

AUTOMATIC DATA PROCESSING INC
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2007

OR

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
(State or other jurisdiction of incorporation or organization)

22-1467904
(IRS Employer Identification No.)

One ADP Boulevard, Roseland, New Jersey
(Address of principal executive offices)

07068
(Zip Code)

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

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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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

The number of shares outstanding of the registrant's common stock as of October 31, 2007 was 526,189,408.

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 September 30,	
	2007	2006
REVENUES:		
Revenues, other than interest on funds held for clients and PEO revenues	\$1,603.5	\$1,426.6
Interest on funds held for clients	154.5	134.6
PEO revenues (A)	234.0	193.6
TOTAL REVENUES	1,992.0	1,754.8
EXPENSES:		
Costs of revenues:		
Operating expenses	908.3	803.5
Systems development and programming costs	124.4	113.9
Depreciation and amortization	59.4	50.2
TOTAL COSTS OF REVENUES	1,092.1	967.6
Selling, general and administrative expenses	533.6	492.6
Interest expense	29.4	35.4
TOTAL EXPENSES	1,655.1	1,495.6
Other income, net	(44.6)	(90.0)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	381.5	349.2
Provision for income taxes	141.1	130.0
NET EARNINGS FROM CONTINUING OPERATIONS	\$240.4	\$219.2
Earnings from discontinued operations, net of provision for income taxes of \$31.2 and \$25.2 for the three months ended September 30, 2007 and 2006, respectively	57.0	38.3
NET EARNINGS	\$297.4	\$257.5
Basic Earnings Per Share from Continuing Operations	\$0.45	\$0.40
Basic Earnings Per Share from Discontinued Operations	0.11	0.07
BASIC EARNINGS PER SHARE	\$0.56	\$0.46
Diluted Earnings Per Share from Continuing Operations	\$0.45	\$0.39
Diluted Earnings Per Share from Discontinued Operations	0.11	0.07
DILUTED EARNINGS PER SHARE	\$0.55	\$0.46
Basic weighted average shares outstanding	529.3	554.2
Diluted weighted average shares outstanding	536.2	559.5

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Dividends declared per common share	\$0.2300	\$0.1850
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(A) Professional Employer Organization (PEO) revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of \$2,404.2 and \$1,902.8 for the three months ended September 30, 2007 and 2006, respectively.

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries

Consolidated Balance Sheets

(In millions, except per share amounts)

(Unaudited)

	September 30, 2007	June 30, 2007
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,428.6	\$ 1,746.1
Short-term marketable securities (A)	146.4	70.4
Accounts receivable, net	957.8	1,041.9
Other current assets	545.5	448.1
Assets of discontinued operations		57.7
Total current assets	3,078.3	3,364.2
Long-term marketable securities (A)	301.6	68.1
Long-term receivables, net	234.4	226.5
Property, plant and equipment, net	722.2	723.8
Other assets	910.3	735.5
Goodwill	2,373.9	2,353.6
Intangible assets, net	689.3	688.0
Total assets before funds held for clients	8,310.0	8,159.7
Funds held for clients	17,393.3	18,489.2
Total assets	\$ 25,703.3	\$ 26,648.9
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 91.4	\$ 125.9
Accrued expenses and other current liabilities	1,385.6	1,527.1
Obligation under reverse repurchase agreement	345.9	
Income taxes payable	135.2	118.7
Liabilities of discontinued operations		19.1
Total current liabilities	1,958.1	1,790.8
Long-term debt	43.5	43.5
Other liabilities	703.8	390.5
Deferred income taxes	109.8	127.7
Long-term deferred revenues	485.3	475.5
Total liabilities before client funds obligations	3,300.5	2,828.0
Client funds obligations	17,404.9	18,673.0
Total liabilities	20,705.4	21,501.0
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 September 30, 2007 and June 30, 2007; outstanding, 526.1 and 535.8 shares at September 30, 2007 and June 30, 2007, respectively	63.9	63.9
Capital in excess of par value	384.7	351.8
Retained earnings	9,556.1	9,378.5
Treasury stock- at cost: 112.6 and 102.9 shares at September 30, 2007 and June 30, 2007, respectively	(5,087.6)	(4,612.9)
Accumulated other comprehensive income (loss)	80.8	(33.4)
Total stockholders' equity	4,997.9	5,147.9
Total liabilities and stockholders' equity	\$ 25,703.3	\$ 26,648.9

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(A) As of September 30, 2007, short-term and long-term marketable securities include \$107.4 and \$236.2, respectively, of securities that have been pledged as collateral under the Company's reverse repurchase agreement (see Note 13).

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries

Statements of Consolidated Cash Flows

(In millions)

(Unaudited)

	Three Months Ended	
	September 30,	
	2007	2006
<u>Cash Flows from Operating Activities:</u>		
Net earnings	\$297.4	\$257.5
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Gain on sale of cost-based investment		(38.6)
Depreciation and amortization	75.8	68.1
Deferred income taxes	(23.9)	14.8
Stock-based compensation expense	28.9	32.6
Net periodic benefit cost	9.6	10.1
Net realized loss from the sales of marketable securities		0.2
Amortization of premiums and discounts on available-for-sale securities	7.6	11.2
Gain on sale of discontinued businesses, net of tax	(57.0)	
Other	12.9	23.6
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses:		
Decrease (increase) in accounts receivable	89.6	(27.8)
Increase in other assets	(149.7)	(92.8)
Decrease in accounts payable	(35.7)	(22.3)
Increase (decrease) in accrued expenses and other liabilities	21.0	(84.5)
Operating activities of discontinued operations		15.2
Net cash flows provided by operating activities	276.5	167.3
<u>Cash Flows from Investing Activities:</u>		
Purchases of marketable securities	(1,604.8)	(418.0)
Proceeds from the sales and maturities of marketable securities	1,504.6	562.8
Net proceeds from client funds securities	1,074.1	1,052.8
Net decrease in client funds obligations	(1,293.5)	(1,183.1)
Capital expenditures	(36.4)	(37.1)
Additions to intangibles	(22.7)	(20.5)
Acquisitions of businesses, net of cash acquired	(56.9)	(24.8)
Proceeds from the sale of cost-based investment		38.6
Other	6.9	2.2
Proceeds from the sale of businesses included in discontinued operations, net of cash divested	102.7	
Investing activities of discontinued operations		(4.0)
Net cash flows used in investing activities	(326.0)	(31.1)
<u>Cash Flows from Financing Activities:</u>		
Proceeds from issuance of notes	0.1	0.1
Payments of debt	(0.2)	(0.2)
Repurchases of common stock	(558.7)	(611.6)
Proceeds from reverse repurchase agreements	345.9	
Proceeds from stock purchase plan and exercises of stock options	50.9	67.4
Dividends paid	(127.3)	(105.0)
Financing activities of discontinued operations		13.0
Net cash flows used in financing activities	(289.3)	(636.3)
Effect of exchange rate changes on cash and cash equivalents	6.6	0.7

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Net change in cash and cash equivalents

(332.2) (499.4)