AUTOMATIC DATA PROCESSING INC
Form 10-Q
February 09, 2009

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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended December 31, 2008

OR

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

For the Transition Period From to

Commission File Number 1-5397

AUTOMATIC DATA PROCESSING, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-1467904**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One ADP Boulevard, Roseland, New Jersey	**07068**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares outstanding of the registrant s common stock as of January 31, 2009 was 504,888,675.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Automatic Data Processing, Inc. and Subsidiaries

Statements of Consolidated Earnings

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
REVENUES:				
Revenues, other than interest on funds held for clients and PEO revenues	$ 1,772.6	$ 1,738.8	$ 3,525.0	$ 3,342.4
Interest on funds held for clients	147.3	162.0	299.2	316.5
PEO revenues (A)	283.4	249.3	560.5	483.2
TOTAL REVENUES	2,203.3	2,150.1	4,384.7	4,142.1
EXPENSES:				
Costs of revenues:				
Operating expenses	1,007.1	979.8	2,054.1	1,888.1
Systems development and programming costs	123.1	128.8	253.4	253.1
Depreciation and amortization	57.3	59.6	116.7	119.0
TOTAL COSTS OF REVENUES	1,187.5	1,168.2	2,424.2	2,260.2
Selling, general and administrative expenses	573.1	554.5	1,099.8	1,088.1
Interest expense	8.1	30.7	27.4	60.1
TOTAL EXPENSES	1,768.7	1,753.4	3,551.4	3,408.4
Other income, net	(38.6)	(43.9)	(81.2)	(88.4)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	473.2	440.6	914.5	822.1
Provision for income taxes	172.8	149.0	336.2	290.1
NET EARNINGS FROM CONTINUING OPERATIONS	$ 300.4	$ 291.6	$ 578.3	$ 532.0
Earnings (loss) from discontinued operations, net of (benefit) provision for income taxes of $(0.1) and $(0.4) for the three months ended December 31, 2008 and 2007, respectively, and $1.0 and $30.8 for the six months ended December 31, 2008 and 2007, respectively	0.1	(0.4)	(1.0)	56.5
NET EARNINGS	$ 300.5	$ 291.2	$ 577.3	$ 588.5

Basic Earnings Per Share from Continuing Operations	$	0.60	$	0.56	$	1.14	$	1.01
Basic Earnings Per Share from Discontinued Operations								0.11
BASIC EARNINGS PER SHARE	$	0.60	$	0.56	$	1.14	$	1.12
Diluted Earnings Per Share from Continuing Operations	$	0.59	$	0.55	$	1.14	$	1.00
Diluted Earnings Per Share from Discontinued Operations								0.11
DILUTED EARNINGS PER SHARE	$	0.59	$	0.55	$	1.13	$	1.10
Basic weighted average shares outstanding		503.4		523.1		505.4		525.7
Diluted weighted average shares outstanding		506.1		530.4		509.4		532.9
Dividends declared per common share	$	0.3300	$	0.2900	$	0.6200	$	0.5200

(A) Professional Employer Organization (PEO) revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of $3,283.4 and $2,964.9 for the three months ended December 31, 2008 and 2007, respectively, and $6,082.0 and $5,369.1 for the six months ended December 31, 2008 and 2007, respectively.

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries

Consolidated Balance Sheets

(In millions, except per share amounts)

(Unaudited)

Assets	December 31, 2008	June 30, 2008
Current assets:		
Cash and cash equivalents	$ 1,304.9	$ 917.5
Short-term marketable securities	66.7	666.3
Accounts receivable, net	1,166.3	1,034.6
Other current assets	749.8	771.6
Assets held for sale	12.1	
Total current assets before funds held for clients	3,299.8	3,390.0
Funds held for clients	25,357.6	15,418.9
Total current assets	28,657.4	18,808.9
Long-term marketable securities (A)	81.0	76.5
Long-term receivables, net	248.6	234.0
Property, plant and equipment, net	721.0	742.9
Other assets	798.0	808.3
Goodwill	2,281.8	2,426.7
Intangible assets, net	573.2	637.1
Total assets	$ 33,361.0	$ 23,734.4
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 96.4	$ 126.9
Accrued expenses and other current liabilities	681.3	668.1
Accrued payroll and payroll-related expenses	579.4	479.4
Dividends payable	163.1	145.7
Short-term deferred revenues	317.9	356.1
Obligation under reverse repurchase agreement		11.8
Income taxes payable	219.1	258.9
Total current liabilities before client funds obligations	2,057.2	2,046.9
Client funds obligations	25,170.4	15,294.7
Total current liabilities	27,227.6	17,341.6
Long-term debt	51.2	52.1
Other liabilities	606.2	587.9
Deferred income taxes	148.7	170.0
Long-term deferred revenues	489.6	495.6
Total liabilities	28,523.3	18,647.2
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 December 31, 2008 and June 30, 2008; outstanding, 504.0 and 510.3 shares at December 31, 2008 and June 30, 2008, respectively	63.9	63.9
Capital in excess of par value	500.6	522.0
Retained earnings	10,292.4	10,029.8
Treasury stock - at cost: 134.7 and 128.4 shares at December 31, 2008 and June 30, 2008, respectively	(6,063.1)	(5,804.7)
Accumulated other comprehensive income	43.9	276.2
Total stockholders equity	4,837.7	5,087.2

Total liabilities and stockholders equity	$	33,361.0	$	23,734.4

(A) As of June 30, 2008, long-term marketable securities included $11.7 of securities pledged as collateral under the Company s reverse repurchase agreement (see Note 12).

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries

Statements of Consolidated Cash Flows

(In millions)

(Unaudited)

	Six Months Ended December 31, 2008	2007
Cash Flows from Operating Activities:		
Net earnings	$ 577.3	$ 588.5
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	151.2	167.6
Deferred income taxes	(52.4)	(33.9)
Stock-based compensation expense	62.6	63.4
Net pension expense	16.8	19.2
Net realized loss (gain) from the sales of marketable securities	8.3	(0.1)
Net amortization of premiums and accretion of discounts on available-for-sale securities	28.9	18.0
Gain on sale of assets held for sale	(2.2)	
Loss (gain) on sale of discontinued businesses, net of tax	1.0	(56.5)
Other	(4.2)	60.6
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses:		
Increase in accounts receivable	(213.8)	(13.6)
Increase in other assets	(41.4)	(79.7)
Decrease in accounts payable	(32.0)	(19.0)
Increase (decrease) in accrued expenses and other liabilities	181.5	(117.2)
Net cash flows provided by operating activities	681.6	597.3
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(1,735.6)	(3,291.1)
Proceeds from the sales and maturities of corporate and client funds marketable securities	1,496.4	2,387.4
Net (increase) decrease in restricted cash and cash equivalents and other restricted assets held to satisfy client funds obligations	(9,162.6)	400.5
Capital expenditures	(83.6)	(90.3)
Additions to intangibles	(35.9)	(47.1)
Acquisitions of businesses, net of cash acquired	(7.2)	(80.4)
Reclassification from cash and cash equivalents to short-term marketable securities	(211.1)	
Other	4.3	9.0
Proceeds from the sale of property, plant and equipment	19.9	
Proceeds from the sale of businesses included in discontinued operations, net of cash divested		102.7
Net cash flows used in investing activities	(9,715.4)	(609.3)
Cash Flows from Financing Activities:		
Net increase in client funds obligations	10,159.5	538.9
Proceeds from issuance of debt	12.5	0.2

Payments of debt	(13.4)	(7.3)
Net purchases of reverse repurchase agreements	(11.8)	
Repurchases of common stock	(451.2)	(881.4)
Proceeds from stock purchase plan and exercises of stock options	99.1	130.5
Dividends paid	(297.2)	(250.3)
Net cash flows provided by (used in) financing activities	9,497.5	(469.4)
Effect of exchange rate changes on cash and cash equivalents	(76.3)	41.1
Net change in cash and cash equivalents	387.4	(440.3)
Cash and cash equivalents of continuing operations, beginning of period	917.5	1,746.1
Cash and cash equivalents of discontinued operations, beginning of period		14.7
Cash and cash equivalents, end of period	1,304.9	1,320.5
Less cash and cash equivalents of discontinued operations, end of period		
Cash and cash equivalents of continuing operations, end of period	$ 1,304.9	$ 1,320.5

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

(Tabular dollars in millions, except per share amounts)

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. Adjustments are of a normal recurring nature. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes of Automatic Data Processing, Inc. and subsidiaries (ADP or the Company) as of and for the year ended June 30, 2008 (fiscal 2008). The results of operations for the three and six months ended December 31, 2008 may not be indicative of the results to be expected for the fiscal year ending June 30, 2009 (fiscal 2009).

Note 2. New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1). FSP FAS 132(R)-1 requires additional disclosures in relation to plan assets of defined benefit pension or other postretirement plans. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 with early application permitted. The Company does not anticipate the adoption of this FSP will have a material impact on its results of operations, cash flows or financial condition.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Upon adoption, companies are required to retrospectively adjust earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to provisions of FSP EITF 03-6-1. The Company determined the adoption of FSP EITF 03-6-1 will not have a material impact on its consolidated results of operations or financial condition.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets . FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of FSP FAS 142-3 will have on its consolidated results of operation, cash flows or financial condition.

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any controlling interest in the business and the goodwill acquired. SFAS No. 141R further requires that acquisition-related costs and costs associated with restructuring or exiting activities of an acquired entity will be expensed as incurred. SFAS No. 141R also establishes disclosure requirements that will require disclosure on the nature and financial effects of the business combination. SFAS No. 141R will impact business combinations that may be completed by the Company on or after July 1, 2009. The Company cannot anticipate whether the adoption of SFAS No. 141R will have a material impact on its results of operations and financial condition as the impact depends solely on whether the Company completes any business combinations after July 1, 2009 and the terms of such transactions.

In March 2007, the FASB ratified EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires companies to recognize, as an increase to additional paid-in capital, the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for non-vested equity-classified employee share-based payment awards. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. On July 1, 2008, the Company adopted EITF 06-11 and the adoption did not have a material impact on its consolidated results of operations, cash flows or financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. This statement provides companies with an option to measure selected financial assets and liabilities at fair value. On July 1, 2008, the Company adopted SFAS No. 159 and elected not to apply the fair value option to any financial instruments that were not already recognized at fair value. As such, the adoption of SFAS No. 159 did not have an impact on the Company s consolidated results of operations, cash flows or financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, for which the effective date is fiscal years beginning after November 15, 2008. On July 1, 2008, the Company adopted SFAS No. 157 for assets and liabilities recognized or disclosed at fair value on a recurring basis. The adoption of SFAS No. 157 did not have an impact on the Company s consolidated results of operations, cash flows or financial condition (see Note 8). The Company will adopt SFAS No. 157 for non-financial assets that are recognized or disclosed on a non-recurring basis on July 1, 2009 and the Company is currently evaluating the impact, if any, on the Company s consolidated results of operations, cash flows or financial condition.

Note 3. Reclassification within Statements of Consolidated Cash Flows

The Company has reclassified the net increase in client funds obligations in the Statements of Consolidated Cash Flows from investing activities to financing activities for all periods presented.

The impact of the reclassification was as follows:

	Six months ended December 31, 2007
Net cash flows used in investing activities - as previously reported	$ (70.4)
Impact of reclassification	$ (538.9)
Net cash flows used in investing activities - as reclassified	$ (609.3)
Net cash flows used in financing activities - as previously reported	$ (1,008.3)
Impact of reclassification	$ 538.9
Net cash flows used in financing activities - as reclassified	$ (469.4)

This reclassification had no impact on the net change in cash and cash equivalents or cash flows from operating activities for any period presented.

Note 4. Earnings per Share (EPS)

	Basic	Effect of Employee Stock Option Shares	Effect of Employee Stock Purchase Plan Shares	Effect of Employee Restricted Stock Shares	Diluted
Three months ended December 31,					
2008					
Net earnings from continuing operations	$ 300.4	$	$	$	$ 300.4
Weighted average shares (in millions)	503.4	0.8		1.9	506.1
EPS from continuing operations	$ 0.60				$ 0.59
2007					
Net earnings from continuing operations	$ 291.6	$	$	$	$ 291.6
Weighted average shares (in millions)	523.1	5.6	0.6	1.1	530.4
EPS from continuing operations	$ 0.56				$ 0.55
Six months ended December 31,					
2008					

Net earnings from continuing operations	$ 578.3	$	$	$	$ 578.3
Weighted average shares (in millions)	505.4	2.0		2.0	509.4
EPS from continuing operations	$ 1.14				$ 1.14
2007					
Net earnings from continuing operations	$ 532.0	$	$	$	$ 532.0
Weighted average shares (in millions)	525.7	5.6	0.6	1.0	532.9
EPS from continuing operations	$ 1.01				$ 1.00

Options to purchase 35.2 million and 6.9 million shares of common stock for the three months ended December 31, 2008 and 2007, respectively, and 25.1 million and 6.9 million shares of common stock for the six months ended December 31, 2008 and 2007, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices exceeded the average market price of outstanding common shares for the respective period.

Note 5. Other Income, net

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Interest income on corporate funds	$ (43.3)	$ (43.2)	$ (89.5)	$ (87.1)
Realized gains on available-for-sale securities	(1.5)	(0.8)	(2.6)	(5.4)
Realized losses on available-for-sale securities	9.0	0.7	10.9	5.3
Other, net	(2.8)	(0.6)		(1.2)
Other income, net	$ (38.6)	$ (43.9)	$ (81.2)	$ (88.4)

Proceeds from sales and maturities of available-for-sale securities were $1,496.4 million and $2,387.4 million for the six months ended December 31, 2008 and 2007, respectively.

On March 30, 2007, the Company completed the tax-free spin-off of its former Brokerage Services Group business, comprised of Brokerage Services and Securities Clearing and Outsourcing Services, into an independent publicly traded company called Broadridge Financial Solutions, Inc. (Broadridge). The Company has an outsourcing agreement with Broadridge pursuant to which the Company will continue to provide data center outsourcing, principally information technology services and service delivery network services, to Broadridge in the same capacity post-spin as had been provided pre-spin. As a result of the outsourcing agreement, the Company recognized income of $26.0 million and $26.6 million for the three months ended December 31, 2008 and 2007, respectively, which is offset by expenses directly associated with providing such services of $25.4 million and $26.0 million, respectively, both of which were recorded in other income, net, on the Statements of Consolidated Earnings. The Company recognized income of $51.8 million and $52.8 million for the six months ended December 31, 2008 and 2007, respectively, which is offset by expenses directly associated with providing such services of $50.7 million and $51.6 million, respectively, both of which were recorded in other income, net, on the Statements of Consolidated Earnings. The Company had a receivable on the Consolidated Balance Sheets from Broadridge for the services under this agreement of $8.8 million and $9.7 million as of December 31, 2008 and June 30, 2008, respectively.

In December 2008, the Company sold a building and, as a result, recorded a gain of $2.2 million in other income, net, on the Statements of Consolidated Earnings. Such building was previously reported in assets held for sale on the Consolidated Balance Sheets.

Note 6. Divestitures

On June 30, 2007, the Company entered into a definitive agreement to sell its Travel Clearing business for approximately $116.0 million in cash. The Company completed the sale of its Travel Clearing business on July 6, 2007. The Travel Clearing business was previously reported in the Other segment. In connection with the disposal of this business, the Company has classified the results of this business as discontinued operations for all periods presented. During the three and six months ended December 31, 2007, the Company reported a gain of $0.3 million, or $0.2 million after taxes, and $88.5 million, or $57.2 million after taxes, respectively, exclusive of a working capital adjustment, within earnings (loss) from discontinued operations on the Statements of Consolidated Earnings.

During the three and six months ended December 31, 2008, the Company recorded income of $0.1 million and charges of $1.0 million, respectively, within earnings from discontinued operations on the Statements of Consolidated Earnings, related to a change in estimated taxes on the divestitures of businesses. During both the three and six months ended December 31, 2007, the Company recorded charges of $0.7 million, net of taxes, within earnings (loss) from discontinued operations related to professional fees incurred in connection with the divestitures of businesses.

There were no assets or liabilities of discontinued operations as of December 31, 2008 and June 30, 2008.

Note 7. Corporate Investments and Funds Held for Clients

Corporate investments and funds held for clients at December 31, 2008 and June 30, 2008 are as follows:

	December 31, 2008			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Type of issue:				
Money market securities and other cash equivalents	$ 11,541.5	$	$	$ 11,541.5
Available-for-sale securities:				
U.S. Treasury and direct obligations of U.S. government agencies	5,893.4	334.1	(3.2)	6,224.3
Corporate bonds	4,748.5	55.6	(101.2)	4,702.9
Asset-backed securities	1,739.9	0.9	(67.7)	1,673.1
Canadian government obligations and Canadian government agency obligations	832.7	51.7		884.4
Other securities	1,860.5	41.5	(118.0)	1,784.0
Total available-for-sale securities	15,075.0	483.8	(290.1)	15,268.7
Total corporate investments and funds held for clients	$ 26,616.5	$ 483.8	$ (290.1)	$ 26,810.2

	June 30, 2008			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Type of issue:				
Money market securities and other cash equivalents	$ 2,012.8	$	$	$ 2,012.8
Available-for-sale securities:				

U.S. Treasury and direct obligations of U.S. government agencies	6,138.5	109.6	(14.2)	6,233.9
Corporate bonds	4,343.5	42.0	(28.8)	4,356.7
Asset-backed securities	1,821.8	18.4	(3.7)	1,836.5
Canadian government obligations and Canadian government agency obligations	1,009.1	15.1	(0.5)	1,023.7
Other securities	1,611.4	21.9	(17.7)	1,615.6
Total available-for-sale securities	14,924.3	207.0	(64.9)	15,066.4
Total corporate investments and funds held for clients	$ 16,937.1	$ 207.0	$ (64.9)	$ 17,079.2

At December 31, 2008, U.S. Treasury and direct obligations of U.S. government agencies primarily include debt directly issued by Federal Home Loan Banks, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) with fair values of $2,193.2 million, $1,607.0 million and $1,596.8 million, respectively. At June 30, 2008, U.S. Treasury and direct obligations of U.S. government agencies primarily include debt directly issued by Federal Home Loan Banks, Fannie Mae and Freddie Mac with fair values of $2,344.7 million, $1,471.3 million and $1,611.2 million, respectively. U.S. Treasury and direct obligations of U.S. government agencies represent senior, unsecured, non-callable debt that carries a credit rating of AAA and has maturities ranging from January 2009 through February 2018.

At December 31, 2008, asset-backed securities include only AAA-rated senior tranches of securities with predominately prime collateral of fixed rate credit card, rate reduction, auto loan, equipment lease and student loan receivables with fair values of $872.3 million, $403.0 million, $294.7 million, $51.4 million and $51.7 million, respectively. At June 30, 2008, asset-backed securities include only AAA-rated senior tranches of securities with predominately prime collateral of fixed rate credit card, rate reduction, auto loan, equipment lease and student loan receivables with fair values of $954.8 million, $448.1 million, $315.9 million, $62.4 million and $55.3 million, respectively. These securities are collateralized by the cash flows of the underlying pool of receivables. The primary risk associated with these securities is the collection risk of the underlying receivables. All collateral on such asset-backed securities has performed as expected through December 31, 2008.

At December 31, 2008, other securities and their fair value primarily represent AAA-rated commercial mortgage-backed securities of $718.0 million, municipal bonds of $448.0 million, AAA-rated mortgage-backed securities of $205.7 million, Canadian provincial bonds of $139.1 million, corporate bonds backed by the Federal Deposit Insurance Corporation s Temporary Liquidity Guarantee Program of $131.3 million and supranational bonds of $59.6 million. At June 30, 2008, other securities and their fair value primarily represent AAA-rated commercial mortgage-backed securities of $737.3 million, municipal bonds of $423.5 million, AAA-rated mortgage-backed securities of $186.7 million that are guaranteed by Fannie Mae and Freddie Mac, Canadian provincial bonds of $153.0 million and supranational bonds of $57.1 million. The Company s AAA-rated mortgage-backed securities represent an undivided beneficial ownership interest in a group or pool of one or more residential mortgages. These securities are collateralized by the cash flows of 15-year and 30-year residential mortgages and are guaranteed by Fannie Mae and Freddie Mac as to the timely payment of principal and interest.

Classification of investments on the Consolidated Balance Sheets is as follows:

	December 31, 2008	**June 30, 2008**
Corporate investments:		
Cash and cash equivalents	$ 1,304.9	$ 917.5
Short-term marketable securities	66.7	666.3
Long-term marketable securities	81.0	76.5
Total corporate investments	$ 1,452.6	$ 1,660.3

Funds held for clients represent assets that, based upon the Company s intent, are restricted for use solely for the purposes of satisfying the obligations to remit funds relating to our payroll and payroll tax filing services, which are classified as client funds obligations on our Consolidated Balance Sheets. Funds held for clients have been invested in the following categories:

	December 31, 2008	June 30, 2008
Funds held for clients:		
Restricted cash and cash equivalents held to satisfy client funds obligations	$ 10,083.2	$ 955.7
Restricted short-term marketable securities held to satisfy client funds obligations	2,315.1	1,666.7
Restricted long-term marketable securities held to satisfy client funds obligations	12,805.9	12,656.9
Other restricted assets held to satisfy client funds obligations	153.4	139.6
Total funds held for clients	$ 25,357.6	$ 15,418.9

Client funds obligations represent the Company s contractual obligations to remit funds to satisfy clients payroll and tax payment obligations and are recorded on the Consolidated Balance Sheets at the time that the Company impounds funds from clients. The client funds obligations represent liabilities that will be repaid within one year of the balance sheet date. The Company has reported client funds obligations as a current liability on the Consolidated Balance Sheets totaling $25,170.4 million and $15,294.7 million as of December 31, 2008 and June 30, 2008, respectively. The Company has classified funds held for clients as a current asset since these funds are held solely for the purposes of satisfying the client funds obligations.

The Company has reported the cash flows related to the purchases of corporate and client funds marketable securities and related to the proceeds from the sales and maturities of corporate and client funds marketable securities on a gross basis in the investing section of the Statements of Consolidated Cash Flows. The Company has reported the cash inflows and outflows related to client funds investments with original maturities of 90 days or less on a net basis within net (increase) decrease in restricted cash and cash equivalents and other restricted assets held to satisfy client funds obligations in the investing section of the Statements of Consolidated Cash Flows. The Company has reported the cash flows related to the cash received from and paid on behalf of clients on a net basis within net increase in client funds obligations in the financing section of the Statements of Consolidated Cash Flows.

At December 31, 2008, approximately 85% of the available-for-sale securities held an AAA or AA rating, as rated by Moody s, Standard & Poor s and, for Canadian securities, Dominion Bond Rating Service. All available-for-sale securities were rated as investment grade at December 31, 2008 with the exception of the Reserve Fund investment discussed below.

Expected maturities of available-for-sale securities at December 31, 2008 are as follows:

Due in one year or less	$2,382.0
Due after one year to two years	2,964.5
Due after two years to three years	3,446.8
Due after three years to four years	3,160.8
Due after four years	3,314.6
Total available-for-sale securities	$15,268.7

The Company has an investment in a money market fund called the Primary Fund of the Reserve Fund (the Reserve Fund). During the quarter ended September 30, 2008, the net asset value of the Reserve Fund decreased below $1 per share as a result of the full write-off of the Reserve Fund s holdings in debt securities issued by Lehman Brothers Holdings, Inc., which filed for bankruptcy protection on September 15, 2008. The Reserve Fund has suspended redemptions and is in the process of being liquidated. At September 30, 2008, the Company reclassified $211.1 million of its investment from cash and cash equivalents to short-term marketable securities on the Consolidated Balance Sheet due to the fact that these assets no longer met the definition of a cash equivalent. Additionally, the Company reflected the impact of such reclassification on the Statements of Consolidated Cash Flows for the six months ended December 31, 2008 as reclassification from cash equivalents to short-term marketable securities. During the six months ended December 31, 2008, the Company recorded a $3.3 million loss to other income, net, on the Statement of Consolidated Earnings to recognize our pro-rata share of the estimated losses of the fund.

As of December 31, 2008, the Company received approximately $174.0 million in distributions from the Reserve Fund. The Company expects that additional distributions will occur as the Reserve Fund s assets mature or are sold.

The Company evaluates unrealized losses on available-for-sale securities for other-than-temporary impairment based upon whether the unrealized losses were interest rate related or credit related, and based upon the length of time and the extent to which the fair value for each individual security has been below cost. During the three months ended December 31, 2008, there were no other-than-temporary losses recorded for securities held as of December 31, 2008. During the six months ended December 31, 2008, the Company recorded $4.6 million of other-than-temporary losses, including $3.3 million of losses related to the Reserve Fund. As of December 31, 2008, with the exception of such realized losses recorded during the six months ended December 31, 2008, the Company determined that none of the unrealized losses were other-than-temporary.

Note 8. Fair Value Measurements

On July 1, 2008, the Company adopted SFAS No. 157 for assets and liabilities recognized or disclosed at fair value on a recurring basis. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes market or observable inputs as the preferred source of fair value, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described below with level 1 having the highest priority and level 3 having the lowest priority.

Level 1	Fair value is determined based upon closing prices for identical instruments that are traded on active exchanges.
Level 2	Fair value is determined based upon quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or model-derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3	Fair value is determined based upon significant inputs to the valuation model that are unobservable.

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service. To determine the fair value of our Level 2 investments, a variety of inputs are utilized, including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, new issue data, and monthly payment information. Over 99% of our Level 2 investments are valued utilizing inputs obtained from a pricing service. The Company reviews the values generated by the independent pricing service for reasonableness by comparing the valuations received from the independent pricing service to valuations from at least one other observable source. The Company has not adjusted the prices obtained from the independent pricing service. The Company has no available-for-sale securities included in Level 3.

The Company s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy. In certain instances, the inputs used to measure fair value may meet the definition of more than one level of the fair value hierarchy. The significant input with the lowest level priority is used to determine the applicable level in the fair value hierarchy.

The following table presents the Company s assets measured at fair value on a recurring basis at December 31, 2008. Included in the table are available-for-sale securities within corporate investments of $147.7 million and funds held for clients of $15,121.0 million. Refer to Note 7 for additional disclosure in relation to corporate investments and funds held for clients.

	Level 1	**Level 2**	**Level 3**	**Total**
U.S Treasury and direct obligations of U.S. government agencies	$	$ 6,224.3	$	$ 6,224.3
Corporate bonds		4,702.9		4,702.9
Asset-backed securities		1,673.1		1,673.1
Canadian government obligations and Canadian government agency obligations		884.4		884.4
Other securities	5.4	1,778.6		1,784.0
Total available-for-sale securities	$ 5.4	$ 15,263.3	$	$ 15,268.7

On October 10, 2008, shortly after enactment of the Emergency Economic Stabilization Act, the FASB issued FSP FAS 157-3, which intended to clarify how companies should apply SFAS No. 157 to value financial assets that have no active market. At December 31, 2008, the Company had no significant investments that were affected by FSP FAS 157-3.

Note 9. Allowance for Doubtful Accounts

Accounts receivable is net of an allowance for doubtful accounts of $47.5 million and $38.4 million at December 31, 2008 and June 30, 2008, respectively.

Note 10. Assets Held for Sale

During the six months ended December 31, 2008, the Company reclassified assets related to three buildings as assets held for sale on the Consolidated Balance Sheets. Such assets were previously reported in property, plant and equipment, net on the Consolidated Balance Sheets. In December 2008, the Company sold one of the buildings and realized a gain of $2.2 million in other income, net. The Company intends to complete the sale of the remaining two buildings by the end of calendar year 2009.

At December 31, 2008, the Company had $12.1 million classified as assets held for sale on the Consolidated Balance Sheets.

Note 11. Goodwill and Intangible Assets, net

Changes in goodwill for the six months ended December 31, 2008 are as follows:

	Employer Services	PEO Services	Dealer Services	Total
Balance as of June 30, 2008	$ 1,615.7	$ 4.8	$ 806.2	$ 2,426.7
Additions and other adjustments, net	(1.5)		9.4	7.9
Currency translation adjustments	(62.5)		(90.3)	(152.8)
Balance as of December 31, 2008	$ 1,551.7	$ 4.8	$ 725.3	$ 2,281.8

The Company made $7.2 million of contingent payments relating to previously consummated acquisitions during the six months ended December 31, 2008.

Components of intangible assets, net, are as follows:

	December 31, 2008	June 30, 2008
Intangible assets:		
Software and software licenses	$ 1,030.6	$ 1,004.5
Customer contracts and lists	592.5	627.0
Other intangibles	197.1	197.2
	1,820.2	1,828.7
Less accumulated amortization:		
Software and software licenses	(850.8)	(805.4)
Customer contracts and lists	(299.9)	(293.5)
Other intangibles	(96.3)	(92.7)
	(1,247.0)	(1,191.6)
Intangible assets, net	$ 573.2	$ 637.1

Other intangibles consist primarily of purchased rights, covenants, patents and trademarks (acquired directly or through acquisitions). All of the intangible assets have finite lives and, as such, are subject to amortization. The weighted average remaining useful life of the intangible assets is 8 years (3 years for software and software licenses, 10 years for customer contracts and lists, and 9 years for other intangibles). Amortization of intangible assets totaled $35.1 million and $33.2 million for the three months ended December 31, 2008 and 2007, respectively and totaled $70.7 million and $67.3 million for the six months ended December 31, 2008 and 2007, respectively. Estimated amortization expense of the Company s existing intangible assets for the remaining six months of the fiscal year ending June 30, 2009 and the succeeding five fiscal years are as follows:

	Amount
2009	$76.6
2010	$133.5
2011	$91.7
2012	$71.0
2013	$40.5
2014	$37.2

Note 12. Short-term Financing

The Company has a $2.25 billion credit facility, a $1.5 billion credit facility and a $2.25 billion credit facility that mature in June 2009, June 2010 and June 2011, respectively. The credit facilities maturing in June 2010 and June 2011 are five-year facilities that contain accordion features under which the aggregate commitments can each be increased by $500.0 million, subject to the availability of additional commitments. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided by the Company to the syndicated financial institutions prior to borrowing. The Company is also required to pay facility fees on the credit agreements. The primary uses of the credit facilities are to provide liquidity to the commercial paper program and to provide funding for general corporate purposes, if necessary. The Company had no borrowings through December 31, 2008 under the credit agreements.

The Company maintains a U.S. short-term commercial paper program providing for the issuance of up to $6.0 billion in aggregate maturity value of commercial paper. The Company s commercial paper program is rated A-1+ by Standard and Poor s and Prime-1 by Moody s. These ratings denote the highest quality commercial paper securities. Maturities of commercial paper can range from overnight to up to 364 days. At December 31, 2008 and June 30, 2008, there was no commercial paper outstanding. For the three months ended December 31, 2008 and 2007, the Company s average borrowings were $2.5 billion and $2.1 billion, respectively, at a weighted average interest rate of 0.7% and 4.6%, respectively. For the six months ended December 31, 2008 and 2007, the Company s average borrowings were $2.4 billion and $2.0 billion, respectively at a weighted average interest rate of 1.4% and 4.9%, respectively. The weighted average maturity of the Company s commercial paper during the three and six months ended December 31, 2008 and 2007 was less than two days.

The Company s U.S. and Canadian short-term funding requirements related to client funds obligations are sometimes obtained on a secured basis through the use of reverse repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight to up to five business days. At December 31, 2008, the Company had no obligation outstanding related to reverse repurchase agreements. At June 30, 2008, the Company had an $11.8 million obligation outstanding related to a reverse repurchase agreement that matured on July 2, 2008 and was repaid. For the three months ended December 31, 2008 and 2007, the Company had average outstanding balances under reverse repurchase agreements of $617.4 million and $285.8 million, respectively, at a weighted average interest rate of 1.1% and 4.4%, respectively. For the six months ended December 31, 2008 and 2007, the Company had average outstanding balances under reverse repurchase agreements of $578.5 million and $314.7 million, respectively, at a weighted average interest rate of 1.8% and 4.5%, respectively.

Note 13. Employee Benefit Plans

A. Stock Plans. The Company accounts for stock-based compensation in accordance with SFAS No. 123R, Share-Based Payment (SFAS No. 123R), which requires the measurement of stock-based compensation expense to be recognized in net earnings based on the fair value of the award on the date of grant. Stock-based compensation consists of the following:

Stock Options. Stock options are granted to employees at exercise prices equal to the fair market value of the Company s common stock on the dates of grant. Stock options are issued under a grade vesting schedule. Options granted prior to July 1, 2008 generally vest ratably over five years and have a term of 10 years. Options granted after July 1, 2008 generally vest ratably over four years and have a term of 10 years. Compensation expense for stock options is recognized over the requisite service period for each separately vesting portion of the stock option award.