Earnings from continuing operations before income taxes | **1,743.0** | 1,420.1 | 1,263.5 |
| Provision for income taxes | **670.6** | 546.3 | 473.1 |
| Net earnings from continuing operations | **1,072.4** | 873.8 | 790.4 |
| Earnings from discontinued operations, net of provision for income taxes of $123.2, $25.2 and $18.6 for the three years ended June 30, 2006, 2005 and 2004, respectively | **481.6** | 50.0 | 32.6 |
| Net earnings | **$ 1,554.0** | $ 923.8 | $ 823.0 |
| Basic earnings per share from continuing operations | **$ 1.87** | $ 1.50 | $ 1.34 |
| Basic earnings per share from discontinued operations | **0.84** | 0.09 | 0.06 |
| Basic earnings per share | **$ 2.70** | $ 1.58 | $ 1.39 |
| Diluted earnings per share from continuing operations | **$ 1.85** | $ 1.48 | $ 1.32 |
| Diluted earnings per share from discontinued operations | **0.83** | 0.08 | 0.05 |
| Diluted earnings per share | **$ 2.68** | $ 1.57 | $ 1.37 |
| Basic weighted average shares outstanding | **574.8** | 583.2 | 591.7 |
| Diluted weighted average shares outstanding | **580.3** | 590.0 | 598.7 |

(A) Professional Employer Organization (PEO) revenues are net of direct pass-through costs of $6,977.0, $5,499.2 and $4,237.0, respectively.

(B) The Statement of Consolidated Earnings for the year ended June 30, 2006 reflects the results of the Company on an "as reported" basis and includes incremental stock compensation expense relating to the Company's stock compensation plans of $30.9 in operating expenses, $85.9 in selling, general, and administrative expenses and $31.9 in systems development and programming costs, as well as a related tax benefit of $41.7 in provision for income taxes, in accordance with SFAS No. 123R, which the Company adopted as of July 1, 2005.

(C) The adjusted Statements of Consolidated Earnings for the years ended June 30, 2005 and 2004 include the pro forma impact of the incremental stock compensation expense relating to the Company's stock option plan and employee stock purchase plan of $38.8 and $36.1 in operating expenses, $92.8 and $98.6 in selling, general, and administrative expenses, and $41.4 and $36.7 in systems development and programming costs, as well as related tax benefits of $48.5 and $64.1 in provision for income taxes for the years ended June 30, 2005 and 2004, respectively.

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# Consolidated Balance Sheets



(In millions, except per share amounts)

| June 30, | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,900.6 | $ 853.6 |
| Short-term marketable securities (includes $40.3 and $204.7 of segregated securities deposited with clearing organizations or segregated for regulatory purposes at June 30, 2006 and 2005, respectively) | 367.9 | 695.8 |
| Accounts receivable, net | 1,202.4 | 1,121.7 |
| Securities clearing receivables | 836.8 | 965.2 |
| Other current assets | 452.4 | 571.4 |
| Assets of discontinued operations | – | 662.2 |
| Total current assets | 4,760.1 | 4,869.9 |
| Long-term marketable securities | 334.0 | 447.9 |
| Long-term receivables, net | 215.4 | 186.9 |
| Property, plant and equipment, net | 782.4 | 637.9 |
| Other assets | 830.1 | 813.8 |
| Goodwill | 2,466.2 | 2,185.8 |
| Intangible assets, net | 618.0 | 575.7 |
| Total assets before funds held for clients | 10,006.2 | 9,717.9 |
| Funds held for clients | 17,483.9 | 17,897.5 |
| Total assets | $27,490.1 | $ 27,615.4 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 207.3 | $ 192.7 |
| Accrued expenses and other current liabilities | 1,546.4 | 1,511.3 |
| Securities clearing payables | 613.6 | 745.2 |
| Income taxes payable | 205.7 | 192.5 |
| Liabilities of discontinued operations | 19.7 | 220.1 |
| Total current liabilities | 2,592.7 | 2,861.8 |
| Long-term debt | 74.3 | 75.7 |
| Other liabilities | 373.4 | 333.4 |
| Deferred income taxes | 123.7 | 238.7 |
| Deferred revenues | 527.0 | 462.7 |
| Total liabilities before client funds obligations | 3,691.1 | 3,972.3 |
| Client funds obligations | 17,787.4 | 17,859.2 |
| Total liabilities | 21,478.5 | 21,831.5 |
| Stockholders' equity: | | |
| Preferred stock, $1.00 par value: Authorized, 0.3 shares; issued, none | – | – |
| Common stock, $0.10 par value: Authorized, 1,000.0 shares; issued, 638.7 shares at June 30, 2006 and 2005 | 63.9 | 63.9 |
| Capital in excess of par value | 157.4 | – |
| Deferred compensation | – | (13.3) |
| Retained earnings | 9,111.4 | 7,966.0 |
| Treasury stock – at cost: 77.3 and 58.5 shares, respectively | (3,194.8) | (2,246.8) |
| Accumulated other comprehensive (loss) income | (126.3) | 14.1 |
| Total stockholders' equity | 6,011.6 | 5,783.9 |
| Total liabilities and stockholders' equity | $27,490.1 | $ 27,615.4 |

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# Statements of Consolidated Cash Flows

(In millions)

| Years ended June 30, | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Net earnings | $ 1,554.0 | $ 1,055.4 | $ 935.6 |
| Adjustments to reconcile net earnings to net cash flows provided by operating activities: | | | |
| Depreciation and amortization | 288.6 | 273.9 | 277.1 |
| Deferred income taxes | 33.9 | 21.9 | 106.2 |
| Stock-based compensation expense | 168.4 | 14.0 | 12.3 |
| Pension expense | 34.5 | 25.3 | 16.4 |
| Realized gains (losses) from the sales of marketable securities | 4.6 | 28.5 | 7.6 |
| Amortization of premiums and discounts on available-for-sale securities | 75.4 | 120.0 | 129.9 |
| Gain on sale of discontinued operations business, net of tax | (452.8) | – | – |
| Impairment of assets of discontinued operations business | 18.6 | – | – |
| Other | 32.9 | (36.9) | 43.5 |
| Operating activities of discontinued operations | (11.5) | 55.8 | 38.3 |
| Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses: | | | |
| Decrease (increase) in securities deposited with clearing organizations or segregated in compliance with federal regulations | 164.4 | (179.8) | – |
| Increase in receivables and other assets | (0.6) | (139.9) | (225.4) |
| (Decrease) increase in accounts payable, accrued expenses, and other liabilities | (94.7) | 266.2 | 43.9 |
| Decrease (increase) in securities clearing receivables | 128.4 | (16.3) | – |
| Decrease in securities clearing payables | (131.6) | (54.7) | – |
| Net cash flows provided by operating activities | 1,812.5 | 1,433.4 | 1,385.4 |
| **Cash Flows From Investing Activities** | | | |
| Purchases of marketable securities | (5,846.5) | (7,599.4) | (8,087.2) |
| Proceeds from the sales and maturities of marketable securities | 4,955.0 | 6,629.1 | 5,339.3 |
| Net (purchases of) proceeds from client funds securities | 1,364.1 | (3,765.6) | 663.8 |
| Change in client funds obligations | (174.3) | 5,019.0 | 1,391.3 |
| Capital expenditures | (292.3) | (187.3) | (188.0) |
| Additions to intangibles | (118.7) | (103.4) | (145.2) |
| Acquisitions of businesses, net of cash acquired | (336.7) | (404.4) | (172.4) |
| Proceeds from the sale of businesses | 902.4 | 17.2 | 21.5 |
| Other | 12.3 | 4.6 | (5.5) |
| Investing activities of discontinued operations | (13.1) | (47.7) | (136.4) |
| Net cash flows provided by (used in) investing activities | 452.2 | (437.9) | (1,318.8) |
| **Cash Flows From Financing Activities** | | | |
| Payments of debt | (0.7) | (1.1) | (1.4) |
| Proceeds from issuance of notes | 0.5 | 0.3 | 0.4 |
| Repurchases of common stock | (1,299.9) | (584.4) | (629.9) |
| Proceeds from stock purchase plan and exercises of stock options | 264.1 | 174.6 | 160.7 |
| Excess tax benefit related to exercises of stock options | 7.9 | – | – |
| Dividends paid | (393.9) | (344.9) | (308.6) |
| Financing activities of discontinued operations | 73.2 | 9.0 | 8.5 |
| Net cash flows used in financing activities | (1,348.8) | (746.5) | (770.3) |
| Effect of exchange rate changes on cash and cash equivalents | 9.3 | 13.4 | 6.5 |
| Net change in cash and cash equivalents | 925.2 | 262.4 | (697.2) |
| Cash and cash equivalents, beginning of year | 975.4 | 713.0 | 1,410.2 |
| Cash and cash equivalents, end of year | 1,900.6 | 975.4 | 713.0 |
| Less cash and cash equivalents of discontinued operations, end of year | – | (121.8) | (108.2) |
| Cash and cash equivalents of continuing operations, end of year | $ 1,900.6 | $ 853.6 | $ 604.8 |

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# Directors and Corporate Officers

## DIRECTORS

**Gregory D. Brenneman** (1)*, (2)
President and Chief Executive Officer, TurnWorks, Inc.
Chairman, ADP Compensation Committee

**Leslie A. Brun** (2), (3)
Chairman and Chief Executive Officer, SARR Group, LLC
Chairman, ADP Nominating/Corporate Governance Committee

**Gary C. Butler**
President and Chief Operating Officer, CEO-elect

**Leon G. Cooperman** (1)*, (3)
Chairman and Chief Executive Officer, Omega Advisors, Inc.
Chairman, ADP Audit Committee

**R. Glenn Hubbard** (1)*, (3)
Dean of The Graduate School of Business at Columbia University

**John P. Jones** (2)
Chairman and Chief Executive Officer, Air Products and Chemicals, Inc.

**Ann Dibble Jordan** (1), (3)
Consultant
Member of various boards

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

**Henry Taub**
Honorary Chairman

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

(1) Audit Committee
* a designated "audit committee financial expert"
(2) Compensation Committee
(3) Nominating/Corporate Governance Committee

## CORPORATE OFFICERS

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

**Gary C. Butler**
President and Chief Operating Officer, CEO-elect

### Group Presidents

**Richard J. Daly**
**John Hogan**
**S. Michael Martone**

### Corporate Vice Presidents

**Steven J. Anenen**
**James B. Benson**
**Richard C. Berke**
**Janice M. Colby**
**Raymond L. Colotti**
**Vincent R. Coppola**
**John J. Gleason**
**Campbell B. Langdon**
**Regina Lee**
**Carlos Rodriguez**
**Michael P. Rooney**
**Robert Schifellite**
**Alan Sheiness**
**Dan Sheldon**
**Jan Siegmund**
**George I. Stoeckert**
**Thomas J. Tremba**

### Staff Vice Presidents

**Adam D. Amsterdam**
**Douglas R. DeSchutter**
**Stephen A. Doherty**
**Richard Erickson**
**Gary E. Tarino**
**Daniel A. Zaccardo**

## CORPORATE HEADQUARTERS

Automatic Data Processing, Inc.
One ADP Boulevard
Roseland, New Jersey 07068-1728
973.974.5000

## STOCK TRANSFER AGENT AND REGISTRAR

Mellon Investor Services, our transfer agent, maintains the records for our registered stockholders and can help you with a variety of stockholder-related services.

You may contact Mellon Investor Services by regular mail at P.O. Box 3315, South Hackensack, New Jersey 07606-1915, or by registered or overnight mail at 480 Washington Boulevard, Jersey City, New Jersey 07310.

You may call Mellon Investor Services at the following numbers:
888.414.6896 (U.S. and Canada)
201.329.8660 (International)
201.329.8354 (TDD for hearing impaired)

Automated telephone support services are available 24 hours per day 7 days per week. Mellon customer service representatives are available from 9:00 a.m. to 7:00 p.m. (Eastern) Monday through Friday.

When calling, please have your social security number or taxpayer identification number available, and please identify yourself as an ADP stockholder. You will also need to furnish them with the name in which your account is being maintained.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP

## CORPORATE GOVERNANCE

Visit the About ADP section of ADP's Web site, at www.adp.com, to see its key corporate governance documents, including its Corporate Philosophy, Code of Business Conduct & Ethics, Code of Ethics for Principal Executive Officer and Senior Financial Officers, Corporate Governance Principles, Audit Committee Charter, Compensation Committee Charter, and Nominating/Corporate Governance Committee Charter.

## ANNUAL REPORT, FORM 10-K AND OTHER REPORTS AND FILINGS

This 2006 Summary Annual Report is also available online under "Investor Relations" on ADP's Web site at www.adp.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statement, statements of change in beneficial ownership and other SEC filings, and amendments to those reports, statements and filings, are available, without charge, on ADP's Web site as soon as reasonably practicable after they are filed or furnished electronically with the SEC. Copies also are available, without charge, from ADP Investor Relations at: One ADP Boulevard, Roseland, New Jersey 07068-1728. Phone: 973.974.5858.

Our Chief Executive Officer and Principal Financial Officer have furnished the Sections 302 and 906 certifications required by the SEC in our annual report on Form 10-K. In addition, our Chief Executive Officer has certified to the NYSE that he is not aware of any violation by us of the NYSE corporate governance listing standards.

## ADP COMMON STOCK

The shares of ADP Common Stock are listed on the New York Stock Exchange with the symbol ADP. As of August 28, 2006, there were 41,476 registered holders of ADP's Common Stock.

## PRODUCT INFORMATION

For information about ADP's products and services, visit us at www.adp.com.

## CONTACT ADP'S AUDIT COMMITTEE OR BOARD OF DIRECTORS

To report complaints about ADP's accounting, internal accounting controls or auditing matters, or other concerns to the Audit Committee or the non-management members of the Board of Directors, send a detailed note, with relevant documents, to P.O. Box 34, Roseland, New Jersey 07068, leave a message for a return call at 973.974.5770, or send an e-mail to adp_audit_committee@adp.com.

## ANNUAL MEETING

This year's stockholders' meeting will be held at Automatic Data Processing, Inc., One ADP Boulevard, Roseland, New Jersey, on November 14, 2006 at 10:00 a.m. A notice of the meeting, proxy statement, and proxy voting card will be mailed to stockholders starting on or about September 27, 2006.

## FORWARD-LOOKING STATEMENTS

This report and other written or oral statements made from time to time by ADP may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like "expects," "assumes," "projects," "anticipates," "estimates," "we believe," "could be" and other words of similar meaning, are forward-looking statements. These statements are based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of products and services; changes in laws regulating payroll taxes, professional employer organizations, employee benefits and registered clearing agencies and broker-dealers; overall market and economic conditions, including interest rate and foreign currency trends; competitive conditions; stock market activity; auto sales and related industry changes; employment and wage levels; changes in technology; availability of skilled technical associates and the impact of new acquisitions and divestitures. In addition, the proposed spin-off of the Brokerage Services Group is subject to inherent risks and uncertainties, including: risks that the spin-off will not be consummated; increased demands on our management team to accomplish the spin-off; significant transaction costs; risks of changes in our credit rating and risks from changes in results of operations of our reportable segments. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.



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