AUTOMATIC DATA PROCESSING INC
Form 10-K
August 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 Par Value (voting)	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [x]
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 the filing requirements for the past 90 days. Yes [x] No [ ]
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 [x] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [x]		Accelerated filer [ ]
Non-accelerated filer [ ]	(Do not check if a smaller reporting company)	Smaller reporting company [ ]
Emerging growth company [ ]		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of the last business day of the Registrant’s most recently completed second fiscal quarter was approximately $51,688,560,196. On July 31, 2018 there were 438,082,756 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2018 Annual Meeting of Stockholders.   Part III

Table of Contents

Part I
Item 1. Business
CORPORATE BACKGROUND

General

ADP was founded in 1949 on an innovative idea: to help business owners focus on core business activities by relieving them of certain non-core tasks such as payroll. Automatic Data Processing, Inc. was incorporated in the State of Delaware in June 1961 and completed its initial public offering in September 1961. A pioneer in business process outsourcing, today we are one of the world's leading providers of cloud-based human capital management ("HCM") solutions to employers, offering solutions to businesses of all sizes, whether they have simple or complex needs. We serve over 740,000 clients in more than 110 countries and territories. Our common stock is listed on the NASDAQ Global Select Market® under the symbol "ADP."

When we refer to "we," "us," "our," "ADP," or the "Company" in this Annual Report on Form 10-K, we mean Automatic Data Processing, Inc. and its consolidated subsidiaries.

Available Information

Our corporate website, www.adp.com, provides materials for investors and information about our solutions and services. ADP's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and the Proxy Statements for our Annual Meetings of Stockholders are made available, free of charge, on our corporate website as soon as reasonably practicable after such reports have been filed with or furnished to the Securities and Exchange Commission ("SEC"), and are also available on the SEC's website at www.sec.gov. The content on any website referenced in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

BUSINESS OVERVIEW

ADP's Mission and Strategy

ADP's mission is to power organizations with insightful solutions for clients and their employees, as digital technology, globalization and new business models reshape the way people work. As the world of work evolves, our technology, expertise and data insights deliver measurable results, peace-of-mind and an enabled, productive workforce. Our leading technology and commitment to service excellence is at the core of our relationship with each one of our clients, whether it's a small, mid-sized or large organization operating in one or multiple countries around the world. We are constantly innovating to help our clients leverage HCM solutions in order to streamline and simplify their human resources ("HR") processes, drive better business results and manage their most important investment – their people.

Our business strategy is based on the following three strategic pillars, which are designed to position ADP as the global market leader in HCM technology and services:

- Grow a complete suite of cloud-based HCM solutions;
- Grow and scale our market-leading HR Outsourcing ("HRO") solutions by leveraging our platforms and processes; and
- Leverage our global presence to offer clients HCM solutions where ever they do business.

Reportable Segments

ADP's two reportable business segments are Employer Services and Professional Employer Organization ("PEO") Services. For financial data by segment and by geographic area, see Note 15 to the "Consolidated Financial Statements" contained in this Annual Report on Form 10-K.

Employer Services. Our Employer Services segment serves clients ranging from single-employee small businesses to large enterprises with tens of thousands of employees around the world, offering a comprehensive range of HRO and technology-based HCM solutions, including our strategic, cloud-based platforms. These solutions address critical client needs and include:

- Payroll Services
- Benefits Administration
- Talent Management
- HR Management
- Time and Attendance Management
- Insurance Services
- Retirement Services
- Compliance Services

Professional Employer Organization Services. ADP's PEO business, called ADP TotalSource®, serves more than 12,000 clients with comprehensive employment administration outsourcing solutions through a relationship in which employees who work for a client (referred to as "worksite employees") are co-employed by us and the client. ADP TotalSource is the largest PEO in the United States based on the number of worksite employees, serving more than 530,000 worksite employees in all 50 states, and operates as a Certified Professional Employer Organization under the United States Internal Revenue Code.

PRODUCTS AND SERVICES

Employer Services' Products and Services

Human Capital Management. In order to serve the unique needs of diverse types of businesses and workforce models, ADP provides a range of solutions which businesses of all types and sizes can use to activate talent and lead organizational change as they recruit, pay, manage, and retain their workforce. We serve more than 630,000 clients via ADP's cloud-based strategic software as a service ("SaaS") offerings, which reduce complexity through simplicity, scale and flexibility. As a leader in the growing HR Outsourcing market, we offer seamless solutions that enable our clients to outsource their HR, time and attendance, payroll, benefits administration and talent management functions to ADP. Through innovative offerings like the ADP® DataCloud we provide clients with in-depth, workforce and business insights driven by big data. Through the ADP DataCloud, we also provide clients with a workforce intelligence engine that enables critical HR decisions that power workforce and business productivity, performance and alignment. For example, ADP's Pay Equity Explorer combines analytics and benchmarking to help employers gain a better understanding of potential gender or race pay gaps and provide them with real, aggregated and anonymized market data to understand how their compensation for a particular job compares to other employers.

Our innovative payment offerings support employers' need for flexible payment solutions due to macro trends, including the rise of the contingent workforce or "gig economy," that are reshaping the employment landscape. Wisely by ADP™ is our latest advancement in the future of pay. Following our acquisition of Global Cash Card, we launched the Wisely Pay by ADP payroll card, a network-branded payroll card and digital account that enables employers to disburse payroll to their employees, and enables employees to access their payroll funds immediately, including via a network member bank or an ATM, make purchases or pay bills, load additional funds onto the card, such as tax refunds and military pensions, and transfer funds to a bank account in the United States. We also launched Wisely Direct by ADP, a network-branded general purpose reloadable card and digital account, that offers similar features and functionality as Wisely Pay by ADP but is offered directly to consumers. Our digital card offerings are true banking alternatives that feature innovative services such as savings, digital wallet and other financial management features.

Through our acquisition of WorkMarket®, a cloud-based workforce management solutions provider, ADP became the first HCM provider with robust freelancer management functionality and reporting insights, enabling clients to effectively manage their extended workforce.

In addition, our mobile applications enable businesses to process their payroll, and give approximately 17 million of our clients' employees and freelancers convenient access to their payroll and HR information through a variety of mobile device platforms, around the world and in more than 27 languages. ADP has also opened access for developers and system integrators to certain of our platforms' Application Programming Interface libraries through the ADP Marketplace. With ADP Marketplace, clients can integrate employee data from ADP core services across their other business systems, providers or platforms. This access enables the exchange of client data housed in ADP's databases, and creates a unified HCM ecosystem for clients informed by a single, comprehensive repository of their workforce data.

Integrated HCM Solutions. Our premier suite of HCM products offers complete solutions that assist employers of all types and sizes in all stages of the employment cycle, from recruitment to retirement:

- RUN Powered by ADP® is used by more than 570,000 small businesses in the United States. It combines a software platform for managing small business payroll, HR management and tax compliance administration, with 24/7 service and support from our team of small business experts. RUN Powered by ADP also integrates with other ADP solutions, such as time and attendance management, workers' compensation insurance premium payment plans, and retirement plan administration systems.

- ADP Workforce Now® is a flexible HCM solution used by more than 60,000 mid-sized and large businesses in North America to manage their employees. More businesses use ADP Workforce Now than any other HCM solution designed for both mid-sized and large businesses.

- ADP Vantage HCM® is a solution for large enterprises in the United States. It offers a comprehensive set of HCM capabilities within a single solution that unifies the five major areas of HCM: HR management, benefits administration, payroll services, time and attendance management, and talent management.

- ADP GlobalView® HCM is a solution for multinational organizations of all sizes. As an integrated and flexible infrastructure supported by a team of experts, ADP GlobalView HCM allows companies of all sizes – from those with small and mid-sized operations to the largest multinational corporations – to standardize their HCM strategies globally (including payroll, HR, talent, time and labor, and benefits management) and adapt to changing local needs, while helping to drive overall organizational agility and engagement.

- Outside the United States, ADP offers comprehensive HCM solutions on local, country-specific platforms. These suites of services offer various combinations of payroll services, HR management, time and attendance management, talent management and benefits management, depending on the country in which the solution is provided.

Payroll Services. ADP pays approximately 26 million (approximately 1 out of every 6) workers in the United States, and approximately 14 million workers outside the United States. ADP provides flexible payroll services to employers of all sizes, including the preparation of employee paychecks, pay statements, supporting journals, summaries, and management reports. ADP provides employers with a wide range of payroll options, including entering their payroll data online with an Internet-based solution, using a mobile device or outsourcing their entire payroll process to ADP. ADP also enables its clients to connect their major enterprise resource planning ("ERP") applications with ADP's payroll services. Employers can choose a variety of payroll payment options including ADP's electronic wage payment and, in the United States, payroll card solutions and digital accounts. On behalf of our clients in the United States, ADP prepares and files federal, state and local payroll tax returns and quarterly and annual Social Security, Medicare, and federal, state and local income tax withholding reports, and prepares and files similar reports internationally. In addition, as part of our global payroll services, ADP supplies year-end regulatory and legislative tax statements and other forms to our clients' employees. For clients in the United States who choose to process payroll in-house, ADP also offers our Compliance Solutions described below.

Benefits Administration. In the United States, ADP provides flexible solutions for employee benefits administration. These options include health and welfare administration, leave administration services, insurance carrier enrollment services, employee communication services, and dependent verification services. In addition, ADP benefits administration solutions offer employers an efficient cloud-based eligibility and enrollment system that provides their employees with tools, communications, and other resources they need to understand their benefits options and make informed choices.

Talent Management. ADP’s Talent Management solutions simplify and improve the talent acquisition, management, and activation process from recruitment to ongoing employee engagement and development. ADP’s talent acquisition solutions help employers recruit, screen and on-board talent quickly and cost effectively. Employers can also meet their hiring needs by outsourcing their internal recruitment function to ADP. ADP’s talent management solutions provide performance, learning, succession and compensation management tools that help employers align goals to outcomes, while enabling managers to identify and mitigate potential retention risks. ADP’s talent activation solutions include tools, such as ADP’s StandOut® and Compass™ solutions, which provide team leaders with data and insights to drive employee engagement and leadership development, which in turn help clients drive employee performance while reliably measuring the impact in relation to business outcomes.

Human Resources Management. Commonly referred to as Human Resource Information Systems, ADP’s Human Resources Management Solutions provide employers with a single system of record to support the entry, validation, maintenance, and reporting of data required for effective HR management, including employee names, addresses, job types, salary grades, employment history, and educational background. ADP’s Human Resources Management Solutions can also be combined with ADP’s Talent Management Solutions and other HCM offerings.

Time and Attendance Management. ADP offers multiple options for employers of all sizes to collect employee time and attendance information, including electronic timesheets, badge cards, biometric and touch-screen time clocks, telephone/interactive voice response, and mobile smartphones and tablets. ADP’s time and attendance tracking tools simplify employee scheduling and automate the calculation and reporting of hours worked, helping employers consistently enforce leave and attendance policies, control overtime, and manage compliance with wage and hour regulations.

Insurance Services. ADP’s Insurance Services business, in conjunction with our licensed insurance agency, Automatic Data Processing Insurance Agency, Inc., facilitates access in the United States to workers’ compensation and group health insurance for small and mid-sized clients through a variety of insurance carriers. ADP’s automated Pay-by-Pay® premium payment program calculates and collects workers’ compensation premium payments each pay period simplifying this task for employers.

Retirement Services. ADP Retirement Services helps employers in the United States administer various types of retirement plans, such as 401(k) (including “safe harbor” 401(k) and Roth 401(k)), profit sharing (including new comparability), SIMPLE IRA, SEP IRA, and executive deferred compensation plans. ADP Retirement Services offers a full service 401(k) plan program which provides recordkeeping and administrative services, combined with an investment platform offered through ADP Broker-Dealer, Inc. that gives our clients’ employees access to a wide range of non-proprietary investment options and online tools to monitor the performance of their investments. In addition, ADP Retirement Services offers investment management services to retirement plans through ADP Strategic Plan Services, LLC, a registered investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”). ADP Retirement Services also offers trustee services through a third party.

Compliance Services. ADP’s Compliance Services provides industry-leading expertise in payment compliance and employment-related tax matters that complement the payroll, HR and ERP systems of its clients.

ADP SmartCompliance. In the United States, ADP SmartCompliance® integrates client data delivered from ADP's integrated HCM platforms or third-party payroll, HR and financial systems into a single, cloud-based solution. ADP’s specialized teams use the data to work with clients to help them manage changing regulatory landscapes and improve business processes. ADP SmartCompliance includes service capabilities for several HCM-related compliance processes, including employment tax, wage payments, tax credits, health compliance, wage garnishments, employment verifications, and unemployment claims.

ADP SmartCompliance Employment Tax. As part of ADP’s full service employment tax services in the United States, ADP prepares and files employment tax returns on our clients’ behalf and, in connection with these services, collects employment taxes from clients and remits these taxes, as appropriate, to more than 7,100 federal, state, and local tax agencies. In our fiscal year ended June 30, 2018, ADP in the United States processed and delivered approximately 64 million employee year-end tax statements, and moved more than $1.85 trillion in client funds to taxing and other agencies and to our clients’ employees and other payees.

ADP SmartCompliance Wage Payments. In the United States, ADP offers compliant pay solutions for the modern workforce, including electronic payroll disbursement options such as payroll cards, digital accounts and direct deposit, as well as traditional payroll check offerings, that can be integrated with clients' ERP and payroll systems.

ADP SmartCompliance - Other ADP Solutions. Our other ADP SmartCompliance solutions include:

- Tax Credits. ADP helps clients in the United States take advantage of tax credit and incentive opportunities as they hire new employees.
- Health Compliance. ADP helps businesses manage crucial employer-related elements of the U.S. Patient Protection and Affordable Care Act (the "Affordable Care Act").
- Wage Garnishments. ADP offers an integrated solution to help our clients manage the wage garnishment process through integration with their payroll systems.
- Employment Verification. ADP offers an automated solution to securely verify employment and income.
- Unemployment Claims. ADP offers a single-source solution to help manage the entire unemployment claims process in the United States.

Professional Employer Organization Services' Products and Services

ADP TotalSource, ADP's PEO business, offers small and mid-sized businesses a comprehensive HR outsourcing solution through a co-employment model. In 2017, ADP TotalSource became one of the first PEOs certified by the Internal Revenue Service as meeting the requirements to operate as a Certified Professional Employer Organization under the Internal Revenue Code. As a PEO, ADP TotalSource provides complete HR management services while the client continues to direct the day-to-day job-related duties of the employees. ADP TotalSource combines key HR management and employee benefits functions, including HR administration, employee benefits, and employer liability management, into a single-source solution:

HR Administration. ADP TotalSource offers a variety of comprehensive HR administration services, such as:

- employee recruitment
- payroll and tax administration
- time and attendance management
- benefits administration
- employee training and development
- online HR management tools

- employee leave administration

Employee Benefits. Through the co-employment model, ADP TotalSource provides eligible worksite employees with access to:
- group health, dental and vision coverage
- a 401(k) retirement savings plan
- health savings accounts
- flexible spending accounts
- group term life and disability coverage
- an employee assistance program

Employer Liability Management. ADP TotalSource helps clients manage and limit employment-related risks and related costs by providing:
- a workers' compensation program
- unemployment claims management
- safety compliance guidance and access to safety training
- access to employment practices liability insurance
- guidance on compliance with U.S. federal, state and local employment laws and regulations

The scale of ADP TotalSource allows us to deliver a variety of benefits and services with efficiency and value typically out of reach to small and mid-sized businesses. ADP TotalSource serves approximately 12,000 clients and more than 530,000 worksite employees in all 50 states.

MARKETS AND SALES

Employer Services' HCM solutions are offered in more than 110 countries and territories. The most material markets for our HCM solutions are the United States, Canada and Europe. In each market, we have both country-specific solutions and multi-country solutions, for employers of all sizes and complexities. The major components of our HCM offerings throughout these geographies are payroll, HR outsourcing and time and attendance management. In addition, we offer wage and tax collection and remittance services in the United States, Canada, the United Kingdom, the Netherlands, France, Australia, India, and China. PEO Services offers services exclusively in the United States.

We market our solutions primarily through our direct sales force. Employer Services also markets its solutions through indirect sales channels, such as marketing relationships with certified public accountants and banks, among others. None of ADP's major business groups has a single homogeneous client base or market. While concentrations of clients exist in specific industries, no one client, industry or industry group is material to ADP's overall revenues. ADP enjoys a leadership position in each of its major service offerings and does not believe any major service or major business unit of ADP is subject to unique market risk.

COMPETITION

The industries in which ADP operates are highly competitive. ADP knows of no reliable statistics by which it can determine the number of its competitors, but it believes that it is one of the largest providers of HCM solutions in the world. Employer Services competes with other business outsourcing companies, companies providing ERP services, providers of cloud-based HCM solutions and financial institutions. PEO Services competes with other PEOs providing similar services, as well as business outsourcing companies, companies providing ERP services and providers of cloud-based HCM solutions. Other competitive factors include a company's in-house function, whereby a company installs and operates its own HCM system.

Competition for business outsourcing solutions is primarily based on product and service quality, reputation, ease of use and accessibility of technology, breadth of offerings, and price. We believe that ADP is competitive in each of these areas and that our leading-edge technology, together with our commitment to service excellence, distinguishes us from our competitors.

INDUSTRY REGULATION

Our business is subject to a wide range of complex U.S. and foreign laws and regulations. In addition, many of our solutions are designed to assist clients with their compliance with certain U.S. and foreign laws and regulations that apply to them. We have, and continue to enhance, compliance programs and policies to monitor and address the legal and regulatory requirements applicable to our operations and client solutions, including dedicated compliance personnel and training programs.

As one of the world's largest providers of HCM solutions, our systems contain a significant amount of sensitive data related to clients, employees of our clients, vendors and our employees. We are, therefore, subject to compliance obligations under federal, state and foreign privacy, data protection and cybersecurity-related laws, including federal, state and foreign security breach notification laws with respect to both our own employee data and client employee data. The changing nature of these laws in the United States, Europe and elsewhere, including the adoption by the European Union (the "EU") of the General Data Protection Regulation (the "GDPR"), will impact our processing of personal information of our employees and on behalf of our clients. The GDPR, which became effective in May 2018, imposes stricter and more comprehensive requirements on us as both a data controller and data processor. As part of our overall data protection compliance program, including with respect to data protection laws in the EU, in February 2018 we obtained approval from all 28 EU Data Protection Authorities to implement Binding Corporate Rules ("BCRs"). Compliance with our BCRs will permit us to process and transfer personal data across borders in accordance with GDPR and other data protection laws in the EU. In addition, in the United States, the Health Insurance Portability and Accountability Act of 1996 applies to our insurance services businesses and ADP TotalSource.

As part of our payroll and payroll tax management services, we move client funds to taxing authorities, our clients' employees, and other payees via electronic transfer, direct deposit, prepaid access and ADPCheck. Some elements of our U.S. money transmission activities, including our electronic payment and prepaid access (payroll pay card) offerings, are subject to certain licensing requirements. In addition, our U.S. prepaid access offering is subject to the anti-money laundering and reporting provisions of The Bank Secrecy Act of 1970, as amended by the USA PATRIOT Act of 2000 (the "BSA"). Elements of our money transmission activities outside of the United States are subject to similar licensing and anti-money laundering and reporting laws and requirements in the countries in which we provide such services. Our employee screening and selection services business offers background checking services that are subject to the Fair Credit Reporting Act. ADP TotalSource is subject to various state licensing requirements and maintains certifications with the Internal Revenue Service. Because ADP TotalSource is a co-employer with respect to its clients' worksite employees, we may be subject to limited obligations and responsibilities of an employer under federal and state tax, insurance and employment laws. In April 2017, we formed a registered investment adviser that provides certain investment management and advisory services to retirement plan administrators under a heightened "fiduciary" standard and is regulated by the SEC and the U.S. Department of Labor.

In addition, many of our businesses offer solutions that assist our clients in complying with certain U.S. and foreign laws and regulations that apply to them. Although these laws and regulations apply to our clients and not to ADP, changes in such laws or regulations may affect our operations, products and services. For example, our payroll services are designed to facilitate compliance with state laws and regulations applicable to the payment of wages. In addition, our HCM solutions help clients manage their compliance with certain requirements of the Affordable Care Act in the United States. Similarly, our Tax Credit Services business, which helps clients in the United States take advantage of tax credit opportunities in connection with the hiring of new employees and certain other activities, is based on federal, state, or local tax laws and regulations allowing for tax credits, which are subject to renewal, amendment or rescission.

The foregoing description does not include an exhaustive list of the laws and regulations governing or impacting our business. See the discussion contained in the "Risk Factors" section in Part I, Item 1A of this Annual Report on Form 10-K for information regarding changes in laws and regulations that could have a materially adverse effect on our reputation, results of operations or financial condition or have other adverse consequences.

CLIENTS AND CLIENT CONTRACTS

ADP provides its services to more than 740,000 clients. In fiscal 2018, no single client or group of affiliated clients accounted for revenues in excess of 2% of ADP's annual consolidated revenues.

ADP is continuously in the process of performing implementation services for new clients. Depending on the service agreement and/or the size of the client, the installation or conversion period for new clients can vary from a short period of time for a small Employer Services client (as little as 24 hours) to a longer period for a large Employer Services client with multiple deliverables (generally six to nine months). In some cases, the period may exceed two years for a large, multi-country GlobalView client or other large, complicated implementation. Although we monitor sales that have not yet been installed, we do not view this metric as material to an understanding of our overall business in light of the recurring nature of our business. This metric is not a reported number, but it is used by management as a planning tool to allocate resources needed to install services, and as a means of assessing our performance against the expectations of our clients. In addition, some of our products and services are sold under longer term contracts with initial terms ranging from two to seven years. However, this anticipated future revenue under contract is not a significant portion of ADP’s expected future revenue, is not a meaningful indicator of our future performance and is not material to management's estimate of ADP’s future revenue.

Our business is typically characterized by long-term client relationships that result in recurring revenue. Our services are provided under written price quotations or service agreements having varying terms and conditions. No one price quotation or service agreement is material to ADP. ADP’s client retention is estimated at approximately 10 years in Employer Services, and approximately 7 years in PEO Services, and has not varied significantly from period to period.

PRODUCT DEVELOPMENT

ADP continually upgrades, enhances, and expands its solutions and services. In general, new solutions and services supplement rather than replace our existing solutions and services and, given our recurring revenue model, do not have a material and immediate effect on ADP's revenues. ADP believes that our strategic solutions and services have significant remaining life cycles.

SYSTEMS DEVELOPMENT AND PROGRAMMING

During the fiscal years ended June 30, 2018, 2017, and 2016, ADP invested approximately $1 billion, $859 million, and $818 million, respectively, from continuing operations, in systems development and programming, which includes expenses for activities such as client migrations to our new strategic platforms, the development of new products and maintenance of our existing technologies, including purchases of new software and software licenses.

LICENSES

ADP is the licensee under a number of agreements for computer programs and databases. ADP’s business is not dependent upon a single license or group of licenses. Third-party licenses, patents, trademarks, and franchises are not material to ADP’s business as a whole.

NUMBER OF EMPLOYEES

ADP employed approximately 57,000 persons as of June 30, 2018.

Item 1A. Risk Factors

Our businesses routinely encounter and address risks, some of which may cause our future results to be different than we currently anticipate. The risk factors described below represent our current view of some of the most important risks facing our businesses and are important to understanding our business. The following information should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and the consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion includes a number of forward-looking statements. You should refer to the description of the qualifications and limitations on forward-looking statements in the first paragraph under Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K. The level of importance of each of the following risks may vary from time to time, and any of these risks may have a materially adverse effect on our business, results of operations or financial condition.

Failure to comply with, or changes in, laws and regulations applicable to our businesses could have a materially adverse effect on our reputation, results of operations or financial condition, or have other adverse consequences

Our business is subject to a wide range of complex U.S. and foreign laws and regulations, including, but not limited to, the laws and regulations described in the "Industry Regulation" section in Part I, Item 1 of this Annual Report on Form 10-K. Failure to comply with laws and regulations applicable to our operations or client solutions and services could result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of services, and the imposition of consent orders or civil and criminal penalties, including fines, that could damage our reputation and have a materially adverse effect on our results of operation or financial condition.

In addition, changes in laws or regulations, or changes in the interpretation of laws or regulations by a regulatory authority, may decrease our revenues and earnings and may require us to change the manner in which we conduct some aspects of our business. For example, a change in regulations either decreasing the amount of taxes to be withheld or allowing less time to remit taxes to government authorities would adversely impact average client balances and, thereby adversely impact interest income from investing client funds before such funds are remitted to the applicable taxing authorities. Changes in taxation regulations could adversely affect our effective tax rate and our net income. Changes in laws that govern the co-employment arrangement between a professional employer organization and its worksite employees may require us to change the manner in which we conduct some aspects of our PEO business. Health care reform under the Affordable Care Act, related state laws, and the regulations thereunder, as well as the uncertainty surrounding the Affordable Care Act, have the potential to further impact the health insurance market for our PEO business and the demand for our health care compliance solutions. We are unable to determine the additional impact that any of this will have on our PEO business, our ability to attract and retain PEO clients or demand for our health care compliance solutions.

Amendments to money transmitter statutes have required us to obtain licenses in some jurisdictions. The adoption of new money transmitter statutes in other jurisdictions, changes in regulators' interpretation of existing state and federal money transmitter or money services business statutes or regulations, or disagreement by a regulatory authority with our interpretation of such statutes or regulations, could require additional registration or licensing, limit certain of our business activities until they are appropriately licensed, and expose us to financial penalties. These occurrences could also require changes to the manner in which we conduct some aspects of our money movement business or client funds investment strategy, which could adversely impact interest income from investing client funds before such funds are remitted.

Failure to comply with anti-corruption laws and regulations, anti-money laundering laws and regulations, economic and trade sanctions, and similar laws could have a materially adverse effect on our reputation, results of operations or financial condition, or have other adverse consequences

Regulators worldwide are exercising heightened scrutiny with respect to anti-corruption, economic and trade sanctions, and anti-money laundering laws and regulations. Such heightened scrutiny has resulted in more aggressive investigations and enforcement of such laws and more burdensome regulations, any of which could adversely impact our business. We operate our business around the world, including in numerous developing economies where companies and government officials are more likely to engage in business practices that are prohibited by domestic and foreign laws and regulations, including the United States Foreign Corrupt Practices Act and the U.K. Bribery Act. Such laws generally prohibit improper payments or offers of payments to foreign government officials and leaders of political parties, and in some cases, to other persons, for the purpose of obtaining or retaining business. We are also subject to economic and trade sanctions programs, including those administered by the U.S. Treasury Department's Office of Foreign Assets Control, which prohibit or restrict transactions or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially designated, including narcotics traffickers and terrorists or terrorist organizations, among others. In addition, some of our businesses in the U.S. and a number of countries in which we operate are subject to anti-money laundering laws and regulations, including, for example, The Bank Secrecy Act of 1970, as amended by the USA PATRIOT Act of 2000 (the "BSA"). Among other things, the BSA requires certain financial institutions, including banks and money services businesses (such as money transmitters and providers of prepaid access), to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity, and maintain transaction records. We have registered our payroll card business with the Treasury Department's Financial Crimes Enforcement Network ("FinCEN") as a provider of prepaid access pursuant to a FinCEN regulation.

We have implemented policies and procedures to monitor and address compliance with applicable anti-corruption, economic and trade sanctions and anti-money laundering laws and regulations, and we are continuously in the process of reviewing, upgrading and enhancing certain of our policies and procedures. However, there can be no assurance that our employees, consultants or agents will not take actions in violation of our policies for which we may be ultimately responsible, or that our policies and procedures will be adequate or will be determined to be adequate by regulators. Any violations of applicable anti-corruption, economic and trade sanctions or anti-money laundering laws or regulations could limit certain of our business activities until they are satisfactorily remediated and could result in civil and criminal penalties, including fines, which could damage our reputation and have a materially adverse effect on our results of operation or financial condition. Further, bank regulators are imposing additional and stricter requirements on banks to ensure they are meeting their BSA obligations, and banks are increasingly viewing money services businesses, as a class, to be higher risk customers for money laundering. As a result, our banking partners may limit the scope of services they provide to us or may impose additional requirements on us. These regulatory restrictions on banks and changes to banks' internal risk-based policies and procedures may result in a decrease in the number of banks that may do business with us, may require us to change the manner in which we conduct some aspects of our business, may decrease our revenues and earnings and could have a materially adverse effect on our results of operation or financial condition.

Failure to comply with privacy, data protection and cyber security laws and regulations could have a materially adverse effect on our reputation, results of operations or financial condition, or have other adverse consequences

The collection, hosting, transfer, disclosure, use, storage and security of personal information required to provide our services is subject to federal, state and foreign privacy, data protection and cyber security laws. These laws, which are not uniform, do one or more of the following: regulate the collection, transfer (including in some cases, the transfer outside the country of collection), processing, storage, security, use, disclosure and disposal of personal information; require notice to individuals of privacy practices; give individuals certain access and correction rights with respect to their personal information; and prevent the use or disclosure of personal information for secondary purposes such as marketing. Under certain circumstances, some of these laws require us to provide notification to affected individuals, clients, data protection authorities and/or other regulators in the event of a data breach. In many cases, these laws apply not only to third-party transactions, but also to transfers of information among the Company and its subsidiaries. The European Union (the "EU") General Data Protection Regulation (the "GDPR"), which became effective in May 2018, is one of the most comprehensive of these laws. As part of our overall data protection compliance program, in February 2018 we obtained approval from all 28 EU Data Protection Authorities to implement Binding Corporate Rules ("BCRs") as both a data processor and data controller, which permits us to process and transfer personal data across borders in compliance with EU data protection laws. Complying with these laws and requirements, including the enhanced obligations imposed by the GDPR and our BCRs, may result in significant costs to our business and require us to amend certain of our business practices. Further, enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase. The future enactment of more restrictive laws, rules or regulations and/or future enforcement actions or investigations could have a materially adverse impact on us through increased costs or restrictions on our businesses and noncompliance could result in significant regulatory penalties and legal liability.

Our businesses collect, host, transfer, disclose, use, store and secure personal and business information, and collect, store and transmit client funds, and a security or privacy breach may damage or disrupt our businesses, result in the disclosure of confidential information, damage our reputation, increase our costs, cause losses and adversely affect our results of operations

In connection with our business, we collect, host, transfer, disclose, use, store and secure large amounts of personal and business information about our clients, employees of our clients, our vendors and our employees, contractors and temporary staff, including payroll information, health care information, personal and business financial data, social security numbers and their foreign equivalents, bank account numbers, tax information and other sensitive personal and business information. We also collect and transmit significant amounts of funds from the accounts of our clients to their employees, taxing authorities and others.

We are focused on ensuring that we safeguard and protect personal and business information and client funds, and we devote significant resources to maintain and regularly update our systems and processes. Nonetheless, globally, attacks on information technology systems continue to grow in frequency, complexity and sophistication, and we are regularly targeted by unauthorized parties using malicious tactics, code and viruses. Although this is a global problem, it may affect our businesses more than other businesses because malevolent third parties may focus on the amount and type of personal and business information that our businesses collect, host, use, transmit and store, and the clients funds that we collect and transmit.

We have programs in place to prevent, detect and respond to data or cyber security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, are increasingly more complex and sophisticated and may be difficult to detect for long periods of time, we may be unable or fail to anticipate these techniques or implement adequate or timely preventive or responsive measures. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could compromise the confidentiality, integrity or availability of data or our systems. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other methods of deceiving these third parties or our employees, contractors, and temporary staff. As these threats continue to evolve and increase, we may be required to invest significant additional resources to modify and enhance our information security and controls and to investigate and remediate any security vulnerabilities. In addition, while our operating environments are designed to safeguard and protect personal and business information, we do not have the ability to monitor the implementation or effectiveness of any safeguards by our clients, vendors or partners, and, in any event, third parties may be able to circumvent those security measures. Information obtained by malevolent parties resulting from successful attacks against our clients, vendors, partners or other third parties may, in turn, be used to attack our information technology systems.

Any cyberattack, unauthorized intrusion, malicious software infiltration, network disruption, denial of service, corruption of data, theft of non-public or other sensitive information, or similar act by a malevolent party, or inadvertent acts or inactions by our employees, contractors or temporary staff, could result in the disclosure or misuse of confidential personal or business information or the theft of client funds, and could have a materially adverse effect on our business or results of operations, or that of our clients, result in liability, litigation, regulatory investigations and sanctions or a loss of confidence in our ability to serve clients, or cause current or potential clients to choose another service provider.

Although we believe that we maintain a robust program of information security and controls and none of the data or cyber security incidents that we have encountered to date have materially impacted us, a data or cyber security incident could have a materially adverse effect on our business, results of operations, financial condition and reputation. While ADP maintains insurance coverage that, subject to policy terms and conditions and a significant self-insured retention, is designed to address losses or claims that may arise in connection with certain aspects of data and cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in the continually evolving area of data and cyber risk.

Our systems may be subject to disruptions that could have a materially adverse effect on our business and reputation

Many of our businesses are highly dependent on our ability to process, on a daily basis, a large number of complicated transactions. We rely heavily on our payroll, financial, accounting, and other data processing systems. If any of these systems fails to operate properly or becomes disabled even for a brief period of time, we could suffer financial loss, a disruption of our businesses, liability to clients, loss of clients, regulatory intervention, or damage to our reputation, any of which could have a materially adverse effect on our results of operation or financial condition. We have disaster recovery, business continuity, and crisis management plans and procedures designed to protect our businesses against a multitude of events, including natural disasters, military or terrorist actions, power or communication failures, or similar events. Despite our preparations, our plans may not be successful in preventing or mitigating the loss of client data, service interruptions, disruptions to our operations, or damage to our important facilities.

A disruption of our data centers could have a materially adverse effect on our business

We host our applications and serve our clients from data centers that we operate and from data centers operated by third-party vendors. If any of our or our third-party vendors' data centers fail or become disabled, even for a limited period of time, our businesses could be disrupted and we could suffer financial loss, liability to clients, loss of clients, regulatory intervention, or damage to our reputation, any of which could have a material adverse effect on our results of operation or financial condition. In addition, our third-party vendors may cease providing data center facilities or services, elect to not renew their agreements with us on commercially reasonable terms or at all, breach their agreements with us or fail to satisfy our expectations, which could disrupt our operations and require us to incur costs which could materially adversely affect our results of operation or financial condition.

If we fail to protect our intellectual property rights, it could materially adversely affect our business and our brand

Our ability to compete and success depend, in part, upon our intellectual property. We rely on patent, copyright, trade secret and trademark laws, and confidentiality or license agreements with our employees, customers, vendors, partners and others to protect our intellectual property rights. We may need to devote significant resources, including cybersecurity resources, to monitoring our intellectual property rights. In addition, the steps we take to protect our intellectual property rights may be inadequate or ineffective, or may not provide us with a significant competitive advantage. Our intellectual property could be wrongfully acquired as a result of a cyber-attack or other wrongful conduct by employees or third parties. Litigation brought to protect and enforce our intellectual property rights could be costly and time-consuming. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights which may be successful.

We may be sued by third parties for infringement of their proprietary rights
There is considerable intellectual property development activity in our industry. Third parties, including our competitors, may own or claim to own intellectual property relating to our products or services and may claim that we are infringing their intellectual property rights. We may be found to be infringing upon such rights, even if we are unaware of their intellectual property rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, obtain licenses, modify applications, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers, vendors or partners in connection with any such claim or litigation. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time-consuming.

If we fail to upgrade, enhance and expand our technology and services to meet client needs and preferences, the demand for our solutions and services may diminish
Our businesses operate in industries that are subject to rapid technological advances and changing client needs and preferences. In order to remain competitive and responsive to client demands, we continually upgrade, enhance, and expand our existing solutions and services. If we fail to respond successfully to technology challenges and client needs and preferences, the demand for our solutions and services may diminish.

We may not realize the expected benefits from our business transformation initiatives, and these efforts could have a materially adverse effect on our business, operations, financial results and competitive position
We have been and will be undertaking certain transformation initiatives, which are designed to streamline our organization, extend our world-class distribution and strengthen our talent and culture, while supporting our revenue growth, margin improvement and productivity. If we do not successfully manage and execute these initiatives, or if they are inadequate or ineffective, we may fail to meet our financial goals and achieve anticipated benefits, improvements may be delayed or not realized and our business, operations and competitive position could be adversely affected. These initiatives, or our failure to successfully manage them, could result in unintended consequences or unforeseen costs, including distraction of our management and employees, attrition, inability to attract or retain key personnel, and reduced employee productivity, which could adversely affect our business, financial condition, and results of operations.

Political and economic factors may adversely affect our business and financial results
Trade, monetary and fiscal policies, and political and economic conditions may substantially change, and credit markets may experience periods of constriction and volatility. When there is a slowdown in the economy, employment levels and interest rates may decrease with a corresponding impact on our businesses. Clients may react to worsening conditions by reducing their spending on HCM services or renegotiating their contracts with us, which may adversely affect our business and financial results.

We invest our client funds in liquid, investment-grade marketable securities, money market securities, and other cash equivalents. Nevertheless, our client fund assets are subject to general market, interest rate, credit, and liquidity risks. These risks may be exacerbated, individually or in unison, during periods of unusual financial market volatility. In addition, as part of our client funds investment strategy, we extend the maturities of our investment portfolio for client funds and utilize short-term financing arrangements to satisfy our short-term funding requirements related to client funds obligations. In order to satisfy these short-term funding requirements, we maintain access to various sources of liquidity, including borrowings under our commercial paper program and our committed credit facilities, our ability to execute reverse repurchase transactions and corporate cash balances. A reduction in the availability of any such financing during periods of disruption in the financial markets or otherwise may require us to sell client fund assets to satisfy our short-term funding requirements, which may result in the recognition of losses and adversely impact our results of operations, financial condition and cash flow.

We are dependent upon various large banks to execute electronic payments and wire transfers as part of our client payroll, tax and other money movement services. While we have contingency plans in place for bank failures, a systemic shutdown of the banking industry would impede our ability to process funds on behalf of our payroll, tax and other money movement services clients and could have an adverse impact on our financial results and liquidity.

We derive a significant portion of our revenues and operating income outside of the United States and, as a result, we are exposed to market risk from changes in foreign currency exchange rates that could impact our results of operations, financial position and cash flows.

Our business could be negatively impacted as a result of actions by activist stockholders or others

We may be subject to actions or proposals from activist stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions could be costly and time-consuming, disrupt our business and operations, and divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Activist stockholders may create perceived uncertainties as to the future direction of our business or strategy which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel, potential customers and business partners and may affect our relationships with current customers, vendors, investors and other third parties. In addition, actions of activist stockholders may cause periods of fluctuation in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Change in our credit ratings could adversely impact our operations and lower our profitability

The major credit rating agencies periodically evaluate our creditworthiness and have given us very strong, investment-grade long-term debt ratings and the highest commercial paper ratings. Failure to maintain high credit ratings on long-term and short-term debt could increase our cost of borrowing, reduce our ability to obtain intra-day borrowing required by our Employer Services business, and adversely impact our results of operations.

If the distribution of CDK Global® common stock to ADP's stockholders does not qualify as a tax-free spinoff, we could incur substantial liabilities and may not be fully indemnified for such liabilities

On September 30, 2014, the Company completed the tax-free spinoff of its former Dealer Services business through the distribution of all of the issued and outstanding common stock of CDK Global, Inc. ("CDK Global") to ADP's stockholders. CDK Global was formed to hold ADP's former Dealer Services business and, as a result of the distribution, became an independent public company trading under the symbol "CDK" on the NASDAQ Global Select Market. Prior to completing the spinoff of CDK Global, ADP received an opinion from Paul, Weiss, Rifkind, Wharton & Garrison LLP, its counsel, to the effect that, based on certain facts, assumptions, representations and undertakings set forth in the opinion, the distribution qualified as a transaction that is tax-free under Section 355 and other related provisions of the Internal Revenue Code. ADP also received a private letter ruling from the IRS with respect to certain discrete and significant issues arising in connection with the transactions effected in connection with the separation and distribution. The opinion and the ruling were based upon various factual representations and assumptions, as well as certain undertakings made by ADP and CDK Global. If any of those factual representations or assumptions was untrue or incomplete in any material respect, any undertaking is not complied with, or the facts upon which the opinion and the ruling were based were materially different from the facts at the time of the distribution, the distribution may not qualify for tax-free treatment. Although a private letter ruling from the IRS generally is binding on the IRS, the IRS did not rule that the distribution satisfies every requirement for a tax-free distribution. Opinions of counsel are not binding on the IRS or the courts. As a result, the conclusions expressed in an opinion of counsel could be challenged by the IRS, and if the IRS prevails in such challenge, the tax consequences to ADP's stockholders that received CDK Global common stock pursuant to the distribution could be materially less favorable.

If the distribution were determined not to qualify as a tax-free transaction under Section 355 of the Code, each United States holder of ADP common stock that received CDK Global common stock pursuant to the distribution generally would be treated as receiving a distribution taxable as a dividend in an amount equal to the fair market value of the shares of CDK Global common stock received by such holder. In addition, ADP generally would recognize gain with respect to the distribution and certain related transactions, and CDK Global could be required to indemnify ADP for any resulting taxes and related expenses, which could be material. The distribution and certain related transactions could be taxable to ADP if CDK Global or its stockholders were to engage in certain transactions after the distribution. In such cases, ADP or its stockholders that received CDK Global common stock pursuant to the spinoff could incur significant U.S. federal income tax liabilities, and CDK Global could be required to indemnify ADP for any resulting taxes and related expenses, which could be material. CDK Global may be unable to indemnify us fully for any such taxes and related expenses.

We may be unable to attract and retain qualified personnel

Our ability to grow and provide our clients with competitive services is partially dependent on our ability to attract and retain highly motivated people with the skills to serve our clients. Competition for skilled employees in the outsourcing and other markets in which we operate is intense and, if we are unable to attract and retain highly skilled and motivated personnel, results of our operations may suffer.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

ADP owns 8 of its processing/print centers, and 18 other operational offices, sales offices, and its corporate headquarters in Roseland, New Jersey, which aggregate approximately 3,512,155 square feet. None of ADP's owned facilities is subject to any material encumbrances. ADP leases space for some of its processing centers, other operational offices, and sales offices. All of these leases, which aggregate approximately 6,401,280 square feet worldwide, expire at various times up to the year 2029. ADP believes its facilities are currently adequate for their intended purposes and are adequately maintained.

Item 3. Legal Proceedings

In the normal course of business, ADP is subject to various claims and litigation. While the outcome of any litigation is inherently unpredictable, ADP believes that it has valid defenses with respect to the legal matters pending against it and that the ultimate resolution of these matters will not have a materially adverse impact on its financial condition, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Registrant's Common Equity

The principal market for the Company's common stock is the NASDAQ Global Select Market under the symbol ADP. The following table sets forth the reported high and low sales prices of the Company's common stock reported on the NASDAQ Global Select Market and the cash dividends per share of common stock declared during each quarter for the two most recent fiscal years. As of June 30, 2018, there were 39,613 holders of record of the Company's common stock. As of such date, 562,262 additional holders held their common stock in "street name."

	Price Per Share		Dividends
	High	Low	Per Share
Fiscal 2018 quarter ended			
June 30	$141.52	$111.78	$0.690
March 31	$125.24	$107.61	$0.630
December 31	$119.39	$108.53	$0.630
September 30	$121.77	$100.51	$0.570
Fiscal 2017 quarter ended			
June 30	$105.68	$95.50	$0.570
March 31	$104.61	$93.07	$0.570
December 31	$102.73	$84.03	$0.570
September 30	$93.82	$84.75	$0.530

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Common Stock Repurchase Plan (2)	Maximum Number of Shares that may yet be Purchased under the Common Stock Repurchase Plan (2)
April 1, 2018 to April 30, 2018	1,263,686	$116.50	1,262,037	18,346,131
May 1, 2018 to May 31, 2018	1,048,326	$126.92	1,048,045	17,298,086
June 1, 2018 to June 30, 2018	828,868	$135.98	816,211	16,481,875
Total	3,140,880		3,126,293	

(1) Pursuant to the terms of the Company’s restricted stock program, the Company purchased 14,587 shares at the then market value of the shares in connection with the exercise by employees of their option under such program to satisfy certain tax withholding requirements through the delivery of shares to the Company instead of cash.

(2) The Company received the Board of Directors' approval to repurchase shares of the Company's common stock as follows:

Date of Approval	Shares
August 2015	25 million

There is no expiration date for the common stock repurchase plan.

Performance Graph

The following graph compares the cumulative return on the Company's common stock[a] for the most recent five years with the cumulative return on the S&P 500 Index and the Peer Group Index,[b] assuming an initial investment of $100 on June 30, 2013, with all dividends reinvested. The stock price performance shown on this graph may not be indicative of future performance.

(a) On September 30, 2014, the Company completed the spinoff of its former Dealer Services business into an independent publicly traded company called CDK Global, Inc. The cumulative returns of the Company's common stock have been adjusted to reflect the spinoff.

(b) We use the S&P 500 Information Technology Index as our Peer Group Index. The S&P 500 Information Technology Index is a broad index that includes the Company and several competitors.

Item 6. Selected Financial Data

The following selected financial data is derived from our Consolidated Financial Statements and should be read in conjunction with the Consolidated Financial Statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Quantitative and Qualitative Disclosures About Market Risk included in this Annual Report on Form 10-K. The Company uses certain non-GAAP financial measures that we believe better reflect the underlying operations of our business model, allow investors to assess our performance in a manner similar to the method used by management, and improve our ability to understand and assess our operating performance against prior periods. Refer to (A) below for additional information about our non-GAAP financial measures and our reconciliations to reported results. Additionally, prior period amounts have been adjusted to exclude discontinued operations.

(Dollars and shares in millions, except per share amounts) Years ended June 30,	2018	2017	2016	2015	2014
Total revenues	$13,325.8	$12,379.8	$11,667.8	$10,938.5	$10,226.4
Total costs of revenues	$7,842.6	$7,269.8	$6,840.3	$6,427.6	$6,041.0
Earnings from continuing operations before income taxes	$2,171.1	$2,531.1	$2,234.7	$2,070.7	$1,879.2
Net earnings from continuing operations	$1,620.8	$1,733.4	$1,493.4	$1,376.5	$1,242.6
Adjusted earnings from continuing operations before interest and income taxes (A)	$2,643.1	$2,447.6	$2,274.2	$2,061.5	$1,870.3
Adjusted net earnings from continuing operations (A)	$1,928.1	$1,665.0	$1,494.8	$1,376.5	$1,242.6
Basic earnings per share from continuing operations	$3.68	$3.87	$3.27	$2.91	$2.59
Diluted earnings per share from continuing operations	$3.66	$3.85	$3.25	$2.89	$2.57
Adjusted diluted earnings per share from continuing operations (A)	$4.35	$3.70	$3.26	$2.89	$2.57
Basic weighted average shares outstanding	440.6	447.8	457.0	472.6	478.9
Diluted weighted average shares outstanding	443.3	450.3	459.1	475.8	483.1
Cash dividends declared per share	$2.52	$2.24	$2.08	$1.95	$1.88
At year end:					
Cash, cash equivalents and marketable securities of continuing operations	$2,180.5	$2,791.2	$3,222.4	$1,694.8	$3,670.3
Total assets of continuing operations	$37,088.7	$37,180.0	$43,670.0	$33,110.5	$29,629.6
Total assets	$37,088.7	$37,180.0	$43,670.0	$33,110.5	$32,059.8
Obligations under commercial paper borrowings	$—	$—	$—	$—	$2,173.0
Long-term debt	$2,002.4	$2,002.4	$2,007.7	$9.2	$11.5
Stockholders’ equity	$3,459.6	$3,977.0	$4,481.6	$4,808.5	$6,670.2

(A) Non-GAAP Financial Measures

In addition to our GAAP results, we use the adjusted results and other non-GAAP metrics set forth in the table below to evaluate our operating performance in the absence of certain items and for planning and forecasting of future periods:

Adjusted Financial Measure	U.S. GAAP Measures	Adjustments/Explanation - as applicable in the periods
Adjusted EBIT from continuing operations	Net earnings from continuing operations	- Provision for income taxes - Gains/losses on sales of businesses and assets - All other interest expense and income - Transformation initiatives - Non-operational costs related to proxy contest matters See footnotes (a), (b), and (c)
Adjusted net earnings from continuing operations	Net earnings from continuing operations	Pre-tax and tax impacts of: - Gains/losses on sales of businesses and assets - Transformation initiatives - Non-operational costs related to proxy contest matters - Tax Cuts and Jobs Act See footnotes (b), (c), (d), (e) and (f)
Adjusted provision for income taxes	Provision for income taxes	Tax impacts of: - Gains/losses on sales of businesses and assets - Transformation initiatives - Non-operational costs related to proxy contest matters - Tax Cuts and Jobs Act See footnotes (c), (d), (e), and (f)
Adjusted diluted earnings per share from continuing operations	Diluted earnings per share	EPS impacts of: - Gains/losses on sales of businesses and assets - Transformation initiatives - Non-operational costs related to proxy contest matters - Tax Cuts and Jobs Act See footnotes (b), (c), and (f)
Adjusted effective tax rate	Effective tax rate	See footnote (g)
Constant Currency Basis	U.S. GAAP P&L line items	See footnote (h)

We believe that the exclusion of the identified items helps us reflect the fundamentals of our underlying business model and analyze results against our expectations, against prior period, and to plan for future periods by focusing on our underlying operations. We believe that the adjusted results provide relevant and useful information for investors because it allows investors to view performance in a manner similar to the method used by management and improves their ability to understand and assess our operating performance. The nature of these exclusions are for specific items that are not fundamental to our underlying business operations. Since these adjusted financial measures and other non-GAAP metrics are not measures of performance calculated in accordance with U.S. GAAP, they should not be considered in isolation from, as a substitute for, or superior to their U.S. GAAP measures, and they may not be comparable to similarly titled measures at other companies.

(Dollars and shares in millions, except per share amounts) Years ended June 30,	2018	2017	2016	2015	2014
Net earnings from continuing operations	$1,620.8	$1,733.4	$1,493.4	$1,376.5	$1,242.6
Adjustments:					
Provision for income taxes	550.3	797.7	741.3	694.2	636.6
All other interest expense (a)	59.4	59.3	47.9	1.5	1.6
All other interest income (a)	(25.5)	(22.4)	(13.6)	(10.7)	(10.5)
Gain on sale of businesses	—	(205.4)	(29.1)	—	—
Gain on sale of assets	—	—	(13.9)	—	—
Transformation initiatives (b)	404.8	85.0	48.2	—	—
Proxy contest matters (c)	33.3	—	—	—	—
Adjusted EBIT from continuing operations	$2,643.1	$2,447.6	$2,274.2	$2,061.5	$1,870.3
Net earnings from continuing operations	$1,620.8	$1,733.4	$1,493.4	$1,376.5	$1,242.6
Adjustments:					
Gain on sale of businesses	—	(205.4)	(29.1)	—	—
Provision for income taxes on gain on sale of business (d)	—	84.0	7.3	—	—
Gain on sale of assets	—	—	(13.9)	—	—
Provision for income taxes on gain on sale of assets (e)	—	—	5.3	—	—
Transformation initiatives (b)	404.8	85.0	48.2	—	—
Income tax benefit for transformation initiatives (e)	(122.1)	(32.0)	(16.4)	—	—
Proxy contest matters (c)	33.3	—	—	—	—
Income tax benefit for proxy contest matters (e)	(10.4)	—	—	—	—
Tax Cuts and Jobs Act (f)	1.7	—	—	—	—
Adjusted net earnings from continuing operations	$1,928.1	$1,665.0	$1,494.8	$1,376.5	$1,242.6
Diluted earnings per share from continuing operations	$3.66	$3.85	$3.25	$2.89	$2.57
Adjustments:					
Gain on sale of businesses	—	(0.27)	(0.05)	—	—
Gain on sale of assets	—	—	(0.02)	—	—
Transformation initiatives (b)	0.64	0.12	0.07	—	—
Proxy contest matters (c)	0.05	—	—	—	—
Tax Cuts and Jobs Act (f)	—	—	—	—	—
Adjusted diluted earnings per share from continuing operations	$4.35	$3.70	$3.26	$2.89	$2.57

(a) Our Adjusted EBIT from continuing operations continues to include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. The adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as "All other interest expense" and "All other interest income."

(b) The charges within transformation initiatives in fiscal 2018 includes $319.6 million related to the special termination benefit charges and $17.5 million of other charges related to our Voluntary Early Retirement Program ("VERP"), severance charges related to our Service Alignment Initiative of $20.5 million, and other transformation initiatives of $47.2 million which primarily consist of severance charges totaling $41.9 million. Charges for transformation initiatives for periods prior to fiscal 2018 primarily represent severance charges related to our Service Alignment Initiative and Workforce Optimization Effort. Unlike severance charges in prior periods, which are not included as an adjustment to get to adjusted results, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative. Refer to Note 11 of the Consolidated Financial Statements for a description of charges associated with the VERP.

(c) Represents non-operational costs relating to proxy contest matters.

(d) The taxes on the gains on the sale of the businesses were calculated based on the annualized marginal rate in effect during the quarter of the adjustment. The tax amount was adjusted for a book vs. tax basis difference for the year ended June 30, 2017 due to the derecognition of goodwill upon the sale of the business and for the year ended June 30, 2016 due to a previously recorded non tax-deductible goodwill impairment charge.

(e) The tax benefit/provision on the transformation initiatives, the gain on the sale of the assets, and non-operational charges related to proxy contest matters was calculated based on the annualized marginal rate in effect during the quarter of the adjustment.

(f) The one-time net provision from the enactment of the Tax Cuts and Jobs Act is comprised of a one-time transition tax on the earnings and profits of our foreign subsidiaries, accrued foreign withholding taxes on future distributions of earning and profit that may no longer be utilizable as foreign tax credits, and the recording of a valuation allowance against our foreign tax credits which may not be realized offset by the application of the newly enacted U.S. corporate tax rates to our U.S. deferred tax balances. We are still analyzing certain aspects of the Act and refining calculations, which could potentially result in the re-measurement of these balances or potentially give rise to future adjustments.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This document 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” “is designed to” and other words of similar meaning, are forward-looking statements. These statements are based on management’s expectations and assumptions and depend upon or refer to future events or conditions 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 or that could contribute to such difference include: ADP's success in obtaining, and retaining clients, and selling additional services to clients; the pricing of products and services; the success of our new solutions; compliance with existing or new legislation or regulations; changes in, or interpretations of, existing legislation or regulations; overall market, political and economic conditions, including interest rate and foreign currency trends; competitive conditions; our ability to maintain our current credit ratings and the impact on our funding costs and profitability; security or cyber breaches, fraudulent acts, and system interruptions and failures; employment and wage levels; changes in technology; availability of skilled technical associates; the impact of new acquisitions and divestitures; and the adequacy, effectiveness and success of our business transformation initiatives. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. These risks and uncertainties, along with the risk factors discussed under “Item 1A. Risk Factors,” and in other written or oral statements made from time to time by ADP, should be considered in evaluating any forward-looking statements contained herein.

EXECUTIVE OVERVIEW

We are one of the largest providers of cloud-based Human Capital Management ("HCM") technology solutions - including payroll, talent management, Human Resources and benefits administration, and time and attendance management - to employers around the world. As a leader in this industry, we deliver on our global HCM strategy and make investments in highly strategic areas and technology in order to strengthen our underlying business model and prospects for continued growth.

Highlights from the year ended June 30, 2018 ("fiscal 2018") include:

- Worldwide new business bookings increased 8% to $1.8 billion
- Revenue grew 8% in fiscal 2018; Diluted earnings per share ("EPS") decreased 5% to $3.66, while adjusted diluted EPS increased 18% to $4.35
- Our shareholder friendly actions continued as we raised our quarterly declared cash dividend by 21% and returned approximately $2.1 billion to shareholders via dividends and share repurchases
- Completed migrations of our mid-market clients to latest version of Workforce Now
- Executed on a VERP and created a Transformation Office to continue driving broad-based transformation initiatives

At ADP we innovate by anticipating how the world of work is transforming and how trends, such as the rising of the gig economy, impact the needs of our clients and the evolving workforce. We are reshaping the HCM industry through organic innovative development such as our next-gen platforms and our strategic acquisitions such as Global Cash Card, WorkMarket, and more recently, Celergo, Inc., a leading provider of international payroll management services. With these investments we are enhancing our position as the only global HCM provider that can help businesses address the entire worker spectrum from full-time to freelancer and hire to retire. As the payroll market continues to rapidly evolve, we continue to be focused on staying ahead of the curve. Through our investments in technology, service, and distribution, we intend to continue to build on our momentum heading into fiscal 2019.

Our new business bookings increased 8% during fiscal 2018, as compared to fiscal 2017, validating the renewed momentum in our sales force following fiscal 2017. We are confident that the investments in our sales force and products will continue to drive solid results. We remain optimistic in our ability to deliver innovative and competitive products, as well as our sales force's ability to distribute our products heading into the year ending June 30, 2019 ("fiscal 2019").

During fiscal 2018, we continued to migrate clients to our strategic platforms while making investments in R&D to provide best-in-class cloud-based HCM technology solutions to our clients. Employer Services retention was positively impacted by our focus on improving the client experience and was positively impacted by the loss of a large client within our former Consumer Health Spending Account ("CHSA") business during the fiscal year ended June 30, 2017 ("fiscal 2017"). This focus translated into strong retention on our strategic platforms and as a result, we saw Employer Services revenue retention improve 50 basis points during fiscal 2018 as compared to fiscal 2017.

Simultaneously, we continue to streamline our service organization. We remain focused on delivering results and executing on our strategy to transform our business for continued success within the competitive global HCM environment. During fiscal 2018, we incurred $20.5 million in charges for a previously announced multi-year Service Alignment Initiative intended to align our client service operations to our strategic platforms. Building upon our Service Alignment Initiative in support of our transformation goals, we are executing upon a voluntary early retirement program and have also identified additional operational improvement initiatives through the formation of our Transformation Office. These transformation initiatives support ADP’s ongoing strategy which is aimed at streamlining our operations and extending our world class distribution while leveraging our talent and culture.

We have a strong business model and operate in a growing global market. We continue to maintain a high percentage of recurring revenues and healthy margins, and retain our ability to generate consistent healthy cash flows. Our financial condition and balance sheet remain solid at June 30, 2018, with cash and cash equivalents and marketable securities of approximately $2.2 billion. We have benefited from the Tax Cuts and Jobs Act (the "Act") signed into law in late December 2017. With this increased operating cash flow and greater access to our cash worldwide, we will continue our disciplined approach to capital allocation decisions, including assessing reinvestments into the business, potential acquisitions, and/or returning cash to shareholders through dividends and share buybacks, among other potential uses.

RESULTS OF OPERATIONS
ANALYSIS OF CONSOLIDATED OPERATIONS

Prior period amounts have been adjusted to exclude discontinued operations (refer to Note 1 of our Consolidated Financial Statements for additional information).

(In millions, except per share amounts)

	Years Ended June 30,			% Change As Reported		Constant Currency Basis	
	2018	2017	2016	2018	2017	2018	2017
Total revenues	$13,325.8	$12,379.8	$11,667.8	8 %	6 %	7 %	6 %
Costs of revenues:							
Operating expenses	6,937.9	6,416.1	6,025.0	8 %	6 %	7 %	7 %
Systems development and programming costs	630.2	627.5	603.7	— %	4 %	(1)%	4 %
Depreciation and amortization	274.5	226.2	211.6	21 %	7 %	20 %	7 %
Total costs of revenues	7,842.6	7,269.8	6,840.3	8 %	6 %	7 %	7 %
Selling, general and administrative costs	2,971.5	2,783.2	2,637.0	7 %	6 %	6 %	6 %
Interest expense	102.7	80.0	56.2	n/m	n/m	n/m	n/m
Total expenses	10,916.8	10,133.0	9,533.5	8 %	6 %	7 %	7 %
Other expense/(income), net	237.9	(284.3)	(100.4)	n/m	n/m	n/m	n/m
Earnings from continuing operations before income taxes	$2,171.1	$2,531.1	$2,234.7	(14)%	13 %	(15)%	13 %
Margin	16.3 %	20.4 %	19.2 %				
Provision for income taxes	$550.3	$797.7	$741.3	(31)%	8 %	(32)%	7 %
Effective tax rate	25.3 %	31.5 %	33.2 %				
Net earnings from continuing operations	$1,620.8	$1,733.4	$1,493.4	(6)%	16 %	(8)%	16 %
Diluted earnings per share from continuing operations	$3.66	$3.85	$3.25	(5)%	18 %	(6)%	18 %

n/m - not meaningful

Note 1. Non-GAAP measures

In addition to our GAAP results, we use the adjusted results and other non-GAAP metrics set forth in the table below to evaluate our operating performance in the absence of certain items and for planning and forecasting of future periods:

Adjusted Financial Measure	U.S. GAAP Measures	Adjustments/Explanation - as applicable in the periods
Adjusted EBIT from continuing operations	Net earnings from continuing operations	- Provision for income taxes - Gains/losses on sales of businesses and assets - All other interest expense and income - Transformation initiatives - Non-operational costs related to proxy contest matters See footnotes (a), (b), and (c)
Adjusted net earnings from continuing operations	Net earnings from continuing operations	Pre-tax and tax impacts of: - Gains/losses on sales of businesses and assets - Transformation initiatives - Non-operational costs related to proxy contest matters - Tax Cuts and Jobs Act See footnotes (b), (c), (d), (e) and (f)
Adjusted provision for income taxes	Provision for income taxes	Tax impacts of: - Gains/losses on sales of businesses and assets - Transformation initiatives - Non-operational costs related to proxy contest matters - Tax Cuts and Jobs Act See footnotes (c), (d), (e), and (f)
Adjusted diluted earnings per share from continuing operations	Diluted earnings per share	EPS impacts of: - Gains/losses on sales of businesses and assets - Transformation initiatives - Non-operational costs related to proxy contest matters - Tax Cuts and Jobs Act See footnotes (b), (c), and (f)
Adjusted effective tax rate	Effective tax rate	See footnote (g)
Constant Currency Basis	U.S. GAAP P&L line items	See footnote (h)

We believe that the exclusion of the identified items helps us reflect the fundamentals of our underlying business model and analyze results against our expectations and against prior period, and to plan for future periods by focusing on our underlying operations. We believe that the adjusted results provide relevant and useful information for investors because it allows investors to view performance in a manner similar to the method used by management and improves their ability to understand and assess our operating performance. The nature of these exclusions are for specific items that are not fundamental to our underlying business operations. Since these adjusted financial measures and other non-GAAP metrics are not measures of performance calculated in accordance with U.S. GAAP, they should not be considered in isolation from, as a substitute for, or superior to their corresponding U.S. GAAP measures, and they may not be comparable to similarly titled measures at other companies.

	Years Ended June 30,			% Change As Reported		Constant Currency Basis (h)	
	2018	2017	2016	2018	2017	2018	2017
Net earnings from continuing operations	$1,620.8	$1,733.4	$1,493.4	(6)%	16%	(8)%	16%
Adjustments:							
Provision for income taxes	550.3	797.7	741.3				
All other interest expense (a)	59.4	59.3	47.9				
All other interest income (a)	(25.5)	(22.4)	(13.6)				
Gain on sale of businesses	—	(205.4)	(29.1)				
Gain on sale of assets	—	—	(13.9)				
Transformation initiatives (b)	404.8	85.0	48.2				
Proxy contest matters (c)	33.3	—	—				
Adjusted EBIT from continuing operations	$2,643.1	$2,447.6	$2,274.2	8%	8%	7%	7%
Adjusted EBIT Margin	19.8%	19.8%	19.5%				
Provision for income taxes	$550.3	$797.7	$741.3	(31)%	8%	(32)%	7%
Adjustments:							
Gain on sale of businesses (d)	—	(84.0)	(7.3)				
Gain on sale of assets (e)	—	—	(5.3)				
Transformation initiatives (e)	122.1	32.0	16.4				
Proxy contest matters (c)	10.4	—	—				
Tax Cuts and Jobs Act (f)	(1.7)	—	—				
Adjusted provision for income taxes	$681.1	$745.7	$745.1	(9)%	—%	(10)%	—%
Adjusted effective tax rate (g)	26.1%	30.9%	33.3%				
Net earnings from continuing operations	$1,620.8	$1,733.4	$1,493.4	(6)%	16%	(8)%	16%
Adjustments:							
Gain on sale of businesses	—	(205.4)	(29.1)				
Provision for income taxes on gain on sale of business (d)	—	84.0	7.3				
Gain on sale of assets	—	—	(13.9)				
Provision for income taxes on gain on sale of assets (e)	—	—	5.3				
Transformation initiatives (b)	404.8	85.0	48.2				
Income tax benefit for transformation initiatives (e)	(122.1)	(32.0)	(16.4)				
Proxy contest matters (c)	33.3	—	—				
Income tax benefit for proxy contest matters (e)	(10.4)	—	—				
Tax Cuts and Jobs Act (f)	1.7	—	—				
Adjusted net earnings from continuing operations	$1,928.1	$1,665.0	$1,494.8	16%	11%	15%	11%
Diluted earnings per share from continuing operations	$3.66	$3.85	$3.25	(5)%	18%	(6)%	18%
Adjustments:							
Gain on sale of businesses	—	(0.27)	(0.05)				
Gain on sale of assets	—	—	(0.02)				
Transformation initiatives (b)	0.64	0.12	0.07				
Proxy contest matters (c)	0.05	—	—				
Tax Cuts and Jobs Act (f)	—	—	—				

Adjusted diluted earnings per share from continuing operations	$4.35	$3.70	$3.26	18 %	13%	16 %	13%

(a) Our Adjusted EBIT from continuing operations continues to include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. The adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as "All other interest expense" and "All other interest income."

(b) The charges within transformation initiatives for fiscal 2018 includes $319.6 million related to the special termination benefit charges and $17.5 million of other charges related to our Voluntary Early Retirement Program ("VERP"), severance charges related to our Service Alignment Initiative of $20.5 million, and other transformation initiatives of $47.2 million which primarily consist of severance charges totaling $41.9 million for fiscal 2018. Charges for transformation initiatives for periods prior to fiscal 2018 primarily represent severance charges related to our Service Alignment Initiative and Workforce Optimization Effort. Unlike severance charges in prior periods, which are not included as an adjustment to get to adjusted results, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative. Refer to Note 11 of the Consolidated Financial Statements for a description of charges associated with the VERP.

(c) Represents non-operational costs relating to proxy contest matters.

(d) The taxes on the gains on the sale of the businesses were calculated based on the annualized marginal rate in effect during the quarter of the adjustment. The tax amount was adjusted for a book vs. tax basis difference for the year ended June 30, 2017 due to the derecognition of goodwill upon the sale of the business and for the year ended June 30, 2016 due to a previously recorded non tax-deductible goodwill impairment charge.

(e) The tax benefit/provision on the transformation initiatives, the gain on the sale of the assets, and non-operational charges related to proxy contest matters was calculated based on the annualized marginal rate in effect during the quarter of the adjustment.

(f) The one-time net provision from the enactment of the Tax Cuts and Jobs Act is comprised of a one-time transition tax on the earnings and profits of our foreign subsidiaries, accrued foreign withholding taxes on future distributions of earning and profit that may no longer be utilizable as foreign tax credits, and the recording of a valuation allowance against our foreign tax credits which may not be realized offset by the application of the newly enacted U.S. corporate tax rates to our U.S. deferred tax balances. We are still analyzing certain aspects of the Act and refining calculations, which could potentially result in the re-measurement of these balances or potentially give rise to future adjustments.

(g) The Adjusted effective tax rate is calculated as our Adjusted provision for income taxes divided by our Adjusted net earnings plus our Adjusted provision for income taxes.

(h) "Constant currency basis" provides information that isolates the actual growth of our operations. "Constant currency basis" is determined by calculating the current year result using foreign exchange rates consistent with the prior year.

Fiscal 2018 Compared to Fiscal 2017

Total Revenues

Our revenues, as reported, increased 8% in fiscal 2018. Our revenue growth includes two percentage points of combined benefit from foreign currency and acquisitions, partially offset by the impact of the disposition of our COBRA and CHSA businesses in fiscal 2017. Revenues in fiscal 2018 increased primarily due to new business started from new business bookings. Refer to “Analysis of Reportable Segments” for additional discussion of the increases in revenue for both of our reportable segments, Employer Services and Professional Employer Organization ("PEO") Services.

Total revenues in fiscal 2018 include interest on funds held for clients of $466.5 million, as compared to $397.4 million in fiscal 2017. The increase in the consolidated interest earned on funds held for clients resulted from the increase in our average interest rate earned to 1.9% in fiscal 2018, as compared to 1.7% in fiscal 2017, coupled with the increase in our average client funds balances of 5.7% to $24.3 billion in fiscal 2018 as compared to fiscal 2017.

Total Expenses

Our total expenses, as reported, increased 8% in fiscal 2018, as compared to fiscal 2017. The increase is primarily due to an increase in PEO Services pass-through costs, increased costs to service our client base in support of our growing revenue, and increases in selling expense. Total expenses also increased due to costs related to acquisitions completed in fiscal 2018, the impact of foreign currency, and costs related to proxy contest matters in fiscal 2018.

Operating expenses, as reported, increased 8% in fiscal 2018, as compared to fiscal 2017. PEO Services pass-through costs were $2,945.5 million for fiscal 2018, which included costs for benefits coverage of $2,463.1 million and costs for workers' compensation and payment of state unemployment taxes of $482.4 million. These pass-through costs were $2,628.4 million for fiscal 2017, which included costs for benefits coverage of $2,173.9 million and costs for workers' compensation and payment of state unemployment taxes of $454.5 million. Additionally, operating expenses increased due to costs related to acquisitions completed in fiscal 2018, higher costs to service our client base in support of our growing revenue as well as the impact of foreign currency.

Systems development and programming costs, as reported, remained flat in fiscal 2018, when compared to the prior year, due to increased investments in product innovation and costs to develop, support, and maintain our products, impact of foreign currency translation, offset by a higher proportion of capitalized costs of our strategic projects.

Selling, general and administrative expenses, as reported, increased 7% in fiscal 2018, as compared to fiscal 2017. The increase was primarily due to increases in selling expense to support our 8% new business bookings growth, charges related to our transformation initiatives, costs related to acquisitions, costs related to proxy contest matters, and the impact of foreign currency translation, offset by charges related to our transformation initiatives in fiscal 2017.

Other Expense/(Income), net
(In millions)

Years ended June 30,	2018	2017	$ Change
Interest income on corporate funds	$(83.5)	$(76.7)	$6.8
Realized gains on available-for-sale securities	(2.0)	(5.3)	(3.3)
Realized losses on available-for-sale securities	4.5	3.1	(1.4)
Gain on sale of businesses (see Note 3 of the Consolidated Financial Statements)	—	(205.4)	(205.4)
Gain on sale of assets	(0.7)	—	0.7
Voluntary Early Retirement Program (see Note 11 of the Consolidated Financial Statements)	319.6	—	(319.6)
Other expense/(income), net	$237.9	$(284.3)	$(522.2)

Other expense/(income), net, decreased $522.2 million in fiscal 2018, as compared to fiscal 2017. The decrease was primarily due to a charge for certain special termination benefits for those associates who opted into the VERP of $319.6 million in fiscal 2018 and the gain on sale of the CHSA and COBRA businesses of $205.4 million in fiscal 2017.

Earnings before Income Taxes

Earnings before income taxes decreased 14% primary due to $319.6 million related to the special termination benefit charges and $17.5 million of other charges related to our VERP in fiscal 2018 and the gain on the sale of the CHSA and COBRA businesses in fiscal 2017 offset by the increases in revenues and increases in expenses discussed above.

Overall margin decreased from 20.4% in fiscal 2017 to 16.3% in fiscal 2018 primarily due to $319.6 million related to the special termination benefit charges and $17.5 million of other charges related to our VERP in fiscal 2018, the gain on the sale of the CHSA and COBRA businesses in fiscal 2017, acquisitions completed and incremental pressure from growth in our pass-through revenues in fiscal 2018. These drivers were offset by operational and selling efficiencies in fiscal 2018.

Adjusted EBIT

In fiscal 2018, adjusted EBIT increased 8% due to the increases in revenues offset by the increases in expenses discussed above. Overall adjusted EBIT margin increased slightly due to operational and selling efficiencies offset by pressure from fiscal 2018 acquisitions and incremental pressure from growth in our pass-through revenues.

Provision for Income Taxes

The effective tax rate in fiscal 2018 and 2017 was 25.3% and 31.5%, respectively. The decrease in the effective tax rate is due to the impacts of the Act and the release of reserves for uncertain tax positions partially offset by the impact in the prior period of the sale of the CHSA and COBRA businesses and the impact of the benefit due to tax incentives associated with the domestic production activity deduction and research tax credit in fiscal 2017. Refer to Note 12, Income Taxes, within the Notes to the Consolidated Financial Statements for further discussion.

Adjusted Provision for Income Taxes

The adjusted effective tax rate in fiscal 2018 and 2017 was 26.1% and 30.9%, respectively. The decrease in the adjusted effective tax rate is due to the reduction in the blended federal corporate statutory tax rate to 28.1% from 35% as a result of the Act and the release of reserves for uncertain tax positions in fiscal 2018, partially offset by the impact of a benefit due to tax incentives associated with the domestic production activity deduction and research tax credit in fiscal 2017.

Net Earnings and Diluted EPS

Net earnings, as reported, decreased 6% in fiscal 2018 due to $319.6 million related to the special termination benefit charges and $17.5 million of other charges related to our VERP in fiscal 2018 and the gain on the sale of the CHSA and COBRA businesses in fiscal 2017 offset by the reduction in our effective tax rate described above and an increase in our underlying earnings before income taxes, when compared to fiscal 2017.

Diluted earnings per share decreased 5% to $3.66 in fiscal 2018, as compared to $3.85 in fiscal 2017. Diluted earnings per share reflects the decrease in net earnings offset by the impact of fewer shares outstanding, resulting from the repurchase of approximately 8.5 million shares in fiscal 2018 and 13.5 million shares in fiscal 2017, partially offset by the issuances of shares under our employee benefit plans.

Adjusted Net Earnings and Adjusted Diluted EPS

Adjusted net earnings increased 16% in fiscal 2018 due to the increase in adjusted EBIT combined with the reduction in our effective tax rate described above when compared to fiscal 2017.

For fiscal 2018, our adjusted diluted EPS reflects the changes described above in our net earnings and shares outstanding.

Fiscal 2017 Compared to Fiscal 2016

Total Revenues

Our revenues, as reported, increased 6% in fiscal 2017, which includes one percentage point of pressure from the net impact of acquisitions, the disposition of our CHSA and COBRA businesses and foreign currency translation. Revenue increased primarily due to new business started from new business bookings. Refer to “Analysis of Reportable Segments” for additional discussion of the increases in revenue for both of our reportable segments, Employer Services and PEO Services.

Total revenues in fiscal 2017 include interest on funds held for clients of $397.4 million, as compared to $377.3 million in fiscal 2016. The increase in the consolidated interest earned on funds held for clients resulted from the increase in our average client funds balances of 2.7% to $23,023.5 million in fiscal 2017.

Total Expenses

Our total expenses, as reported, increased 6% in fiscal 2017, as compared to fiscal 2016. The increase is primarily due to an increase in PEO Services pass-through costs, the restructuring and dual operations costs related to our Service

Alignment Initiative, and increased costs to service our client base in support of our growing revenue. These increases were partially offset by the disposition of our CHSA and COBRA businesses during fiscal 2017.

Operating expenses, as reported, increased 6% in fiscal 2017, as compared to fiscal 2016. PEO Services pass-through costs were $2,628.4 million for fiscal 2017, which included costs for benefits coverage of $2,173.9 million and costs for workers' compensation and payment of state unemployment taxes of $454.5 million. These pass-through costs were $2,336.3 million for fiscal 2016, which included costs for benefits coverage of $1,906.0 million and costs for workers' compensation and payment of state unemployment taxes of $430.3 million. Additionally, operating expenses increased due to higher costs to service our client base in support of our growing revenue, including dual operation costs associated with our Service Alignment Initiative, partially offset by the disposition of our CHSA and COBRA businesses.

Systems development and programming costs, as reported, increased 4% in fiscal 2017, when compared to the same period in the prior year, due to increased investments and costs to develop, support, and maintain our products, partially offset by a higher proportion of capitalized costs of our strategic projects.

Selling, general and administrative expenses, as reported, increased 6% in fiscal 2017, as compared to fiscal 2016. The increase was primarily related to investments in our sales organization. Selling, general and administrative expenses also increased due to additional restructuring charges which primarily relate to our Service Alignment Initiative and Workforce Optimization Effort.

Other Income, net
(In millions)

Years ended June 30,	2017	2016	$ Change
Interest income on corporate funds	$(76.7)	$(62.4)	$14.3
Realized gains on available-for-sale securities	(5.3)	(5.1)	0.2
Realized losses on available-for-sale securities	3.1	10.1	7.0
Gain on sale of businesses (see Note 3 of the Consolidated Financial Statements)	(205.4)	(29.1)	176.3
Gain on sale of assets	—	(13.9)	(13.9)
Other income, net	$(284.3)	$(100.4)	$183.9

Other income, net, increased $183.9 million in fiscal 2017, as compared to fiscal 2016. The increase was primarily due to the gain on sale of the CHSA and COBRA businesses of $205.4 million in fiscal 2017, partially offset by the gain on sale of the AdvancedMD ("AMD") business of $29.1 million and the gain on the sale of a building of $13.9 million in fiscal 2016.

Earnings from Continuing Operations before Income Taxes

Earnings from continuing operations before income taxes increased 13% due to the gain on the sale of the CHSA and COBRA businesses as well as the increases in revenues and expenses discussed above, partially offset by the net impact of the Service Alignment Initiative and Workforce Optimization Effort charges in fiscal 2017 and 2016. Overall margin increased from 19.2% in fiscal 2016 to 20.4% in fiscal 2017 primarily due to the gain on the sale of the CHSA and COBRA businesses, and operating efficiencies, partially offset by the net charges related to the Service Alignment Initiative and Workforce Optimization Effort in fiscal 2017 and 2016, the gain on the sale of the assets and the gain on the sale of AMD in fiscal 2016, and additional interest expense related to our September 2015 $2.0 billion senior note issuance in fiscal 2016.

Adjusted EBIT

Adjusted EBIT excludes certain interest amounts, the gain on the sale of the CHSA and COBRA businesses, the impact of the charges related to the Service Alignment Initiative and the Workforce Optimization Effort, and the gain on the sale of the assets and the gain on the sale of the AMD business in fiscal 2016.

Adjusted EBIT increased 8% due to the increases in revenues and expenses discussed above. Overall Adjusted EBIT margin increased from 19.5% in fiscal 2016 to 19.8% in fiscal 2017 due to operating efficiencies partially offset by 20 basis points of pressure from dual operation costs related to our Service Alignment Initiative.

Provision for Income Taxes

The effective tax rate in fiscal 2017 and 2016 was 31.5% and 33.2%, respectively. The decrease in the effective tax rate is due to tax incentives associated with the domestic production activity deduction and research tax credit for prior tax years which decreased our effective tax rate by 210 basis points in fiscal 2017 and the adoption of Accounting Standards Update ("ASU") 2016-09 related to the new accounting guidance for excess tax benefits on stock-based compensation, which decreased our effective tax rate by 130 basis points in fiscal 2017. These decreases were partially offset by the impact of the sale of the CHSA and COBRA businesses and a lower benefit related to the usage of foreign tax credits in fiscal 2017.

Adjusted Provision for Income Taxes

The effective tax rate, adjusted for the gain on the sale of the CHSA and COBRA businesses, the impact of the charges related to the Service Alignment Initiative and Workforce Optimization Effort, the gain on the sale of the assets and the gain on the sale of the AMD business in fiscal 2016, for fiscal 2017 and 2016 was 30.9% and 33.3%, respectively. The decrease in the adjusted effective tax rate is due to tax incentives associated with the domestic production activity deduction and research tax credit for prior tax years which decreased our effective tax rate by 220 basis points in fiscal 2017 and the adoption of ASU 2016-09 related to the new accounting guidance for excess tax benefits on stock-based compensation, which decreased our effective tax rate by 130 basis points in fiscal 2017. This decrease was offset by a lower benefit related to the usage of foreign tax credits in fiscal 2017.

Net Earnings from Continuing Operations and Diluted EPS from Continuing Operations

Net earnings from continuing operations, as reported, increased 16% in fiscal 2017 due to the increase in earnings from continuing operations before income taxes and the reduction in our effective tax rate described above, when compared to fiscal 2016.

Diluted earnings per share from continuing operations increased 18% to $3.85 in fiscal 2017, as compared to $3.25 in fiscal 2016. Diluted earnings per share from continuing operations reflects the increase in net earnings from continuing operations (inclusive of a $0.07 impact from the adoption of ASU 2016-09 in fiscal 2017) and the impact of fewer shares outstanding, resulting from the repurchase of approximately 13.5 million shares in fiscal 2017 and 13.8 million shares in fiscal 2016, partially offset by the issuances of shares under our employee benefit plans.

Adjusted Net Earnings from Continuing Operations and Adjusted Diluted EPS from Continuing Operations

Adjusted net earnings from continuing operations increased 11% in fiscal 2017 due to the increase in adjusted EBIT and reduction in our effective tax rate described above when compared to fiscal 2016.

For fiscal 2017, our Adjusted diluted EPS from continuing operations reflects the increase in Adjusted net earnings from continuing operations (inclusive of a $0.07 impact from the adoption of ASU 2016-09 in fiscal 2017) and the impact of fewer shares outstanding as a result of the repurchase of 13.5 million shares during fiscal 2017 and the repurchase of 13.8 million shares in fiscal 2016, partially offset by shares issued under our employee benefit plans.

ANALYSIS OF REPORTABLE SEGMENTS

Revenues

(In millions)

	Years Ended June 30,			% Change			
				As Reported		Constant Currency Basis	
	2018	2017	2016	2018	2017	2018	2017
Employer Services	$10,057.8	$9,535.2	$9,211.9	5 %	4 %	4 %	4 %
PEO Services	3,896.6	3,483.6	3,073.1	12 %	13 %	12 %	13 %
Other	(9.4)	(10.6)	1.9	n/m	n/m	n/m	n/m
Reconciling item:							
Client fund interest	(619.2)	(628.4)	(619.1)	n/m	n/m	n/m	n/m
	$13,325.8	$12,379.8	$11,667.8	8 %	6 %	7 %	6 %

31

Earnings from Continuing Operations before Income Taxes

(In millions)

	Years Ended June 30,			% Change As Reported		Constant Currency Basis	
	2018	2017	2016	2018	2017	2018	2017
Employer Services	$3,087.4	$2,918.5	$2,798.4	6 %	4 %	5 %	4 %
PEO Services	504.2	448.6	371.2	12 %	21 %	12 %	21 %
Other	(801.3)	(207.6)	(315.8)	n/m	n/m	n/m	n/m
Reconciling item:							
Client fund interest	(619.2)	(628.4)	(619.1)	n/m	n/m	n/m	n/m
	$2,171.1	$2,531.1	$2,234.7	(14)%	13 %	(15)%	13 %

Employer Services

Fiscal 2018 Compared to Fiscal 2017

Revenues

Employer Services' revenues, as reported, increased 5% in fiscal 2018, as compared to fiscal 2017. Revenues increased primarily due to new business started from new business bookings. Our revenue growth includes two percentage points of combined benefit from foreign currency and acquisitions, partially offset by the impact of the disposition of our COBRA and CHSA businesses in fiscal 2017. Our revenues also benefited from the impact of an increase in the number of employees on our clients’ payrolls as our pays per control increased 2.7% in fiscal 2018 as compared to fiscal 2017. Employer Services client revenue retention rate for fiscal 2018 increased 50 basis points to 90.4% as compared to our rate for fiscal 2017. This improvement was driven by higher retention across our cloud-based solutions, our focus on improving the client experience, and the loss of a large client within our former CHSA business in fiscal 2017.

Earnings from Continuing Operations before Income Taxes

Employer Services’ earnings from continuing operations before income taxes, as reported, increased 6% in fiscal 2018, as compared to fiscal 2017. The increase was due to increased revenues discussed above, which was partially offset by an increase in expenses of $353.7 million, primarily due to investments in operational resources to support our revenue growth coupled with increased selling expenses in fiscal 2018.

Employer Services' overall margin increased from 30.6% to 30.7% for fiscal 2018, as compared to fiscal 2017. This 10 basis point increase is primarily due to operational efficiencies in fiscal 2018, offset by the impact of acquisitions completed in fiscal 2018.

Fiscal 2017 Compared to Fiscal 2016

Revenues

Employer Services' revenues, as reported, increased 4% in fiscal 2017, as compared to fiscal 2016, which includes one percentage point of pressure from the net impact of acquisitions, the disposition of our CHSA and COBRA businesses, and foreign currency translation. Revenues increased primarily due to new business started from new business bookings. Our revenues also benefited from the impact of an increase in the number of employees on our clients' payrolls as our pays per control increased 2.4% in fiscal 2017 as compared to fiscal 2016. The increases were partially offset by the impact of client losses and the sale of the CHSA and COBRA businesses during fiscal 2017. Employer Services revenue retention rate for fiscal 2017 decreased 50 basis points to 90.0% as compared to our rate for fiscal 2016, primarily driven by the lower retention on our legacy client platforms and the loss of a large client within our former CHSA business.

Earnings from Continuing Operations before Income Taxes

Employer Services’ earnings from continuing operations before income taxes, as reported, increased 4% in fiscal 2017, as compared to fiscal 2016. The increase was due to increased revenues discussed above, which was partially offset by an increase in expenses of $202.4 million. The increase in expenses is related to increased costs of servicing our clients on growing revenues as well as investments in our sales organization, partially offset by the disposition of the CHSA and COBRA businesses during fiscal 2017.

Employer Services' overall margin increased from 30.4% to 30.6% for fiscal 2017, as compared to fiscal 2016. This 20 basis point increase was driven by operational efficiencies partially offset by 30 basis points of pressure from dual operation costs related to our Service Alignment Initiative.

PEO Services

Fiscal 2018 Compared to Fiscal 2017

Revenues

PEO Services' revenues as reported increased 12% in fiscal 2018, as compared to fiscal 2017. Such revenues include pass-through costs of $2,945.5 million for fiscal year 2018 and $2,628.4 million for fiscal year 2017 associated with benefits coverage, workers' compensation coverage, and state unemployment taxes for worksite employees. The increase in revenues was due to a 9% increase in the average number of worksite employees, driven by an increase in the number of new PEO Services clients as well as higher benefit pass-through revenues in our PEO benefit offerings.

Earnings from Continuing Operations before Income Taxes

PEO Services’ earnings from continuing operations before income taxes increased 12% in fiscal 2018, as compared to fiscal 2017. The increase was due to increased revenues discussed above, which was partially offset by an increase in expenses of $357.4 million. This increase in expenses is primarily related to an increase in pass-through costs of $317.1 million described above. Overall margin remained flat for fiscal 2018, as compared to fiscal 2017, due to pressure from growth in our pass-through revenues partially offset by reductions in selling expense.

Fiscal 2017 Compared to Fiscal 2016

Revenues

PEO Services' revenues as reported increased 13% in fiscal 2017, as compared to fiscal 2016. Such revenues include pass-through costs of $2,628.4 million for fiscal year 2017 and $2,336.3 million for fiscal year 2016 associated with benefits coverage, workers' compensation coverage, and state unemployment taxes for worksite employees. The increase in revenues was due to a 12% increase in the average number of worksite employees, driven by an increase in the number of new PEO Services clients and growth in our existing clients.

Earnings from Continuing Operations before Income Taxes

PEO Services’ earnings from continuing operations before income taxes increased 21% in fiscal 2017, as compared to fiscal 2016. The increase was due to increased revenues discussed above, which was partially offset by an increase in expenses of $333.1 million. This increase in expenses is primarily related to an increase in pass-through costs of $292.1 million. Overall margin increased from 12.1% to 12.9% for fiscal 2017, as compared to fiscal 2016, due to operating efficiencies, as our operating costs related to servicing our clients increased slower than our revenues.

33

Other

The primary components of “Other” are non-recurring gains and losses, miscellaneous processing services, the elimination of intercompany transactions, interest expense, the results of operations of ADP Indemnity, certain charges and expenses that have not been allocated to the reportable segments. Changes to the allocation methodology for certain corporate level allocations, has been adjusted in both the current period and the prior period in the table above, and did not materially affect reportable segment results. Beginning in the first quarter of fiscal 2019, the Company's chief operating decision maker ("CODM") will begin reviewing segment results reported at actual interest rates and the results of the PEO segment inclusive of the results of ADP Indemnity. Additionally, the CODM will begin reviewing results with changes to certain corporate allocations. These changes represent a change in the measure of segment performance. The Company will reflect these new segment measures beginning in the first quarter of fiscal 2019 and prior period segment results will be restated for comparability.

ADP Indemnity provides workers' compensation and employer's liability deductible reimbursement insurance protection for PEO Services' worksite employees up to $1 million per occurrence. PEO Services has secured a workers’ compensation and employer’s liability insurance policy that has a $1 million per occurrence retention and, in fiscal years 2012 and prior, aggregate stop loss insurance that covers any aggregate losses within the $1 million retention that collectively exceed a certain level, from an admitted and licensed insurance company of AIG. We utilize historical loss experience and actuarial judgment to determine the estimated claim liability for the PEO Services business. Premiums are charged by ADP Indemnity to PEO Services to cover the claims expected to be incurred by the PEO Services' worksite employees. The premiums charged from ADP Indemnity to PEO Services are eliminated in Other segment. Changes in estimated ultimate incurred losses are recognized by ADP Indemnity and included in Other segment. ADP Indemnity recorded a pre-tax benefit of approximately $40 million in fiscal 2018 and $20 million in fiscal 2017, which was primarily the result of favorable changes in estimated incurred losses. For the fiscal years 2013 to 2018, ADP Indemnity paid premiums to enter into reinsurance arrangements with ACE American Insurance Company, a wholly-owned subsidiary of Chubb Limited, to cover substantially all losses incurred by ADP Indemnity during these policy years. Each of these reinsurance arrangements limits our overall exposure incurred up to a certain limit. We believe the likelihood of ultimate losses exceeding this limit is remote. During fiscal 2018, ADP Indemnity paid a premium of $235.0 million to enter into a reinsurance arrangement with Chubb Limited to cover substantially all losses incurred by ADP Indemnity for the fiscal 2018 policy year to $1 million per occurrence related to the workers' compensation and employer's liability deductible reimbursement insurance protection for PEO Services' worksite employees. ADP Indemnity paid a premium of $218.0 million in July 2018 to enter into a reinsurance agreement with Chubb to cover substantially all losses incurred by ADP Indemnity for fiscal 2019 policy year on terms substantially similar to the fiscal 2018 reinsurance policy.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

For corporate liquidity, we expect existing cash, cash equivalents, short-term marketable securities, long-term marketable securities, and cash flow from operations together with our $9.8 billion of committed credit facilities and our ability to access both long-term and short-term debt financing from the capital markets will be adequate to meet our operating, investing, and financing activities such as regular quarterly dividends, share repurchases, and capital expenditures. Additionally, we will benefit from the Act. We anticipate a future adjusted effective tax rate, excluding one-time items, of 25% to 26% beyond fiscal 2018. With this increased operating cash flow and greater access to our cash worldwide, we will continue our disciplined approach to capital allocation decisions, including assessing reinvestments into the business, potential acquisitions, and/or returning cash to shareholders through dividends and share buybacks, among other potential uses.

For client funds liquidity, we have the ability to borrow through our financing arrangements under our U.S. short-term commercial paper program and our U.S. and Canadian short-term reverse repurchase agreements together with our

$9.8 billion of committed credit facilities and our ability to use corporate liquidity when necessary to meet short-term funding requirements related to client funds obligations. Please see Quantitative and Qualitative Disclosures about Market Risk for a further discussion of the risks of our client funds investment strategy. See Note 9 of our Consolidated Financial Statements for a description of our short-term financing including commercial paper.

As of June 30, 2018, cash and cash equivalents were $2.2 billion, which were primarily invested in time deposits and money market funds.

Operating, Investing and Financing Cash Flows

Our cash flows from operating, investing, and financing activities, as reflected in the Statements of Consolidated Cash Flows for the years ended 2018, 2017, and 2016, are summarized as follows:

(In millions)	Years ended June 30,			$ Change	
	2018	2017 *As Adjusted	2016 *As Adjusted	2018	2017
Cash provided by (used in):					
Operating activities	$2,515.2	$2,125.9	$1,897.3	$389.3	$228.6
Investing activities	(2,504.6)	(1,113.2)	(869.0)	(1,391.4)	(244.2)
Financing activities	(1,655.9)	(8,281.7)	8,752.7	6,625.8	(17,034.4)
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	5.8	(8.0)	(8.7)	13.8	0.7
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	$(1,639.5)	$(7,277.0)	$9,772.3	$5,637.5	$(17,049.3)

*See Note 1 of our Consolidated Financial Statements for a summary of adjustments.

Fiscal 2018 Compared to Fiscal 2017

Net cash flows provided by operating activities in fiscal 2018 increased primarily due to growth in our underlying business (net income adjusted for non-cash adjustments such as the VERP in fiscal 2018 and the gain on the sale of COBRA and CHSA in fiscal 2017).

Net cash flows from investing activities changed due to the timing of proceeds offset by purchases of corporate and client funds marketable securities of $632.6 million, payments made related to acquisitions in fiscal 2018 and proceeds from the sale of the CHSA and COBRA businesses of $234.0 million in fiscal 2017.

Net cash flows from financing activities changed due to a net increase in the cash flow from client funds obligations of $6,461.0 million, which is due to the timing of impounds from our clients and payments to our clients' employees and other payees and less cash paid for share repurchases. We purchased approximately 8.5 million shares of our common stock at an average price per share of $116.07 during fiscal 2018 as compared to purchases of 13.5 million shares at an average price per share of $94.42 during fiscal 2017. From time to time, the Company may repurchase shares of its common stock under its authorized share repurchase programs. The Company considers several factors in determining when to execute share repurchases, including, among other things, actual and potential acquisition activity, cash balances and cash flows, issuances due to employee benefit plan activity, and market conditions. The increased cash flow from client fund obligations and reduced share repurchases were partially offset by cash returned to shareholders via dividends, which increased by $68.5 million from fiscal 2017.

Fiscal 2017 Compared to Fiscal 2016

Net cash flows provided by operating activities increased due to growth in our business and favorable changes in our working capital, which was due to the timing of payments from our clients and to our vendors in the ordinary course of business.

Net cash flows from investing activities changed due to the timing of purchases of corporate and client funds marketable securities of $1,493.5 million. These increases were partially offset by a decrease in the proceeds from the sales and maturities of corporate and client fund marketable securities of $1,621.8 million.

Net cash flows from financing activities changed due to the net decrease in client funds obligations of $14,923.9 million, as a result of the timing of cash received and payments made related to client funds, and proceeds from our $2.0 billion September 2015 debt issuance.

We purchased approximately 13.5 million shares of our common stock at an average price per share of $94.42 during fiscal 2017 as compared to purchases of 13.8 million shares at an average price per share of $82.88 during fiscal 2016. From time to time, the Company may repurchase shares of its common stock under its authorized share repurchase programs. The Company considers several factors in determining when to execute share repurchases, including, among other things, actual and potential acquisition activity, cash balances and cash flows, issuances due to employee benefit plan activity, and market conditions.

Capital Resources and Client Fund Obligations

In fiscal 2016, we issued $2.0 billion of senior unsecured notes with maturity dates in 2020 and 2025. We may from time to time revisit the long-term debt market to refinance existing debt, finance investments including acquisitions for our growth, and maintain the appropriate capital structure. However, there can be no assurance that volatility in the global capital and credit markets would not impair our ability to access these markets on terms acceptable to us, or at all. See Note 10 of our Consolidated Financial Statements for a description of our long-term financing, including this fiscal 2016 debt issuance.

Our U.S. short-term funding requirements related to client funds are sometimes obtained on an unsecured basis through the issuance of commercial paper, rather than liquidating previously-collected client funds that have already been invested in available-for-sale securities. This commercial paper program provides for the issuance of up to $9.8 billion in aggregate maturity value. Our 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. In fiscal 2018 and 2017, our average daily borrowings were $2.8 billion and $3.1 billion, respectively, at a weighted average interest rate of 1.4% and 0.6%, respectively. The weighted average maturity of our commercial paper during fiscal 2018 and 2017 was approximately two days. At June 30, 2018 and 2017, we had no outstanding obligations under our short-term commercial paper program.

Our U.S., Canadian, and United Kingdom 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, rather than liquidating previously-collected client funds that have already been invested in available-for-sale securities. These agreements generally have terms ranging from overnight to up to five business days. We have successfully borrowed through the use of reverse repurchase agreements on an as needed basis to meet short-term funding requirements related to client funds obligations. At June 30, 2018 and June 30, 2017, there were no outstanding obligations related to the reverse repurchase agreements. For fiscal 2018 and 2017, we had average outstanding balances under reverse repurchase agreements of $374.4 million and $274.8 million, respectively, at weighted average interest rates of 1.3% and 0.6%, respectively. See Note 9 of our Consolidated Financial Statements for client fund investments used as collateral for reverse repurchase agreements.

We vary the maturities of our committed credit facilities to limit the refinancing risk of any one facility. We have a $3.8 billion, 364-day credit agreement that matures in June 2019 with a one year term-out option. In addition, we have a five-year $3.75 billion credit facility and a five-year $2.25 billion credit facility maturing in June 2023 and June 2022, respectively, each with an accordion feature under which the aggregate commitment can be increased by $500 million, subject to the availability of additional commitments. The primary uses of the credit facilities are to provide liquidity to the commercial paper program and funding for general corporate purposes, if necessary. We had no borrowings through June 30, 2018 under the credit facilities. We believe that we currently meet all conditions set forth in the revolving credit agreements to borrow thereunder, and we are not aware of any conditions that would prevent us from borrowing part or all of the $9.8 billion available to us under the revolving credit agreements. See Note 9 of our Consolidated Financial Statements for a description of our short-term financing including credit facilities.

Our investment portfolio does not contain any asset-backed securities with underlying collateral of sub-prime mortgages, alternative-A mortgages, sub-prime auto loans or sub-prime home equity loans, collateralized debt obligations, collateralized loan obligations, credit default swaps, derivatives, auction rate securities, structured investment vehicles or non-investment grade fixed-income securities. We own AAA rated senior tranches of fixed rate credit card, auto loan, equipment lease, and rate reduction receivables, secured predominantly by prime collateral. All collateral on asset-backed securities is performing as expected. In addition, we own senior debt directly issued by Federal Home Loan Banks and Federal Farm Credit Banks. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering the maturities of our investments out to five years (in the case of the extended portfolio) and out to ten years (in the case of the long portfolio). This investment strategy is supported by our short-term financing arrangements necessary to satisfy short-term funding requirements relating to client funds obligations. See Note 6 of our Consolidated Financial Statements for a description of our corporate investments and funds held for clients.

Capital expenditures for fiscal 2018 were $192.0 million, as compared to $249.1 million for fiscal 2017. We expect capital expenditures in fiscal 2019 to be about $250 million.

Contractual Obligations

The following table provides a summary of our contractual obligations at June 30, 2018:

(In millions)	Payments due by period					
Contractual Obligations	Less than 1 year	1-3 years	3-5 years	More than 5 years	Unknown	Total
Debt Obligations (1)	$58.4	$1,105.2	$69.4	$1,089.4	$ —	$2,322.4
Operating Lease Obligations (2)	$107.1	$179.2	$106.5	$146.7	$ —	$539.5
Purchase Obligations (3)	$363.0	$194.8	$18.4	$0.1	$ —	$576.3
Obligations Related to Unrecognized Tax Benefits (4)	$23.4	$—	$—	$—	$ 21.8	$45.2
Other Long-Term Liabilities Reflected on our Consolidated Balance Sheets:						
Compensation and Benefits (5)	$18.5	$250.5	$112.7	$223.8	$ 95.0	$700.5
Acquisition-related obligations (6)	$2.7	$2.7	$—	$—	$ —	$5.4
Total	$573.1	$1,732.4	$307.0	$1,460.0	$ 116.8	$4,189.3

(1) These amounts represent the principal and interest payments of our debt.

(2) Included in these amounts are various facilities and equipment leases. We enter into operating leases in the normal course of business relating to facilities and equipment. The majority of our lease agreements have fixed payment terms based on the passage of time. Certain facility and equipment leases require payment of maintenance and real estate taxes and contain escalation provisions based on future adjustments in price indices. Our future operating lease obligations could change if we exit certain contracts or if we enter into additional operating lease agreements.

(3) Purchase obligations are comprised of a $218.0 million reinsurance premium with Chubb for the fiscal 2019 policy year, as well as obligations related to software subscription licenses and purchase and maintenance agreements on our software, equipment, and other assets.

(4) Based on current estimates, we expect to make cash payments up to $23.4 million in the next twelve months for obligations related to unrecognized tax benefits across various jurisdictions and tax periods. For $21.8 million of obligations related to unrecognized tax benefits we are unable to make reasonably reliable estimates as to the period in which cash payments are expected to be paid.

(5) Compensation and benefits primarily relates to amounts associated with our employee benefit plans and other compensation arrangements. These amounts exclude the estimated contributions to our defined benefit plans, which are expected to be $8.3 million in fiscal 2019.

(6) Acquisition-related obligations relate to contingent consideration for a business acquisition for which the amount of contingent consideration was determinable at the date of acquisition and therefore included on the Consolidated Balance Sheet as a liability.

In addition to the obligations quantified in the table above, we had obligations for the remittance of funds relating to our payroll and payroll tax filing services. As of June 30, 2018, the obligations relating to these matters, which are expected to be paid in fiscal 2019, total $27,493.5 million and were recorded in client funds obligations on our Consolidated Balance Sheets. We had $27,137.8 million of cash and cash equivalents and marketable securities that were impounded from our clients to satisfy such obligations recorded in funds held for clients on our Consolidated

Balance Sheets as of June 30, 2018.

Separately, ADP Indemnity paid a premium of $218.0 million in July 2018 to enter into a reinsurance agreement with Chubb to cover substantially all losses incurred by ADP Indemnity for the fiscal 2019 policy year on terms substantially similar to the fiscal 2018 reinsurance policy. At June 30, 2018, ADP Indemnity had total assets of $523.7 million to satisfy the actuarially estimated unpaid losses of $433.8 million for the policy years since July 1, 2003. ADP Indemnity paid claims of $4.6 million and $10.7 million, net of insurance recoveries, in fiscal 2018 and 2017, respectively. Refer to the "Analysis of Reportable Segments - Other" above for additional information regarding ADP Indemnity.

In the normal course of business, we also enter into contracts in which we make representations and warranties that relate to the performance of our services and products. We do not expect any material losses related to such representations and warranties.

Quantitative and Qualitative Disclosures about Market Risk

Our overall investment portfolio is comprised of corporate investments (cash and cash equivalents, short-term marketable securities, and long-term marketable securities) and client funds assets (funds that have been collected from clients but not yet remitted to the applicable tax authorities or client employees).

Our corporate investments are invested in cash and cash equivalents and highly liquid, investment-grade marketable securities. These assets are available for repurchases of common stock for treasury and/or acquisitions, as well as other corporate operating purposes. All of our short-term and long-term fixed-income securities are classified as available-for-sale securities.

Our client funds assets are invested with safety of principal, liquidity, and diversification as the primary objectives. Consistent with those objectives, we also seek to maximize interest income and to minimize the volatility of interest income. Client funds assets are invested in highly liquid, investment-grade marketable securities, with a maximum maturity of 10 years at the time of purchase, and money market securities and other cash equivalents.

We utilize a strategy by which we extend the maturities of our investment portfolio for funds held for clients and employ short-term financing arrangements to satisfy our short-term funding requirements related to client funds obligations. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering the maturities of our investments out to five years (in the case of the extended portfolio) and out to ten years (in the case of the long portfolio). As part of our client funds investment strategy, we use the daily collection of funds from our clients to satisfy other unrelated client funds obligations, rather than liquidating previously-collected client funds that have already been invested in available-for-sale securities. We minimize the risk of not having funds collected from a client available at the time such client’s obligation becomes due by impounding, in virtually all instances, the client’s funds in advance of the timing of payment of such client’s obligation. As a result of this practice, we have consistently maintained the required level of client funds assets to satisfy all of our obligations.

There are inherent risks and uncertainties involving our investment strategy relating to our client funds assets. Such risks include liquidity risk, including the risk associated with our ability to liquidate, if necessary, our available-for-sale securities in a timely manner in order to satisfy our client funds obligations. However, our investments are made with the safety of principal, liquidity, and diversification as the primary goals to minimize the risk of not having sufficient funds to satisfy all of our client funds obligations. We also believe we have significantly reduced the risk of not having sufficient funds to satisfy our client funds obligations by consistently maintaining access to other sources of liquidity, including our corporate cash balances, available borrowings under our $9.8 billion commercial paper program (rated A-1+ by Standard and Poor’s and Prime-1 ("P-1") by Moody’s, the highest possible credit ratings), our ability to engage in reverse repurchase transactions and available borrowings under our $9.8 billion committed credit facilities. The reduced availability of financing during periods of economic turmoil, even to borrowers with the highest credit ratings, may limit our ability to access short-term debt markets to meet the liquidity needs of our business. In addition to liquidity risk, our investments are subject to interest rate risk and credit risk, as discussed below.

We have established credit quality, maturity, and exposure limits for our investments. The minimum allowed credit rating at time of purchase for corporate and Canadian provincial bonds is BBB, for asset-backed securities is AAA, and for municipal bonds is A. The maximum maturity at time of purchase for BBB rated securities is 5 years, for single A rated securities is 7 years, and for AA rated and AAA rated securities is 10 years. Time deposits and commercial paper must be rated A-1 and/or P-1. Money market funds must be rated AAA/Aaa-mf.

Details regarding our overall investment portfolio are as follows:

(In millions)			
Years ended June 30,	2018	2017	2016
Average investment balances at cost:			
Corporate investments	$5,112.4	$6,143.3	$5,610.1
Funds held for clients	24,332.6	23,023.5	22,418.7
Total	$29,445.0	$29,166.8	$28,028.8
Average interest rates earned exclusive of realized (gains)/losses on:			
Corporate investments	1.6 %	1.2 %	1.1 %
Funds held for clients	1.9 %	1.7 %	1.7 %
Total	1.9 %	1.6 %	1.6 %
Realized gains on available-for-sale securities	$(2.0)	$(5.3)	$(5.1)
Realized losses on available-for-sale securities	4.5	3.1	10.1
Net realized losses/(gains) on available-for-sale securities	$2.5	$(2.2)	$5.0
As of June 30:			
Net unrealized pre-tax (losses)/gains on available-for-sale securities	$(355.7)	$102.5	$510.2
Total available-for-sale securities at fair value	$22,776.2	$21,901.1	$21,605.0

We are exposed to interest rate risk in relation to securities that mature, as the proceeds from maturing securities are reinvested. Factors that influence the earnings impact of interest rate changes include, among others, the amount of invested funds and the overall portfolio mix between short-term and long-term investments. This mix varies during the fiscal year and is impacted by daily interest rate changes. The annualized interest rate earned on our entire portfolio increased slightly to 1.9% for fiscal 2018, as compared to fiscal 2017. A hypothetical change in both short-term interest rates (e.g., overnight interest rates or the federal funds rate) and intermediate-term interest rates of 25 basis points applied to the estimated average investment balances and any related short-term borrowings would result in approximately a $8 million impact to earnings before income taxes over the ensuing twelve-month period ending June 30, 2019. A hypothetical change in only short-term interest rates of 25 basis points applied to the estimated average short-term investment balances and any related short-term borrowings would result in approximately a $4 million impact to earnings before income taxes over the ensuing twelve-month period ending June 30, 2019.

We are exposed to credit risk in connection with our available-for-sale securities through the possible inability of the borrowers to meet the terms of the securities. We limit credit risk by investing in investment-grade securities, primarily AAA and AA rated securities, as rated by Moody’s, Standard & Poor’s, DBRS for Canadian denominated securities, and Fitch for asset-backed and commercial mortgage backed securities. Approximately 80% of our available-for-sale securities held a AAA or AA rating at June 30, 2018. In addition, we limit amounts that can be invested in any security other than U.S. government and government agency, Canadian government and United Kingdom government securities.

We operate and transact business in various foreign jurisdictions and are therefore exposed to market risk from changes in foreign currency exchange rates that could impact our consolidated results of operations, financial position, or cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We may use derivative financial instruments as risk management tools and not for trading purposes. We had no derivative financial instruments outstanding at June 30, 2018 or 2017.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 1, New Accounting Pronouncements, of Notes to the Consolidated Financial Statements for a discussion of recent accounting pronouncements.

CRITICAL ACCOUNTING POLICIES

Our Consolidated Financial Statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments, and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses. We continually evaluate the accounting policies and estimates used to prepare the Consolidated Financial Statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed below.

Revenue Recognition. Our revenues are primarily attributable to fees for providing services (e.g., Employer Services' payroll processing fees), investment income on payroll funds, payroll tax filing funds and other Employer Services' client-related funds, and fees charged to implement clients on the Company's solutions. We enter into agreements for a fixed fee per transaction (e.g., number of payees or number of payrolls processed). Fees associated with services are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectability is reasonably assured.

PEO provides a comprehensive human resources outsourcing solution, including offering benefits, providing workers’ compensation insurance, and administering state unemployment insurance, among other human resources functions. Amounts collected from PEO worksite employers include payroll, fees for benefits, and an administrative fee that also includes payroll taxes, fees for workers’ compensation and state unemployment taxes.

The payroll and payroll taxes collected from the worksite employers are presented in revenue net, as the Company is not the primary obligor with respect to this aspect of the PEO arrangement. With respect to the payroll and payroll taxes, the worksite employer is the primary obligor, has latitude in establishing price, selects suppliers, and determines the service specifications.

The fees collected from the worksite employers for benefits, workers’ compensation and state unemployment taxes are presented in revenues and the associated costs of benefits, workers’ compensation and state unemployment taxes are included in operating expenses, as the Company acts as a principal with respect to this aspect of the arrangement. With respect to the fees for benefits, workers’ compensation and state unemployment taxes, the Company is the primary obligor, has latitude in establishing price, selects suppliers, determines the service specifications and is liable for credit risk.

We recognize interest income on collected but not yet remitted funds held for clients in revenues as earned, as the collection, holding and remittance of these funds are critical components of providing these services.

Client implementation fees are charged to set clients up on our solutions and are deferred until the client has gone live and services have begun. These fees are amortized to revenue over the longer of the contractual term or expected client life, including estimated renewals of client contracts.

We assess the collectability of revenues based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

Goodwill. We account for goodwill in accordance with Accounting Standards Codification ("ASC") 350, "Intangibles - Goodwill and Other," which requires that goodwill be tested for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable.

The Company’s annual goodwill impairment assessment as of June 30, 2018 was performed for all reporting units using a quantitative approach by comparing the fair value of each reporting unit to its carrying value. We estimated the fair value of each reporting unit using, as appropriate, the income approach, which is derived using the present value of future cash flows discounted at a risk-adjusted weighted-average cost of capital, and the market approach, which is based upon using market multiples of companies in similar lines of business. Significant assumptions used in determining the fair value of our reporting units include projected revenue growth rates, profitability projections, working capital assumptions, the weighted average cost of capital, the determination of appropriate market comparison companies, and terminal growth rates. Several of these assumptions including projected revenue growth rates and profitability projections are dependent on our ability to upgrade, enhance, and expand our technology and services to meet client needs and preferences. As such, the determination of fair value requires management to make significant estimates and assumptions related to forecasts of future revenue and operating margins. Based upon the quantitative assessment, the Company has concluded that goodwill is not impaired.

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our Consolidated Financial Statements or tax returns (e.g., realization of deferred tax assets, changes in tax laws or interpretations thereof). In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact our Consolidated Financial Statements.

There is a financial statement recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. Specifically, the likelihood of an entity's tax benefits being sustained must be “more likely than not” assuming that those positions will be examined by taxing authorities with full knowledge of all relevant information prior to recording the related tax benefit in the financial statements. If a tax position drops below the “more likely than not” standard, the benefit can no longer be recognized. Assumptions, judgment and the use of estimates are required in determining if the “more likely than not” standard has been met when developing the provision for income taxes. A change in the assessment of the “more likely than not” standard could materially impact our Consolidated Financial Statements. As of June 30, 2018 and 2017, the Company's liabilities for unrecognized tax benefits, which include interest and penalties, were $45.2 million and $74.6 million, respectively.

If certain pending tax matters settle within the next twelve months, the total amount of unrecognized tax benefits may increase or decrease for all open tax years and jurisdictions. Based on current estimates, favorable settlements related to various jurisdictions and tax periods could increase earnings by up to $2 million and expected cash payments could be up to $25 million in the next twelve months. The liability related to cash payments expected to be paid within the next 12 months has been reclassified from other liabilities to current liabilities on the Consolidated Balance Sheets. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability, and deferred taxes in the period in which the facts that give rise to a revision become known.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information called for by this item is provided under the caption “Quantitative and Qualitative Disclosures About Market Risk” under “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Automatic Data Processing, Inc.
Roseland, New Jersey

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Automatic Data Processing, Inc. and subsidiaries (the "Company") as of June 30, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes and the schedule listed in the Index at Item 15(a) 2 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 3, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
August 3, 2018

We have served as the Company’s auditor since 1968.

Statements of Consolidated Earnings
(In millions, except per share amounts)

Years ended June 30,	2018	2017	2016
REVENUES:			
Revenues, other than interest on funds held for clients and PEO revenues	$8,985.2	$8,518.1	$8,234.0
Interest on funds held for clients	466.5	397.4	377.3
PEO revenues (A)	3,874.1	3,464.3	3,056.5
TOTAL REVENUES	13,325.8	12,379.8	11,667.8
EXPENSES:			
Costs of revenues:			
Operating expenses	6,937.9	6,416.1	6,025.0
Systems development and programming costs	630.2	627.5	603.7
Depreciation and amortization	274.5	226.2	211.6
TOTAL COSTS OF REVENUES	7,842.6	7,269.8	6,840.3
Selling, general, and administrative expenses	2,971.5	2,783.2	2,637.0
Interest expense	102.7	80.0	56.2
TOTAL EXPENSES	10,916.8	10,133.0	9,533.5
Other expense/(income), net	237.9	(284.3)	(100.4)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,171.1	2,531.1	2,234.7
Provision for income taxes	550.3	797.7	741.3
NET EARNINGS FROM CONTINUING OPERATIONS	$1,620.8	$1,733.4	$1,493.4
LOSSES FROM DISCONTINUED OPERATIONS BEFORE INCOME TAXES	—	—	(1.4)
Provision for income taxes	—	—	(0.5)
NET LOSS FROM DISCONTINUED OPERATIONS	$—	$—	$(0.9)
NET EARNINGS	$1,620.8	$1,733.4	$1,492.5
Basic Earnings Per Share from Continuing Operations	$3.68	$3.87	$3.27
Basic Earnings Per Share from Discontinued Operations	—	—	—
BASIC EARNINGS PER SHARE	$3.68	$3.87	$3.27
Diluted Earnings Per Share from Continuing Operations	$3.66	$3.85	$3.25
Diluted Earnings Per Share from Discontinued Operations	—	—	—
DILUTED EARNINGS PER SHARE	$3.66	$3.85	$3.25
Basic weighted average shares outstanding	440.6	447.8	457.0
Diluted weighted average shares outstanding	443.3	450.3	459.1

(A) For the years ended June 30, 2018 ("fiscal 2018"), June 30, 2017 ("fiscal 2017"), and June 30, 2016 ("fiscal 2016"), Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of $39,140.9 million, $34,567.4 million, and $30,928.6 million, respectively.

See notes to the Consolidated Financial Statements.

Statements of Consolidated Comprehensive Income
(In millions)

Years ended June 30,	2018	2017	2016
Net earnings	$1,620.8	$1,733.4	$1,492.5
Other comprehensive income/loss:			
Currency translation adjustments	2.8	23.0	(25.5)
Unrealized net (losses)/gains on available-for-sale securities	(460.7)	(405.7)	288.8
Tax effect	123.4	141.6	(102.2)
Reclassification of net losses/(gains) on available-for-sale securities to net earnings	2.7	(2.2)	5.0
Tax effect	(0.6)	0.8	(1.7)
Pension net gains/(losses) arising during the year	87.0	109.6	(199.4)
Tax effect	(18.7)	(43.6)	72.9
Reclassification of pension liability adjustment to net earnings	9.3	20.6	12.0
Tax effect	(4.5)	(8.2)	(4.4)
Other comprehensive (loss)/income, net of tax	(259.3)	(164.1)	45.5
Comprehensive income	$1,361.5	$1,569.3	$1,538.0

See notes to the Consolidated Financial Statements.

Consolidated Balance Sheets
(In millions, except per share amounts)

June 30,	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$2,170.0	$2,780.4
Accounts receivable, net of allowance for doubtful accounts of $51.3 and $49.6, respectively	1,984.2	1,703.6
Other current assets	758.0	883.2
Total current assets before funds held for clients	4,912.2	5,367.2
Funds held for clients	27,137.8	27,291.5
Total current assets	32,050.0	32,658.7
Long-term receivables, net of allowance for doubtful accounts of $0.5 and $0.8, respectively	25.5	28.0
Property, plant and equipment, net	793.7	779.9
Other assets	1,089.6	1,352.2
Goodwill	2,243.5	1,741.0
Intangible assets, net	886.4	620.2
Total assets	$37,088.7	$37,180.0
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$135.4	$149.7
Accrued expenses and other current liabilities	1,547.7	1,381.9
Accrued payroll and payroll-related expenses	667.7	562.5
Dividends payable	298.9	250.5
Short-term deferred revenues	226.5	232.9
Income taxes payable	43.9	49.0
Total current liabilities before client funds obligations	2,920.1	2,626.5
Client funds obligations	27,493.5	27,189.4
Total current liabilities	30,413.6	29,815.9
Long-term debt	2,002.4	2,002.4
Other liabilities	728.0	830.2
Deferred income taxes	107.3	163.1
Long-term deferred revenues	377.8	391.4
Total liabilities	33,629.1	33,203.0
Commitments and Contingencies (Note 13)		
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, 2018 and June 30, 2017; outstanding, 438.8 and 445.0 shares at June 30, 2018 and June 30, 2017, respectively	63.9	63.9
Capital in excess of par value	1,014.8	867.8
Retained earnings	15,271.3	14,728.2
Treasury stock - at cost: 199.9 and 193.7 shares at June 30, 2018 and June 30, 2017, respectively	(12,209.6)	(11,303.7)
Accumulated other comprehensive loss	(680.8)	(379.2)
Total stockholders’ equity	3,459.6	3,977.0
Total liabilities and stockholders’ equity	$37,088.7	$37,180.0

See notes to the Consolidated Financial Statements.

Statements of Consolidated Stockholders' Equity
(In millions, except per share amounts)

Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)