

AUTOMATIC DATA PROCESSING INC  
Form 10-Q  
May 04, 2012

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

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FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

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

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AUTOMATIC DATA PROCESSING, INC.  
(Exact name of registrant as specified in its charter)

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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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Accelerated filer

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

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 April 27, 2012 was 489,085,110.

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## 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 March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
<b>REVENUES:</b>				
Revenues, other than interest on funds held for clients and PEO revenues	\$2,279.0	\$2,143.5	\$6,335.8	\$5,828.2
Interest on funds held for clients	133.3	148.6	373.0	404.4
PEO revenues (A)	510.8	445.2	1,319.8	1,139.8
<b>TOTAL REVENUES</b>	<b>2,923.1</b>	<b>2,737.3</b>	<b>8,028.6</b>	<b>7,372.4</b>
<b>EXPENSES:</b>				
<b>Costs of revenues:</b>				
Operating expenses	1,413.9	1,300.3	4,014.3	3,590.5
Systems development and programming costs	145.4	155.8	444.2	432.9
Depreciation and amortization	65.4	64.5	192.3	189.4
<b>TOTAL COSTS OF REVENUES</b>	<b>1,624.7</b>	<b>1,520.6</b>	<b>4,650.8</b>	<b>4,212.8</b>
Selling, general and administrative expenses	622.1	577.3	1,788.8	1,663.0
Interest expense	1.2	1.4	5.4	6.9
<b>TOTAL EXPENSES</b>	<b>2,248.0</b>	<b>2,099.3</b>	<b>6,445.0</b>	<b>5,882.7</b>
Other income, net	(10.5 )	(15.0 )	(141.0 )	(84.3 )
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>685.6</b>	<b>653.0</b>	<b>1,724.6</b>	<b>1,574.0</b>
Provision for income taxes	233.2	229.2	594.5	561.6
<b>NET EARNINGS</b>	<b>\$452.4</b>	<b>\$423.8</b>	<b>\$1,130.1</b>	<b>\$1,012.4</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>\$0.93</b>	<b>\$0.85</b>	<b>\$2.32</b>	<b>\$2.05</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$0.92</b>	<b>\$0.85</b>	<b>\$2.29</b>	<b>\$2.03</b>
Basic weighted average shares outstanding	488.5	496.2	487.7	493.2
Diluted weighted average shares outstanding	493.2	501.3	492.7	497.5
Dividends declared per common share	\$0.3950	\$0.3600	\$1.1500	\$1.0600

(A) Professional Employer Organization (“PEO”) revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of \$4,586.0 and \$4,177.9 for the three months ended March 31, 2012 and 2011, respectively, and \$13,331.7 and \$11,760.6 for the nine months ended March 31, 2012 and 2011, respectively.

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(In millions, except per share amounts)  
(Unaudited)

	March 31, 2012	June 30, 2011
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$1,665.1	\$1,389.4
Short-term marketable securities	28.0	36.3
Accounts receivable, net	1,372.7	1,364.8
Other current assets	643.9	648.3
Assets held for sale	6.9	9.1
Total current assets before funds held for clients	3,716.6	3,447.9
Funds held for clients	29,836.9	25,135.6
Total current assets	33,553.5	28,583.5
Long-term marketable securities	96.8	98.0
Long-term receivables, net	127.1	128.7
Property, plant and equipment, net	710.2	716.2
Other assets	1,001.7	922.6
Goodwill	3,163.7	3,073.6
Intangible assets, net	723.1	715.7
Total assets	\$39,376.1	\$34,238.3
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$137.7	\$153.3
Accrued expenses and other current liabilities	930.5	930.4
Accrued payroll and payroll-related expenses	517.9	558.3
Dividends payable	190.1	174.2
Short-term deferred revenues	343.5	350.9
Income taxes payable	97.2	28.6
Total current liabilities before client funds obligations	2,216.9	2,195.7
Client funds obligations	29,207.0	24,591.1
Total current liabilities	31,423.9	26,786.8
Long-term debt	17.3	34.2
Other liabilities	585.1	556.2
Deferred income taxes	418.5	373.5
Long-term deferred revenues	474.7	477.2
Total liabilities	32,919.5	28,227.9
<b>Stockholders' equity:</b>		
<b>Preferred stock, \$1.00 par value:</b>		
Authorized, 0.3 shares; issued, none	-	-
<b>Common stock, \$0.10 par value:</b>		
Authorized, 1,000.0 shares; issued 638.7 shares at March 31, 2012 and June 30, 2011; outstanding, 489.3 and 490.8 shares at March 31, 2012		

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and June 30, 2011, respectively	63.9	63.9
Capital in excess of par value	484.2	489.5
Retained earnings	12,371.5	11,803.9
Treasury stock - at cost: 149.4 and 147.9 shares		
at March 31, 2012 and June 30, 2011, respectively	(6,822.7 )	(6,714.0 )
Accumulated other comprehensive income	359.7	367.1
Total stockholders' equity	6,456.6	6,010.4
Total liabilities and stockholders' equity	\$39,376.1	\$34,238.3

See notes to the consolidated financial statements.



Automatic Data Processing, Inc. and Subsidiaries  
 Statements of Consolidated Cash Flows  
 (In millions)  
 (Unaudited)

	Nine Months Ended March 31,	
	2012	2011
<b>Cash Flows from Operating Activities:</b>		
Net earnings	\$1,130.1	\$1,012.4
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	240.0	239.2
Deferred income taxes	7.9	51.8
Stock-based compensation expense	66.1	58.5
Net pension expense	27.5	30.3
Net realized gain from the sales of marketable securities	(15.8 )	(19.7 )
Net amortization of premiums and accretion of discounts on available-for-sale securities	43.1	40.8
Impairment losses on available-for-sale securities	5.8	-
Impairment losses on assets held for sale	2.2	8.6
Gain on sale of assets	(66.0 )	-
Gains on sales of buildings	-	(1.8 )
Other	18.0	32.5
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses:		
Increase in accounts receivable	(16.9 )	(71.0 )
Increase in other assets	(139.0 )	(91.9 )
Decrease in accounts payable	(13.8 )	(42.8 )
Increase/(decrease) in accrued expenses and other liabilities	121.9	(26.6 )
Net cash flows provided by operating activities	1,411.1	1,220.3
<b>Cash Flows from Investing Activities:</b>		
Purchases of corporate and client funds marketable securities	(3,650.2 )	(3,621.3 )
Proceeds from the sales and maturities of corporate and client funds marketable securities	2,883.8	2,315.9
Net decrease in restricted cash and cash equivalents held to satisfy client funds obligations	(3,912.5 )	(12,392.2 )
Capital expenditures	(104.4 )	(122.1 )
Additions to intangibles	(82.5 )	(58.9 )
Acquisitions of businesses, net of cash acquired	(199.8 )	(774.7 )
Proceeds from the sale of property, plant and equipment and other assets	66.0	13.1
Other	(15.2 )	5.4
Net cash flows used in investing activities	(5,014.8 )	(14,634.8 )
<b>Cash Flows from Financing Activities:</b>		
Net increase in client funds obligations	4,661.2	13,683.6
Payments of debt	(1.5 )	(5.3 )
Repurchases of common stock	(399.9 )	(174.8 )
Proceeds from stock purchase plan and exercises of stock options	190.3	345.5

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Dividends paid	(546.4 )	(513.2 )
Net cash flows provided by financing activities	3,903.7	13,335.8
Effect of exchange rate changes on cash and cash equivalents	(24.3 )	36.3
Net change in cash and cash equivalents	275.7	(42.4 )
Cash and cash equivalents, beginning of period	1,389.4	1,643.3
Cash and cash equivalents, end of period	\$1,665.1	\$1,600.9

See notes to the consolidated financial statements.

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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 Consolidated Financial Statements and footnotes thereto of Automatic Data Processing, Inc. and subsidiaries (“ADP” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Consolidated Financial Statements and footnotes thereto are unaudited. In the opinion of the Company’s management, the Consolidated Financial Statements reflect all adjustments, which are of a normal recurring nature, that are necessary for a fair statement of the Company’s results for the interim periods.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the assets, liabilities, revenue, expenses and accumulated other comprehensive income that are reported in the Consolidated Financial Statements and footnotes thereto. Actual results may differ from those estimates.

Interim financial results are not necessarily indicative of financial results for a full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2011 (“fiscal 2011”).

Note 2. New Accounting Pronouncements

In January 2012, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2011-03, “Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.” ASU 2011-03 revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. ASU 2011-03 removes from the assessment of effective control: the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The adoption of ASU 2011-03 did not have an impact on the Company’s consolidated results of operations, financial condition, or cash flows.

In January 2012, the Company adopted ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU 2011-04 requires expansion of the disclosures required for Level 3 measurements of fair value and provides updates to the existing measurement guidance. The adoption of ASU 2011-04 did not have an impact on the Company’s consolidated results of operations, financial condition, or cash flows.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and early adoption is permitted. The adoption of ASU 2011-05 will not have an impact on the Company’s consolidated results of operations, financial condition, or cash flows.

In September 2011, the FASB issued ASU 2011-08, “Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment”. ASU 2011-08 amends the guidance in Accounting Standards Codification (“ASC”) 350-20 on testing goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that the fair value of a reporting unit is less than its carrying value based upon the qualitative assessment, it is necessary to perform the currently prescribed two-step goodwill impairment test. ASU 2011-08 does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The adoption of ASU 2011-08 will not have an impact on the Company’s consolidated results of operations, financial condition, or cash flows.

## Note 3. Earnings per Share ("EPS")

	Basic	Effect of Employee Stock Option Shares	Effect of Employee Restricted Stock Shares	Diluted
Three months ended March 31,				
2012				
Net earnings	\$452.4			\$452.4
Weighted average shares (in millions)	488.5	4.3	0.4	493.2
EPS	\$0.93			\$0.92
2011				
Net earnings	\$423.8			\$423.8
Weighted average shares (in millions)	496.2	4.5	0.6	501.3
EPS	\$0.85			\$0.85
Nine months ended March 31,				
2012				
Net earnings	\$1,130.1			\$1,130.1
Weighted average shares (in millions)	487.7	3.8	1.2	492.7
EPS	\$2.32			\$2.29
2011				
Net earnings	\$1,012.4			\$1,012.4
Weighted average shares (in millions)	493.2	3.2	1.1	497.5
EPS	\$2.05			\$2.03

Options to purchase 0.9 million and 0.7 million shares of common stock for the three months ended March 31, 2012 and 2011, respectively, and 0.9 million shares and 2.8 million shares of common stock for the nine months ended March 31, 2012 and 2011, 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 periods.

## Note 4. Other Income, net

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Interest income on corporate funds	\$(8.5 )	\$(10.0 )	\$(65.3 )	\$(68.8 )
Realized gains on available-for-sale securities	(4.0 )	(5.4 )	(23.2 )	(23.0 )
Realized losses on available-for-sale securities	0.4	1.0	7.4	3.3
Realized gain on investment in Reserve Fund	-	-	-	(0.9 )
Impairment losses on available-for-sale securities	-	-	5.8	-
Impairment losses on assets held for sale	2.2	-	2.2	8.6
Gain on sale of assets	-	-	(66.0 )	-
Gains on sales of buildings	-	-	-	(1.8 )
Other, net	(0.6 )	(0.6 )	(1.9 )	(1.7 )
<b>Other income, net</b>	<b>\$(10.5 )</b>	<b>\$(15.0 )</b>	<b>\$(141.0 )</b>	<b>\$(84.3 )</b>

Proceeds from sales and maturities of available-for-sale securities were \$2,883.8 million and \$2,315.9 million for the nine months ended March 31, 2012 and 2011, respectively.

During the nine months ended March 31, 2012, the Company sold assets related to rights and obligations to resell a third party expense management platform and, as a result, recorded a gain of \$66.0 million in other income, net, on the Statements of Consolidated Earnings.

At December 31, 2011, the Company concluded that it had the intent to sell certain available-for-sale securities with unrealized losses of \$5.8 million. As such, the Company recorded an impairment charge of \$5.8 million in other income, net, on the Statements of Consolidated Earnings for the nine months ended March 31, 2012. As of March 31, 2012, all such securities had been sold.

During the nine months ended March 31, 2011, the Company reclassified assets related to two 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. As the carrying amount of the assets held for sale exceeded their fair value less costs to sell, the Company recorded an impairment loss of \$8.6 million in other income, net, on the Statements of Consolidated Earnings for the nine months ended March 31, 2011. In addition, during the three months ended March 31, 2012, the Company accepted a non-binding offer for these two buildings and, as a result, further adjusted the carrying value of such assets and recorded an impairment loss of \$2.2 million in other income, net, on the Statements of Consolidated Earnings. These buildings remain in assets held for sale on the Consolidated Balance Sheets at March 31, 2012.

During the nine months ended March 31, 2011, the Company sold two buildings that were previously classified as assets held for sale on the Consolidated Balance Sheets and, as a result, recorded a gain of \$1.8 million in other income, net, on the Statements of Consolidated Earnings for the nine months ended March 31, 2011.

The Company has an outsourcing agreement with Broadridge Financial Solutions, Inc. ("Broadridge") pursuant to which the Company provides data center outsourcing services, which principally consist of information technology services and service delivery network services. As a result of this agreement, the Company recognized income of \$28.0 million and \$27.7 million for the three months ended March 31, 2012 and 2011, respectively, which was offset

by expenses associated with providing such services of \$27.4 million and \$27.1 million, respectively, both of which were recorded in other income, net, on the Statements of Consolidated Earnings. The Company recognized income of \$85.9 million and \$82.3

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million for the nine months ended March 31, 2012 and 2011, respectively, which was offset by expenses associated with providing such services of \$84.2 million and \$80.6 million. The Company had receivables on the Consolidated Balance Sheets from Broadridge for the services under this agreement of \$9.1 million and \$9.5 million at March 31, 2012 and June 30, 2011, respectively. In fiscal 2010, Broadridge notified the Company that it would not extend the outsourcing agreement beyond its current expiration date of June 30, 2012. The expiration of the outsourcing agreement will not have a material impact on the Company's results of operations.

#### Note 5. Acquisitions

Assets acquired and liabilities assumed in business combinations were recorded on the Company's Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Statements of Consolidated Earnings since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill. In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions and subject to revision when the Company receives final information, including appraisals and other analyses. Accordingly, the measurement period for such purchase price allocations will end when the information, or the facts and circumstances, becomes available, but will not exceed twelve months.

The Company acquired six businesses during the nine months ended March 31, 2012 for approximately \$235.4 million, net of cash acquired. In addition to the cash consideration related to acquisitions closed during the nine months ended March 31, 2012, the Company accrued certain liabilities which represent the estimated fair value of contingent consideration ("earn-out") expected to be payable in the event that certain specific performance metrics are achieved over the earn-out period. At March 31, 2012, the Company had not yet finalized the purchase price allocation for these six acquisitions. These acquisitions resulted in approximately \$153.0 million of goodwill. Intangible assets acquired, which total approximately \$72.3 million for these six acquisitions, included customer contracts and lists, software and trademarks that are being amortized over a weighted average life of approximately 11 years. These six acquisitions were not material individually or in the aggregate to the Company's results of operations, financial position, or cash flows.

The Company acquired eight businesses during the nine months ended March 31, 2011 for approximately \$774.2 million, net of cash acquired. These acquisitions resulted in approximately \$543.6 million of goodwill. Intangible assets acquired, which totaled approximately \$245.7 million for these eight acquisitions, included customer contracts and lists, software and trademarks that are being amortized over a weighted average life of approximately 12 years. The Company finalized the purchase price allocation for these eight acquisitions during the nine months ended March 31, 2012 and adjusted the preliminary values allocated to certain assets and liabilities in order to reflect final information received.



## Note 6. Corporate Investments and Funds Held for Clients

Corporate investments and funds held for clients at March 31, 2012 and June 30, 2011 were as follows:

Type of issue:	Amortized Cost	March 31, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Money market securities and other cash equivalents	\$13,907.9	\$-	\$-	\$13,907.9
Available-for-sale securities:				
U.S. Treasury and direct obligations of				
U.S. government agencies	6,439.3	247.3	(3.0 )	6,683.6
Corporate bonds	6,898.0	252.5	(7.6 )	7,142.9
Asset-backed securities	398.3	16.3	(0.2 )	414.4
Commercial mortgage-backed securities	324.4	12.8	-	337.2
Municipal bonds	509.6	30.1	(0.4 )	539.3
Canadian government obligations and				
Canadian government agency obligations	1,021.7	22.1	(0.5 )	1,043.3
Other securities	1,467.6	92.0	(1.4 )	1,558.2
Total available-for-sale securities	17,058.9	673.1	(13.1 )	17,718.9
Total corporate investments and funds held for clients	\$30,966.8	\$673.1	\$(13.1 )	\$31,626.8

Type of issue:	Amortized Cost	June 30, 2011		Fair Value
		Gross Unrelized Gains	Gross Unrealized Losses	
Money market securities and other cash equivalents	\$9,731.8	\$-	\$-	\$9,731.8
Available-for-sale securities:				
U.S. Treasury and direct obligations of				