AUTOMATIC DATA PROCESSING INC
Form 10-K
August 25, 2010

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, 2010

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.10 Par Value (voting)	NASDAQ Global Select Market Chicago Stock Exchange

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. [ ]

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

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

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 $21,535,777,370. On August 20, 2010 there were 492,022,525 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement for its 2010 Annual Meeting of StockholdersPart III

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Part I

Item 1. Business

Automatic Data Processing, Inc., incorporated in Delaware in 1961 (together with its subsidiaries, "ADP" or the "Company"), is one of the world's largest providers of business outsourcing solutions. Leveraging 60 years of experience, ADP® offers a wide range of human resource (HR), payroll, tax and benefits administration solutions from a single source. ADP is also a leading provider of integrated computing solutions to automotive, truck, motorcycle, marine, recreational vehicle and heavy machinery dealers throughout the world. For financial information by segment and by geographic area, see Note 18 of the "Notes to Consolidated Financial Statements" contained in this Annual Report on Form 10-K. The Company'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 Statement for its Annual Meeting of Stockholders are made available, free of charge, on its website at www.adp.com as soon as reasonably practicable after such reports have been filed with or furnished to the Securities and Exchange Commission. The following summary describes ADP's activities.

Employer Services

Employer Services offers a comprehensive range of HR information, payroll processing, tax and benefits administration solutions and services, including traditional and Web-based outsourcing solutions, that assist employers in the United States, Canada, Europe, South America (primarily Brazil), Australia and Asia to staff, manage, pay and retain their employees. As of June 30, 2010, Employer Services assisted approximately 520,000 employers with approximately 614,000 payrolls. Employer Services markets these solutions and services through its direct marketing salesforce and, on a limited basis, through indirect sales channels, such as marketing relationships with banks and accountants, among others. In fiscal 2010, 80% of Employer Services' revenues were from the United States, 13% were from Europe, 5% were from Canada and 2% were from South America (primarily Brazil), Australia and Asia.

United States

Employer Services' approach to the market is to match clients' needs to the solutions and services that will best meet their expectations. To facilitate this approach, in the United States, Employer Services is comprised of the following market-facing groups: Small Business Services (SBS) (serving primarily organizations with fewer than 50 employees); Major Account Services (serving primarily organizations with between 50 and 999 employees); and National Account Services (serving primarily organizations with 1,000 or more employees). In addition, Employer Services' Added Value Services division provides services to clients across all three of these groups.

ADP provides payroll services that include the preparation of client employee paychecks, electronic direct deposits and stored value payroll cards, along with employee pay statements, supporting journals, summaries and management reports. ADP also supplies the quarterly and annual social security, medicare and federal, state and local income tax withholding reports required to be filed by employers. ADP enables its largest clients to interface their major enterprise resource planning (ERP) applications with ADP's outsourced payroll services. For those companies that choose to process payroll in-house, ADP delivers stand-alone services such as payroll tax filing, check printing and distribution, year-end tax statements (i.e., Form W-2), wage garnishment services, health and welfare administration and flexible spending account (FSA) administration.

In order to address the growing business process outsourcing (BPO) market for clients seeking human resource information systems and benefit outsourcing solutions, ADP offers its integrated comprehensive outsourcing services (COS) solution that allows larger clients to outsource to ADP HR, payroll, payroll administration, employee service center, benefits administration, and time and labor management functions. For mid-sized clients, ADP Workforce Now™ Comprehensive Services provides integrated tools and technology to support payroll, a full-featured benefits administration solution, HR guidance and HR administration needs from recruitment to retirement. ADP also offers ADP Resource®, an integrated, flexible HR and payroll service offering for smaller clients that provides a menu of optional services, such as 401(k), FSA and a comprehensive Pay-by-Pay® workers' compensation payment program.

ADP's Added Value Services division includes the following businesses: Tax and Financial Services, Insurance Services and Tax Credit Services. These businesses primarily support SBS, Major Account Services and/or National Account Services, and their services are sold through those businesses, as well as by dedicated sales teams and via marketing arrangements with alliance partners.

- Tax and Financial Services processes and collects federal, state and local payroll taxes on behalf of, and from, ADP clients and remits these taxes to the appropriate taxing authorities. This business provides an electronic interface between ADP clients and over 7,600 federal, state and local tax agencies in the United States, from the Internal Revenue Service to local governments. In fiscal 2010, Tax and Financial Services in the United States processed and delivered approximately 47 million employee year-end tax statements and over 38 million employer payroll tax returns and deposits, and moved $1.1 trillion in client funds to taxing authorities and its clients' employees via electronic transfer, direct deposit and ADPCheck™. Tax and Financial Services is also responsible for the efficient movement of information and funds from clients to third parties through service offerings such as new hire reporting, TotalPay® payroll check (ADPCheck™), full service direct deposit (FSDD), stored value payroll card (TotalPay® Card), wage verification services, unemployment claims processing, wage garnishment processing, sales and use tax services and its new ADP Procure-to-Pay SolutionsSM, which automates the P2P supply chain and streamlines order, receipt, invoice and payment processes.

- Insurance Services provides a comprehensive Pay-by-Pay workers' compensation payment program and, through Automatic Data Processing Insurance Agency, Inc., offers workers compensation and group health insurance to small and mid-sized clients.

- Tax Credit Services provides job tax credit services that assist employers in the identification of, and filing for, federal, state and local tax credits and other incentives based on geography, demographics and other criteria, and includes negotiation of incentive packages with applicable governmental agencies.

Employer Services also provides the following solutions and services:

- Retirement Services provides recordkeeping and/or related administrative services with respect to various types of retirement (primarily 401(k) and SIMPLE IRA) plans, deferred compensation plans and "premium only" cafeteria plans.

- Pre-Employment Services includes Screening and Selection Services and Applicant Management Services. Screening and Selection Services provides background checks, reference verifications and an HR help desk. Applicant Management Services provides employers with a web-based solution to manage their talent throughout their lifecycle.

- ADP's Benefit Services provides benefits administration across all market segments, including management of open enrollment and ongoing enrollment of benefits, and leave of absence, COBRA and FSA administration.

- ADP's Time and Labor Management Services provides solutions for employers to capture, calculate and report employee time and attendance.

- ADP's Talent Management solutions include Performance Management, Compensation Management and Learning Management.

In fiscal 2010, ADP made several acquisitions to help expand its client base and reach into adjacent markets, including: DO2 Technologies Inc., a leading provider of electronic-invoicing solutions; OneClick HR plc, a UK provider of human resources solutions offering HR software, training services and outsourced HR solutions; and HRinterax, Inc., an HR content and support services company focused on the small business market. In August 2010, ADP acquired Workscape, Inc., a leading provider of integrated benefits and compensation solutions and services.

International

Employer Services has a growing presence outside of the United States, where it offers solutions on the basis of both geographic and specific client business needs. ADP offers in-country "best of breed" payroll and human resource outsourcing solutions to both small and large clients in over a dozen foreign countries. In each of Canada and Europe, ADP is the leading provider of payroll processing (including full departmental outsourcing) and human resource administration services. Within Europe, Employer Services has business operations supporting its in-country solutions in eight countries: France, Germany, Italy, the Netherlands, Poland, Spain, Switzerland and the United Kingdom. It also offers services in Ireland (from the United Kingdom) and in Portugal (from Spain). In South America (primarily Brazil), Australia and Asia (primarily China), ADP provides traditional service bureau payroll and also offers full departmental outsourcing of payroll services. ADP also offers wage and tax collection and remittance services in Canada, the United Kingdom and the Netherlands.

In fiscal 2010, ADP continued to expand its GlobalView® offering, making it available in 41 countries. GlobalView is built on the SAP® ERP Human Capital Management and the SAP NetWeaver® platform and offers multinational and global companies an end-to-end outsourcing solution enabling standardized payroll processing and human resource administration. As of the end of fiscal 2010, 96 clients had contracted for GlobalView services, with approximately 714,000 employees being processed. Upon completing the implementation for all these clients, ADP expects to be providing GlobalView services to nearly 1.3 million employees in 41 countries. Further, through its ADP Streamline® offering, ADP also provides a single point of contact for payroll processing and human resource administration services for multinational companies with small and mid-sized operations in 63 countries. At the end of fiscal 2010, ADP Streamline was used by 330 multinational companies with approximately 52,000 employees being processed.

Professional Employer Organization Services

In the United States, ADP's TotalSource®, the Company's professional employer organization (PEO) business, provides approximately 5,600 clients with comprehensive employment administration outsourcing solutions through a co-employment relationship, including payroll, payroll tax filing, HR guidance, 401(k) plan administration, benefits administration, compliance services, health and workers' compensation coverage and other supplemental benefits for employees. ADP's TotalSource is the largest PEO in the United States based on the number of paid worksite employees. ADP's TotalSource has 47 offices located in 22 states and serves approximately 211,000 worksite employees in all 50 states.

Dealer Services

Dealer Services provides integrated dealer management systems (such a system is also known in the industry as a “DMS”) and other business management solutions to automotive, truck, motorcycle, marine, recreational vehicle (RV) and heavy machinery retailers in North America, Europe, Africa and the Asia Pacific region. Approximately 25,000 automotive, truck, motorcycle, marine, RV and heavy machinery retailers in over 90 countries use ADP’s DMS products, other software applications, networking solutions, data integration, consulting and/or digital marketing services.

Clients use ADP’s DMS solutions to manage core business activities such as accounting, inventory management, factory communications, appointment scheduling, vehicle financing and insurance, sales and service. In addition to its DMS solutions, Dealer Services offers its clients a full suite of additional integrated applications to address each department and functional area of the dealership, including Customer Relationship Management (CRM) applications, front-end sales and marketing/advertising solutions, and an IP Telephony phone system fully-integrated into the DMS to help dealerships drive sales processes and business development initiatives. Dealer Services also provides its dealership clients computer hardware, hardware maintenance services, software support, system design and network consulting services.

Dealer Services also designs, establishes and maintains communications networks for its dealership clients that allow interactive communications among multiple site locations as well as links between franchised dealers and their vehicle manufacturer franchisors. These networks are used for activities such as new vehicle ordering and status inquiry, warranty submission and validation, parts and vehicle locating, dealership customer credit application submission and decision-making, vehicle repair estimation and acquisition of vehicle registration and lien holder information.

All of Dealer Services’ solutions are supported by comprehensive training offerings and business process consulting services. ADP’s DMS and other software solutions are available as “on-site” applications installed at the dealership or as application service provider (ASP) managed services solutions (in which clients outsource their information technology management activities to Dealer Services).

In August 2010, ADP acquired Cobalt, a leading provider of digital marketing solutions for the automotive industry, for approximately $400 million.

Markets and Marketing Methods

Employer Services offers services in the United States, Canada, Europe, South America (primarily Brazil), Australia and Asia. PEO Services are offered exclusively in the United States. Dealer Services has offerings in North America, Europe, Africa and the Asia Pacific region. In select emerging markets, Dealer Services uses distributors to sell, implement and support ADP’s solutions.

None of ADP’s major business groups has a single homogenous client base or market. Employer Services and PEO Services have clients from a large variety of industries and markets. Within this client base are concentrations of clients in specific industries. Dealer Services primarily serves automobile dealers, which in turn may be dependent on a relatively small number of automobile manufacturers, but also serves truck, powersports (i.e., motorcycle, marine and recreational) and heavy machinery dealers, auto repair shops, used car lots, state departments of motor vehicles and manufacturers of automobiles and trucks. Employer Services also sells to automobile dealers. While concentrations of clients exist, no one client or industry group is material to ADP’s overall revenues.

Historically ADP's businesses have not been overly sensitive to price changes, although in the current economic conditions we have observed, among some clients and groups of clients, an impact on sensitivity to pricing and demand for ADP's services. Employer Services' revenues were flat in fiscal 2010. In the United States, revenues from our traditional payroll and payroll tax filing business declined 4% for the full year and beyond payroll revenues grew 6% for the full year. Dealer Services' revenues decreased 3% in fiscal 2010 due to dealership consolidations and closings, lower transactional revenue and dealerships reducing services in order to cut their discretionary expenses. PEO Services' revenues grew 11% in fiscal 2010 due to a 5% increase in the average number of worksite employees, as well as an increase in benefits costs and state uninsurance rates.

ADP enjoys a leadership position in each of its major service offerings and does not believe any major service or business unit in 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 business outsourcing solutions in the world. Employer Services and PEO Services compete with other independent business outsourcing companies, companies providing enterprise resource planning services, software companies and financial institutions. Captive in-house functions, whereby a company installs and operates its own business processing systems, are another competitive factor in the industries in which Employer Services and PEO Services operate. Dealer Services' competitors include full service DMS providers such as The Reynolds & Reynolds Company, Dealer Services' largest DMS competitor in the United States and Canada, and companies providing applications and services that compete with Dealer Services' non-DMS applications and services.

Competition in ADP's industries is primarily based on service responsiveness, product quality and price. ADP believes that it is very competitive in each of these areas and that there are no material negative factors impacting ADP's competitive position.

Clients and Client Contracts

ADP provides its services to about 550,000 clients. In fiscal 2010, no single client or group of affiliated clients accounted for revenues in excess of 2% of annual consolidated revenues.

Our business is typically characterized by long-term client relationships that result in recurring revenue. 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 could vary from a short period of time (as little as 24 hours) for an SBS client to a longer period (generally six to twelve months) for a National Account Services or Dealer Services client with multiple deliverables, and in some cases may exceed two years for a large GlobalView client or other large, complicated implementation. Although we monitor sales that have not yet been billed or installed, we do not view this metric as material in light of the recurring nature of our business. This is not a reported number, but it is used by management as a planning tool relating to resources needed to install services, and a means of assessing our performance against the installation timing expectations of our clients.

ADP's average client retention is estimated at just under 10 years in Employer Services, approximately 5 years in PEO Services and 10 or more years in Dealer Services, and has not varied significantly from period to period.

ADP's 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.

Systems Development and Programming

During the fiscal years ended June 30, 2010, 2009 and 2008, ADP invested $614 million, $588 million and $611 million, respectively, from continuing operations, in systems development and programming, migration to new computing technologies and the development of new products and maintenance of our existing technologies, including purchases of new software and software licenses.

Product Development

ADP continually upgrades, enhances and expands its existing solutions and services. Generally, no new solution or service has a significant effect on ADP's revenues or negatively impacts its existing solutions and services, and ADP's solutions and services have significant remaining life cycles.

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 47,000 persons as of June 30, 2010.

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. 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. Unless otherwise indicated or the context otherwise requires, reference in this section to "we," "ours," "us" or similar terms means ADP, together with its subsidiaries. The level of importance of each of the following risks may vary from time to time, and any of these risks may have a material effect on our business.

Changes in laws and regulations may decrease our revenues and earnings

Portions of ADP's business are subject to governmental regulations. Changes in governmental regulations 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 interest income from investing client funds before such funds are remitted to the applicable taxing authorities or client employees. In addition, changes in taxation requirements in the United States or in other countries could adversely affect our effective tax rate and our net income.

Security and privacy breaches may hurt our business

We store electronically personal information about our clients and employees of our clients. In addition, our retirement services systems maintain investor account information for retirement plans. There is no guarantee that the systems and procedures that we maintain to protect against unauthorized access to such information are adequate to protect against all security breaches. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation, and the growth of our business could be adversely affected.

Our systems may be subject to disruptions that could adversely affect 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 fail to operate properly or become disabled even for a brief period of time, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or damage to our reputation. We have disaster recovery plans in place to protect our businesses against natural disasters, security breaches, military or terrorist actions, power or communication failures or similar events. Despite our preparations, our disaster recovery plans may not be successful in preventing the loss of client data, service interruptions, disruptions to our operations, or damage to our important facilities.

If we fail to adapt our technology to meet client needs and preferences, the demand for our 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, the demand for our services may diminish.

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 payroll and other outsourcing services or renegotiating their contracts with us. In addition, the availability of financing, even to borrowers with the highest credit ratings, may limit our access to short-term debt markets to meet liquidity needs required by our Employer Services business.

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, which individually or in unison may be exacerbated during periods of unusual financial market volatility.

We are dependent upon various large banks to execute Automated Clearing House and wire transfers as part of our client payroll and tax services. While we have contingency plans in place for bank failures, a systemic shut-down of the banking industry would impede our ability to process funds on behalf of our payroll and tax 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 from affiliates operating in non-U.S. dollar currency environments and, as a result, we are exposed to market risk from changes in foreign currency exchange rates that could impact our consolidated results of operations, financial position or cash flows.

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 consistently given us their highest long-term debt and 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 ultimately reduce our client interest revenue.

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 from our operations may suffer.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

ADP owns 41 of its processing/print centers, other operational offices, sales offices and its corporate headquarters complex in Roseland, New Jersey, which aggregate approximately 3,913,066 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 5,657,832 square feet in North America, Europe, South America (primarily Brazil), Asia, Australia and South Africa, expire at various times up to the year 2036. 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, the Company is subject to various claims and litigation. While the outcome of any litigation is inherently unpredictable, the Company believes it has valid defenses with respect to the legal matters pending against it and the Company believes that the ultimate resolution of these matters will not have a material adverse impact on its financial condition, results of operations or cash flows.

Part II

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

Market for the Registrant’s Common Equity

The principal market for the Company’s common stock (symbol: ADP) is the NASDAQ Global Select Market. 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 the past two fiscal years. As of June 30, 2010, there were 43,305 holders of record of the Company’s common stock. As of such date, 365,199 additional holders held their common stock in “street name.”

	Price Per Share		Dividends
	High	Low	Per Share
Fiscal 2010 quarter ended:			
June 30	$ 45.74	$ 39.27*	$ 0.340
March 31	$ 45.22	$ 39.72	$ 0.340
December 31	$ 44.50	$ 38.51	$ 0.340
September 30	$ 40.44	$ 33.26	$ 0.330
Fiscal 2009 quarter ended:			
June 30	$ 39.08	$ 34.08	$ 0.330
March 31	$ 40.99	$ 32.03	$ 0.330
December 31	$ 42.93	$ 30.83	$ 0.330
September 30	$ 45.97	$ 40.26	$ 0.290

* Excludes trading on May 6, 2010, during which a low sales price of $26.46 was reported.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of the Publicly Announced Common Stock Repurchase Plan (2)	(d) Maximum Number of Shares that may yet be Purchased under the Common Stock Repurchase Plan (2)
April 1, 2010 to April 30, 2010	500,190	$44.00	500,000	39,981,759
May 1, 2010 to May 31, 2010	7,681,344	$41.70	7,681,344	32,300,415
June 1, 2010 to June 30, 2010	3,516,364	$41.20	3,516,364	28,784,051
Total	11,697,898		11,697,708	

(1) Pursuant to the terms of the Company's restricted stock program, the Company purchased 190 shares during April 2010 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
March 2001	50 million
November 2002	35 million
November 2005	50 million
August 2006	50 million
August 2008	50 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 a Peer Group Index(b), assuming an initial investment of $100 on June 30, 2005, with all dividends reinvested.

(a) On March 30, 2007, the Company completed the spin-off of its former Brokerage Services Group business, comprised of Brokerage Services and Securities Clearing and Outsourcing Services, into an independent publicly traded company called Broadridge Financial Solutions, Inc. The cumulative returns of the Company's common stock have been adjusted to reflect the spin-off.

(b) The Peer Group Index is comprised of the following companies:

Administaff, Inc.
Computer Sciences Corporation
Global Payments Inc.
Hewitt Associates, Inc.
Intuit Inc.
Paychex, Inc.
The Ultimate Software Group, Inc.
Total System Services, Inc.
The Western Union Company

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.

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

Years ended June 30,	2010	2009	2008	2007	2006
Total revenues	$ 8,927.7	$ 8,838.4	$ 8,733.7	$ 7,769.8	$ 6,821.3
Total costs of revenues	$ 5,029.7	$ 4,822.7	$ 4,657.2	$ 4,067.6	$ 3,594.1
Gross profit	$ 3,898.0	$ 4,015.7	$ 4,076.5	$ 3,702.2	$ 3,227.2
Earnings from continuing operations before income taxes	$ 1,863.2	$ 1,900.1	$ 1,803.4	$ 1,622.7	$ 1,361.6
Net earnings from continuing operations	$ 1,207.3	$ 1,325.1	$ 1,155.7	$ 1,020.7	$ 842.2
Basic earnings per share from continuing operations	$ 2.41	$ 2.63	$ 2.22	$ 1.86	$ 1.47
Diluted earnings per share from continuing operations	$ 2.40	$ 2.62	$ 2.19	$ 1.83	$ 1.45
Basic weighted average shares outstanding	500.5	503.2	521.5	549.7	574.8
Diluted weighted average shares outstanding	503.7	505.8	527.2	557.9	580.3
Cash dividends declared per share	$ 1.3500	$ 1.2800	$ 1.1000	$ 0.8750	$ 0.7100
Return on equity from continuing operations (Note 1)	22.4%	25.5%	22.6%	18.3%	14.3%
At year end:					
Cash, cash equivalents and marketable securities	$ 1,775.5	$ 2,388.5	$ 1,660.3	$ 1,884.6	$ 2,461.3
Total assets	$ 26,862.2	$ 25,351.7	$ 23,734.4	$ 26,648.9	$ 27,490.1
Obligation under commercial paper borrowing	$ -	$ 730.0	$ -	$ -	$ -
Long-term debt	$ 39.8	$ 42.7	$ 52.1	$ 43.5	$ 74.3
Stockholders' equity	$ 5,478.9	$ 5,322.6	$ 5,087.2	$ 5,147.9	$ 6,011.6

Note 1. Return on equity from continuing operations has been calculated as net earnings from continuing operations divided by average total stockholders' equity.

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

FORWARD-LOOKING STATEMENTS

This report and other written or oral statements made from time to time by ADP may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, and which may be identified by the use of words like "expects," "assumes," "projects," "anticipates," "estimates," "we believe," "could be" and other words of similar meaning, are forward-looking statements. These statements are based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of services and products; changes in laws regulating payroll taxes, professional employer organizations and employee benefits; overall market and economic conditions, including interest rate and foreign currency trends; competitive conditions; auto sales and related industry changes; employment and wage levels; changes in technology; availability of skilled technical associates and the impact of new acquisitions and divestitures. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. These risks and uncertainties, along with the risk factors discussed above under "Item 1A. Risk Factors," should be considered in evaluating any forward-looking statements contained herein.

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

ADP is one of the world's largest providers of business outsourcing solutions. Leveraging over 60 years of experience, ADP offers a wide range of human resource ("HR"), payroll, tax and benefits administration solutions from a single source. ADP is also a leading provider of integrated computing solutions to automotive, truck, motorcycle, marine, recreational vehicle ("RV") and heavy machinery dealers in North America, Europe, South Africa and the Asia Pacific region. The Company's reportable segments are: Employer Services, PEO Services and Dealer Services. A brief description of each segment's operations is provided below.

Employer Services

Employer Services offers a comprehensive range of HR information, payroll processing, tax and benefits administration solutions and services, including traditional and Web-based outsourcing solutions, that assist employers in the United States, Canada, Europe, South America (primarily Brazil), Australia and Asia to staff, manage, pay and retain their employees. As of June 30, 2010, Employer Services assisted approximately 520,000 employers with approximately 614,000 payrolls. From time to time, we reevaluate our employer count based upon updated information that helps us associate individual employer accounts with one another. As such, on a comparable basis, as of June 30, 2009, Employer Services assisted approximately 520,000 employers with approximately 619,000 payrolls. Employer Services categorizes its services as payroll and payroll tax, and "beyond payroll." The payroll and payroll tax business represents the Company's core payroll processing and payroll tax filing business. The "beyond payroll" business represents services such as time and labor management, benefits administration, retirement recordkeeping and administration, and HR administration services. Within Employer Services, the Company collects client funds and remits such funds to tax authorities for payroll tax filing and payment services, and to employees of payroll services clients.

PEO Services

PEO Services provides approximately 5,600 small and medium sized businesses with comprehensive employment administration outsourcing solutions through a co-employment relationship, including payroll, payroll tax filing, HR guidance, 401(k) plan administration, benefits administration, compliance services, health and workers' compensation coverage and other supplemental benefits for employees.

Dealer Services

Dealer Services provides integrated dealer management systems (such a system is also known in the industry as a "DMS") and other business management solutions to automotive, truck, motorcycle, marine, RV and heavy machinery retailers in North America, Europe, South Africa and the Asia Pacific region. Approximately 25,000 automotive, truck, motorcycle, marine, RV and heavy machinery retailers in over 90 countries use our DMS products, other software applications, networking solutions, data integration, consulting and/or digital marketing services. From time to time, we reevaluate our client count based upon updated information that helps us associate individual client accounts with one another. As such, on a comparable basis, as of June 30, 2009, Dealer Services provided DMS products to 26,000 retailers in over 90 countries.

EXECUTIVE OVERVIEW

During the fiscal year ended June 30, 2010 ("fiscal 2010"), we maintained focus on the execution of our five-point strategic growth program, which consists of:

- Strengthening the core business;
- Growing our differentiated HR Business Process Outsourcing ("BPO") offerings;
- Focusing on international expansion;
- Entering adjacent markets that leverage the core; and
- Expanding pretax margins.

ADP's fiscal 2010 was a challenging year and our results continued to be impacted by the economic downturn, including high unemployment levels, record-low interest rates and volatile financial markets. However, as we look back over fiscal 2010, we were pleased that ADP's financial results were better than we initially anticipated. The economy showed signs of stabilization early on in the fiscal year. Demand for ADP's solutions increased and key business metrics, including Employer Services' sales, retention and pays per control, began to improve during the second half of the year.

Consolidated revenues grew 1%, to $8,927.7 million in fiscal 2010, from $8,838.4 million in fiscal 2009, aided by fluctuations in foreign currency rates, which increased revenues $68.2 million. In fiscal 2010, pretax earnings from continuing operations declined 2%, to $1,863.2 million, net earnings from continuing operations declined 9%, to $1,207.3 million, and diluted earnings per share from continuing operations decreased 8%, to $2.40, from $2.62 in fiscal 2009. Fiscal 2010 and fiscal 2009 included favorable tax items that reduced the provision for income taxes by $12.2 million and $120.0 million, respectively. Excluding the favorable tax items from both years, net earnings from continuing operations declined 1% and diluted earnings per share from continuing operations declined slightly from $2.38 to $2.37.

Employer Services' revenues were flat in fiscal 2010. In the United States, revenues from our traditional payroll and payroll tax filing business declined 4% for the full year and beyond payroll revenues grew 6% for the full year. "Pays per control," which represents the number of employees on our clients' payrolls as measured on a same-store-sales basis utilizing a subset of approximately 130,000 payrolls of small to large businesses that are reflective of a broad range of U.S. geographic regions, decreased 3.4% in fiscal 2010, but were slightly positive in the fourth quarter of fiscal 2010 compared to the fourth quarter of fiscal 2009. Worldwide client retention increased 0.4 percentage points as compared to the prior year. PEO Services' revenues grew 11% in fiscal 2010 due to a 5% increase in the average number of worksite employees, as well as an increase in benefits costs and state unemployment insurance rates. Employer Services' and PEO Services' worldwide new business sales, which represent annualized recurring revenues anticipated from sales orders to new and existing clients, increased 4%, to just over $1 billion in fiscal 2010. Dealer Services' revenues decreased 3% in fiscal 2010 due to continued dealership consolidations and closings, lower transactional revenue and dealerships reducing services in order to cut their discretionary expenses. Consolidated interest on funds held for clients declined 11%, or $67.0 million, to $542.8 million. The decrease in the consolidated interest on funds held for clients resulted from the decrease in the average interest rate earned to 3.6% in fiscal 2010 as compared to 4.0% in fiscal 2009. Average client funds balances increased slightly as a result of wage growth and an increase in state unemployment insurance withholdings offset by the decline in pays per control.

We have a strong business model, which has approximately 90% recurring revenues, excellent margins from the ability to generate consistent, healthy cash flows, strong client retention and low capital expenditure requirements. Additionally, ADP has continued to return excess cash to our shareholders. In the last five fiscal years, we have reduced the Company's common stock outstanding by approximately 15% through share buybacks, partially offset by common stock issued under employee stock-based compensation programs. We have also raised the dividend payout per share for 35 consecutive years.

We are especially pleased with the performance of our investment portfolio and the investment choices we made. 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 home equity loans, collateralized debt obligations, collateralized loan obligations, credit default swaps, asset-backed commercial paper, derivatives, auction rate securities, structured investment vehicles or non-investment-grade fixed-income securities. We own senior tranches of fixed rate credit card, rate reduction, and auto loan asset-backed securities, secured predominately 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, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). We do not own subordinated debt, preferred stock or common stock of any of these agencies. We do own AAA rated mortgage-backed securities, which represent an undivided beneficial ownership interest in a group or pool of one or more residential mortgages. These securities are collateralized by the cash flows of 15-year and 30-year residential mortgages and are guaranteed by Fannie Mae and Freddie Mac as to the timely payment of principal and interest. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering 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. In addition, our AAA credit rating has helped us maintain uninterrupted access to the commercial paper market.

Our financial condition and balance sheet remain solid at June 30, 2010, with cash and cash equivalents and marketable securities of $1,775.5 million. Our net cash flows provided by operating activities were $1,682.1 million in fiscal 2010, as compared to $1,562.6 million in fiscal 2009. This increase in cash flows from fiscal 2009 to fiscal 2010 was due to tax refunds received and a reduction in cash bonuses paid, partially offset by an increase in pension plan contributions as compared to the prior year.

In August 2010, we completed the acquisition of two businesses, Cobalt and Workscape, Inc. Cobalt is a leading provider of digital marketing solutions for the automotive industry. It aligns with ADP Dealer Services' global layered applications strategy and strongly supports Dealer Services' long-term growth strategy. Workscape, Inc. is a leading provider of integrated benefits and compensation solutions and services.

RESULTS OF OPERATIONS
ANALYSIS OF CONSOLIDATED OPERATIONS

Fiscal 2010 Compared to Fiscal 2009

(Dollars in millions, except per share amounts)

	Years ended June 30,			
	2010	2009	$ Change	% Change
Total revenues	$ 8,927.7	$ 8,838.4	$ 89.3	1%
Costs of revenues:				
Operating expenses	4,277.2	4,087.0	190.2	5%
Systems development and programming costs	513.9	498.3	15.6	3%
Depreciation and amortization	238.6	237.4	1.2	1%
Total costs of revenues	5,029.7	4,822.7	207.0	4%
Selling, general and administrative expenses	2,127.4	2,190.3	(62.9)	(3)%
Interest expense	8.6	33.3	(24.7)	(74)%
Total expenses	7,165.7	7,046.3	119.4	2%
Other income, net	(101.2)	(108.0)	(6.8)	(6)%
Earnings from continuing operations before income taxes	$ 1,863.2	$ 1,900.1	$ (36.9)	(2)%
Margin	20.9%	21.5%		
Provision for income taxes	$ 655.9	$ 575.0	$ 80.9	14%
Effective tax rate	35.2%	30.3%		
Net earnings from continuing operations	$ 1,207.3	$ 1,325.1	$ (117.8)	(9)%
Diluted earnings per share from continuing operations	$ 2.40	$ 2.62	$ (0.22)	(8)%

Total Revenues
Our consolidated revenues grew 1% to $8,927.7 million in fiscal 2010, from $8,838.4 million in fiscal 2009, due to an increase in revenues in PEO Services of 11%, or $131.0 million, to $1,316.8 million, and fluctuations in foreign currency rates, which increased revenues $68.2 million. Such increases were partially offset by a decrease in Dealer Services revenues of 3%, or $38.5 million, to $1,229.4 million, and a decrease in the consolidated interest on funds held for clients of $67.0 million. The decrease in the consolidated interest on funds held for clients resulted from the decrease in the average interest rate earned to 3.6% in fiscal 2010 as compared to 4.0% in fiscal 2009. Employer Services' revenues were flat in fiscal 2010 as compared to fiscal 2009.

Total Expenses
Our total expenses in fiscal 2010 increased $119.4 million, to $7,165.7 million, from $7,046.3 million in fiscal 2009. The increase in our consolidated expenses for fiscal 2010 was due to our increase in revenues, higher pass-through costs associated with our PEO Services business of $113.7 million, an increase of $48.6 million related to fluctuations in foreign currency exchange rates, an increase of $14.7 million related to additional domestic service personnel and incremental investments in our products. These increases were partially offset by a decrease in severance expenses of $76.8 million, a decrease in stock-based compensation expense of $28.4 million and our costs savings initiatives, which included lower compensation from reduced headcount and a reduction in travel and entertainment expenses.

Our total costs of revenues increased $207.0 million to $5,029.7 million in fiscal 2010, as compared to fiscal 2009 due to the increase in operating expenses discussed below.

Operating expenses increased $190.2 million, or 5%, in fiscal 2010 as compared to fiscal 2009, due to an increase in PEO Services pass-through costs that are re-billable, including costs for benefits coverage, workers' compensation coverage and state unemployment taxes for worksite employees. These pass-through costs were $988.5 million in fiscal 2010, which included costs for benefits coverage of $811.5 million and costs for workers' compensation and payment of state unemployment taxes of $176.9 million. These costs were $874.8 million in fiscal 2009, which included costs for benefits coverage of $724.3 million and costs for workers compensation and payment of state unemployment taxes of $150.5 million. In addition, operating expenses increased $30.1 million due to changes in foreign currency exchange rates and $14.7 million due to additional service personnel. These increases were partially offset by a decrease of $8.9 million in stock-based compensation expense and our costs savings initiatives, which included lower compensation from reduced headcount and a reduction in travel and entertainment expenses.

Systems development and programming expenses increased $15.6 million, or 3%, in fiscal 2010 as compared to fiscal 2009, due to incremental investments in our products during fiscal 2010. Additionally, systems development and programming expenses increased by $2.1 million due to expenses of acquired businesses and by $3.6 million due to the impact from changes in foreign currency exchange rates. These increases were partially offset by a $5.0 million decline in stock-based compensation expense.

Selling, general and administrative expenses decreased $62.9 million, or 3%, in fiscal 2010 as compared to fiscal 2009. The decrease in expenses was due to a decrease in severance expenses of $76.8 million, a reduction in expenses of $31.1 million related to cost saving initiatives, which included lower compensation from reduced headcount and a reduction in travel and entertainment expenses and a decline of $14.5 million in stock-based compensation expense. In addition, selling, general and administrative expenses decreased due to the $15.5 million charge we recorded during fiscal 2009 to increase our allowance for doubtful accounts as a result of an increase in estimated credit losses related to our notes receivable from automotive, truck and powersports dealers. These decreases in expenses were partially offset by an asset impairment charge of $6.8 million, recorded during fiscal 2010 as a result of the announcement by General Motors Corporation ("GM") that it will shut down its Saturn division. In addition, there was an increase of $13.7 million due to the impact of changes in foreign currency exchange rates and an increase of $9.5 million in expenses of acquired businesses.

Interest expense decreased $24.7 million in fiscal 2010 as compared to fiscal 2009. In fiscal 2010 and 2009, the Company's average borrowings under the commercial paper program were $1.6 billion and $1.9 billion, respectively, at weighted average interest rates of 0.2% and 1.0%, respectively, which resulted in a decrease of $15.8 million in interest expense. In fiscal 2010 and 2009, the Company's average borrowings under the reverse repurchase program were approximately $425.0 million and $425.9 million, respectively, at weighted average interest rates of 0.2% and 1.3%, respectively, which resulted in a decrease of $4.6 million in interest expense.

Other Income, net

Years ended June 30, (Dollars in millions)	2010	2009	$ Change
Interest income on corporate funds	$ (98.8)	$ (134.2)	$ (35.4)
Realized gains on available-for-sale securities	(15.0)	(11.4)	3.6
Realized losses on available-for-sale securities	13.4	23.8	10.4
Realized (gain) loss on investment in Reserve Fund	(15.2)	18.3	33.5
Impairment losses on available-for-sale securities	14.4	-	(14.4)
Net loss (gain) on sales of buildings	2.3	(2.2)	(4.5)
Other, net	(2.3)	(2.3)	-
Other income, net	$ (101.2)	$ (108.0)	$ (6.8)

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Other income, net, decreased $6.8 million in fiscal 2010 as compared to fiscal 2009 due to a $35.4 million decrease in interest income on corporate funds, a $14.4 million impairment loss on available-for-sale securities recorded during fiscal 2010 and a $2.3 million net loss on sales of buildings in fiscal 2010 as compared to a $2.2 million net gain on sales of buildings in fiscal 2009. Interest income on corporate funds decreased as a result of lower average interest rates, partially offset by higher average daily balances. Average interest rates decreased from 3.6% in fiscal 2009 to 2.6% in fiscal 2010. Average daily balances increased from $3.7 billion in fiscal 2009 to $3.8 billion in fiscal 2010. These decreases in other income were partially offset by a gain on the investment in Reserve Fund of $15.2 million in fiscal 2010 as compared to a loss on the investment in the Reserve Fund of $18.3 million in fiscal 2009, as well as a $14.0 million increase in net realized gains on available-for-sale securities.

Earnings from Continuing Operations before Income Taxes

Earnings from continuing operations before income taxes decreased $36.9 million, or 2%, from $1,900.1 million in fiscal 2009 to $1,863.2 million in fiscal 2010 because the increase in revenues was more than offset by the increase in expenses and decrease in other income, net discussed above. Overall margin decreased 60 basis points in fiscal 2010.

Provision for Income Taxes

The effective tax rate in fiscal 2010 and 2009 was 35.2% and 30.3%, respectively. For fiscal 2010, the effective tax rate includes a reduction in the provision for income taxes of $12.2 million related to the resolution of certain tax matters, which decreased the effective tax rate by 0.7 percentage points. For fiscal 2009, the effective tax rate includes a reduction in the provision for income taxes of $120.0 million related to an Internal Revenue Service (“IRS”) audit settlement and the settlement of a state tax matter, which decreased the effective tax rate by 6.3 percentage points.

Net Earnings from Continuing Operations and Diluted Earnings per Share from Continuing Operations

Net earnings from continuing operations decreased $117.8 million to $1,207.3 million in fiscal 2010, from $1,325.1 million in fiscal 2009, and diluted earnings per share from continuing operations decreased 8%, to $2.40. The decrease in net earnings from continuing operations in fiscal 2010 reflects the decrease in earnings from continuing operations before income taxes and the impact of the tax matters discussed above. The decrease in diluted earnings per share from continuing operations in fiscal 2010 reflects the decrease in earnings from continuing operations and the impact of the tax matters discussed above partially offset by the impact of fewer shares outstanding due to the repurchase of 18.2 million shares in fiscal 2010 and 13.8 million shares in fiscal 2009.

The following table reconciles the Company’s results for fiscal 2010 and fiscal 2009 to adjusted results that exclude the impact of favorable tax items. The Company uses certain adjusted results, among other measures, to evaluate the Company’s operating performance in the absence of certain items and for planning and forecasting of future periods. The Company believes 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 the Company’s management and improves their ability to understand the Company’s operating performance. Since adjusted earnings from continuing operations and adjusted diluted EPS are not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), they should not be considered in isolation from, or as a substitute for, earnings from continuing operations and diluted EPS from continuing operations, respectively, and they may not be comparable to similarly titled measures employed by other companies.

	Year ended June 30, 2010 Earnings from continuing operations before income taxes	Provision for income taxes	Net earnings from continuing operations	Diluted EPS from continuing operations
As Reported	$ 1,863.2	$ 655.9	$ 1,207.3	$ 2.40
Adjustments:				
Favorable tax items	-	12.2	12.2	0.02
As Adjusted	$ 1,863.2	$ 668.1	$ 1,195.1	$ 2.37

	Year ended June 30, 2009 Earnings from continuing operations before income taxes	Provision for income taxes	Net earnings from continuing operations	Diluted EPS from continuing operations
As Reported	$ 1,900.1	$ 575.0	$ 1,325.1	$ 2.62
Adjustments:				
Favorable tax items	-	120.0	120.0	0.24
As Adjusted	$ 1,900.1	$ 695.0	$ 1,205.1	$ 2.38

Net earnings from continuing operations, as adjusted, decreased $10.0 million to $1,195.1 million for fiscal 2010, from $1,205.1 million for fiscal 2009, and the related diluted earnings per share from continuing operations, as adjusted, decreased $0.01, to $2.37. The decrease in net earnings from continuing operations, as adjusted, for fiscal 2010 reflects the decrease in earnings from continuing operations before income taxes. The decrease in diluted earnings per share from continuing operations, as adjusted, for fiscal 2010 reflects the decrease in net earnings from continuing operations, partially offset by the impact of fewer shares outstanding due to the repurchase of approximately 18.2 million shares during fiscal 2010 and the repurchase of 13.8 million shares in fiscal 2009.

Fiscal 2009 Compared to Fiscal 2008

(Dollars in millions, except per share amounts)

	Years ended June 30,			
	2009	2008	$ Change	% Change
Total revenues	$ 8,838.4	$ 8,733.7	$ 104.7	1%
Costs of revenues:				
Operating expenses	4,087.0	3,898.4	188.6	5%
Systems development and programming costs	498.3	521.1	(22.8)	(4)%
Depreciation and amortization	237.4	237.7	(0.3)	0%
Total costs of revenues	4,822.7	4,657.2	165.5	4%
Selling, general and administrative expenses	2,190.3	2,359.1	(168.8)	(7)%
Interest expense	33.3	80.5	(47.2)	(59)%
Total expenses	7,046.3	7,096.8	(50.5)	(1)%
Other income, net	(108.0)	(166.5)	(58.5)	(35)%
Earnings from continuing operations before income taxes	$ 1,900.1	$ 1,803.4	$ 96.7	5%
Margin	21.5%	20.6%		
Provision for income taxes	$ 575.0	$ 647.7	$ (72.7)	(11)%
Effective tax rate	30.3%	35.9%		
Net earnings from continuing operations	$ 1,325.1	$ 1,155.7	$ 169.4	15%
Diluted earnings per share from continuing operations	$ 2.62	$ 2.19	$ 0.43	20%

Total Revenues

Our consolidated revenues grew 1%, to $8,838.4 million in fiscal 2009, from $8,733.7 in the year ended June 30, 2008 (“fiscal 2008”), due to increases in revenues in Employer Services of 3%, or $211.1 million, to $6,438.9 million, and PEO Services of 12%, or $125.3 million, to $1,185.8 million. Such increases were partially offset by changes in foreign currency exchange rates, which reduced our revenue by $187.4 million, or 2%, a decrease in the consolidated interest on funds held for clients of $74.7 million and a decrease in Dealer Services revenues of 3%, or $33.9 million. The decrease in the consolidated interest earned on funds held for clients resulted from the decrease in the average interest rate earned to 4.0% in fiscal 2009 as compared to 4.4% in fiscal 2008, and a decrease in our average client funds balances for fiscal 2009 of 3.1%, to $15.2 billion.

Total Expenses

Our consolidated expenses decreased 1%, to $7,046.3 million in fiscal 2009, from $7,096.8 million in fiscal 2008. The decrease in our consolidated expenses was due to a decrease of $160.7 million, or 2%, related to changes in foreign currency exchange rates and a decrease in selling, general and administrative expenses of $168.8 million, which was attributable to lower selling expenses and cost saving initiatives that commenced in fiscal 2008 and continued in fiscal 2009. These decreases were partially offset by an increase in operating expenses of $188.6 million attributable to the increase in our revenues discussed above. In addition, there was an increase in pass-through costs in our PEO business including costs associated with providing benefits coverage for worksite employees of $102.7 million and costs associated with workers’ compensation and payment of state unemployment taxes for worksite employees of $16.8 million.

Our total costs of revenues increased $165.5 million, to $4,822.7 million in fiscal 2009, from $4,657.2 million in fiscal 2008, due to an increase in our operating expenses of $188.6 million, partially offset by a decrease in our systems development and programming costs of $22.8 million.

Operating expenses increased $188.6 million, or 5%, in fiscal 2009 compared to fiscal 2008 due to the increase in revenues described above, including the increases in PEO Services, which have pass-through costs that are re-billable including costs for benefits coverage, workers' compensation coverage and state unemployment taxes for worksite employees. These pass-through costs were $874.8 million in fiscal 2009, which included costs for benefits coverage of $724.3 million and costs for workers compensation and payment of state unemployment taxes of $150.5 million. These costs were $755.3 million in fiscal 2008, which included costs for benefits coverage of $621.6 million and costs for workers compensation and payment of state unemployment taxes of $133.7 million. The increase in operating expenses is also due to higher expenses in Employer Services of $64.5 million related to increased service costs for investment in client-facing associates. Such increases were partially offset by a decrease in operating expenses of approximately $83.7 million due to changes in foreign currency exchange rates.

Systems development and programming expenses decreased $22.8 million, or 4%, in fiscal 2009 compared to fiscal 2008 due to decreases related to the impact of changes in foreign currency exchange rates of $15.8 million, a decrease in stock-based compensation expenses of $6.5 million and a decrease in programming expenses related to our systems of $3.9 million. The decrease in programming expenses was a result of a decrease in the average cost per associate as a larger percentage of our associates are located in off-shore and smart-shore locations. In addition, depreciation and amortization expenses decreased $0.3 million in fiscal 2009 compared to fiscal 2008 due to decreases related to the impact of changes in foreign currency exchange rates of $5.4 million, which were partially offset by increased amortization expenses of $4.7 million resulting from the intangible assets acquired with new businesses and the purchases of software and software licenses.

Selling, general and administrative expenses decreased $168.8 million, or 7%, in fiscal 2009 compared to fiscal 2008, which was attributable to decreases related to the impact of changes in foreign currency exchange rates of $55.5 million, a decrease in selling expenses related to a decline in our new client sales of $45.6 million and a reversal of $23.3 million in expenses due to a favorable ruling related to an international business capital tax. In addition, the decrease is attributable to our cost saving initiatives that commenced in fiscal 2008 and continued in fiscal 2009, which included a reduction in payroll and payroll related expenses of $32.3 million and a decrease in stock-based compensation expenses of $16.3 million. Such decreases were partially offset by an increase in severance charges of $67.6 million and an increase in the provision for our allowance for doubtful accounts of $15.5 million due to losses related to our notes receivable from automotive, truck and powersports dealers.

Interest expense decreased $47.2 million in fiscal 2009 as a result of a decrease of $40.6 million related to our short-term commercial paper program and a decrease of $6.6 million related to our reverse repurchase program. In the aggregate, interest expense decreased by approximately $68.4 million related to decreases in interest rates and increased approximately $21.2 million related to increases in borrowings. In fiscal 2009 and 2008, the Company's average borrowings under the commercial paper program were $1.9 billion and $1.4 billion, respectively, at weighted average interest rates of 1.0% and 4.2%, respectively. In fiscal 2009 and 2008, the Company's average borrowings under the reverse repurchase program were approximately $425.9 million and $360.4 million, respectively, at weighted average interest rates of 1.3% and 3.4%, respectively.

Other Income, net

Years ended June 30, (Dollars in millions)	2009	2008	$ Change
Interest income on corporate funds	$ (134.2)	$ (149.5)	$ (15.3)
Realized gains on available-for-sale securities	(11.4)	(10.1)	1.3
Realized losses on available-for-sale securities	23.8	11.4	(12.4)
Realized loss on investment in Reserve Fund	18.3	-	(18.3)
Gains on sales of building	(2.2)	(16.0)	(13.8)
Other, net	(2.3)	(2.3)	-
Other income, net	$ (108.0)	$ (166.5)	$ (58.5)

Other income, net, decreased $58.5 million in fiscal 2009 as compared to fiscal 2008 due to a loss of $18.3 million related to investment in the Reserve Fund, a decrease in interest income on corporate funds of $15.3 million, a reduction in income of $13.8 million from the sale of buildings and an increase in net realized losses on available-for-sale securities of $11.1 million. In the aggregate, interest income on corporate funds decreased by approximately $30.9 million related to decreases in interest rates and increased approximately $15.6 million related to increases in average daily balances. Average interest rates decreased from 4.4% in fiscal 2008 to 3.6% in fiscal 2009. Average daily balances increased from $3.4 billion in fiscal 2008 to $3.7 billion in fiscal 2009.

Earnings from Continuing Operations before Income Taxes
Earnings from continuing operations before income taxes increased 5%, to $1,900.1 million in fiscal 2009, from $1,803.4 million in fiscal 2008, due to the increase in revenues and the decrease in expenses discussed above. Overall margin increased 80 basis points in fiscal 2009.

Provision for Income Taxes
The effective tax rate in fiscal 2009 was 30.3%, as compared to 35.9% in fiscal 2008. The decrease in the effective tax rate is due to a reduction in the provision for income taxes of $120.0 million related to favorable tax settlements, including an IRS audit settlement and the settlement of a state tax matter. These settlements decreased the effective tax rate by approximately 6.3 percentage points in fiscal 2009. Lastly, during fiscal 2008, there was a reduction in the provision for income taxes of $12.4 million related to the settlement of a state tax matter. This decreased the effective tax rate by approximately 0.7 percentage points in fiscal 2008.

Net Earnings from Continuing Operations and Diluted Earnings per Share from Continuing Operations
Net earnings from continuing operations increased 15%, to $1,325.1 million, in fiscal 2009, from $1,155.7 million in fiscal 2008, and the related diluted earnings per share from continuing operations increased 20%, to $2.62 in fiscal 2009. The increase in net earnings from continuing operations in fiscal 2009 reflects the increased revenues, lower expenses and lower effective tax rate as described above. The increase in diluted earnings per share from continuing operations in fiscal 2009 reflects the increase in net earnings from continuing operations and the impact of fewer weighted average diluted shares outstanding due to the repurchase of 13.8 million shares in fiscal 2009 and 32.9 million shares in fiscal 2008.

ANALYSIS OF REPORTABLE SEGMENTS

Revenues

(Dollars in millions)

	Years ended June 30,			$ Change		% Change	
	2010	2009	2008	2010	2009	2010	2009
Employer Services	$ 6,442.6	$ 6,438.9	$ 6,227.8	$ 3.7	$ 211.1	0%	3%
PEO Services	1,316.8	1,185.8	1,060.5	131.0	125.3	11%	12%
Dealer Services	1,229.4	1,267.9	1,301.8	(38.5)	(33.9)	(3)%	(3)%
Other	16.4	19.4	4.9	(3.0)	14.5	(15)%	100+%
Reconciling items:							
Foreign exchange	59.2	(7.3)	153.8				
Client funds interest	(136.7)	(66.3)	(15.1)				
Total revenues	$ 8,927.7	$ 8,838.4	$ 8,733.7	$ 89.3	$ 104.7	1%	1%

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Earnings from Continuing Operations before Income Taxes

(Dollars in millions)

	Years ended June 30,			$ Change		% Change	
	2010	2009	2008	2010	2009	2010	2009
Employer Services	$ 1,722.4	$ 1,758.7	$ 1,606.7	$ (36.3)	$ 152.0	(2)%	9%
PEO Services	126.6	117.6	102.0	9.0	15.6	8%	15%
Dealer Services	201.0	214.3	220.1	(13.3)	(5.8)	(6)%	(3)%
Other	(167.8)	(233.5)	(245.4)	65.7	11.9	28%	5%
Reconciling items:							
Foreign exchange	10.3	2.5	25.7				
Client funds interest	(136.7)	(66.3)	(15.1)				
Cost of capital charge	107.4	106.8	109.4				
Total earnings from continuing operations before income taxes	$ 1,863.2	$ 1,900.1	$ 1,803.4	$ (36.9)	$ 96.7	(2)%	5%

The fiscal 2009 and 2008 reportable segments’ revenues and earnings from continuing operations before income taxes have been adjusted to reflect updated fiscal 2010 budgeted foreign exchange rates. This adjustment is made for management purposes so that the reportable segments’ revenues are presented on a consistent basis without the impact of changes in foreign currency exchange rates. This adjustment is a reconciling item to revenues and earnings from continuing operations before income taxes and results in the elimination of this adjustment in consolidation.

Certain revenues and expenses are charged to the reportable segments at a standard rate for management reasons. Other costs are charged to the reportable segments based on management’s responsibility for the applicable costs. The primary components of the “Other” segment are miscellaneous processing services, such as customer financing transactions, non-recurring gains and losses and certain expenses that have not been charged to the reportable segments, such as stock-based compensation expense.

In addition, the reconciling items include an adjustment for the difference between actual interest income earned on invested funds held for clients and interest credited to Employer Services and PEO Services at a standard rate of 4.5%. This allocation is made for management reasons so that the reportable segments’ results are presented on a consistent basis without the impact of fluctuations in interest rates. This allocation is a reconciling item to our reportable segments’ revenues and earnings from continuing operations before income taxes and results in the elimination of this adjustment in consolidation.

Finally, the reportable segments’ results include a cost of capital charge related to the funding of acquisitions and other investments. This charge is a reconciling item to earnings from continuing operations before income taxes and results in the elimination of this charge in consolidation.

Employer Services

Fiscal 2010 Compared to Fiscal 2009

Revenues

Employer Services' revenues increased $3.7 million to $6,442.6 million in fiscal 2010 as compared to fiscal 2009. Revenues from our payroll and tax filing business declined 4% in fiscal 2010, due to a decline in pays per control and a decline in the number of payrolls processed, partially offset by pricing increases. Revenues from our “beyond payroll” services increased 6% in fiscal 2010, due to an increase in the number of clients utilizing our COBRA and HR Benefits solutions, as well as an increase in revenues related to our Retirement Services business due to an increase in the market value of the assets under management. Pays per control, which represents the number of employees on our clients’ payrolls as measured on a same-store-sales basis utilizing a subset of approximately 130,000 payrolls of small to large businesses that are reflective of a broad range of U.S. geographic regions, decreased 3.4% in fiscal 2010. Worldwide client retention improved 40 basis points, to 89.9%, and pricing increases contributed approximately 1% to our revenue growth for fiscal 2010. In addition, interest on client funds recorded within the Employer Services segment increased $2.7 million in fiscal 2010 due to a slight increase in average client fund balances. We credit Employer Services with interest on client funds at a standard rate of 4.5%; therefore, Employer Services’ results are not influenced by changes in interest rates.

Earnings from Continuing Operations before Income Taxes
Employer Services' earnings from continuing operations before income taxes decreased $36.3 million to $1,722.4 million in fiscal 2010 as compared to fiscal 2009. The decrease was due to an increase in expenses of $40.0 million, which was partially offset by the $3.7 million increase in revenues discussed above. The increase in expenses can be attributed to $16.9 million of incremental investments in our products and an increase of $14.7 million related to increased service costs for investment in client-facing associates. These increases in expense were partially offset by lower expenses resulting from our cost savings initiatives, which included headcount reductions at the end of fiscal 2009 and a reduction in travel and entertainment expenses.

Fiscal 2009 Compared to Fiscal 2008

Revenues
Employer Services' revenues increased $211.1 million, or 3%, to $6,438.9 million in fiscal 2009. Revenues from our payroll and payroll tax filing business were flat for fiscal 2009. Our payroll and payroll tax filing revenues were adversely impacted in fiscal 2009 due to the reduced number of payrolls processed, a decline in pays per control and a reduction in the average daily balances held, but these declines were offset by pricing increases. Our worldwide client retention decreased by 1.2 percentage points during fiscal 2009. Lost business due to clients' pricing sensitivity and clients going out of business increased during fiscal 2009 as a result of economic pressures. "Pays per control," which represents the number of employees on our clients' payrolls as measured on a same-store-sales basis utilizing a subset of approximately 137,000 payrolls of small to large businesses that are reflective of a broad range of U.S. geographic regions, decreased 2.5% in fiscal 2009. We credit Employer Services with interest on client funds at a standard rate of 4.5%; therefore, Employer Services' results are not influenced by changes in interest rates. Interest on client funds recorded within the Employer Services segment decreased $25.0 million, or 3.4% in fiscal 2009, as a result of a decrease in average daily balances from $15.5 billion for fiscal 2008 to $15.0 billion for fiscal 2009, related to lower bonuses, lower wage growth, and a decline in pays per control. The impact of pricing increases was an increase of approximately 2% to our revenue for fiscal 2009. Revenues from our "beyond payroll" services increased 8% in fiscal 2009 due to an increase in our Time and Labor Management and HR Benefits services revenues, due to an increase in the number of clients utilizing these services, partially offset by a decline in our Retirement Services revenues due to a decrease in the market value of the assets under management.

Earnings from Continuing Operations before Income Taxes
Employer Services' earnings from continuing operations before income taxes increased $152.0 million, or 9%, to $1,758.7 million in fiscal 2009. Earnings from continuing operations before income taxes for fiscal 2009 grew at a faster rate than revenues due to a decrease of $57.7 million related to management incentive compensation expenses, slower growth in selling expenses of $36.2 million as compared to revenues due to a decline in our new client sales and our cost saving initiatives that commenced in fiscal 2008 and continued in fiscal 2009, including headcount reductions and curtailment of non-essential travel and entertainment expenses. These decreases in expenses were offset, in part, by higher expenses of $64.5 million related to increased service costs for investment in client-facing associates.

PEO Services

Fiscal 2010 Compared to Fiscal 2009

Revenues
PEO Services' revenues increased $131.0 million, or 11%, to $1,316.8 million in fiscal 2010, as compared to fiscal 2009, due to a 5% increase in the average number of worksite employees. The increase in the average number of worksite employees as compared to fiscal 2009 was due to an increase in the number of clients. Revenues associated with benefits coverage, workers' compensation coverage and state unemployment taxes for worksite employees that were billed to our clients increased $113.7 million due to the increase in the average number of worksite employees, as well as increases in health care costs. Administrative revenues, which represent the fees for our services and are billed based upon a percentage of wages related to worksite employees, increased $11.8 million, or 5%, in fiscal 2010, due to the increase in the number of average worksite employees.

We credit PEO Services with interest on client funds at a standard rate of 4.5%; therefore, PEO Services' results are not influenced by changes in interest rates. Interest on client funds recorded within the PEO Services segment increased $0.7 million in fiscal 2010 due to the increase in average client funds balances as a result of increased PEO Services new business and growth in our existing client base. Average client funds balances were $0.2 billion in both fiscal 2010 and fiscal 2009.

Earnings from Continuing Operations before Income Taxes
PEO Services’ earnings from continuing operations before income taxes increased $9.0 million, or 8%, to $126.6 million in fiscal 2010 as compared to fiscal 2009. Earnings from continuing operations before income taxes grew due to the increase in revenues described above, net of the related cost of providing benefits coverage, workers’ compensation coverage and payment of state unemployment taxes for worksite employees that are included in costs of revenues. In fiscal 2010, there was an increase in costs associated with providing benefits coverage for worksite employees of $87.2 million and costs associated with workers’ compensation and payment of state unemployment taxes for worksite employees of $26.5 million. In addition, earnings before income taxes increased $9.2 million due to the settlement of a state unemployment tax matter. Such increases in earnings before income taxes were offset by price concessions and higher pass-through costs related to state unemployment taxes.

Fiscal 2009 Compared to Fiscal 2008

Revenues
PEO Services’ revenues increased $125.3 million, or 12%, to $1,185.8 million in fiscal 2009 due to a 10% increase in the average number of worksite employees. The increase in the average number of worksite employees was due to new client sales. Revenues associated with benefits coverage, workers’ compensation coverage and state unemployment taxes for worksite employees that were billed to our clients increased $119.5 million due to the increase in the average number of worksite employees, as well as increases in health care costs. Administrative revenues, which represent the fees for our services and are billed based upon a percentage of wages related to worksite employees, increased $15.3 million, or 7%, due to the increase in the number of average worksite employees. We credit PEO Services with interest on client funds at a standard rate of 4.5%; therefore, PEO Services’ results are not influenced by changes in interest rates. Interest on client funds recorded within the PEO Services segment increased $1.5 million in fiscal 2009 due to the increase in the average client funds balances as a result of increased PEO Services’ new business and growth in our existing client base. The average client funds balances were $0.2 billion in both fiscal 2009 and fiscal 2008.

Earnings from Continuing Operations before Income Taxes
PEO Services’ earnings from continuing operations before income taxes increased $15.6 million, or 15%, to $117.6 million in fiscal 2009. This increase was primarily attributable to the increase in revenues described above, net of the related cost of providing benefits coverage, workers’ compensation coverage and payment of state unemployment taxes for worksite employees, which are included in costs of revenues. In fiscal 2009, there was an increase in costs associated with our PEO business related to costs associated with providing benefits coverage for worksite employees of $102.7 million and costs associated with workers’ compensation and payment of state unemployment taxes for worksite employees of $16.8 million. In addition, there was an increase in expenses related to new business sales of $2.0 million in fiscal 2009.

Dealer Services

Fiscal 2010 Compared to Fiscal 2009

Revenues
Dealer Services' revenues decreased $38.5 million, or 3%, to $1,229.4 million in fiscal 2010. Revenues for our Dealer Services business would have declined approximately 4% for fiscal 2010 without the impact of acquisitions. Revenues declined $112.9 million due to client losses as a result of dealership closings, cancellation of services and continued pressure on dealerships to reduce costs. In addition, revenues decreased $25.1 million due to lower international software license fees and $5.3 million due to lower Credit Check and Computerized Vehicle Registration (“CVR”) transaction volume. These decreases in revenues were offset by a $90.0 million increase in revenues from new clients and growth in our key products during fiscal 2010. The growth in our key products was driven by increased users for Application Service Provider (“ASP”) managed services, growth in our Customer Relationship Management (“CRM”) applications and new network and hosted IP telephony installations.

Earnings from Continuing Operations before Income Taxes
Dealer Services' earnings from continuing operations before income taxes decreased $13.3 million, or 6%, to $201.0 million in fiscal 2010. The decrease was due to the decline in revenues of $38.5 million discussed above, which was partially offset by a decrease in expenses of $25.2 million. The decrease in expenses was due to certain cost saving initiatives, including headcount reductions at the end of fiscal 2009 and a reduction in travel and entertainment expenses, offset by an asset impairment charge of $6.8 million as a result of the announcement by GM that it will shut down its Saturn division.

Fiscal 2009 Compared to Fiscal 2008

Revenues
Dealer Services' revenues decreased $33.9 million, or 3%, to $1,267.9 million in fiscal 2009. Revenues for our Dealer Services business would have declined approximately 4% for fiscal 2009 without the impact of acquisitions. The decrease in revenues was due to client losses and cancellation of services resulting from the consolidation and closing of dealerships and continued pressure on dealerships to reduce costs, all of which resulted in a decrease to revenues of $72.9 million for fiscal 2009. In addition, revenues decreased $23.9 million due to lower Credit Check, Laser Printing, and CVR transaction volume and $9.5 million due to a decrease in revenues from consulting services and forms and supplies. These decreases in revenues were offset by a $67.8 million increase in revenues from new clients and growth in our key products during fiscal 2009. The growth in our key products was driven by increased users for ASP managed services, growth in our CRM applications and new network and hosted IP telephony installations.

Earnings from Continuing Operations before Income Taxes
Dealer Services’ earnings from continuing operations before income taxes decreased $5.8 million, or 3%, to $214.3 million in fiscal 2009 due to the decrease of $33.9 million in revenues discussed above, which was partially offset by a decrease in expenses of $28.1 million. The decrease in expenses was due to lower selling expenses of $11.4 million related to a decline in new client sales and a decrease of $13.2 million in expenses due to certain cost saving initiatives, including headcount reductions and curtailment of non-essential travel and entertainment expenses, and a decrease of $7.1 million related to management incentive compensation expenses.

Other

The primary components of the “Other” segment are miscellaneous processing services, such as customer financing transactions, non-recurring gains and losses and certain expenses that have not been charged to the reportable segments, such as stock-based compensation expense. Stock-based compensation expense was $67.6 million, $96.0 million and $123.6 million in fiscal 2010, 2009 and 2008, respectively.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2010, cash and marketable securities were $1,775.5 million, stockholders' equity was $5,478.9 million and the ratio of long-term debt-to-equity was 0.7%. Working capital before funds held for clients and client funds obligations was $1,568.6 million, as compared to $1,515.5 million at June 30, 2009. This increase is due to cash generated from operations, partially offset by the use of cash to repurchase common stock, the use of cash for dividend payments and the use of cash for acquisitions.

Our principal sources of liquidity for operations are derived from cash generated through operations and through corporate cash and marketable securities on hand. We continued to generate positive cash flows from operations during fiscal 2010, and we held approximately $1.8 billion of cash and marketable securities at June 30, 2010. We also have the ability to generate cash through our financing arrangements under our U.S. short-term commercial paper program and our U.S. and Canadian short-term repurchase agreements to meet short-term funding requirements related to client funds obligations.

Net cash flows provided by operating activities were $1,682.1 million in fiscal 2010, as compared to $1,562.6 million in fiscal 2009. The increase in net cash flows provided by operating activities was due to a $158.7 million tax refund received by a Canadian subsidiary of the Company in fiscal 2010, an increase in cash flows due to lower cash bonuses paid to our employees and an increase in cash flows related to collections from our clients. Such increases in net cash flows provided by operating activities were partially offset by an increase in pension plan contributions as compared to fiscal 2009, which decreased cash flows by $106.0 million. Lastly, there was a $77.1 million decrease due to income taxes paid in fiscal 2010 as a result of the agreement reached during fiscal 2009 with the IRS regarding all outstanding audit issues with the IRS for the tax years 1998 through 2006.

Net cash flows used in investing activities were $2,379.5 million in fiscal 2010, as compared to $644.1 million in fiscal 2009. The increase in net cash flows used in investing activities was due to the timing of purchases of and proceeds from the sales or maturities of marketable securities, which resulted in a net decrease to cash flows of $1,023.7 million and the timing of receipts and payments of cash and cash equivalents held to satisfy client funds obligations that resulted in a decrease to cash flows of $907.7 million. Such decreases to cash flows were partially offset by a reclassification, in fiscal 2009, from cash and cash equivalents to short-term marketable securities of $211.1 million related to the Reserve Fund discussed below. The proceeds received related to the Reserve Fund have been included in proceeds from the sales and maturities of corporate and client funds marketable securities.

Net cash flows provided by financing activities were $89.0 million in fiscal 2010 as compared to $468.4 in fiscal 2009. The decrease was due to a $1,460.0 million change in cash due to the repayment in fiscal 2010 of a $730.0 million commercial paper borrowing that was outstanding at June 30, 2009. In addition, there was a $186.0 million decrease in cash flows provided by financing activities due to an increase in cash used for repurchases of common stock. We purchased approximately 18.2 million shares of our common stock at an average price per share of $42.02 during fiscal 2010 as compared to purchases of 13.8 million shares of our common stock at an average price per share of $39.72 during fiscal 2009. Such decreases in cash flows of financing activities were partially offset by the net change in the client funds obligations of $1,135.2 million as a result of timing of cash received and payments made related to client funds obligations and an increase of $158.4 million in the proceeds from stock purchase plan purchases and exercises of stock options.

Our U.S. short-term funding requirements related to client funds are sometimes obtained through a short-term commercial paper program, which provides for the issuance of up to $6.0 billion in aggregate maturity value of commercial paper. In August 2010, the Company increased the U.S. short-term commercial paper program to provide for the issuance of up to $6.25 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. At June 30, 2010, there was no commercial paper outstanding. At June 30, 2009, we had $730.0 million in commercial paper outstanding. Such amount was repaid on July 1, 2009. In fiscal 2010 and 2009, our average borrowings were $1.6 billion and $1.9 billion, respectively, at a weighted average interest rate of 0.2% and 1.0%, respectively. The weighted average maturity of our commercial paper was less than two days in both fiscal 2010 and fiscal 2009. Throughout fiscal 2010, we had full access to our U.S. short-term funding requirements related to client funds obligations.

Our U.S. and Canadian short-term funding requirements related to client funds obligations are sometimes obtained on a secured basis through the use of reverse repurchase agreements. These agreements are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight to up to five business days. We have $2 billion available to us on a committed basis under these reverse repurchase agreements. At June 30, 2010 and 2009, respectively, there were no outstanding obligations under reverse repurchase agreements. In fiscal 2010 and 2009, we had average outstanding balances under reverse repurchase agreements of $425.0 million and $425.9 million, respectively, at a weighted average interest rate of 0.2% and 1.3%, respectively. 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.

In June 2010, we entered into a $2.5 billion, 364-day credit agreement with a group of lenders. The 364-day facility replaced our prior $2.25 billion 364-day facility. In addition, we entered into a three-year $1.5 billion credit facility maturing in June 2013 that contains an accordion feature under which the aggregate commitment can be increased by $500.0 million, subject to the availability of additional commitments. The three-year facility replaced our prior $1.5 billion five-year facility, which expired in June 2010. We also have an existing $2.25 billion five-year credit facility that matures in June 2011 that also contains an accordion feature under which the aggregate commitment can be increased by $500.0 million, subject to the availability of additional commitments. The interest rate applicable to committed borrowings is tied to LIBOR, the federal funds effective rate or the prime rate depending on the notification provided by us to the syndicated financial institutions prior to borrowing. We are also required to pay facility fees on the credit agreements. The primary uses of the credit facilities are to provide liquidity to the commercial paper program and funding for general corporate purposes, if necessary. We had no borrowings through June 30, 2010 under the credit agreements. We believe that we currently meet all conditions set forth in the credit agreements to borrow thereunder and we are not aware of any conditions that would prevent us from borrowing part or all of the $6.25 billion available to us under the credit agreements.

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 home equity loans, collateralized debt obligations, collateralized loan obligations, credit default swaps, asset-backed commercial paper, derivatives, auction rate securities, structured investment vehicles or non-investment-grade fixed-income securities. We own senior tranches of fixed rate credit card, rate reduction, auto loan and other asset-backed securities, secured predominately 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, Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”). We do not own subordinated debt, preferred stock or common stock of any of these agencies. We do own AAA rated mortgage-backed securities, which represent an undivided beneficial ownership interest in a group or pool of one or more residential mortgages. These securities are collateralized by the cash flows of 15-year and 30-year residential mortgages and are guaranteed by Fannie Mae and Freddie Mac as to the timely payment of principal and interest. Our client funds investment strategy is structured to allow us to average our way through an interest rate cycle by laddering 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.

Capital expenditures for continuing operations in fiscal 2010 were $90.2 million, as compared to $167.6 million in fiscal 2009 and $186.3 million in fiscal 2008. The capital expenditures in fiscal 2010 related to our data center and other facility improvements to support our operations. We expect capital expenditures in the year ending June 30, 2011 (“fiscal 2011”) to be between $150 million and $170 million.

The following table provides a summary of our contractual obligations as of June 30, 2010:

(In millions)

	Payments due by period					
	Less than	1-3	3-5	More than		
Contractual Obligations	1 year	years	years	5 years	Unknown	Total
Debt Obligations (1)	$ 2.8	$ 18.8	$ 3.6	$ 17.4	$ -	$ 42.6
Operating Lease and Software License Obligations (2)	143.9	169.9	79.0	30.5	-	423.3
Purchase Obligations (3)	262.6	282.6	164.8	-	-	710.0
Obligations related to Unrecognized Tax Benefits (4)	-	-	-	-	107.2	107.2
Other long-term liabilities reflected on our Consolidated Balance Sheets:						
Compensation and Benefits (5)	53.3	122.7	82.7	166.4	27.3	452.4
Acquisition-related obligations (6)	7.1	-	-	-	-	7.1
Total	$ 469.7	$ 594.0	$ 330.1	$ 214.3	$ 134.5	$ 1,742.6

(1) These amounts represent the principal repayments of our debt and are included on our Consolidated Balance Sheets. See Note 12 to the consolidated financial statements for additional information about our debt and related matters. The estimated interest payments due by corresponding period above are $1.1 million, $2.2 million, $2.1 million, and $2.6 million, respectively, which have been excluded.

(2) Included in these amounts are various facilities and equipment leases and software license agreements. We enter into operating leases in the normal course of business relating to facilities and equipment, as well as the licensing of software. 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 primarily relate to purchase and maintenance agreements on our software, equipment and other assets.

(4) We made the determination that net cash payments expected to be paid within the next 12 months, related to unrecognized tax benefits of $107.2 million at June 30, 2010, are expected to be zero. We are unable to make reasonably reliable estimates as to the period beyond the next 12 months in which cash payments related to unrecognized tax benefits are expected to be paid.

(5) Compensation and benefits primarily relates to amounts associated with our employee benefit plans and other compensation arrangements.

(6) Acquisition-related obligations relate to contingent consideration for business acquisitions 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, 2010, the obligations relating to these matters, which are expected to be paid in fiscal 2011, total $18,136.7 million and were recorded in client funds obligations on our Consolidated Balance Sheets. We had $18,832.6 million of cash and marketable securities that have been impounded from our clients to satisfy such obligations recorded in funds held for clients on our Consolidated Balance Sheets as of June 30, 2010.

The Company’s wholly owned subsidiary, ADP Indemnity, Inc., provides workers’ compensation and employer liability insurance coverage for our PEO worksite employees. We have secured specific per occurrence and aggregate stop loss reinsurance from third-party carriers that cap losses that reach a certain level in each policy year. We utilize historical loss experience and actuarial judgment to determine the estimated claim liability for the PEO business. In fiscal 2010 and 2009, the net premium was $67.8 million and $60.8 million, respectively. In fiscal 2010 and 2009, we paid claims of $53.8 million and $43.6 million, respectively. At June 30, 2010, our cash and marketable securities included balances totaling approximately $208.6 million to cover the actuarially estimated cost of workers’ compensation claims for the policy years that the PEO worksite employees were covered by ADP Indemnity, Inc.

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 goals. Consistent with those goals, we also seek to maximize interest income and to minimize the volatility of interest income. Client funds assets are invested in liquid, investment-grade marketable securities with a maximum maturity of 10 years at time of purchase and money market securities and other cash equivalents. At June 30, 2010, approximately 79% of the available-for-sale securities categorized as U.S. Treasury and direct obligations of U.S. government agencies were invested in senior, unsecured, non-callable debt directly issued by the Federal Home Loan Banks, Fannie Mae and Freddie Mac.

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 fund 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 fund assets to satisfy all of our client funds obligations.

There are inherent risks and uncertainties involving our investment strategy relating to our client fund 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 $6 billion commercial paper program (rated A-1+ by Standard and Poor’s and Prime-1 by Moody’s, the highest possible credit rating), our ability to execute reverse repurchase transactions and available borrowings under our $6 billion committed revolving credit facilities. However, the 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 bonds is BBB and for asset-backed and commercial mortgage-backed securities is AAA. 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. Commercial paper must be rated A1/P1 and, for time deposits, banks must have a Financial Strength Rating of C or better.

Details regarding our overall investment portfolio are as follows:

(Dollars in millions)

Years ended June 30,	2010	2009	2008
Average investment balances at cost:			
Corporate investments	$ 3,839.2	$ 3,744.7	$ 3,387.0
Funds held for clients	15,194.5	15,162.4	15,654.3
Total	$ 19,033.7	$ 18,907.1	$ 19,041.3
Average interest rates earned exclusive of realized gains/ (losses) on:			
Corporate investments	2.6%	3.6%	4.4%
Funds held for clients	3.6%	4.0%	4.4%
Total	3.4%	3.9%	4.4%
Realized gains on available-for-sale securities	$ 15.0	$ 11.4	$ 10.1
Realized losses on available-for-sale securities	(13.4)	(23.8)	(11.4)
Net realized gains/(losses) on available-for-sale securities	$ 1.6	$ (12.4)	$ (1.3)
As of June 30:			
Net unrealized pre-tax gains on available-for-sale securities	$ 710.9	$ 436.6	$ 142.1
Total available-for-sale securities at fair value	$ 15,517.0	$ 14,730.2	$ 15,066.4

Our laddering strategy exposes us 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 the 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 rates earned on our entire portfolio decreased by 50 basis points, from 3.9% for fiscal 2009 to 3.4% for fiscal 2010. 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 $9 million impact to earnings before income taxes over the ensuing twelve-month period ending June 30, 2011. 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 $5 million impact to earnings before income taxes over the ensuing twelve-month period ending June 30, 2011.

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, and for Canadian securities, Dominion Bond Rating Service. At June 30, 2010, approximately 85% of our available-for-sale securities held an AAA or AA rating. In addition, we limit amounts that can be invested in any security other than US and Canadian government or government agency securities.

We are 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 use derivative financial instruments as risk management tools and not for trading purposes.

During fiscal 2010, we were exposed to foreign exchange fluctuations on U.S. Dollar denominated short-term intercompany amounts payable by a Canadian subsidiary to a U.S. subsidiary of the Company in the amount of $178.6 million U.S. Dollars. In order to manage the exposure related to the foreign exchange fluctuations between the Canadian Dollar and the U.S. Dollar, the Canadian subsidiary entered into a foreign exchange forward contract, which obligated the Canadian subsidiary to buy $178.6 million U.S. dollars at a rate of 1.15 Canadian Dollars to each U.S. Dollar on December 1, 2009. Upon settlement of such contract on December 1, 2009, an additional foreign exchange forward contract was entered into that obligated the Canadian subsidiary to buy $29.4 million U.S. Dollars at a rate of 1.06 Canadian dollars to each U.S. Dollar on February 26, 2010. The net loss on the foreign exchange forward contracts of $15.8 million for the twelve months ended June 30, 2010 was recognized in earnings in fiscal 2010 and substantially offset the foreign currency mark-to-market gains on the related short-term intercompany amounts payable. The short-term intercompany amounts payable were fully paid by the Canadian subsidiary to the U.S. subsidiary by February 2010.

There were no derivative financial instruments outstanding at June 30, 2010, 2009 or 2008.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board ("FASB") issued ASU 2009-13, "Multiple Deliverable Revenue Arrangements." ASU 2009-13 modifies the guidance related to accounting for arrangements with multiple deliverables by providing an alternative when vendor specific objective evidence ("VSOE") or third-party evidence ("TPE") does not exist to determine the selling price of a deliverable. The alternative when VSOE or TPE does not exist is the best estimate of the selling price of the deliverable. Consideration for multiple deliverables is then allocated based upon the relative selling price of the deliverables and revenue is recognized as earned for each deliverable. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the election is made to adopt ASU 2009-13 retrospectively. In either case, early adoption is permitted. The adoption of ASU 2009-13 will not have a material impact on our consolidated results of operations, financial condition or cash flows.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements that Include Software Elements" ("ASU 2009-14"). ASU 2009-14 modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's functionality. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the election is made to adopt ASU 2009-14 retrospectively. In either case, early adoption is permitted. The adoption of ASU 2009-14 will not have a material impact on our consolidated results of operations, financial condition or cash flows.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. 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) as well as investment income on payroll funds, payroll tax filing funds and other Employer Services' client-related funds. 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. Our service fees are determined based on written price quotations or service agreements having stipulated terms and conditions that do not require management to make any significant judgments or assumptions regarding any potential uncertainties. Interest income on collected but not yet remitted funds held for clients is recognized in revenues as earned, as the collection, holding and remittance of these funds are critical components of providing these services.

We also recognize revenues associated with the sale of software systems and associated software licenses (e.g., Dealer Services' dealer management systems). For a majority of our software sales arrangements, which provide hardware, software licenses, installation and post-contract customer support, revenues are recognized ratably over the software license term, as vendor-specific objective evidence of the fair values of the individual elements in the sales arrangement does not exist. Changes to the elements in an arrangement and the ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition.

We assess collectability of our revenues based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history. We do not believe that a change in our assumptions utilized in the collectability determination would result in a material change to revenues as no single customer accounts for a significant portion of our revenues.

Goodwill. We account for goodwill and other intangible assets with indefinite useful lives in accordance with ASC 350-10, which states that goodwill and intangible assets with indefinite useful lives should not be amortized, but instead tested for impairment at least annually at the reporting unit level. We perform this impairment test by first comparing the fair value of our reporting units to their carrying amount. If an indicator of impairment exists based upon comparing the fair value of our reporting units to their carrying amount, we would then compare the implied fair value of our goodwill to the carrying amount in order to determine the amount of the impairment, if any. We determine the fair value of our reporting units using the income approach, which utilizes a discounted cash flow model. In addition, we use comparative market multiples to corroborate our discounted cash flow results. We had $2,383.3 million of goodwill as of June 30, 2010. Given the significance of our goodwill, an adverse change to the fair value could result in an impairment charge, which could be material to our consolidated earnings.

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 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, an entity's tax benefits must be "more likely than not" of being sustained 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, 2010 and 2009, the Company's liabilities for unrecognized tax benefits, which include interest and penalties, were $107.2 million and $92.8 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, settlements related to various jurisdictions and tax periods could increase earnings up to $10.0 million in the next twelve months. We do not expect any cash payments related to unrecognized tax benefits in the next twelve months. 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.

Stock-Based Compensation. We measure stock-based compensation expense based on the fair value of the award on the date of grant. We determine the fair value of stock options issued by using a binomial option-pricing model. The binomial option-pricing model considers a range of assumptions related to volatility, dividend yield, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial option-pricing model are based on a combination of implied market volatilities, historical volatility of our stock price and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The binomial option-pricing model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock option grants is derived from the output of the binomial model and represents the period of time that options granted are expected to be outstanding. Determining these assumptions is subjective and complex, and therefore, a change in the assumptions utilized could impact the calculation of the fair value of our stock options.

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 Operations.”

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

We have audited the accompanying consolidated balance sheets of Automatic Data Processing, Inc. and subsidiaries (the "Company") as of June 30, 2010 and 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2010. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a) 2. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Automatic Data Processing, Inc. and subsidiaries as of June 30, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
August 25, 2010

Statements of Consolidated Earnings

(In millions, except per share amounts)

Years ended June 30,	2010	2009	2008
REVENUES:			
Revenues, other than interest on funds held for clients and PEO revenues	$ 7,077.7	$ 7,051.7	$ 6,996.1
Interest on funds held for clients	542.8	609.8	684.5
PEO revenues (A)	1,307.2	1,176.9	1,053.1
TOTAL REVENUES	8,927.7	8,838.4	8,733.7
EXPENSES:			
Costs of revenues			
Operating expenses	4,277.2	4,087.0	3,898.4
Systems development and programming costs	513.9	498.3	521.1
Depreciation and amortization	238.6	237.4	237.7
TOTAL COSTS OF REVENUES	5,029.7	4,822.7	4,657.2
Selling, general and administrative expenses	2,127.4	2,190.3	2,359.1
Interest expense	8.6	33.3	80.5
TOTAL EXPENSES	7,165.7	7,046.3	7,096.8
Other income, net	(101.2)	(108.0)	(166.5)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,863.2	1,900.1	1,803.4
Provision for income taxes	655.9	575.0	647.7
NET EARNINGS FROM CONTINUING OPERATIONS	1,207.3	1,325.1	1,155.7
Earnings from discontinued operations, net of provision for income taxes of $7.0, $0.7 and $25.8 for the fiscal years ended June 30, 2010, 2009 and 2008, respectively	4.1	7.5	80.0
NET EARNINGS	$ 1,211.4	$ 1,332.6	$ 1,235.7
Basic earnings per share from continuing operations	$ 2.41	$ 2.63	$ 2.22
Basic earnings per share from discontinued operations	0.01	0.01	0.15
BASIC EARNINGS PER SHARE	$ 2.42	$ 2.65	$ 2.37
Diluted earnings per share from continuing operations	$ 2.40	$ 2.62	$ 2.19
Diluted earnings per share from discontinued operations	0.01	0.01	0.15
DILUTED EARNINGS PER SHARE	$ 2.40	$ 2.63	$ 2.34
Basic weighted average shares outstanding	500.5	503.2	521.5
Diluted weighted average shares outstanding	503.7	505.8	527.2

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes, of $13,318.7, $12,310.4 and $11,247.4, respectively.

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In millions, except per share amounts)

June 30,	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 1,643.3	$ 2,265.3
Short-term marketable securities	27.9	30.8
Accounts receivable, net	1,127.7	1,050.7
Other current assets	673.4	918.9
Assets held for sale	11.8	12.1
Assets of discontinued operations	-	8.5
Total current assets before funds held for clients	3,484.1	4,286.3
Funds held for clients	18,832.6	16,419.2
Total current assets	22,316.7	20,705.5
Long-term marketable securities	104.3	92.4
Long-term receivables, net	129.4	162.6
Property, plant and equipment, net	673.8	734.3
Other assets	712.3	702.7
Goodwill	2,383.3	2,375.5
Intangible assets, net	542.4	578.7
Total assets	$ 26,862.2	$ 25,351.7
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 150.0	$ 130.3
Accrued expenses and other current liabilities	771.0	777.9
Accrued payroll and payroll related expenses	448.5	402.3
Dividends payable	164.5	162.1
Short-term deferred revenues	321.5	329.8
Obligation under commercial paper borrowing	-	730.0
Income taxes payable	60.0	230.7
Liabilities of discontinued operations	-	7.7
Total current liabilities before client funds obligations	1,915.5	2,770.8
Client funds obligations	18,136.7	15,992.6
Total current liabilities	20,052.2	18,763.4
Long-term debt	39.8	42.7
Other liabilities	528.0	477.1
Deferred income taxes	306.4	254.1
Long-term deferred revenues	456.9	491.8
Total liabilities	21,383.3	20,029.1
Commitments and contingencies (Note 16)		
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, 2010 and 2009; outstanding, 492.0 and 501.7 shares at June 30, 2010 and 2009, respectively	63.9	63.9
Capital in excess of par value	493.0	520.0
Retained earnings	11,252.0	10,716.6
Treasury stock - at cost: 146.7 and 137.0 shares at June 30, 2010 and 2009, respectively	(6,539.5)	(6,133.9)
Accumulated other comprehensive income	209.5	156.0
Total stockholders' equity	5,478.9	5,322.6
Total liabilities and stockholders' equity	$ 26,862.2	$ 25,351.7

See notes to consolidated financial statements.

Statements of Consolidated Stockholders' Equity

(In millions, except per share amounts)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2007	638.7	$ 63.9	$ 351.8	$ 9,378.5	$ (4,612.9)		$ (33.4)
Net earnings	-	-	-	1,235.7	-	$ 1,235.7	-
Foreign currency translation adjustments						127.9	127.9
Unrealized net gain on securities, net of tax						209.7	209.7
Pension liability adjustment, net of tax						(28.0)	(28.0)
Comprehensive income						$ 1,545.3	
Stock-based compensation expense	-	-	123.6	-	-		-
Issuances relating to stock compensation plans	-	-	(29.5)	-	271.7		
Tax benefits from stock compensation plans	-	-	34.0	-	-		-
Treasury stock acquired (32.9 shares)	-	-	-	-	(1,463.5)		-
Adoption of ASC 740-10	-	-	-	(11.7)	-		-
Tax basis adjustment related to pooling of interest (see Note 15)	-	-	42.1				

Cash and equivalents
$
5,100

$
1,191

$
3,909

$
—

Time deposits
1,014

—

1,014

—

Debt securities
1,974

—

1,974

—

Equity securities
76

76

—

—

Foreign currency contracts
225

—

225

—

Total assets
$
8,389

$
1,267

$
7,122

$
—

Liabilities

Interest rate hedges	$ 338	$ —	$ 338	$ —
Foreign currency contracts	38	—	38	—
Contingent consideration	4,213	—	—	4,213
Total liabilities	$ 4,589	$		

—

$
376

$
4,213

The fair values of time deposits approximate their amortized cost due to the short maturities of these instruments. The fair values of available-for-sale debt securities were determined based on prices obtained from commercial pricing services. Available-for-sale equity securities consists of investments for which the fair values were determined by using the published market price per unit multiplied by the number of units held, without consideration of transaction costs. The derivatives entered into by the company were valued using publicized spot curves for interest rate hedges and publicized forward curves for foreign currency contracts. The fair value measurements of the contingent consideration liabilities were determined based on significant unobservable inputs, including the discount rate, estimated probabilities and timing of achieving specified development, regulatory and commercial milestones and the estimated amount of future sales of the acquired products still in development. Changes to the fair value of the contingent consideration liabilities can result from changes to one or a number of inputs, including discount rates, the probabilities of achieving the milestones, the time required to achieve the milestones and estimated future sales. Significant judgment is employed in determining the appropriateness of these inputs. Changes to the inputs described above could have a material impact on the company's financial position and results of operations in any given period. At June 30, 2017, a 50 basis point increase/decrease in the assumed discount rate would have decreased/increased the value of the contingent consideration liabilities by approximately $160 million. Additionally, at June 30, 2017, a five percentage point increase/decrease in the assumed probability of success across all potential indications would have increased/decreased the value of the contingent consideration liabilities by approximately $340 million.

There have been no transfers of assets or liabilities between the fair value measurement levels. The following table presents the changes in fair value of contingent consideration liabilities which are measured using Level 3 inputs:

	Six months ended June 30,	
(in millions)	2017	2016
Beginning balance	$4,213	$—
Additions (see Note 4)	—	4,130
Change in fair value recognized in net earnings	146	41
Ending balance	$4,359	$4,171

The change in fair value recognized in net earnings was recorded in other expense, net in the condensed consolidated statements of earnings for both the three and six months ended June 30, 2017 and 2016.

In addition to the financial instruments that the company carries at fair value on the condensed consolidated balance sheets, certain financial instruments are carried at historical cost or some basis other than fair value. The book values, approximate fair values and bases used to measure the approximate fair values of certain financial instruments as of June 30, 2017 are shown in the table below:

(in millions)	Book Value	Approximate fair value	Basis of fair value measurement Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Investments	$46	$ 46	$ —	$ 4	$ 42
Total assets	$46	$ 46	$ —	$ 4	$ 42
Liabilities					
Short-term borrowings	$400	$ 400	$ —	$ 400	$ —
Current portion of long-term debt and lease obligations	3,020	3,022	2,999	23	—
Long-term debt and lease obligations, excluding fair value hedges	34,123	35,187	33,115	2,072	—
Total liabilities	$37,543	$ 38,609	$ 36,114	$ 2,495	$ —

The book values, approximate fair values and bases used to measure the approximate fair values of certain financial instruments as of December 31, 2016 are shown in the table below:

(in millions)	Book Value	Approximate fair value	Basis of fair value measurement Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Investments	$42	$ 42	$ —	$ 5	$ 37
Total assets	$42	$ 42	$ —	$ 5	$ 37
Liabilities					
Short-term borrowings	$377	$ 377	$ —	$ 377	$ —
Current portion of long-term debt and lease obligations	25	25	—	25	—
Long-term debt and lease obligations, excluding fair value hedges	36,778	36,664	34,589	2,075	—
Total liabilities	$37,180	$ 37,066	$ 34,589	$ 2,477	$ —

Investments primarily consist of cost method investments, for which the company takes into consideration recent transactions and financial information of the investee, which represents a Level 3 basis of fair value measurement. The fair values of short-term borrowings approximate the carrying values due to the short maturities of these instruments.

The fair values of long-term debt, excluding fair value hedges and the term loans, were determined by using the published market price for the debt instruments, without consideration of transaction costs, which represents a Level 1 basis of fair value measurement. The fair values of the term loans were determined based on a discounted cash flow

analysis using quoted market rates, which represents a Level 2 basis of fair value measurement. The counterparties to financial instruments consist of select major international financial institutions.

Available-for-sale Securities

Substantially all of the company's investments in debt and equity securities were classified as available-for-sale. Debt securities classified as short-term were $562 million as of June 30, 2017 and $309 million as of December 31, 2016. Long-term debt securities mature primarily within five years. Estimated fair values of available-for-sale securities were generally determined based on prices obtained from commercial pricing services.

The following table is a summary of available-for-sale securities by type as of June 30, 2017:

(in millions)	Amortized Cost	Gross unrealized Gains	Gross unrealized Losses	Fair Value
Asset backed securities	$ 940	$ 1	$ (2)	$939
Corporate debt securities	1,448	4	(1)	1,451
Other debt securities	137	—	—	137
Equity securities	18	65	(2)	81
Total	$ 2,543	$ 70	$ (5)	$2,608

The following table is a summary of available-for-sale securities by type as of December 31, 2016:

(in millions)	Amortized Cost	Gross unrealized Gains	Gross unrealized Losses	Fair Value
Asset backed securities	$ 891	$ 1	$ (4)	$888
Corporate debt securities	961	1	(2)	960
Other debt securities	127	—	(1)	126
Equity securities	18	60	(2)	76
Total	$ 1,997	$ 62	$ (9)	$2,050

AbbVie had no other-than-temporary impairments as of June 30, 2017. For the three and six months ended June 30, 2017 and 2016, net realized gains were insignificant.

Concentrations of Risk

The functional currency of the company's Venezuela operations is the U.S. dollar due to the hyperinflationary status of the Venezuelan economy. During the first quarter of 2016, in consideration of declining economic conditions in Venezuela and a decline in transactions settled at the official rate, AbbVie determined that its net monetary assets denominated in the Venezuelan bolivar (VEF) were no longer expected to be settled at the official rate of 10 VEF per U.S. dollar, but rather at the Divisa Complementaria (DICOM) rate. Therefore, during the first quarter of 2016, AbbVie recorded a charge of $298 million to net foreign exchange loss to revalue its bolivar-denominated net monetary assets using the DICOM rate then in effect of approximately 270 VEF per U.S. dollar. As of June 30, 2017 and December 31, 2016, AbbVie's net monetary assets in Venezuela were insignificant.

AbbVie continues to do business with foreign governments in certain countries, including Greece, Portugal, Italy and Spain, which have historically experienced challenges in credit and economic conditions. Substantially all of AbbVie's trade receivables in Greece, Portugal, Italy and Spain are with government health systems. Outstanding net governmental receivables in these countries totaled $265 million as of June 30, 2017 and $244 million as of December 31, 2016. The company also continues to do business with foreign governments in certain oil-exporting countries that have recently experienced a deterioration in economic conditions, including Saudi Arabia and Russia, which may result in delays in the collection of receivables. Outstanding net governmental receivables related to Saudi Arabia were $149 million as of June 30, 2017 and $122 million as of December 31, 2016. Outstanding net

governmental receivables related to Russia were $133 million as of June 30, 2017 and $110 million as of December 31, 2016. Global economic conditions and customer-specific factors may require the company to periodically re-evaluate the collectability of its receivables and the company could potentially incur credit losses.

Of total net accounts receivable, three U.S. wholesalers accounted for 54% as of June 30, 2017 and 51% as of December 31, 2016, and substantially all of AbbVie’s net revenues in the United States were to these three wholesalers.

HUMIRA (adalimumab) is AbbVie's single largest product and accounted for approximately 66% of AbbVie's total net revenues for the six months ended June 30, 2017 and 62% for the six months ended June 30, 2016.

Debt and Credit Facilities

Short-term borrowings included commercial paper of $400 million as of June 30, 2017 and $377 million as of December 31, 2016. The weighted-average interest rate on commercial paper borrowings was 1.1% for the six months ended June 30, 2017 and 0.6% for the six months ended June 30, 2016.

Note 9 Post-Employment Benefits

The following is a summary of net periodic benefit costs relating to the company's defined benefit and other post-employment plans:

	Defined benefit plans				Other post-employment plans			
	Three months ended June 30,		Six months ended June 30,		Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016	2017	2016	2017	2016
Service cost	$59	$53	$117	$106	$6	$ 6	$13	$ 13
Interest cost	51	50	101	101	6	6	12	12
Expected return on plan assets	(95)	(89)	(190)	(178)	—	—	—	—
Amortization of actuarial losses and prior service costs	27	20	53	42	(1)	—	—	—
Net periodic benefit cost	$42	$34	$81	$71	$11	$ 12	$25	$ 25

AbbVie's principal domestic defined benefit plan is the AbbVie Pension Plan. AbbVie made voluntary contributions to this plan of $150 million in both the six months ended June 30, 2017 and 2016.

Note 10 Equity

Stock-Based Compensation

Stock-based compensation expense is principally related to awards issued pursuant to the AbbVie 2013 Incentive Stock Program and is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Cost of products sold	$10	$ 8	$13	$13
Research and development	33	97	97	155
Selling, general and administrative	33	32	107	106
Pre-tax compensation expense	76	137	217	274
Tax benefit	18	42	65	89
After-tax compensation expense	$58	$ 95	$152	$185

Stock Options

During the six months ended June 30, 2017, primarily in connection with the company's annual grant, AbbVie granted 1.2 million stock options with a weighted-average grant-date fair value of $9.80. As of June 30, 2017, $26 million of unrecognized compensation cost related to stock options is expected to be recognized as expense over approximately the next two years.

RSAs, RSUs and Performance Shares

During the six months ended June 30, 2017, primarily in connection with the company's annual grant, AbbVie granted 5.9 million RSUs and performance shares with a weighted-average grant-date fair value of $61.49. As of June 30, 2017, $345 million of unrecognized compensation cost related to RSAs, RSUs and performance shares is expected to be recognized as expense over approximately the next two years.

Cash Dividends

The following table summarizes quarterly cash dividends declared for the six months ended June 30, 2017 and the full year 2016:

2017			2016		
Date Declared	Payment Date	Dividend Per Share	Date Declared	Payment Date	Dividend Per Share
06/22/17	08/15/17	$ 0.64	10/28/16	02/15/17	$ 0.64
02/16/17	05/15/17	$ 0.64	09/09/16	11/15/16	$ 0.57
			06/16/16	08/15/16	$ 0.57
			02/18/16	05/16/16	$ 0.57

Stock Repurchase Program

On February 16, 2017, AbbVie's board of directors authorized a $5.0 billion increase to AbbVie's existing stock repurchase program. The stock repurchase authorization permits purchases of AbbVie shares from time to time in open-market or private transactions at management's direction depending on the company's cash flows, net debt level and market conditions. The program has no time limit and can be discontinued at any time. Shares repurchased under this program are recorded at acquisition cost, including related expenses, and are available for general corporate purposes.

AbbVie repurchased approximately 7.8 million shares in the open market for $500 million during the six months ended June 30, 2017. During the six months ended June 30, 2017, AbbVie cash-settled $285 million of its open market purchases made at the end of 2016. AbbVie's remaining stock repurchase authorization was $4.5 billion as of June 30, 2017.

Accumulated Other Comprehensive Loss

The following table summarizes the changes in each component of accumulated other comprehensive loss, net of tax, for the six months ended June 30, 2017:

(in millions)	Foreign currency translation adjustments	Net investment hedging activities	Pension and post-employment benefits	Marketable security activities	Cash flow hedging activities	Total
Balance as of December 31, 2016	$ (1,435)	$ 140	$ (1,513)	$ 46	$ 176	$(2,586)
Other comprehensive income (loss) before reclassifications	419	(217)	(25)	20	(129)	68
Net losses (gains) reclassified from accumulated other comprehensive loss	—	—	38	(10)	(58)	(30)
	419	(217)	13	10	(187)	38

Net current-period other comprehensive income (loss)						
Balance as of June 30, 2017	$ (1,016)	$ (77)	$ (1,500)	$ 56	$ (11)	$(2,548)

Other comprehensive income for the six months ended June 30, 2017 included foreign currency translation adjustments totaling a gain of $419 million, which was principally due to the impact of the improvement in the Euro in the six months ended June 30, 2017 on the translation of the company's assets denominated in the Euro.

The following table summarizes the changes in each component of accumulated other comprehensive loss, net of tax, for the six months ended June 30, 2016:

(in millions)	Foreign currency translation adjustments	Pension and post-employment benefits	Marketable security activities	Cash flow hedging activities	Total
Balance as of December 31, 2015	$ (1,270)	$ (1,378)	$ 47	$ 40	$(2,561)
Other comprehensive income before reclassifications	133	6	10	17	166
Net losses (gains) reclassified from accumulated other comprehensive loss	—	27	(3)	(19)	5
Net current-period other comprehensive income (loss)	133	33	7	(2)	171
Balance as of June 30, 2016	$ (1,137)	$ (1,345)	$ 54	$ 38	$(2,390)

Other comprehensive income for the six months ended June 30, 2016 included foreign currency translation adjustments totaling a gain of $133 million, which was principally due to the impact of the improvement in the Euro and Japanese yen in the six months ended June 30, 2016 on the translation of the company's assets denominated in the Euro and Japanese yen.

The table below presents the impact on AbbVie's condensed consolidated statements of earnings for significant amounts reclassified out of each component of AOCI for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
(in millions) (brackets denote gains)	2017	2016	2017	2016
Pension and post-employment benefits				
Amortization of actuarial losses and other[a]	$26	$20	$53	$42
Tax benefit	(7)	(7)	(15)	(15)
Total reclassifications, net of tax	$19	$13	$38	$27
Cash flow hedging activities				
Gains on designated cash flow hedges[b]	$(46)	$(18)	$(63)	$(19)
Tax expense	4	—	5	—
Total reclassifications, net of tax	$(42)	$(18)	$(58)	$(19)

(a) Amounts are included in the computation of net periodic benefit cost (see Note 9).

(b) Amounts are included in cost of products sold (see Note 8).

Note 11 Income Taxes

The effective tax rate was 19% for the three months and 18% for the six months ended June 30, 2017 and 23% for both the three and six months ended June 30, 2016. The effective tax rate in each period differed from the statutory tax rate principally due to the benefit from foreign operations which reflects the impact of lower income tax rates in locations outside the United States, tax exemptions and incentives in Puerto Rico and other foreign tax jurisdictions and business development activities together with the cost of repatriation decisions. The decrease in the effective tax rate for the three and six months ended June 30, 2017 over the prior year was principally due to changes in the jurisdictional mix of earnings, as well as certain discrete factors and events, including collaborations, the impact of the prior year non-deductible devaluation loss related to Venezuela and the impact of the adoption of ASU No. 2016-09, which changed the accounting treatment for excess tax benefits associated with stock-based awards. See Note 1 for

additional information related to the adoption of this accounting pronouncement.

Due to the potential for resolution of federal, state and foreign examinations, and the expiration of various statutes of limitations, it is reasonably possible that the company's gross unrecognized tax benefits balance may change within the next twelve months by up to $233 million. At the time of separation, AbbVie and Abbott Laboratories (Abbott) entered into a tax sharing agreement which provides that Abbott is liable for and has indemnified AbbVie against all income tax liabilities for periods prior to the separation.

Accordingly, Abbott will indemnify and hold AbbVie harmless if the tax positions are settled for amounts in excess of recorded liabilities, and AbbVie will not benefit if prior tax positions are resolved more favorably than recorded amounts.

Note 12 Legal Proceedings and Contingencies

AbbVie is subject to contingencies, such as various claims, legal proceedings and investigations regarding product liability, intellectual property, commercial, securities and other matters that arise in the normal course of business. Loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount within a probable range is recorded. The recorded accrual balance for litigation was approximately $310 million as of June 30, 2017 and $225 million as of December 31, 2016. Initiation of new legal proceedings or a change in the status of existing proceedings may result in a change in the estimated loss accrued by AbbVie. While it is not feasible to predict the outcome of all proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on AbbVie's consolidated financial position, results of operations or cash flows.

Subject to certain exceptions specified in the separation agreement by and between Abbott and AbbVie, AbbVie assumed the liability for, and control of, all pending and threatened legal matters related to its business, including liabilities for any claims or legal proceedings related to products that had been part of its business, but were discontinued prior to the distribution, as well as assumed or retained liabilities, and will indemnify Abbott for any liability arising out of or resulting from such assumed legal matters.

Several pending lawsuits filed against Unimed Pharmaceuticals, Inc., Solvay Pharmaceuticals, Inc. (a company Abbott acquired in February 2010 and now known as AbbVie Products LLC) and others are consolidated for pre-trial purposes in the United States District Court for the Northern District of Georgia under the Multi-District Litigation (MDL) Rules as In re: AndroGel Antitrust Litigation, MDL No. 2084. These cases, brought by private plaintiffs and the Federal Trade Commission (FTC), generally allege Solvay's patent litigation involving AndroGel was sham litigation and the 2006 patent litigation settlement agreements and related agreements with three generic companies violate federal antitrust laws. Plaintiffs generally seek monetary damages and/or injunctive relief and attorneys' fees. These cases include: (a) four individual plaintiff lawsuits; (b) three purported class actions; and (c) Federal Trade Commission v. Actavis, Inc. et al. Following the district court's dismissal of all plaintiffs' claims, appellate proceedings led to the reinstatement of the claims regarding the patent litigation settlements, which are proceeding in the district court.

Lawsuits are pending against AbbVie and others generally alleging that the 2005 patent litigation settlement involving Niaspan entered into between Kos Pharmaceuticals, Inc. (a company acquired by Abbott in 2006 and presently a subsidiary of AbbVie) and a generic company violates federal and state antitrust laws and state unfair and deceptive trade practices and unjust enrichment laws. Plaintiffs generally seek monetary damages and/or injunctive relief and attorneys' fees. The lawsuits consist of four individual plaintiff lawsuits and two consolidated purported class actions: one brought by three named direct purchasers of Niaspan and the other brought by ten named end-payor purchasers of Niaspan. The cases are consolidated for pre-trial proceedings in the United States District Court for the Eastern District of Pennsylvania under the MDL Rules as In re: Niaspan Antitrust Litigation, MDL No. 2460. In October 2016, the State of California filed a lawsuit regarding the Niaspan patent litigation settlement in Orange County Superior Court, asserting a claim under the unfair competition provision of the California Business and Professions Code seeking injunctive relief, restitution, civil penalties and attorneys' fees.

In November 2007, GlaxoSmithKline plc (GSK) filed a lawsuit against Abbott in the United States District Court for the Northern District of California alleging that Abbott violated federal antitrust and various state laws in connection with the 2003 Norvir re-pricing. AbbVie assumed the liability for and control of this proceeding in connection with

its separation from Abbott. In March 2011, a jury found that Abbott did not violate antitrust laws, but breached its license agreement with GSK. In January 2014, the United States Court of Appeals for the Ninth Circuit reversed this verdict and remanded the case for a new trial due to the alleged improper exclusion of a potential juror. The case was returned to the district court in California, but after GSK dismissed its federal antitrust claims, the case was transferred in April 2015 to the United States District Court for the Middle District of North Carolina. In July 2017, the parties settled the lawsuit.

In September 2014, the FTC filed suit in the United States District Court for the Eastern District of Pennsylvania against AbbVie and others, alleging that the 2011 patent litigation with two generic companies regarding AndroGel was sham litigation and the patent litigation settlement with one of those generic companies violates federal antitrust laws. The FTC's complaint seeks monetary damages and injunctive relief. In May 2015, the court dismissed the FTC's claim regarding the patent litigation settlement.

In March 2015, the State of Louisiana filed a lawsuit, State of Louisiana v. Fournier Industrie et Sante, et al., against AbbVie, Abbott and affiliated Abbott entities in Louisiana state court. Plaintiff alleges that patent applications and patent litigation filed and other alleged conduct from the early 2000's and before related to the drug TriCor violated Louisiana State antitrust and unfair trade practices laws. The lawsuit seeks monetary damages and attorneys' fees. In August 2015, the court dismissed the case as time-barred. In December 2016, the appellate court for the state's appeal remanded for the trial court to determine whether the state is a proper party in interest.

In August 2013, a putative class action lawsuit, Sidney Hillman Health Center of Rochester, et al. v. AbbVie Inc., et al., was filed against AbbVie in the United States District Court for the Northern District of Illinois by three healthcare benefit providers alleging violations of Federal Racketeer Influenced and Corrupt Organizations (RICO) statutes and state deceptive business practice and unjust enrichment laws in connection with reimbursements for certain uses of Depakote from 1998 to 2012. Plaintiffs seek monetary damages and/or equitable relief and attorneys' fees. In February 2017, the court dismissed this lawsuit with prejudice and in March 2017, the plaintiffs appealed that dismissal with the United States Court of Appeals for the Seventh Circuit.

In November 2014, a putative class action lawsuit, Medical Mutual of Ohio v. AbbVie Inc., et al., was filed against several manufacturers of testosterone replacement therapies (TRTs), including AbbVie, in the United States District Court for the Northern District of Illinois on behalf of all insurance companies, health benefit providers, and other third party payors who paid for TRTs, including AndroGel. The claims asserted include violations of the federal RICO Act and state consumer fraud and deceptive trade practices laws. The complaint seeks monetary damages and injunctive relief. A similar lawsuit, Allied Services Division Welfare Fund v. AbbVie Inc., et al., was filed in the same court in October 2015 on behalf of the same putative class members and a putative class of consumers.

Product liability cases are pending in which plaintiffs generally allege that AbbVie and other manufacturers of TRTs did not adequately warn about risks of certain injuries, primarily heart attacks, strokes and blood clots. Approximately 4,260 claims are consolidated for pre-trial purposes in the United States District Court for the Northern District of Illinois under the MDL Rules as In re: Testosterone Replacement Therapy Products Liability Litigation, MDL No. 2545. Approximately 240 claims are pending in various state courts. Plaintiffs generally seek compensatory and punitive damages. In July 2017, a jury in the United States District Court for the Northern District of Illinois reached a verdict in the first case to be tried. The jury found for AbbVie on the plaintiff's strict liability and negligence claims and for the plaintiff on the plaintiff's fraud claim, but awarded no compensatory damages. The jury's award of $150 million in punitive damages without an underlying compensatory damage award will be subject to post-trial briefing. AbbVie expects the punitive damage award will not stand.

Product liability cases are pending in which plaintiffs generally allege that AbbVie did not adequately warn about risk of certain injuries, primarily various birth defects, arising from use of Depakote. Over ninety percent of the approximately 675 claims are pending in the United States District Court for the Southern District of Illinois, and the rest are pending in various other federal and state courts. Plaintiffs generally seek compensatory and punitive damages.

In November 2014, five individuals filed a putative class action lawsuit, Rubinstein, et al. v Gonzalez, et al., on behalf of purchasers and sellers of certain Shire plc (Shire) securities between June 20 and October 14, 2014, against AbbVie and its chief executive officer in the United States District Court for the Northern District of Illinois alleging that the defendants made and/or are responsible for material misstatements in violation of federal securities laws in connection with AbbVie's proposed transaction with Shire.

In June 2016, a lawsuit, Elliott Associates, L.P., et al. v. AbbVie Inc., was filed by five investment funds against AbbVie in the Cook County, Illinois Circuit Court alleging that AbbVie made misrepresentations and omissions in connection with its proposed transaction with Shire. Plaintiffs seek compensatory and punitive damages.

In May 2017, a shareholder derivative lawsuit, Ellis v. Gonzalez, et al., was filed in Delaware Chancery Court, alleging that AbbVie's directors breached their fiduciary duties in connection with statements made regarding the Shire transaction. The lawsuit seeks unspecified compensatory damages for AbbVie, among other relief.

Beginning in May 2016, the Patent Trial & Appeal Board of the U.S. Patent & Trademark Office (PTO) instituted five inter partes review proceedings brought by Coherus Biosciences and Boehringer Ingelheim related to three AbbVie patents covering methods of treatment of rheumatoid arthritis using adalimumab. In these proceedings, the PTO reviewed the validity of the patents and issued decisions of invalidity in May, June and July of 2017.

AbbVie is seeking to enforce certain patent rights related to adalimumab (a drug AbbVie sells under the trademark HUMIRA®). In a case filed in United States District Court for the District of Delaware in August 2016, AbbVie alleges that Amgen Inc.'s and Amgen

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Manufacturing, Limited's proposed biosimilar adalimumab product infringes certain AbbVie patents. AbbVie seeks declaratory and injunctive relief.

In March 2017, AbbVie filed a lawsuit, AbbVie Inc. v. Novartis Vaccines and Diagnostics, Inc. and Grifols Worldwide Operations Ltd., in the United States District Court for the Northern District of California against Novartis Vaccines and Grifols Worldwide seeking a declaratory judgment that eleven HCV-related patents licensed to AbbVie in 2002 are invalid.

Note 13 Segment Information

AbbVie operates in one business segment—pharmaceutical products. The following table details AbbVie's worldwide net revenues:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
HUMIRA	$4,716	$4,149	$8,834	$7,726
IMBRUVICA	626	439	1,177	820
VIEKIRA	225	419	488	833
Lupron	210	219	404	409
Creon	196	180	381	330
Synagis	40	45	340	364
Synthroid	193	188	385	370
AndroGel	154	171	290	327
Kaletra	110	146	225	279
Sevoflurane	104	114	211	225
Duodopa	81	73	161	141
All other	289	309	586	586
Total net revenues	$6,944	$6,452	$13,482	$12,410

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition of AbbVie Inc. (AbbVie or the company) as of June 30, 2017 and December 31, 2016 and the results of operations for the three and six months ended June 30, 2017 and 2016. This commentary should be read in conjunction with the condensed consolidated financial statements and accompanying notes appearing in Item 1, “Financial Statements and Supplementary Data.”

EXECUTIVE OVERVIEW

Company Overview

AbbVie is a global, research-based biopharmaceutical company formed in 2013 following separation from Abbott Laboratories (Abbott). AbbVie’s mission is to use its expertise, dedicated people and unique approach to innovation to develop and market advanced therapies that address some of the world’s most complex and serious diseases. AbbVie’s products are focused on treating conditions such as chronic autoimmune diseases in rheumatology, gastroenterology and dermatology; oncology, including blood cancers; virology, including hepatitis C (HCV) and human immunodeficiency virus (HIV); neurological disorders, such as Parkinson’s disease and multiple sclerosis; metabolic diseases, including thyroid disease and complications associated with cystic fibrosis; as well as other serious health conditions. AbbVie also has a pipeline of promising new medicines across such important medical specialties as immunology, virology, oncology and neurology, with additional targeted investment in cystic fibrosis and women’s health.

AbbVie’s products are generally sold worldwide directly to wholesalers, distributors, government agencies, health care facilities, specialty pharmacies and independent retailers from AbbVie-owned distribution centers and public warehouses. In the United States, AbbVie distributes pharmaceutical products principally through independent wholesale distributors, with some sales directly to pharmacies and patients. Outside the United States, sales are made either directly to customers or through distributors, depending on the market served. Certain products are co-marketed or co-promoted with other companies. AbbVie has approximately 29,000 employees. AbbVie operates in one business segment—pharmaceutical products.

2017 Strategic Objectives

AbbVie’s mission is to be an innovation-driven, patient-focused specialty biopharmaceutical company capable of achieving top-tier financial performance through outstanding execution and a consistent stream of innovative new medicines. AbbVie intends to continue to advance its mission in a number of ways, including: (i) growing revenues through continued strong performance from its existing portfolio of on-market products, including its flagship brands, HUMIRA and IMBRUVICA as well as growth from pipeline products; (ii) expanding operating margins; (iii) continued investment in its pipeline in support of opportunities in immunology, oncology, virology and neurology as well as continued investment in key on-market products; (iv) augmentation of its pipeline through concerted focus on strategic licensing, acquisition and partnering activity with a focus on identifying compelling programs that fit AbbVie’s strategic criteria; and (v) returning cash to shareholders via dividends and share repurchases. In addition, AbbVie anticipates several regulatory submissions and key data readouts from key clinical trials in the next twelve months.

Financial Results

The company's financial performance for the six months ended June 30, 2017 included delivering worldwide net revenues of $13.5 billion, operating earnings of $5.1 billion and diluted earnings per share of $2.25. Worldwide net revenues grew by 9% on a constant currency basis, driven primarily by the continued strength of HUMIRA, revenue growth related to IMBRUVICA and revenue growth from other key products including Creon and Duodopa. These

increases were partially offset by a decline in net revenues of VIEKIRA.

Diluted earnings per share was $2.25 for the six months ended June 30, 2017 and included the following after-tax costs: (i) $405 million related to the amortization of intangible assets; (ii) $145 million for the change in fair value of contingent consideration liabilities; (iii) a litigation reserves charge of $62 million; (iv) acquisition related costs of $49 million; (v) milestone payments of $36 million; and (vi) $15 million for acquired in-process research and development (IPR&D). Additionally, financial results for the six months ended June 30, 2017 reflected continued added funding to support AbbVie’s emerging mid- and late-stage pipeline assets and continued investment in AbbVie’s growth brands.

The company generated cash flows from operations of $4.1 billion for the six months ended June 30, 2017, which AbbVie utilized to continue to enhance its pipeline through licensing and collaboration activities, pay cash dividends to stockholders of $2.1 billion and

repurchase approximately 7.8 million shares for $500 million in the open market. In June 2017, AbbVie's board of directors declared a quarterly cash dividend of $0.64 per share of common stock payable in August 2017.

In addition to these financial results, AbbVie continued to advance and augment its pipeline as further described below under the heading "Research and Development."

Research and Development

Research and innovation are the cornerstones of AbbVie's business as a global biopharmaceutical company. AbbVie's long-term success depends to a great extent on its ability to continue to discover and develop innovative pharmaceutical products and acquire or collaborate on compounds currently in development by other biotechnology or pharmaceutical companies.

AbbVie's pipeline currently includes more than 60 compounds or indications in clinical development individually or under collaboration or license agreements and is focused on such important medical specialties as immunology, oncology, virology and neurology along with targeted investments in cystic fibrosis and women's health. Of these programs, more than 30 are in mid- and late-stage development.

The following sections summarize transitions of significant programs from Phase 2 development to Phase 3 development as well as developments in significant Phase 3 and registration programs. AbbVie expects multiple Phase 2 programs to transition into Phase 3 programs in the next twelve months.

Significant Programs and Developments

Immunology

Upadacitinib

- In May 2017, AbbVie initiated two Phase 3 clinical trials evaluating upadacitinib (ABT-494), the company's selective JAK1 inhibitor currently in late-stage development for rheumatoid arthritis (RA), in patients with active psoriatic arthritis who have a history of inadequate response to a disease modifying anti-rheumatic drug (DMARD).

- In June 2017, AbbVie announced that top-line results from the Phase 3 SELECT-NEXT clinical trial evaluating upadacitinib met all primary and ranked secondary endpoints in patients with moderate to severe RA who did not adequately respond to treatment with conventional synthetic DMARDs.

Oncology

IMBRUVICA

- In January 2017, AbbVie announced that the U.S. Food and Drug Administration (FDA) approved IMBRUVICA for the treatment of patients with relapsed/refractory marginal zone lymphoma (MZL) who require systemic therapy and have received at least one prior anti-CD20-based therapy. This indication is approved under accelerated approval based on overall response rate (ORR) and continued approval may be contingent upon verification and description of clinical benefit in a confirmatory trial. MZL is a slow-growing form of non-Hodgkin's lymphoma.

- In August 2017, AbbVie announced that the FDA approved IMBRUVICA for the treatment of adult patients with chronic graft-versus-host-disease (cGVHD) after failure of one or more lines of systemic therapy. IMBRUVICA will be the first therapy specifically approved for adults with cGVHD, a severe and potentially life-threatening

consequence of stem cell or bone marrow transplant. This marks the sixth U.S. disease indication for IMBRUVICA since the medication's initial approval in 2013 and the first approved indication outside of cancer.

Venetoclax

- In February 2017, AbbVie initiated a Phase 3 clinical trial to study the safety and efficacy of venetoclax in combination with azacitidine in untreated (treatment-naïve) elderly subjects with acute myeloid leukemia (AML) who are ineligible for standard induction therapy (high-dose chemotherapy).

- In May 2017, AbbVie initiated a Phase 3 clinical trial to evaluate if venetoclax when co-administered with low dose cytarabine (LDAC) improves overall survival (OS) versus LDAC and placebo, in treatment naïve subjects with AML.

Rova-T

- In February 2017, AbbVie initiated a Phase 3 clinical trial to evaluate the efficacy of Rova-T as maintenance therapy following first-line platinum based chemotherapy in participants with extensive stage small cell lung cancer (SCLC).

- In April 2017, AbbVie initiated a Phase 3 clinical trial to evaluate Rova-T compared with topotecan for subjects with advanced or metastatic SCLC with high levels of delta-like protein 3 who have first disease progression during or following front-line platinum-based chemotherapy.

Veliparib

- In April 2017, AbbVie announced that two Phase 3 studies evaluating veliparib, an investigational, oral poly (adenosine diphosphate-ribose) polymerase (PARP) inhibitor in combination with chemotherapy did not meet their primary endpoints. The studies evaluated veliparib in combination with carboplatin and paclitaxel in patients with squamous non-small cell lung cancer (NSCLC) and triple negative breast cancer (TNBC). Ongoing Phase 3 studies include non-squamous non-small cell lung cancer, BRCA1/2 breast cancer and ovarian cancer.

Virology/Liver Disease

- In February 2017, AbbVie announced that the European Committee for Medicinal Products for Human Use (CHMP) granted a positive opinion for a shorter, eight-week treatment of VIEKIRAX (ombitasvir/paritaprevir/ritonavir tablets) + EXVIERA (dasabuvir tablets) as an option for previously untreated adult patients with genotype 1b chronic HCV and minimal to moderate fibrosis.

- In July 2017, AbbVie announced that the European Commission granted marketing authorization for MAVIRET (glecaprevir/pibrentasvir), a once-daily, ribavirin-free treatment for adults with HCV infection across all major genotypes (GT1-6). MAVIRET is also indicated for patients with specific treatment challenges, including those with compensated cirrhosis across all major genotypes, and those who previously had limited treatment options, such as patients with severe chronic kidney disease (CKD) or those with genotype 3 chronic HCV infection.

- In August 2017, AbbVie announced that the FDA approved MAVYRET (glecaprevir/pibrentasvir) for the treatment of patients with chronic HCV genotype 1-6 infection without cirrhosis and with compensated cirrhosis (Child-Pugh A). MAVYRET is also indicated for the treatment of adult patients with HCV genotype 1 infection, who previously have been treated with a regimen containing an HCV NS5A inhibitor or an NS3/4A protease inhibitor, but not both. MAVYRET/MAVIRET is a new 8-week, pan-genotypic treatment for patients without cirrhosis and who are new to treatment.

For a more comprehensive discussion of AbbVie’s products and pipeline, see the company’s Annual Report on Form 10-K for the year ended December 31, 2016.

RESULTS OF OPERATIONS

Net Revenues

The comparisons presented at constant currency rates reflect comparative local currency net revenues at the prior year's foreign exchange rates. This measure provides information on the change in net revenues assuming that foreign currency exchange rates had not changed between the prior and the current periods. AbbVie believes that the non-GAAP measure of change in net revenues at constant currency rates, when used in conjunction with the GAAP measure of change in net revenues at actual currency rates, may provide a more complete understanding of the company's operations and can facilitate analysis of the company's results of operations, particularly in evaluating performance from one period to another.

	Three months ended June 30,		Percent change		Six months ended June 30,		Percent change	
(dollars in millions)	2017	2016	At actual currency rates	At constant currency rates	2017	2016	At actual currency rates	At constant currency rates
United States	$4,646	$4,120	12.8 %	12.8 %	$8,698	$7,614	14.2 %	14.2 %
International	2,298	2,332	(1.5)%	1.0 %	4,784	4,796	(0.2)%	1.5 %
Net revenues	$6,944	$6,452	7.6 %	8.5 %	$13,482	$12,410	8.6 %	9.3 %

The following table details AbbVie's worldwide net revenues:

(dollars in millions)	Three months ended June 30, 2017	2016	Percent change At actual currency rates	At constant currency rates	Six months ended June 30, 2017	2016	Percent change At actual currency rates	At constant currency rates
HUMIRA								
United States	$3,201	$2,712	18.0 %	18.0 %	$5,897	$4,907	20.1 %	20.1 %
International	1,515	1,437	5.5 %	9.1 %	2,937	2,819	4.2 %	6.9 %
Total	$4,716	$4,149	13.7 %	14.9 %	$8,834	$7,726	14.3 %	15.3 %
IMBRUVICA								
United States	$528	$384	37.6 %	37.6 %	$985	$709	39.0 %	39.0 %
Collaboration revenues	98	55	77.0 %	77.0 %	192	111	72.4 %	72.4 %
Total	$626	$439	42.6 %	42.6 %	$1,177	$820	43.6 %	43.6 %
VIEKIRA								
United States	$26	$87	(70.1)%	(70.1)%	$64	$212	(69.8)%	(69.8)%
International	199	332	(40.1)%	(39.5)%	424	621	(31.6)%	(30.8)%
Total	$225	$419	(46.4)%	(45.9)%	$488	$833	(41.4)%	(40.8)%
Lupron								
United States	$172	$179	(3.5)%	(3.5)%	$327	$330	(1.0)%	(1.0)%
International	38	40	(4.8)%	(2.9)%	77	79	(1.9)%	(1.6)%
Total	$210	$219	(3.8)%	(3.5)%	$404	$409	(1.2)%	(1.1)%
Creon								
United States	$196	$180	9.5 %	9.5 %	$381	$330	15.6 %	15.6 %
Synagis								
International	$40	$45	(10.7)%	(9.3)%	$340	$364	(6.5)%	(8.3)%
Synthroid								
United States	$193	$188	2.3 %	2.3 %	$385	$370	4.0 %	4.0 %
AndroGel								
United States	$154	$171	(10.3)%	(10.3)%	$290	$327	(11.5)%	(11.5)%
Kaletra								
United States	$19	$30	(38.6)%	(38.6)%	$38	$63	(40.2)%	(40.2)%
International	91	116	(21.1)%	(24.5)%	187	216	(13.4)%	(16.2)%
Total	$110	$146	(24.7)%	(27.4)%	$225	$279	(19.4)%	(21.6)%
Sevoflurane								
United States	$19	$22	(7.7)%	(7.7)%	$37	$39	(3.8)%	(3.8)%
International	85	92	(8.0)%	(5.2)%	174	186	(6.4)%	(4.1)%
Total	$104	$114	(8.0)%	(5.7)%	$211	$225	(6.0)%	(4.1)%
Duodopa								
United States	$14	$9	76.3 %	76.3 %	$28	$16	80.2 %	80.2 %
International	67	64	4.5 %	8.2 %	133	125	6.6 %	10.0 %
Total	$81	$73	12.7 %	16.0 %	$161	$141	14.8 %	17.9 %
All other	$289	$309	(7.0)%	(6.3)%	$586	$586	(0.1)%	0.7 %
Total net revenues	$6,944	$6,452	7.6 %	8.5 %	$13,482	$12,410	8.6 %	9.3 %

The following discussion and analysis of AbbVie's net revenues by product is presented on a constant currency basis.

Global HUMIRA sales increased 15% for both the three and six months ended June 30, 2017 primarily as a result of market growth across therapeutic categories and geographies as well as favorable pricing in certain geographies. In the

United States, HUMIRA sales increased 18% for the three months and 20% for the six months ended June 30, 2017 driven by market growth across all indications and favorable pricing. Internationally, HUMIRA sales increased 9% for the three months and 7% for the six months ended June 30, 2017 driven primarily by market growth and tender timing. AbbVie continues to pursue strategies intended to further differentiate HUMIRA from competing products and add to the sustainability and future growth of HUMIRA.

Net revenues for IMBRUVICA represent product revenues in the United States and collaboration revenues outside of the United States related to AbbVie's 50% share of IMBRUVICA profit. Global IMBRUVICA sales increased 43% for the three months and 44% for the six months ended June 30, 2017 as a result of continued penetration of IMBRUVICA as a first-line treatment for patients with chronic lymphocytic leukemia (CLL) as well as favorable pricing.

Global VIEKIRA sales decreased 46% for the three months and 41% for the six months ended June 30, 2017 as a result of market contraction, lower market share and price erosion. In the United States, sales decreased 70% for both the three and six months ended June 30, 2017. International revenues decreased 40% for the three months and 31% for the six months ended June 30, 2017.

Net revenues for Creon increased 9% for the three months and 16% for the six months ended June 30, 2017 driven primarily by continued market growth and higher market share. Creon maintains market leadership in the pancreatic enzyme market.

Synagis is a seasonal product with the majority of sales occurring in the first and fourth quarters. Synagis revenues decreased 9% for the three months and 8% for the six months ended June 30, 2017 primarily due to lower volume in certain geographies.

Net revenues for Duodopa increased 16% for the three months and 18% for the six months ended June 30, 2017 primarily as a result of market penetration and geographic expansion.

Gross Margin

	Three months ended June 30,			Six months ended June 30,		
(dollars in millions)	2017	2016	% change	2017	2016	% change
Gross margin	$5,416	$5,047	7 %	$10,338	$9,636	7 %
as a % of net revenues	78 %	78 %		77 %	78 %	

Gross margin as a percentage of net revenues was flat for the three months and slightly decreased for the six months ended June 30, 2017 compared to the prior year. Gross margin percentage for both the three and six months ended June 30, 2017 was unfavorably impacted by higher intangible asset amortization and the IMBRUVICA profit sharing arrangement, offset by the favorable impact of product mix across the portfolio and operational efficiencies.

Selling, General and Administrative

	Three months ended June 30,			Six months ended June 30,		
(dollars in millions)	2017	2016	% change	2017	2016	% change
Selling, general and administrative	$1,504	$1,466	3 %	$2,872	$2,821	2 %
as a % of net revenues	22 %	23 %		21 %	23 %	

SG&A expenses as a percentage of net revenues decreased for both the three and six months ended June 30, 2017 compared to the prior year due to continued leverage from revenue growth, partially offset by a $93 million charge to increase litigation reserves recorded during the second quarter of 2017.

Research and Development and Acquired In-Process Research and Development

	Three months ended June 30,			Six months ended June 30,		
(dollars in millions)	2017	2016	% change	2017	2016	% change
Research and development	$1,223	$1,124	9 %	$2,358	$2,070	14 %
as a % of net revenues	18 %	17 %		17 %	17 %	
Acquired in-process research and development	$15	$70	(79)%	$15	$80	(81)%

Research and Development (R&D) expenses for both the three and six months ended June 30, 2017 increased compared to the prior year principally due to increased funding to support the company's emerging mid- and late-stage pipeline assets and the impact of the post-acquisition R&D expenses of Stemcentrx and Boehringer Ingelheim (BI) compounds. These increases were partially offset by lower acquisition related costs and milestone payments, which in aggregate decreased by $116 million for the three months and $110 million for the six months ended June 30, 2017 compared to the prior year.

Acquired in-process research and development (IPR&D) expenses for the three and six months ended June 30, 2017 and 2016 reflect upfront payments related to various collaborations. There were no individually significant transactions or cash flows during the three and six months ended June 30, 2017 and 2016.

Other Non-Operating Expenses

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Interest expense	$284	$245	$557	$460
Interest income	(31)	(20)	(57)	(35)
Interest expense, net	$253	$225	$500	$425
Net foreign exchange loss	$6	$15	$19	$317
Other expense, net	62	51	135	51

Interest expense, net for both the three and six months ended June 30, 2017 increased from the prior year primarily due to the May 2016 issuance of $7.8 billion aggregate principal amount of senior notes, which were issued to finance the acquisition of Stemcentrx and to repay an outstanding term loan.

Net foreign exchange loss for the six months ended June 30, 2016 included losses totaling $298 million related to the devaluation of AbbVie's net monetary assets denominated in the Venezuelan bolivar. See Note 8 to the Condensed Consolidated Financial Statements for additional information regarding the Venezuelan devaluation.

Other expense, net included charges related to changes in fair value of the BI and Stemcentrx contingent consideration liabilities, which totaled $61 million for the three months and $146 million for the six months ended June 30, 2017 compared to $41 million for both the three and six months ended June 30, 2016 following the initial recognition of these liabilities in the second quarter of 2016. The fair value of contingent consideration liabilities is impacted by the passage of time and multiple other inputs, including the probability of success of achieving regulatory/commercial milestones, discount rates and other market-based factors. See Note 4 to the Condensed Consolidated Financial Statements for additional information regarding the acquisitions of Stemcentrx and BI compounds.

Income Tax Expense

The effective tax rate was 19% for the three months and 18% for the six months ended June 30, 2017 and 23% for both the three and six months ended June 30, 2016. The effective tax rate in each period differed from the statutory tax rate principally due to the benefit from foreign operations which reflects the impact of lower income tax rates in locations outside the United States, tax exemptions and incentives in Puerto Rico and other foreign tax jurisdictions and business development activities together with the

cost of repatriation decisions. The decrease in the effective tax rate for both the three and six months ended June 30, 2017 over the prior year was principally due to changes in the jurisdictional mix of earnings, as well as certain discrete factors and events, including collaborations, the impact of the prior year non-deductible devaluation loss related to Venezuela and the impact of the adoption of ASU No. 2016-09, which changed the accounting treatment for excess tax benefits associated with stock-based awards. See Note 1 to the Condensed Consolidated Financial Statements for additional information related to the adoption of this accounting pronouncement.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

	Six months ended June 30,	
(in millions)	2017	2016
Cash flows provided by (used in):		
Operating activities	$4,105	$4,046
Investing activities	(366)	(5,756)
Financing activities	(2,774)	(55)

Operating cash flows for the six months ended June 30, 2017 reflected improved results of operations resulting from revenue growth and an improvement in operating earnings offset primarily by timing of payments related to accounts payable and other liabilities. Cash provided by operating activities reflected AbbVie’s voluntary contributions to its principal domestic defined benefit plan of $150 million for both the six months ended June 30, 2017 and 2016. Realized excess tax benefits associated with stock-based compensation totaled $39 million for the six months ended June 30, 2017 and were presented within cash flows from operating activities as a result of the adoption of a new accounting pronouncement. In the six months ended June 30, 2016, prior to the adoption of the new accounting pronouncement, realized excess tax benefits of $38 million were presented within cash flows from financing activities. See Note 1 to the Condensed Consolidated Financial Statements for additional information regarding the adoption of this new accounting pronouncement.

Investing cash flows for the six months ended June 30, 2017 primarily included net purchases of investment securities totaling $45 million. For the six months ended June 30, 2016, investing activities primarily included $1.9 billion of cash consideration paid to acquire Stemcentrx in June 2016, a $595 million upfront payment to acquire certain BI compounds in April 2016 and net purchases of investment securities totaling $2.9 billion. Cash flows from investing activities for the six months ended June 30, 2017 and 2016 also reflected capital expenditures.

Financing cash flows included cash dividend payments of $2.1 billion for the six months ended June 30, 2017 and $1.9 billion for the six months ended June 30, 2016. The increase in cash dividend payments was driven by an increase in the quarterly dividend rate from $0.57 per share to $0.64 per share beginning with the dividend that was paid in February 2017. On June 22, 2017, the board of directors declared a quarterly cash dividend of $0.64 per share for stockholders of record at the close of business on July 14, 2017, payable on August 15, 2017. The timing, declaration, amount of and payment of any dividends is within the discretion of its board of directors and will depend upon many factors, including AbbVie’s financial condition, earnings, capital requirements of its operating subsidiaries, covenants associated with certain of AbbVie’s debt service obligations, legal requirements, regulatory constraints, industry practice, ability to access capital markets and other factors deemed relevant by its board of directors.

On February 16, 2017, AbbVie's board of directors authorized a $5.0 billion increase to AbbVie's existing stock repurchase program. Under this program, the company repurchased approximately 7.8 million shares for $500 million in the open market in six months ended June 30, 2017. Additionally, during the six months ended June 30, 2017, AbbVie cash-settled $285 million of its open market purchases made at the end of 2016. The stock repurchase authorization permits purchases of AbbVie shares from time to time in open-market or private transactions at

management's direction depending on the company's cash flows, net debt level and market conditions. The program has no time limit and can be discontinued at any time.

During the six months ended June 30, 2017 and 2016, the company issued and redeemed commercial paper. The balance of commercial paper outstanding was $400 million as of June 30, 2017 and $377 million as of December 31, 2016. AbbVie may issue additional commercial paper or retire commercial paper to meet liquidity requirements as needed.

In May 2016, the company issued $7.8 billion aggregate principal amount of senior notes. Approximately $2.0 billion of the net proceeds were used to repay an outstanding term loan that was due to mature in November 2016, approximately $1.9 billion of the net proceeds were used to finance the acquisition of Stemcentrx and approximately $3.8 billion of the net proceeds were used to finance an accelerated share repurchase agreement.

Cash and equivalents were impacted by net favorable exchange rate changes totaling $23 million for the six months ended June 30, 2017 and net unfavorable exchange rate changes totaling $307 million for the six months ended June 30, 2016. The unfavorable exchange rate changes in 2016 were primarily due to the devaluation of AbbVie's net monetary assets denominated in the Venezuelan bolivar. While a significant portion of cash and equivalents as of June 30, 2017 were considered reinvested indefinitely in foreign subsidiaries, AbbVie does not expect such reinvestment to affect its liquidity and capital resources. If these funds were needed for operations in the United States, AbbVie would be required to accrue and pay U.S. income taxes to repatriate these funds. AbbVie believes that it has sufficient sources of liquidity to support its assumption that the amount of undistributed earnings as of June 30, 2017 has been reinvested indefinitely.

Credit Risk

AbbVie monitors economic conditions, the creditworthiness of customers and government regulations and funding, both domestically and abroad. AbbVie regularly communicates with its customers regarding the status of receivable balances, including their payment plans and obtains positive confirmation of the validity of the receivables. AbbVie establishes an allowance against accounts receivable when it is probable they will not be collected. AbbVie also monitors the potential for and periodically has utilized factoring arrangements to mitigate credit risk although the receivables included in such arrangements have historically not been a significant amount of total outstanding receivables.

AbbVie continues to do business with foreign governments in certain countries, including Greece, Portugal, Italy and Spain, which have historically experienced challenges in credit and economic conditions. Substantially all of AbbVie's trade receivables in Greece, Portugal, Italy and Spain are with government health systems. Outstanding net governmental receivables in these countries totaled $265 million at June 30, 2017 and $244 million at December 31, 2016. The company also continues to do business with foreign governments in certain oil-exporting countries that have recently experienced a deterioration in economic conditions, including Saudi Arabia and Russia, which may result in delays in the collection of receivables. Outstanding net governmental receivables related to Saudi Arabia were $149 million as of June 30, 2017 and $122 million as of December 31, 2016. Outstanding net governmental receivables related to Russia were $133 million as of June 30, 2017 and $110 million as of December 31, 2016. Global economic conditions and customer-specific factors may require the company to periodically re-evaluate the collectability of its receivables and the company could potentially incur credit losses.

Currently, AbbVie does not believe the economic conditions in oil-exporting countries will have a significant impact on the company's liquidity, cash flow or financial flexibility. However, if government funding were to become unavailable in these countries or if significant adverse changes in their reimbursement practices were to occur, AbbVie may not be able to collect the entire balance outstanding as of June 30, 2017.

Credit Facility, Access to Capital and Credit Ratings

Credit Facility

AbbVie currently has a $3.0 billion five-year revolving credit facility, which matures in October 2019. The revolving credit facility enables the company to borrow funds on an unsecured basis at variable interest rates and contains various covenants. At June 30, 2017, the company was in compliance with all its credit facility covenants.

Commitment fees under the credit facility were insignificant. There were no amounts outstanding under the credit facility as of June 30, 2017 and December 31, 2016.

Access to Capital

The company intends to fund short-term and long-term financial obligations as they mature through cash on hand, future cash flows from operations, or by issuing additional debt. The company's ability to generate cash flows from operations, issue debt or enter into financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for the company's products or in the solvency of its customers or suppliers, deterioration in the company's key financial ratios or credit ratings, or other material unfavorable changes in business conditions. At the current time, the company believes it has sufficient financial flexibility to issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms to support the company's growth objectives.

Credit Ratings

There were no changes in the company's credit ratings during the six months ended June 30, 2017. Unfavorable changes to the ratings may have an adverse impact on future financing arrangements; however, they would not affect the company's ability to draw on its credit facility and would not result in an acceleration of scheduled maturities of any of the company's outstanding debt.

CRITICAL ACCOUNTING POLICIES

A summary of the company's significant accounting policies is included in Note 2 entitled "Summary of Significant Accounting Policies" to the company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no significant changes in the company's application of its critical accounting policies during the six months ended June 30, 2017.

FORWARD-LOOKING STATEMENTS

Some statements in this quarterly report on Form 10-Q may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate," "project," and similar expressions, among others, generally identify forward-looking statements. AbbVie cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, challenges to intellectual property, competition from other products, difficulties inherent in the research and development process, adverse litigation or government action, and changes to laws and regulations applicable to our industry. Additional information about the economic, competitive, governmental, technological and other factors that may affect AbbVie's operations is set forth in Item 1A, "Risk Factors," in AbbVie's Annual Report on Form 10-K for the year ended December 31, 2016, which has been filed with the Securities and Exchange Commission. AbbVie notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. AbbVie undertakes no obligation to release publicly any revisions to forward-looking statements as a result of subsequent events or developments, except as required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the company's market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in AbbVie's Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Chief Executive Officer, Richard A. Gonzalez, and the Chief Financial Officer, William J. Chase, evaluated the effectiveness of AbbVie's disclosure controls and procedures as of the end of the period covered by this report, and concluded that AbbVie's disclosure controls and procedures were effective to ensure that information AbbVie is required to disclose in the reports that it files or submits with the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed by AbbVie in the reports that it files or submits under the Exchange Act is accumulated and communicated to AbbVie's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Changes in internal control over financial reporting. There were no changes in AbbVie's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, AbbVie's internal control over financial reporting during the quarter ended June 30, 2017.

Inherent Limitations on Effectiveness of Controls. AbbVie's management, including its Chief Executive Officer and its Chief Financial Officer, do not expect that AbbVie's disclosure controls or internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the

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control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings is provided in Note 12 to the Condensed Consolidated Financial Statements and is incorporated by reference herein.
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)		(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2017 – April 30, 2017	737	(1)	$64.97	(1)	—	$4,536,288,945
May 1, 2017 – May 31, 2017	2,602	(1)	$65.90	(1)	—	$4,536,288,945
June 1, 2017 – June 30, 2017	13,127	(1)	$70.67	(1)	—	$4,536,288,945
Total	16,466	(1)	$69.66	(1)	—	$4,536,288,945

1. In addition to AbbVie shares repurchased on the open market under a publicly announced program, if any, these shares included the shares deemed surrendered to AbbVie to pay the exercise price in connection with the exercise of employee stock options – 737 in April; 2,602 in May; and 13,127 in June, with average exercise prices of $64.97 in April; $65.90 in May; and $70.67 in June.

These shares do not include the shares surrendered to AbbVie to satisfy minimum tax withholding obligations in connection with the vesting or exercise of stock-based awards.
ITEM 6. EXHIBITS

Incorporated by reference to the Exhibit Index included herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABBVIE INC.

By: /s/ William J. Chase
William J. Chase
Executive Vice President,
Chief Financial Officer

Date: August 7, 2017

EXHIBIT INDEX

Exhibits 32.1 and 32.2 are furnished herewith and should not be deemed to be “filed” under the Securities Exchange Act of 1934.

Exhibit No.	Exhibit Description
31.1	Certification of Chief Executive Officer Required by Rule 13a-14(a) (17 CFR 240.13a-14(a)).
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(a) (17 CFR 240.13a-14(a)).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements and notes from the AbbVie Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed on August 7, 2017, formatted in XBRL: (i) Condensed Consolidated Statements of Earnings; (ii) Condensed Consolidated Statements of Comprehensive Income; (iii) Condensed Consolidated Balance Sheets; (iv) Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements.