

SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

Amendment No. 1 to  
FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

PAYCHEX, INC.

(Exact name of registrant as specified in its charter)

Delaware 8721 16-1124166  
(State or other (Primary Standard Industrial (I.R.S. Employer  
jurisdiction of Classification Code Number) Identification No.)  
incorporation or  
organization)

911 Panorama Trail South  
Rochester, New York 14625  
(716) 385-6666

(Address, including zip code and telephone number, including area code,  
of registrant's principal executive offices)

G. Thomas Clark  
Vice President of Finance  
911 Panorama Trail South  
Rochester, New York 14625  
(716) 385-6666

(Name, address, including zip code and telephone number, including area  
code, of agent for service)

Copies To:

Harry P. Messina, Jr., Esq. Alan D. Jacobson, Esq.  
Woods, Oviatt, Gilman, Sturman 2029 Century Park East  
& Clarke LLP Suite 2600  
44 Exchange Street Los Angeles, California  
Rochester, New York 14614 90067  
(716) 987-2821 (310) 277-5974

Approximate date of commencement of proposed sale of the securities  
to the public: As soon as practicable after the effective date of  
this Registration Statement.

If the securities being registered on this Form are being offered in  
connection with the formation of a holding company and there is compliance  
with General Instruction G, check the following box.

<TABLE>  
<CAPTION>

CALCULATION OF REGISTRATION FEE			
<S>	<C>	<C>	<C>
Title of each class of Amount of Securities to be registered Registration fee	Amount to be Registered (1)	Proposed Maximum Offering price per share (2)	Proposed Maximum Aggregate offering price (2)
Common Stock, \$.01 par value \$3,326.43	462,134	\$20.87	\$9,646,665

</TABLE>

(1) Represents the maximum number of shares of Common Stock, \$.01 par  
value, of the Registrant ("Paychex Common Stock") issuable to  
stockholders of Pay-Fone Systems, Inc. ("Pay-Fone") upon

consummation of the merger of Registrant's subsidiary with and into Pay-Fone after giving effect to a 3-for-2 split of shares of Paychex Common Stock in the form of a stock dividend payable on May 25, 1995 to holders of record on May 2, 1995.

- (2) Determined in accordance with Rule 457(f)(1) and based on the average of the high and low sales prices of Pay-Fone Shares on the American Stock Exchange on April 10, 1995.

PAYCHEX, INC.

CROSS-REFERENCE SHEET TO FORM S-4 REGISTRATION STATEMENT

(Pursuant to Item 501(b) of Regulation S-K)

Part I - INFORMATION REQUIRED IN THE PROSPECTUS

Forms S-4 Item Numbers and Captions	Location in Proxy Statement/ Prospectus
A. INFORMATION ABOUT THE TRANSACTION	
1. Forepart of Registration Statement and Outside Front Cover Page Prospectus...	Facing Page of Registration Statement; Cross-Reference Sheet; Outside Front Cover Page of Proxy Statement/Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front Cover Page of Proxy Statement/Prospectus; Available Information; Incorporation by Reference; Table of Contents
3. Risk Factors, Ratio of Earnings to Fixed Charges and Other Information..	Summary
4. Terms of the Transaction.....	Summary; The Merger; Certain Provisions of the Merger Agreement and Other Agreements; Comparison of Rights of Holders of Pay-Fone Shares and Paychex Common Stock; Description of Paychex Common Stock
5. Pro Forma Financial Information.....	Not Applicable
6. Material Contacts with the Company Being Acquired.....	The Merger - Background of the Merger
7. Additional Information Required for Reoffering By Persons and Parties Deemed to be Underwriters.....	Not Applicable
8. Interests of Named Experts and Counsel.....	Legal Matters; Experts
9. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable
B. INFORMATION ABOUT THE REGISTRANT	
10. Information with Respect to S-3 Registrants.....	Not Applicable
11. Incorporation of Certain Information by Reference.....	Not Applicable
12. Information with Respect to S-2 or S-3 Registrants.....	Available Information; Incorporation by Reference; Summary; The Companies - Paychex
13. Incorporation of Certain Information by Reference.....	Incorporation by Reference
14. Information with Respect to Registrants Other than S-3 or S-2 Companies.....	Not Applicable

C. INFORMATION ABOUT THE COMPANY BEING ACQUIRED

15. Information with Respect to S-3 Companies..... Not Applicable
16. Information with Respect to S-2 or S-3 Companies..... Not Applicable
17. Information with Respect to Companies Other Than S-3 or S-2 Companies..... Available Information; Summary; The Companies-Pay-Fone; Management's Discussion and Analysis of Financial Condition and Results of Operations of Pay-Fone; Ownership of Pay-Fone Shares; Pay-Fone Consolidated Financial Statements

D. VOTING AND MANAGEMENT INFORMATION

18. Information if Proxies, Consents or Authorizations are to be Solicited... Outside Front Cover Page of Proxy Statement/Prospectus; Incorporation by Reference; Summary; The Special Meeting; The Merger
19. Information if Proxies, Consents or Authorizations are not to be Solicited or in an Exchange Offer.... Not Applicable

PAY-FONE SYSTEMS, INC.  
8100 Balboa Boulevard  
Van Nuys, California 91406

CHAIRMAN'S LETTER TO SHAREHOLDERS

May 24, 1995

To Our Shareholders:

You are cordially invited to attend a Special Meeting of Shareholders of Pay-Fone Systems, Inc. ("Pay-Fone") at Pay-Fone's executive offices located at 8100 Balboa Boulevard, Van Nuys, California, on June 15, 1995, at 10:00 a.m. local time.

At the Special Meeting, shareholders will be asked to approve and adopt a Restated Agreement and Plan of Merger (the "Merger Agreement") pursuant to which a newly-formed, wholly owned subsidiary of Paychex, Inc. ("Paychex") will merge into Pay-Fone and Pay-Fone will become a wholly owned subsidiary of Paychex (the "Merger").

Pursuant to the Merger Agreement, upon consummation of the Merger outstanding shares of Pay-Fone Common Stock will be converted into shares of Paychex Common Stock based on an Exchange Ratio specified in a formula set forth in the Merger Agreement which will be calculated prior to the Special Meeting. The Exchange Ratio will be calculated primarily on the basis of a total value for Pay-Fone of \$10,475,000 (subject to reduction for certain events) and the market price of Paychex Common Stock during a period prior to the Special Meeting. The formula by which the Exchange Ratio will be determined and other terms of the proposed Merger are described in the accompanying Proxy Statement/Prospectus, which you are urged to read carefully.

The Board of Directors believes that the Merger is fair to, and in the best interests of, Pay-Fone and its shareholders. The Board has unanimously approved the terms of the Merger and recommends that you vote in favor of the Merger.

Whether or not you plan to attend the Special Meeting, please be sure to date, sign and return the proxy card in the enclosed envelope as promptly as possible so that your shares may be represented at the Meeting and voted in accordance with your wishes. This will not prevent you from voting your shares in person if you subsequently choose to attend the Special Meeting.

Pay-Fone has established two special extensions on its toll-free number, 800-472-9765, for use by shareholders in connection with the Merger. Extension 160, the exchange ratio information extension, will provide current information regarding the provisional Exchange Ratio and after June 7th, the definitive Exchange Ratio. Extension 180, the proxy service extension, will enable shareholders to deliver proxies telephonically. More detailed information regarding these special telephone services is contained in the accompanying Proxy Statement/Prospectus.

Sincerely,

Richard Kelton  
Chairman of the Board

Pay-Fone Systems, Inc.  
8100 Balboa Boulevard  
Van Nuys, CA 91406

Notice of Special Meeting of Shareholders  
to be Held June 15, 1995

To The Shareholders:

Notice is hereby given that a Special Meeting of Shareholders of Pay-Fone Systems, Inc. ("Pay-Fone") will be held at 8100 Balboa Boulevard, Van Nuys, California, on June 15, 1995, at 10:00 a.m. local time, to vote with respect to the approval and adoption of the Restated Agreement and Plan of Merger (the "Merger Agreement") described in the attached Proxy Statement/Prospectus pursuant to which Pay-Fone would become a wholly owned subsidiary of Paychex, Inc. ("Paychex").

Pursuant to the Merger Agreement, outstanding shares of Pay-Fone Common Stock will be converted into shares of Paychex Common Stock based on an Exchange Ratio specified in a formula set forth in the Merger Agreement which will be calculated prior to the Special Meeting. The Exchange Ratio will be calculated primarily on the basis of a total value for Pay-Fone of \$10,475,000 (subject to possible reduction) and the market price of Paychex Common Stock during a period prior to the Special Meeting. The formula by which the Exchange Ratio will be determined and other terms of the proposed Merger are described in the accompanying Proxy Statement/Prospectus, which you are urged to read carefully.

Only shareholders of record at the close of business on May 8, 1995, are entitled to notice of and to vote at the Special Meeting. Dissenters' rights may be available to Pay-Fone shareholders if certain conditions are satisfied. All actions to perfect dissenters' rights must be taken only by the record holder of the shares. See "The Merger - Rights of Dissenting Shareholders"

We hope you will be represented at the meeting by signing and returning the enclosed proxy card in the accompanying envelope as promptly as possible, whether or not you expect to be present in person. Your proxy may be revoked at any time by following the procedures set forth in the accompanying Proxy Statement/Prospectus.

By Order of the Board of Directors

David Kelton  
Secretary

May 24, 1995

PROXY STATEMENT  
OF  
PAY-FONE SYSTEMS, INC.

For Special Meeting of Shareholders to be held on June 15, 1995

PROSPECTUS OF  
PAYCHEX, INC.

462,134 Shares of  
Common Stock, \$.01 Par Value

This Proxy Statement/Prospectus is being furnished by Pay-Fone Systems, Inc., a California corporation ("Pay-Fone"), and Paychex, Inc., a Delaware corporation ("Paychex"), to holders of shares of Pay-Fone's Common Stock \$.10 par value ("Pay-Fone Shares"), in connection with the solicitation of proxies by the Board of Directors of Pay-Fone (the "Pay-Fone Board") for use at a Special Meeting of shareholders to be held at the time and place and for the purposes set forth in the accompanying Notice of Special Meeting of Shareholders, and any adjournment or

postponement thereof (the "Special Meeting"). This Proxy Statement/Prospectus and the accompanying proxy card are first being mailed to shareholders of Pay-Fone on or about May 24, 1995.

At the Special Meeting, the shareholders of Pay-Fone will consider and vote upon a proposal to approve and adopt the Restated Agreement and Plan of Merger which amends and restates as of May 8, 1995 the Agreement and Plan of Merger, dated as of March 17, 1995 (as so amended and restated, the "Merger Agreement") by and among Paychex, Paychex Merger Corp., a wholly-owned subsidiary of Paychex ("Merger Sub") and Pay-Fone. A copy of the Merger Agreement is attached to this Proxy Statement/Prospectus as Annex I and is incorporated herein by reference.

Under the terms of the Merger Agreement, upon completion of the merger of Merger Sub with and into Pay-Fone (the "Merger"), all outstanding Pay-Fone Shares, other than shares owned by Paychex and shares owned by Pay-Fone shareholders who perfect dissenters' rights as hereinafter described, will be converted into the right to receive and become exchangeable for shares of \$.01 par value Paychex Common Stock ("Paychex Common Stock"). The number of shares or fraction of a share of Paychex Common Stock, as constituted on and after May 25, 1995, into which a Pay-Fone Share will be converted (the "Exchange Ratio") will be determined by dividing \$10,475,000, subject to certain possible adjustments, by the product of (i) the seventeen trading day average of the last reported sale prices for a share of Paychex Common Stock on the NASDAQ National Market during the eight trading days commencing with May 26, 1995 and terminating on June 7, 1995 and two-thirds (2/3) of the last reported sale prices of a share of Paychex Common Stock (as then constituted) on the NASDAQ National Market for the nine trading days commencing on May 15, 1995 and terminating on May 25, 1995, which average may be adjusted by up to \$2.00 as specified in the Merger Agreement, and (ii) the sum of the number of Pay-Fone Shares outstanding and the number of Pay-Fone Shares issuable pursuant to options exercisable on June 6, 1995. See "THE MERGER - Merger Consideration."

The Merger Agreement, as originally entered into, provided that the Exchange Ratio would be appropriately adjusted to reflect a stock split or similar transaction affecting Paychex Common Stock prior to the date on which the Merger becomes effective. The Board of Directors of Paychex (the "Paychex Board") has declared a 3-for-2 stock split of Paychex Common Stock (the "Paychex 1995 Stock Split") in the form of a stock dividend payable on May 25, 1995 to shareholders of record on May 2, 1995. The date of the Special Meeting and the date on which the Merger would become effective will both be subsequent to May 25, 1995, the effective date of the Paychex 1995 Stock Split. Accordingly, the parties to the Merger Agreement amended and restated the Merger Agreement in order, among other things, to take the Paychex 1995 Stock Split into account and, except as specifically noted in this Proxy Statement/Prospectus, all references to Paychex Common Stock and shares thereof will refer to Paychex Common Stock as it will be constituted after the Paychex 1995 Stock Split is effective.

This Proxy Statement/Prospectus also constitutes the prospectus of Paychex with respect to a maximum of 462,134 shares of Paychex Common Stock to be issued in connection with the Merger in exchange for the outstanding Pay-Fone Shares. On May 19, 1995, the last reported sale price on NASDAQ National Market of a share of Paychex Common Stock, as constituted before the effectiveness of the Paychex 1995 Stock Split was \$\_\_\_\_\_. The equivalent price for a share of Paychex Common Stock as it will be constituted after the effective date of the Paychex 1995 Stock Split would be \$\_\_\_\_\_.

All information concerning Paychex contained in this Proxy Statement/Prospectus has been furnished by Paychex; and all information concerning Pay-Fone prior to the Merger contained in this Proxy Statement/Prospectus has been furnished by Pay-Fone. This Proxy Statement/Prospectus does not cover any resales of shares of Paychex Common Stock that will be received by Pay-Fone shareholders in connection with the Merger, and no person is authorized to make any use of this Proxy Statement/Prospectus in connection with any such resale.

THE SECURITIES TO BE ISSUED PURSUANT TO THIS PROXY STATEMENT/PROSPECTUS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Proxy Statement/Prospectus is May 24, 1995.  
AVAILABLE INFORMATION

Paychex and Pay-Fone are subject to the informational requirements of the Securities Exchange Act of 1934, as amended

(the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Copies of such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following regional offices of the SEC: 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can be obtained at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549.

Paychex has filed with the SEC a Registration Statement on Form S-4 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act") with respect to the shares of Paychex Common Stock to be issued pursuant to the Merger Agreement. This Proxy Statement/Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the rules and regulations of the SEC. Such additional information may be obtained from the SEC's principal office in Washington, D.C.

Reports, proxy statements and other information concerning Paychex can be inspected at the NASDAQ Stock Market, 1735 K Street, N.W., Washington, D.C. 20006 on which the Paychex Common Stock is listed. Reports, proxy statements and other information concerning Pay-Fone can be inspected at the American Stock Exchange, 86 Trinity Place, New York, New York 10006, on which exchange the Pay-Fone Shares are listed.

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this Proxy Statement/Prospectus, and if given or made, such information or representations should not be relied upon as having been authorized. This Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this Proxy Statement/Prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction. Neither the delivery of this Proxy Statement/Prospectus nor any distribution of securities pursuant to this Proxy Statement/Prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated herein by reference or in the affairs of Paychex or Pay-Fone since the date of this Proxy Statement/Prospectus. However, if any material change occurs during the period that this Proxy Statement/Prospectus is required to be delivered, this Proxy Statement/Prospectus will be amended and supplemented accordingly.

#### INCORPORATION BY REFERENCE

The following documents are delivered herewith: the Paychex 1994 Annual Report to Stockholders ("Annual Report"), the Paychex Proxy Statement for the 1994 Annual Meeting of Stockholders ("Paychex 1994 Proxy Statement") and the Paychex Form 10-Q for the quarterly period ended February 28, 1995.

The following documents, which have been filed by Paychex with the SEC pursuant to the Exchange Act, are incorporated herein by reference:

(a) Paychex Annual Report on Form 10-K for the year ended May 31, 1994 which includes:

- (i) Market for Registrant's Common Equity and Related Security Holder Matters (Exhibit 13 and Part II, Item 5);
- (ii) Selected Financial Data (Exhibit 13 and Part II, Item 6);
- (iii) Management's Discussion and Analysis of Financial Condition and Results of Operations (Exhibit 13 and Part II, Item 7); and
- (iv) Supplementary financial data (Exhibit 13 and Part II, Item 8);

Information on a per share basis presented in the foregoing documents has not been restated to give effect to the Paychex 1995 Stock Split.

(b) The Paychex 1994 Proxy Statement;

(c) Paychex Quarterly Reports on Form 10-Q for the quarters ended August 31, 1994, November 30, 1994, February 28, 1995; and

(d) Paychex Current Report on Form 8-K dated March 17, 1995.

All documents subsequently filed by Paychex pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Proxy Statement/Prospectus and prior to the date of the Special Meeting shall be deemed to be incorporated herein by reference and to be a part hereof from the date of filing of such documents. All information appearing in this Proxy Statement/Prospectus or in any document incorporated herein by reference is not necessarily complete and is qualified in its entirety by the information and financial statements (including notes thereto) appearing in the documents incorporated herein by reference and should be read together with such information and documents.

Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Proxy Statement/Prospectus to the extent that a statement contained herein or in any other subsequently filed document that is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Proxy Statement/Prospectus.

This Proxy Statement/Prospectus incorporates documents by reference which are not presented herein or delivered herewith. Copies of any such documents, other than exhibits to such documents which are not specifically incorporated by reference therein, are available without charge to any person, including any beneficial owner of Pay-Fone Shares, to whom this Proxy Statement/Prospectus is delivered upon written or oral request to Paychex, 911 Panorama Trail South, Rochester, New York 14625, Attention Secretary's Department, telephone (716) 385-3406; to ensure timely delivery of the documents, any request should be made before June 7, 1995.

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ANNEXES

- I. Restated Agreement and Plan of Merger
  - Exhibit A. Affiliates Agreement
  - Exhibit B. Escrow and Indemnity Agreement
- II. California General Corporation Law, Sections 1300 et seq.

DOCUMENTS DELIVERED HERewith

- A. Paychex 1994 Annual Report to Stockholders
  - B. Paychex Proxy Statement for 1994 Annual Meeting of Stockholders
  - C. Paychex Form 10-Q Quarterly Report for Quarterly Period Ended February 28, 1995
- SUMMARY

The following is a summary of certain information contained elsewhere in this Proxy Statement/Prospectus. Reference is made to, and this summary is qualified in its entirety by, the more detailed information contained, or incorporated by reference, in this Proxy Statement/Prospectus and the Annexes hereto. Unless otherwise defined herein, capitalized terms used in this summary have the respective meanings ascribed to them elsewhere in this Proxy Statement/Prospectus. Shareholders are urged to read this Proxy Statement/Prospectus and the Annexes hereto in their entirety.

THE COMPANIES

Paychex, Inc . . . . Paychex provides automated payroll and tax reporting and payment services and human resource services nationwide to over 200,000 businesses with one to 200 employees. Its principal executive offices are at 911 Panorama Trail South, Rochester, New York 14625; its telephone number is (716) 385-6666

Pay-Fone Systems, Inc. . . . . Pay-Fone provides automated payroll and tax reporting and payment services to over 3,500 small-to-medium sized businesses through five offices in California. Its principal executive



offices are at 8100 Balboa Boulevard, Van Nuys, California 92406; its telephone number is (818) 997- 0808.

Paychex Merger

Corp. . . . . Merger Sub is a wholly owned subsidiary of Paychex formed solely for the purpose of the Merger. Its principal executive offices and telephone number are the same as Paychex'.

THE SPECIAL MEETING

Time, Date, Place. . . . . The Special Meeting will be held at 10:00 a.m., local time, on June 15, 1995, at the executive offices of Pay-Fone, 8100 Balboa Boulevard, Van Nuys, California 92406.

Record Date, Shares Entitled to Vote . . . . . Holders of record of Pay-Fone Shares at the close of business on May 8, 1995 are entitled to notice of, and to vote at, the Special Meeting. At such date there were outstanding 1,495,023 Pay-Fone Shares, each of which will be entitled to one vote on each matter to be acted upon or which may properly come before the Special Meeting.

Purpose of Special Meeting. . . . . The purpose of the Special Meeting is to consider and vote upon a proposal to approve and adopt the Merger Agreement pursuant to which Pay-Fone will become a wholly owned subsidiary of Paychex and Pay-Fone shareholders will become stockholders of Paychex.

Vote Required. . . . . Approval and adoption of the Merger Agreement will require the affirmative vote of the holders of a majority of the outstanding Pay-Fone Shares. On the record date, Pay-Fone directors, executive officers and their affiliates as a group had the power to vote approximately 76% of the Pay-Fone Shares entitled to vote at the Special Meeting and such persons have agreed to vote such Pay-Fone Shares in favor of the approval and adoption of the Merger Agreement. See "OWNERSHIP OF PAY-FONE SHARES."

THE MERGER

Terms of the Merger. . . . . At the Effective Time (as defined below), pursuant to the Merger Agreement (i) Merger Sub will be merged with and into Pay-Fone, which will continue as the surviving corporation and become a wholly owned subsidiary of Paychex, and (ii) the issued and outstanding Pay-Fone Shares will be converted into the right to receive shares of Paychex Common Stock at the Exchange Ratio.

Pursuant to the Merger Agreement, each Pay-Fone Share outstanding at the Effective Time will be converted into the right to receive that number of shares of Paychex Common Stock calculated by dividing (a) \$10,475,000, subject to certain adjustments, by (b) the product of (i) a price (the "Formula Price") based on the seventeen trading day average of the last reported sale prices of Paychex Common Stock on the NASDAQ National Market during the eight trading days commencing with May 26, 1995 and terminating on June 7, 1995 and two-thirds (2/3) of the last reported sale prices of a share of Paychex Common Stock (as then constituted) on the NASDAQ National Market for the nine trading days commencing on May 15, 1995 and terminating on May 25, 1995, (the "Actual Price"), which average may be adjusted by up to \$2.00 as specified in the Merger Agreement and (ii) the sum of the number of Pay-Fone Shares outstanding at the close of business on June 6, 1995 and the number of Pay-Fone Shares issuable upon exercise of then exercisable stock options granted by Pay-Fone.

The Merger Agreement, as originally entered into, provided that the Exchange Ratio would be appropriately adjusted to reflect a stock split or similar transaction affecting Paychex Common Stock prior to the date on which the Merger becomes

effective. The Paychex Board has declared a 3-for-2 stock split of Paychex Common Stock (the Paychex 1995 Stock Split) in the form of a stock dividend payable on May 25, 1995 to shareholders of record on May 2, 1995. The date of the Special Meeting and the date on which the Merger would become effective will both be subsequent to May 25, 1995, the effective date of the Paychex 1995 Stock Split. When amended and restating the Merger Agreement, the parties thereto explicitly took the Paychex 1995 Stock Split into account and, except as specifically noted in this Proxy Statement/Prospectus, all references to Paychex Common Stock and shares thereof will refer to Paychex Common Stock as it be constituted after the Paychex 1995 Stock Split is effective.

The \$10,475,000 will be reduced by (a) the sum of all amounts expended by Pay-Fone between March 17, 1995 and June 7, 1995 in contesting and resolving claims asserted by the Internal Revenue Service against Pay-Fone for the fiscal years 1987 through 1991 and California state tax claims based on the same facts and for the same periods (the "Tax Claim Adjustment") and (b) the sum of all losses (other than those taken into account in (a) above), each of which exceeds \$25,000 and is calculable without regard to materiality standards in the Merger Agreement, which would be suffered by Paychex upon consummation of the Merger as a result of a breach of a representation, warranty or covenant made by Pay-Fone in the Merger Agreement and which were specified in a notice from Paychex to Pay-Fone given prior to June 8, 1995 in the aggregate exceed \$175,000 (the "General Adjustment"), which reductions may be offset by (c) the sum of all benefits that would be enjoyed by Paychex upon consummation of the Merger as a result of conditions more favorable or performance more beneficial than represented or promised by Pay-Fone under the Merger Agreement and were specified in a notice from Pay-Fone to Paychex given prior to June 8, 1995 (the "Positive Adjustment"). Through May 19, 1995, no notice had been given relating to losses or benefits that would be taken into account in calculating the General Adjustment or the Positive Adjustment, and the Tax Claim Adjustment through that date amounted to approximately \$\_\_\_\_\_. Pay-Fone has the right to terminate the Merger Agreement in the event the net negative adjustment as a result of the General Adjustment and the Positive Adjustment exceeds \$360,000, upon payment to Paychex of \$70,000.

The Formula Price and the Actual Price will be the same so long as the Actual Price is no less than \$24.67 and no more than \$28.67. In the event the Actual Price is (a) greater than \$28.67 but no more than \$30.67 or (b) less than \$24.67 but no less than \$22.67, the Formula Price shall be \$28.67 and \$24.67, respectively. In the event the Actual Price is (a) greater than \$30.67 or (b) less than \$22.67, the Formula Price shall be the Actual Price less \$2 or plus \$2, respectively. In the event the Actual Price is (a) more than \$32.67 or (b) less than \$20.67, Pay-Fone and Paychex, respectively, shall have the right to terminate the Agreement unless (a) Paychex agrees to a Formula Price of \$30.67 or (b) Pay-Fone agrees to a Formula Price of \$22.67, respectively.

Fractional shares of Paychex Common Stock will not be issued. Pay-Fone shareholders otherwise entitled to fractional shares will be paid cash in lieu of such fraction.

See "THE MERGER - Merger Consideration."

Background of the  
Merger . . . . . See "THE MERGER - Background of the Merger."

Reasons for the  
Merger . . . . . See "THE MERGER - Pay-Fone's Reasons for the

Merger" and "THE MERGER - Paychex' Reasons for the Merger."

Recommendation of the Pay-Fone Board . . . .

The Pay-Fone Board of Directors believes the Merger is fair and in the best interests of Pay-Fone and its shareholders. The Board unanimously approved the Merger Agreement and recommends a vote in favor of the approval and adoption of the Merger Agreement by the shareholders of Pay-Fone.

Effective Time of the Merger . . . . .

It is anticipated that the Merger will become effective as promptly as practicable after Pay-Fone shareholder approval has been obtained, assuming all other conditions to the consummation of the Merger have been satisfied or waived. The Merger will become effective when appropriate certificates have been filed by the Secretaries of State of California and Delaware (the "Effective Time").

Conditions to the Merger; Termination of the Merger Agreement . . .

The obligations of Paychex and Pay-Fone to consummate the Merger are subject to the satisfaction of certain conditions, including (in addition to approval by Pay-Fone shareholders) approval for listing the shares of Paychex Common Stock to be issued in the Merger on the NASDAQ National Market, the absence of any injunction prohibiting the Merger, the receipt of an accountant's letter with respect to qualification of the Merger as a pooling of interests and the receipt of certain legal opinions from respective counsel. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Conditions/Waiver."

The Merger Agreement may be terminated (i) by mutual written consent of the parties or (ii) by either party if (a) the Merger is not consummated by August 31, 1995 (unless caused by the action or inaction of the party seeking termination) (b) any permanent injunction or other order preventing consummation of the Merger has become final and nonappealable, or (c) a party acquires verified information regarding the other party not known when the Merger Agreement was signed which has or would reasonably be expected to have a material adverse effect on the other party, or (iii) by Paychex if the Board Pay-Fone shall have withdrawn or amended its recommendation of the Merger and 5% or more of the Pay-Fone shareholders shall have elected to exercise dissenters' rights, or (iv) by Pay-Fone if the net reduction of the \$10,475,000 numerator in the Exchange Ratio formula by reason of the General Adjustment and the Positive Adjustment exceeds \$360,000. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Amendment/Termination."

Dissenters' Rights . . .

Under California law, record holders of Pay-Fone Shares who comply with certain procedures are entitled to receive payment in cash for the fair market value of their Pay-Fone Shares, provided, however, that such dissenters' rights will be available only with respect to Pay-Fone Shares which are subject to a restriction on transfer imposed by Pay-Fone or by any law or regulation or if holders of 5% or more of the outstanding Pay-Fone Shares demand such payment in accordance with California law. See "THE MERGER - Rights of Dissenting Shareholders."

Certain Federal Income Tax Consequences . . .

The federal income tax consequences of the Merger will depend on whether, among other things, the Merger qualifies as a "tax-free" reorganization under the Internal Revenue Code of 1986, as amended. If the Merger so qualifies, tax counsel has advised that no gain or loss generally would be recognized by Pay-Fone shareholders upon the exchange of their Pay-Fone Shares for Paychex Common Stock (except for cash received in lieu of

a fractional share). If the Merger does not so qualify, tax counsel has advised that the exchange would be a taxable transaction. Because certain actions by Pay-Fone or its historic shareholders occurring after the Merger could violate the continuity of business enterprise or continuity of interest requirements for a "tax-free" reorganization, tax counsel has expressed no opinion as to whether the Merger will so qualify. No ruling from the Internal Revenue Service has been requested or obtained regarding any of the federal income tax consequences of the Merger. Accordingly, Pay-Fone shareholders should consult their own tax advisors as to the tax consequences of the Merger. See "THE MERGER - Certain Federal Income Tax Consequences."

Accounting Treatment . The Merger is intended to qualify as a pooling of interests for accounting and financial reporting purposes. Consummation of the Merger is conditional upon Paychex' receipt of an opinion to that effect from Ernst & Young LLP, its independent auditors. See "THE MERGER - Accounting Treatment."

Affiliates Agreement . Paychex and Pay-Fone have entered into an agreement with certain affiliates of Pay-Fone, including its directors, officers and a principal shareholder (the "Affiliates Agreement") whereby each such affiliate agreed to vote Pay-Fone Shares owned by him (an aggregate of approximately 76% of the Pay-Fone Shares outstanding on the record date for the Special Meeting) in favor of the approval and adoption of the Merger Agreement. The Affiliates Agreement also contains certain provisions relating to the treatment of the Merger as a pooling of interests which limit transfer of Pay-Fone Shares and Paychex Common Stock by such affiliates. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Affiliates Agreement."

Escrow and Indemnity Agreement. . . . . In order to satisfy a Paychex requirement that Paychex not bear any substantial economic risk with respect to certain claims asserted against Pay-Fone by the Internal Revenue Service and related claims as a result of the Merger, the directors of Pay-Fone and Allied Contractors, Inc., a shareholder of Pay-Fone (collectively, the "EIA Share-holders"), have executed an Escrow and Indemnity Agreement pursuant to which the EIA Shareholders have agreed under certain conditions to indemnify Paychex and Pay-Fone against certain specifically identified losses suffered after the Merger resulting from pending and possible tax claims that have been or may be asserted by the Internal Revenue Service and by the California Franchise Tax Board for income or franchise taxes due from Pay-Fone for fiscal years 1987 through 1995. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Escrow and Indemnity Agreement."

Interests of Certain Persons In the Merger. .In considering the recommendation of the Pay-Fone Board with respect to the Merger Agreement and the transactions contemplated thereby, shareholders should be aware that the Pay-Fone Board and management have certain interests in the Merger which arise from, among other things, certain compensation and employment arrangements. In addition, in the event certain tax claims against Pay-Fone are not resolved prior to the Merger, on approved terms, certain affiliates and directors of Pay-Fone would provide indemnification with respect thereto. See "THE MERGER - Interests of Certain Persons in the Merger."

Comparison of Shareholder Rights . . .If the Merger is consummated, shareholders of Pay-Fone, a California corporation, will become stockholders of Paychex, a Delaware corporation. The rights of Paychex stockholders differ in certain respects from the rights of Pay-Fone shareholders, with respect to, among other things,

limitations on director liability, cumulative voting, super-majority voting, the right of shareholders to call meetings of shareholders, and votes required for certain mergers and reorganizations. The state laws also differ with respect to their affect on parties who may seek to take control of corporations. See "COMPARISON OF RIGHTS OF HOLDERS OF PAY-FONE SHARES AND PAYCHEX COMMON STOCK."

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SELECTED FINANCIAL AND PER SHARE DATA  
(In thousands, except percentages and per share data)

The following tables set forth certain historical consolidated financial information and per share data of Paychex and Pay-Fone, respectively, for the periods indicated. The financial data for the interim 1995 and 1994 periods are derived from unaudited financial statements. This information should be read in conjunction with the consolidated financial statements and related notes of Paychex and Pay-Fone appearing elsewhere in this Proxy Statement/Prospectus or incorporated herein by reference.

Paychex and Pay-Fone proforma combined financial data giving effect to the Merger under the pooling of interests accounting method are not considered to be significant to the consolidated financial statements of Paychex. Accordingly, such pro forma combined financial data are not presented.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND PER SHARE DATA OF PAYCHEX

	Nine Months Ended February 28,		Year Ended May 31,			
	1995	1994	1994	1993	1992	1991
	-----	-----	-----	-----	-----	-----
1990	-----	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----	-----
	(Unaudited)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Consolidated Summary of Operations						
Revenue	\$195,327	\$165,212	\$224,052	\$190,032	\$161,272	\$137,081
\$120,200						
Operating costs	57,358	50,633	68,082	60,715	53,243	49,982
45,031						
Selling, general and administrative expenses	100,164	87,248	119,187	102,660	89,301	73,816
63,042						
Operating income	37,805	27,331	36,783	26,657	18,728	13,283
12,127						
Percent of revenue	19.4	16.5	16.4	14.0	11.6	9.7
10.1						
Net income	28,537	20,671	28,070	19,955	13,702	9,623
8,566						
Percent of revenue	14.6	12.5	12.5	10.5	8.5	7.0
7.1						
-----						
Consolidated Balance Sheet Data - End of Period						
Working capital	\$ 89,036	\$ 62,124	\$ 68,031	\$ 46,389	\$ 27,884	\$ 19,221
\$ 21,257						
Total assets	158,765	127,996	129,789	106,920	86,242	70,413
62,109						
Long term debt (including current portion)	948	1,260	948	1,634	2,024	2,408
2,137						
Stockholders' equity	131,066	102,816	108,508	85,189	67,405	54,491
47,160						
-----						
Common Stock Data (1)						
Net income per share	\$ .63	\$ .46	\$ .63	\$ .45	\$ .31	\$ .22
\$ .19						
Cash dividends per share	.16	.11	.15	.10	.07	.06
.05						

Net book value per share(2)	2.91	2.29	2.42	1.91	1.51	1.23
1.07						
Weighted average number of shares outstanding	44,900	44,769	44,790	44,595	44,279	44,064
44,009						

(1) Per share amounts and average shares outstanding have been adjusted for three-for-two stock splits in May 1992 and August 1993 and for the Paychex 1995 Stock Split. Paychex 1994 Annual Report, Proxy Statement and February 28, 1995 Form 10-Q delivered herewith have not been restated to reflect the May 1995 stock split.

(2) Based on shares outstanding at period-end.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND PER SHARE DATA OF PAY-FONE

	Nine Months Ended March 31,		Year Ended June 30,			
	1995	1994	1994	1993	1992	1991
	----	----	----	----	----	----
		(Unaudited)				
	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Summary of Operations						
Revenue	\$ 3,612	\$ 3,371	\$ 4,460	\$ 4,505	\$ 5,186	\$ 5,248
\$ 5,504						
Operating costs	1,653	1,248	1,696	1,637	2,021	2,146
2,267						
Selling, general and administrative expenses	2,278	1,890	2,542	2,680	3,110	3,410
3,587						
Operating income (loss)	(436)	233	222	188	55	(308)
(350)						
Percent of revenue	-	6.9	5.0	4.2	1.1	-
-						
Net income(loss)	(287)	167	189	151	111	(195)
(202)						
Percent of revenue	-	5.0	4.2	3.4	2.1	-
-						

Consolidated Balance Sheet Data - End of Period

Working capital	\$ 2,357	\$ 2,734	\$ 2,739	\$ 2,667	\$ 2,257	\$ 2,078
\$ 1,993						
Total assets	5,395	5,697	5,600	5,374	5,324	5,442
5,785						
Long term debt (including current portion)	-	-	-	-	-	-
-						
Shareholders' equity	4,931	5,186	5,208	5,019	4,868	4,882
5,076						

Common Share Data

Net income (loss) per share	\$ (.19)	\$ .11	\$ .13	\$ .10	\$ .07	\$ (.13)
\$ (.13)						
Cash dividends per share	-	-	-	-	-	-
-						
Net book value per share(1)	3.32	3.53	3.55	3.42	3.32	3.24
3.37						
Weighted average number of shares outstanding	1,475	1,468	1,469	1,488	1,484	1,506
1,506						

(1)Based on stockholder's equity and shares outstanding at period-end.

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COMPARATIVE MARKET PRICES AND DIVIDEND DATA

Paychex Common Stock is listed and principally traded in the over-the-counter market and quoted on NASDAQ

National Market

under the symbol "PAYX". The Pay-Fone Shares are traded on the American Stock Exchange and are reported under the symbol "PYF".

The following table sets forth, for the periods indicated, the range of high and low closing sale prices per share of Paychex

Common Stock as reported on the NASDAQ National Market, and per Pay-Fone Share as reported on the American Stock Exchange. The

Paychex fiscal year ends on May 31, and the Pay-Fone fiscal year ends on June 30. The high and low sales prices of Paychex

Common Stock have been adjusted to give effect to the Paychex 1995 Stock Split and a three-for-two stock split in August 1993.

The following table also shows the cash dividends declared by Paychex. Pay-Fone has not paid any cash dividends. Pursuant to

the Merger Agreement, Pay-Fone is prohibited from declaring, setting aside or paying dividends on Pay-Fone Shares, except with

the consent of Paychex.

	Paychex Common Stock			Pay-Fone Common Shares		
	High	Low	Cash Dividend	High	Low	Cash Dividend
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fiscal Year 1993						
First Quarter	\$12 7/8	\$ 9 5/8	.018	\$3 5/8	\$2 3/4	-
Second Quarter	17 3/4	11 7/8	.027	3 3/8	2 7/8	-
Third Quarter	17 1/8	14 3/8	.027	3 3/8	2 7/8	-
Fourth Quarter	19 1/8	15 7/8	.027	3 3/8	2 7/8	-
Fiscal Year 1994						
First Quarter	22	17 1/8	.027	3 1/4	2 5/8	-
Second Quarter	25 1/8	20 1/2	.04	3	2 3/8	-
Third Quarter	27	21 3/8	.04	2 7/8	2 3/8	-
Fourth Quarter	26 1/8	21 1/8	.04	2 7/8	2 1/4	-
Fiscal Year 1995						
First Quarter	23	19	.04	5	2 3/8	-
Second Quarter	26 1/8	21 5/8	.06	4 1/2	3 3/4	-
Third Quarter	28	23 1/8	.06	6 1/8	3 7/8	-
Fourth Quarter through May 16, 1995	32 3/8	26 3/8	-	6 1/8	4 1/4	-

On March 17, 1995, the last full trading day prior to the public announcement of the proposed Merger, the closing price for a share of Paychex Common Stock (after giving effect to the Paychex 1995 Stock Split) was \$30.00 and the closing price of a Pay-Fone Share was \$4.50.

On May 19, 1995, the last full trading day prior to the printing of this Proxy Statement/Prospectus, the closing sales prices for a share of Paychex Common Stock (after giving effect to the Paychex 1995 Stock Split) and a Pay-Fone Share were

\$            and \$            , respectively. Shareholders are urged to obtain current market quotations for the Paychex Common Stock and

Pay-Fone Shares. See "THE MERGER-Merger Consideration".

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#### THE SPECIAL MEETING

This Proxy Statement/Prospectus is being furnished to the shareholders of Pay-Fone in connection with solicitation of proxies by the Board of Directors of Pay-Fone for use at a Special Meeting of Shareholders to be held at 8100 Balboa Boulevard, Van Nuys, California, on June 15, 1995, at 10:00 a.m. local time, and at any adjournment or postponement thereof.

#### Purpose of the Meeting

At the Special Meeting, the shareholders of Pay-Fone will be asked to consider and vote upon a proposal to approve and adopt the Merger Agreement pursuant to which Pay-Fone would become a wholly-owned subsidiary of Paychex and the shareholders of Pay-Fone would become stockholders of Paychex. See "THE MERGER."

The Pay-Fone Board has unanimously approved the Merger Agreement and recommends a vote FOR approval and adoption of the Merger Agreement. See "THE MERGER - Pay-Fone's Reasons for the Merger." The members of the Pay-Fone Board, together with Pay-Fone's executive officers and Allied Contractors, Inc., a principal shareholder of Pay-Fone and an affiliate of three Pay-Fone directors (collectively, the "Affiliates"), have agreed to vote their Pay-Fone Shares in favor of the approval and adoption of the Merger Agreement. See "THE MERGER - Interests of Certain Persons in the Merger."

## Voting Rights; Record Date

The Pay-Fone Board has established May 1, 1995 as the date to determine those record holders of Pay-Fone Shares entitled to notice of and to vote at the Special Meeting. On that date, there were 1,495,023 Pay-Fone Shares outstanding, with each Share entitled to one vote.

The presence, in person or by proxy, of the holders of a majority of the outstanding Pay-Fone Shares at the Special Meeting is necessary to constitute a quorum. Shares represented in person or by proxy at the Special Meeting but abstaining with respect to the approval and adoption of the Merger Agreement will be treated as present with respect to the determination of the presence of a quorum.

The affirmative vote of the holders of a majority of the outstanding Pay-Fone Shares is required to approve and adopt the Merger Agreement. The Affiliates hold approximately 76% of the Pay-Fone Shares entitled to vote at the Special Meeting, and they have agreed with Paychex to vote for approval and adoption of the Merger Agreement. Accordingly, approval of the Merger Agreement is assured. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Affiliates Agreement" and "OWNERSHIP OF PAY-FONE SHARES." Abstentions have the effect of a vote against the Merger Agreement for purposes of the required vote, but not for the purpose of perfecting dissenters' rights. See "THE MERGER -- Rights of Dissenting Shareholders."

Shares represented by all properly executed or transmitted proxies received in time for the Special Meeting will be voted in the manner specified by the holders thereof. Proxies that do not contain voting instructions will be voted FOR approval of the Merger Agreement. It is not expected that any other matter will be brought before the Special Meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their judgment with respect to such matters.

Any shareholder has the right to revoke his or her proxy at any time prior to the voting thereof at the Special Meeting by (i) filing a written revocation with the Secretary of Pay-Fone prior to the voting of such proxy, (ii) giving a duly executed or transmitted proxy bearing a later date, or (iii) attending the Special Meeting and voting in person. Attendance by a shareholder at the Special Meeting will not itself revoke his or her proxy.

In addition to signing, dating and returning the enclosed proxy card or another appropriate form of proxy, a shareholder may telephonically deliver a proxy, including a proxy given for the purpose of revoking or changing the voting instructions provided in an earlier dated proxy, by telephoning (800) 472-9765 and asking for the special "proxy service" extension, which is extension 180. In order to deliver a proxy in this manner, a shareholder or the shareholders' attorney-in-fact will need to submit information that will enable Pay-Fone to determine that the proxy is authorized. For this purpose, Pay-Fone will utilize certain information that appears on the proxy card that accompanies his Proxy Statement/Prospectus. To the right of the shareholders' name and address on the proxy card are three short series of numbers or numbers and letters, and a shareholder will be required to provide to the official answering the "proxy service" extension those three series of numbers and letters as well as the complete name in which the shareholder's Pay-Fone shares are registered, which also appears on the proxy card. Please record and retain this information so that you will be able to avail yourself of this shareholder service should you desire to deliver a proxy telephonically.

## Solicitation of Proxies

Pay-Fone will bear the cost of the solicitation of proxies from its shareholders. In addition to solicitation by mail, the directors, officers and employees of Pay-Fone, without additional compensation, may solicit proxies by telephone, telecopy or telegram or in person. Pay-Fone has requested banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries to forward solicitation materials to the beneficial owners of Common Stock held of record by such entities, and Pay-Fone will, upon the request of such record holders, reimburse reasonable forwarding expenses.

## THE COMPANIES

### Paychex

Paychex is a national payroll processing and payroll tax preparation company which provides its services to over 200,000 small-to-medium size businesses. Paychex believes that in number of clients it is the second largest payroll accounting service company in the country. Paychex



prepares and furnishes paychecks, earnings statements and internal accounting records such as journals, summaries and earnings histories. Paychex also prepares for its clients all required monthly, quarterly and annual payroll tax returns for federal, state and local governments. Over 48% of its clients nationwide utilize TAXPAY, a service which provides automatic payment of payroll taxes and filing of quarterly and annual tax returns. Paychex also provides enhanced payroll services, including an automatic salary deposit service (Direct Deposit) which electronically transmits the net payroll for a client's employees to banks throughout the Federal Reserve System and a digital check signing and inserting service.

Paychex markets its services principally to small and medium sized businesses through its 70 branch operating centers and 25 sales offices located in major metropolitan areas. Its market share in branch processing center territories ranges from 1% to approximately 20%. No client accounts for as much as 1% of its revenue.

Clients may discontinue Paychex service at will. Approximately 80% of the businesses which were clients in fiscal year 1993 or 1994 continued to be clients in the succeeding fiscal year. Ownership changes or business failures common to small businesses are the primary causes of client loss.

Paychex warrants its services, agreeing to reimburse any client for penalties and interest incurred as a result of a Paychex error. Warranty expense in fiscal years 1993 and 1994 was approximately \$130,000 and \$400,000 respectively and warranty expense for fiscal year 1995 to date is not materially different.

Paychex employs payroll specialists who communicate primarily by telephone with their assigned clients each payroll period to record the hours worked by each employee and any personnel or compensation changes. These specialists are trained by Paychex in all facets of payroll preparation and applicable tax regulations. All information furnished by a client is handled by someone who is "payroll intelligent" and familiar with that client's payroll.

The Paychex payroll system is an on-line, direct entry computer system which enables the payroll specialist, upon receiving the information from the client over the telephone to enter it simultaneously. Payroll processing is decentralized in each Paychex branch operating center while Taxpay and Direct Deposit processing are centralized at its headquarters. Sales offices utilize a nearby branch operating center for processing.

During 1993, Paychex introduced Paylink, a proprietary software package which enables clients to use their personal computers and modems to transmit their payroll data to the local Paychex processing center at any time, without assistance of a payroll specialist. Currently over 9,000 clients use this feature.

While payroll is its core business, Paychex also provides human resource products and services through its HRS division. HRS markets Cafeteria Plan products approved under Section 125 of the Internal Revenue Code. The Premium Only Plan allows employees to pay for certain fringe benefits with pre-tax dollars, with a resultant reduction of payroll taxes to employers and employees. The Flexible Spending Account Plan allows a client's employees to pay for health and dependent care expenses with pre-tax dollars. All administration, compliance and coverage tests are provided with these services.

The HRS Division's employee management services and products include customized employee handbooks, management manuals, job descriptions and personnel forms. These have been designed to simplify clients' office processes and enhance their employee benefits programs. Also available is a measurement and evaluation tool to assist clients in the process of hiring, training and developing employees. Group insurance products are offered in selected geographical areas.

Products and services of the HRS Division are sold through a separate sales organization located in 44 branch offices. Some of the products and services are available on a nationwide basis through a central telemarketing group. Paychex employs over 3,400 persons. The mailing address of Paychex' principal executive offices is 911 Panorama Trail South, Rochester, New York 14625, and its telephone number is (716) 385-6666.

#### Merger Sub

Merger Sub, a wholly owned subsidiary of Paychex, was formed by Paychex solely for the purpose of effecting the Merger. The mailing address of Merger Sub's principal executive offices is c/o Paychex, 911 Panorama Trail South, Rochester, New York 14625 and its telephone number is (716) 385-6666.

## Pay-Fone

Pay-Fone, originally founded in 1955, provides automated payroll services to businesses located primarily in California. Since 1988, Pay-Fone has operated under the name "Precision Payroll." Pay-Fone operates from three offices in Southern California and two offices in Northern California.

In fiscal year 1993 Pay-Fone sold its New York payroll business. On April 30, 1992, Pay-Fone and the Greenville, South Carolina franchise terminated their relationship. Pay-Fone and its Mobile, Alabama franchise terminated their relationship in September of 1992.

On February 1, 1994, Pay-Fone acquired Concentric Computer Corporation of Aptos, California. This acquisition added 270 new clients to Pay-Fone's customer base and positively impacted revenues in the fourth quarter of fiscal year 1994. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF PAY-FONE."

Pay-Fone was incorporated in the state of California on July 2, 1970. Its principal executive offices are located at 8100 Balboa Boulevard, Van Nuys, California 91406, telephone (818) 997-0808.

### Payroll Services

Pay-Fone offers a range of payroll services to meet the needs of its more than 3,500 clients. From 1987 until 1994, Pay-Fone had offered a payroll tax filing and payment service in conjunction with independent contractors. In 1994, Pay-Fone introduced its Precision Tax Service, a payroll tax filing offering which enables Pay-Fone to perform these services in-house. As part of the Precision Tax Service, Pay-Fone collects funds for federal, state and local employment taxes from clients, files applicable monthly, quarterly and annual tax returns, handles all regulatory correspondence and amendments, and remits payment to the appropriate tax agencies. The service also includes year-end reconciliation and filing of W-2 and 1099 forms.

Pay-Fone's Premium Only Plan is a benefit plan which enables clients and their employees to obtain tax benefits with respect to certain payroll deductions. Pay-Fone's services include plan documentation, administration and preparation of compliance reports.

Clients provide their payroll data to Pay-Fone by one of four means:

Call-A-Check - The customer's data is communicated to Pay-Fone by telephone each pay period. The client speaks with a trained specialist who enters the appropriate information for each of the client's employees, including salary, number of hours worked and changes in employee status.

Fax-A-Check - The client's data is transmitted by facsimile machine using worksheets prepared from the prior pay period. This method is popular with small to medium size businesses.

PayMate - The client enters its payroll data on an IBM compatible computer using Pay-Fone's proprietary software program. At the end of the pay period the information is transmitted via modem to Pay-Fone's computer center. Pay-Mate also allows the client to prepare personnel statistic reports and is popular with Pay-Fone's larger clients.

Rapid-PC - This software, designed for large employers and those with more specialized payroll requirements, allows the client to calculate and post manual checks from the client's personal computer. Rapid-PC also provides import/export capabilities, general ledger reporting, 401(k) next day transmission, workers' compensation premium calculations, accruals based on hire dates, print back capability, and a user friendly report writer. It allows the client to view its payroll by individual, department and/or grand totals before transmitting the data to Pay-Fone.

Pay-Fone typically provides clients with processed payroll documents, including payroll checks, management reports and tax information, within 24 hours after receipt of the client data. Pay-Fone also offers direct deposit services by which a client's employees can have their net payroll electronically deposited to their bank accounts.

Data is received at each of Pay-Fone's offices. The information is then processed at the Van Nuys location and printed at either the Van Nuys or Burlingame location. Pay-Fone stores client records on magnetic media and maintains duplicate records in off-site storage to protect against loss due to computer or power failure.

Pay-Fone enters into a standard service agreement with each client

which describes the services to be performed. This agreement limits Pay-Fone's liability to the client to the replacement of a defective check in the event of any errors or omissions by Pay-Fone in the documentation provided to the client. To date, Pay-Fone's liability with respect to errors and omissions has not been significant. With respect to tax filing services, Pay-Fone agrees to be responsible for certain penalties and interest which may be imposed by the regulatory agencies.

Either Pay-Fone or the client may terminate the standard service agreement on reasonably short notice. Pay-Fone provides payroll services on a weekly, bi-weekly, semi-monthly or monthly basis, and bills the customer on a monthly basis.

Personal service is an important aspect of Pay-Fone's business. Pay-Fone places a strong emphasis on a commitment to customer service.

#### Software and Equipment

Pay-Fone develops and owns computer software and related equipment, in addition to software and hardware Pay-Fone leases from third parties. Pay-Fone continually updates its proprietary software to reflect changes in Federal, state and local laws and regulations. Pay-Fone also designs system enhancements and equipment devices which are intended to enlarge and improve the capabilities of its payroll services. In fiscal years 1994, 1993 and 1992, Pay-Fone spent \$148,528, \$182,255 and \$172,784, respectively, on research and development which related to such software and equipment modifications and enhancements.

Pay-Fone owns the terminals and computer equipment required to perform its payroll services. The majority of equipment is purchased from equipment manufacturers such as IBM and is serviced under maintenance contracts. Other equipment is maintained by Company personnel.

The materials, supplies, equipment and computer hardware used by Pay-Fone, or substantially equivalent alternatives, are available from several commercial sources, and Pay-Fone is not dependent on any single source.

#### Sales and Marketing

Pay-Fone markets its services through its own sales force from its headquarters and branch offices. Pay-Fone has historically targeted small to medium size businesses (up to 200 employees) as those which would have the most use for Pay-Fone's services. With the introduction of Rapid-PC, in February 1994, Pay-Fone has expanded its marketing to the large employer market, generally businesses with more than 200 employees.

#### Proprietary Rights

Pay-Fone uses the service marks MICRO/HOST, CALL-A-CHECK, FAX-A-CHECK, Precision Payroll, Precision Package, and PayMate in its business. Pay-Fone believes it has protectable rights to such marks under common law principles.

Pay-Fone considers its software, customer lists and trade practices to be proprietary trade secrets, which it intends to protect to the full extent permitted by law, and material to its business. Primary to this protection is Pay-Fone's standard employment agreement which each employee signs at the inception of his or her employment and in which, in addition to other restrictions, the employee agrees that he or she will not directly or indirectly divulge such proprietary trade secrets to any firm, person or corporation either during his employ or for a period of two years after the termination of employment.

In February, 1994, Pay-Fone licensed the Rapid PC software, which allows Pay-Fone to provide full service to the large employer market, from a third party.

#### Competition

The business in which Pay-Fone is engaged is highly competitive, and Pay-Fone competes with numerous entities which provide similar services, including national data processing companies, local businesses and banks. Pay-Fone believes that important competitive factors are price, speed and quality of service. Pay-Fone believes that it competes effectively in each of these areas. Many of Pay-Fone's competitors have greater financial and personnel resources than does Pay-Fone. Since the majority of businesses prepare their own payroll in-house, the major source of competition is manual payroll systems sold by numerous vendors and the availability of low-priced computers and software programs which enable businesses to perform computerized payroll in-house.

#### Employees

As of May 8, 1995, Pay-Fone had 81 full-time employees and 1 part-time employee.

#### Properties

Pay-Fone's principal executive offices, which include local customer service and sales activities and house the central computer processing facility, are located in Van Nuys, California. The 39,663 square foot building is owned by Pay-Fone and the ground is leased under a lease expiring June 2025. Approximately 13,000 square feet of this building are subleased, most for a term which expires in February 1996. Pay-Fone also leases offices in four locations in California which house local customer service and sales operations. Pay-Fone believes that its facilities are adequate for its needs.

#### THE MERGER

This section of the Proxy Statement/Prospectus and the next section entitled "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS" describe certain aspects of the proposed Merger. The following descriptions do not purport to be complete and are qualified in their entirety by reference to the Merger Agreement and the Exhibits thereto which are attached as Annex I to this Proxy Statement/Prospectus and incorporated herein by reference. All shareholders are urged to read the Merger Agreement and the Exhibits thereto in their entirety.

#### General

Pursuant to the Merger Agreement, Merger Sub will merge into Pay-Fone with Pay-Fone surviving the merger, and Pay-Fone will become a wholly owned subsidiary of Paychex. The Merger Agreement provides that the Merger will be consummated if the approval of the shareholders of Pay-Fone is obtained and all other conditions to the Merger are satisfied or waived.

The Effective Time of the Merger will occur upon the filing of the appropriate documents with the Secretaries of State of the States of Delaware and California. These filings will occur as soon as practicable after the completion of the transactions contemplated by the Merger Agreement following the Special Meeting of Pay-Fone shareholders. The Merger Agreement generally may be terminated by either Pay-Fone or Paychex if the Merger is not consummated on or before August 31, 1995 and under certain other conditions. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS -- Conditions/Waivers; Amendment/Termination; and Expenses and Fees."

#### Background of the Merger

Paychex and Pay-Fone have been familiar to each other for a period of years as competitors in a number of markets, principally southern California. Both companies express a commitment to providing superior customer services, and they have a number of other similar characteristics which suggested a high potential for compatibility.

Acting at the request of the Pay-Fone Board, David Malcolm, who became a director of Pay-Fone on July 12, 1994, contacted Paychex in early July 1994. This initial contact was made to determine whether Paychex had an interest in pursuing a business combination with Pay-Fone. The Pay-Fone Board believed that Pay-Fone lacked the critical mass necessary in its industry to maximize shareholder values in the near term and that its various constituencies would be better served if Pay-Fone were able to effect a business combination. Paychex expressed a serious interest in entering into acquisition discussions. To facilitate these discussions Paychex entered into a Confidentiality and Non-Disclosure Agreement with Pay-Fone on July 13, 1994.

During the next two and one-half months, selected confidential information regarding Pay-Fone was provided to Paychex, and a series of discussions were held, primarily between G. Thomas Clark, Vice President of Finance of Paychex, and Mark Kelton, a Pay-Fone director. These preliminary conversations explored the feasibility of a merger and included issues such as valuation and possible deal structures.

Mr. Kelton reviewed these discussions in depth with the Pay-Fone Board during a meeting held on September 30, 1994 and the Board authorized the continuation of discussions. Mr. Kelton also from time to time had meetings with, and made calls to, the other Pay-Fone directors to keep them apprised of the discussions and to solicit their advice.

In early October 1994, Paychex retained its attorneys and accountants to advise it in the evaluation and possible structuring of a transaction with Pay-Fone since it appeared that a transaction favorable to the shareholders of Paychex could possibly be arranged. An initial visit was made to Pay-Fone by Mr. Clark, Francis Provino, Paychex' Controller, and

Donald Mersh, a Regional Manager of Paychex, on October 11 and 12 to meet with Mr. Kelton and Pay-Fone President Mark Leekley, visit Pay-Fone's corporate headquarters and main processing facility, review confidential information, and discuss issues regarding deal structure and consideration. During October 1994, Paychex had the opportunity to review a meaningful amount of confidential information concerning Pay-Fone. Both parties desired to continue discussions with a view towards reaching an agreement of merger.

Throughout this period, Pay-Fone reviewed and evaluated the public information available regarding Paychex, and Messrs. Kelton and Leekley discussed the business of Paychex with senior Paychex officials, principally Mr. Clark.

In early November it was decided to defer further discussions and negotiations to permit Pay-Fone and Paychex to attend to the increased level of business activity associated with the end of the calendar year. At a December 16, 1994 meeting of the Pay-Fone Board, Mr. Kelton briefed the directors on the status of the negotiations, and the matter was considered at length by the Pay-Fone Board.

Discussions between Paychex and Pay-Fone resumed in mid- January, 1995, and Messrs. Clark and Provino made a second trip to meet with Messrs. Kelton and Leekley on January 28, 29 and 30, 1995. Subsequent thereto, drafting of agreements commenced while further negotiations and due diligence examinations continued. At various times between late January and mid-March, 1995, Mr. Kelton sent drafts of the agreements to each of Pay-Fone's directors and solicited their questions and comments in telephone conversations and personal meetings.

The Paychex Board was advised of the negotiations and proposed terms of agreement at regular meetings on October 5, 1994 and January 12, 1995. At the earlier meeting, the Board authorized the Paychex Executive Committee to pursue, approve and conclude the transaction within specified price limits. The Executive Committee conferred on February 8, 1995 to consider various developments and issues in the negotiations and the results of management's due diligence investigations to date. Minutes of their deliberations were provided to the full Board. On March 5, 1995, each of the members of the Executive Committee reviewed in detail the agreements prepared by counsel and, after conferring, approved said agreements and authorized Paychex officers to sign and deliver them with such changes as the officers shall have approved. The full Board then ratified all agreements as signed at its meeting on April 13, 1995.

On March 17, 1995, the Pay-Fone Board of Directors held a meeting at which it considered the final negotiated terms of the proposed transaction with Paychex and reviewed and unanimously approved the draft agreements.

The Agreement and Plan of Merger and related agreements were originally signed on March 17, 1995. The Agreement and Plan of Merger was amended and restated as of May 8, 1995 primarily to set prior to the date of the Special Meeting the time at which the Exchange Ratio would be determined and to reflect explicitly the effect of the Paychex 1995 Stock Split on various matters considered in the Agreement and Plan of Merger. The Restated Agreement and Plan of Merger is attached hereto as Annex I.

#### Pay-Fone's Reasons for the Merger

The Pay-Fone Board has believed that it would be beneficial for Pay-Fone to increase the scope of its operations and revenue substantially in order to obtain economies of scale which would be likely to enhance shareholder values. With that objective, various Pay-Fone officers and directors have held discussions with the managements of a number of other payroll processing companies with a view towards increasing the scope of Pay-Fone's operations. Pay-Fone has been unable to arrange transactions that would have enabled Pay-Fone to achieve the desired scale. However, the Pay-Fone Board and management believe they have kept themselves well informed regarding prices, terms and other aspects of merger and acquisition activities in the payroll processing industry.

The principal reason for the approval of the terms of the Merger Agreement by the Pay-Fone Board is that, in the opinion of the Pay-Fone Board, the consummation of the Merger will result in greater value to the Pay-Fone shareholders than would likely have been achieved in the foreseeable future through continued independent operations. In addition, the Pay-Fone Board believes that the relative compatibility of the two companies including such important areas as their corporate culture and their commitment to customer service is likely to have beneficial effects for Pay-Fone's current clients and employees. In comparing the economic effect of the Merger to the stock market performance it believed could be achieved by Pay-Fone independently and taking into account among other things Pay-Fone's expected financial performance, the possibility of effecting acquisitions in which Pay-Fone would be the surviving company, and the risks associated therewith, the Pay-Fone Board determined that the Merger would be the superior alternative for the Pay-Fone shareholders

from a financial point of view.

#### Paychex' Reasons for the Merger

Paychex believes that the Merger is in the best interests of Paychex and its stockholders because it enables Paychex to expand at a more rapid rate than possible through the normal acquisition of clients. The cost to Paychex and its stockholders in terms of shares of Paychex Common Stock issued in connection with the Merger is deemed reasonable by the Paychex Board in light of the net assets acquired and the expenses normally incurred by Paychex in connection with obtaining new clients and selling additional services. In addition, Pay-Fone provides Paychex the opportunity to increase its California payroll client base by approximately 3,500 or 10%. The Pay-Fone client base is very compatible to the Paychex client base in terms of size and payroll features delivered. Moreover, Paychex would have significant opportunities to sell the Pay-Fone client base additional add-on products such as TaxPay, Direct Deposit and Human Resource products and services. Pay-Fone has a very limited number of clients utilizing services comparable to TaxPay and Direct Deposit. Finally, Pay-Fone has an experienced group of customer service managers and employees that can provide additional quality personnel to Paychex' southern California business.

#### Merger Consideration

Pursuant to the Merger Agreement, at the Effective Time each Pay-Fone Share will be converted into the right to receive that number of shares of Paychex Common Stock calculated by dividing (a) \$10,475,000, subject to certain adjustments, by (b) the product of (i) a price (the Formula Price) based on the seventeen trading day average of the last reported sales price of Paychex Common Stock on the NASDAQ National Market during the eight trading days commencing with May 26, 1995 and terminating on June 7, 1995 and two-thirds (2/3) of the last reported sales prices of Paychex Common Stock (as then constituted) on the NASDAQ National Market for the nine trading days commencing on May 15, 1994 and terminating on May 25, 1995 (the Actual Price), which average may be adjusted by up to \$2.00 as specified in the Merger Agreement and (ii) the sum of the number of Pay-Fone Shares then outstanding and the number of Pay-Fone Shares issuable upon exercise of then exercisable stock options granted by Pay-Fone (the Exchange Ratio).

The \$10,475,000 will be reduced by (a) the Tax Claim Adjustment, which is the sum of all amounts expended by Pay-Fone between March 17, 1995 and June 7, 1995 in contesting and resolving claims asserted by the Internal Revenue Service against Pay-Fone for the fiscal years 1987 through 1991 and California state tax claims based on the same facts and for the same periods (the "Tax Claims") and (b) the General Adjustment, which is the sum of all losses (other than those taken into account in the Tax Claim Adjustments), each of which exceeds \$25,000 and is calculable without regard to materiality standards in the Merger Agreement, which would be suffered by Paychex upon consummation of the Merger as a result of a breach of a representation, warranty or covenant made by Pay-Fone in the Merger Agreement and are identified in notices given by Paychex to Pay-Fone prior to June 8, 1995 and which in the aggregate exceed \$175,000, which reductions may be offset by (c) the Positive Adjustment, which is the sum of all benefits that would be enjoyed by Paychex upon consummation of the Merger as a result of conditions more favorable or performance more beneficial than represented or promised by Pay-Fone under the Merger Agreement and which are identified in notices given by Pay-Fone to Paychex prior to June 8, 1995.(/R)

As of May 19, 1995, no notices regarding losses or benefits which would enter into the calculation of the General Adjustment and the Positive Adjustment had been given by Paychex or Pay-Fone, respectively. As of that date, \$\_\_\_\_\_, which would enter into calculation of the Tax Claim Adjustment, had been expended by Pay-Fone. Pay-Fone has the right to terminate the Merger Agreement in the event the aggregate negative adjustment arising from the General Adjustment and the Positive Adjustment exceeds \$360,000, upon payment to Paychex of \$70,000.

The Formula Price and the Actual Price will be the same so long as the Actual Price is no less than \$24.67 and no more than \$28.67. In the event the Actual Price is greater than \$28.67 but no more than \$30.67, the Formula Price shall be \$28.67, and if the Actual Price is greater than \$30.67, the Formula Price shall be an amount equal to the Actual Price less \$2. In the event the Actual Price is greater than \$32.67, Pay-Fone shall have the right to terminate the Merger Agreement unless Paychex agrees to a Formula Price of \$30.67. In the event the Actual Price is less than \$24.67 but no less than \$22.67, the Formula Price shall be \$24.67, and if the Actual Price is less than \$22.67, the Formula Price shall be an amount equal to the Actual Price plus \$2. In the event the Actual Price is less than \$20.67, Paychex shall have the right to terminate the Merger Agreement unless Pay-Fone agrees to a Formula Price of \$22.67.

For purposes of illustration only, the following chart sets forth various calculations of the Exchange Ratio based on a total of 1,607,943 Pay-Fone Shares outstanding and issuable upon exercise of exercisable options, and certain assumptions as to the Actual Price and adjustments to \$10,475,000.

<TABLE>  
<CAPTION>

Adjustment to \$10,475,000 <S>	Actual Price <C>	Formula Price <C>	Exchange Ratio <C>	Value of Exchange Ratio based on Actual Price <C>
\$ 0	\$31.00	\$29.00	.2246	\$6.96
100,000	31.00	29.00	.2225	6.90
360,000	31.00	29.00	.2169	6.72
0	22.33	24.33	.2677	5.97
100,000	22.33	24.33	.2652	5.92
360,000	22.33	24.33	.2585	5.77

</TABLE>

On May 19, 1995, the latest trading date before the printing of this Proxy Statement/Prospectus, the closing price of a share of Paychex Common Stock (as then constituted) on the NASDAQ National Market was \$\_\_\_\_\_, and the closing price of a Pay-Fone Share on the American Stock Exchange was \$\_\_\_\_\_. On that date, the equivalent price for a share of Paychex Common Stock as it will be constituted after the effective date of the Paychex 1995 Stock Split would be \$\_\_\_\_\_, and the average closing price of a share of Paychex Common Stock, as it would be constituted after the Paychex 1995 Stock Split, during the five trading days ending May 19, 1995 was \$\_\_\_\_\_.

The Exchange Ratio will be adjusted to give effect to any stock split or other similar change in Paychex Common Stock in addition to the Paychex 1995 Stock Split which occurs prior to the Effective Time.

The Exchange Ratio will be calculated pursuant to a formula in which all of the variables will be finally determined prior to June 8, 1996. Pay-Fone has a toll-free number which Pay-Fone shareholders may call between the date of this Proxy Statement/Prospectus and the date of the Special Meeting to ascertain what the provisional Exchange Ratio and provisional market value in Paychex Common Stock deliverable in exchange for a Paychex Share would be based on information available through the close of business on the prior day. Commencing on June 8, 1995, shareholders calling this number will be provided with the definitive Exchange Ratio and the market value in Paychex Common Stock represented thereby based on the last reported sale of the Paychex Common Stock on the NASDAQ National Market on the prior trading day. The telephone number to call for this information regarding the Exchange Ratio and the market value in Paychex Common Stock represented thereby is (800) 472-9765, extension 160, the "exchange ratio information" extension.

#### Fractional Shares

No fractional shares of Paychex Common Stock will be issued in the Merger. In lieu of any fractional share, each holder of Pay-Fone Shares who would otherwise be entitled to a fraction of a share of Paychex Common Stock will be paid an amount in cash equivalent to the same fraction of the Formula Price.

#### Procedures for Exchange of Certificates

At the Effective Time, the outstanding Pay-Fone Shares (other than dissenting shares, if any) will be automatically converted at the Exchange Ratio into the right to receive full shares of Paychex Common Stock, plus cash in lieu of any fractional share. It is a condition to the Merger that all shares of Paychex Common Stock to be issued in the Merger are registered under the Securities Act and listed on the NASDAQ National Market.

As soon as practicable after the Effective Time, a transmittal letter will be mailed by an exchange agent appointed by Paychex to facilitate the exchange of Pay-Fone Shares for shares of Paychex Common Stock in the Merger (the "Exchange Agent") to each record shareholder of Pay-Fone informing such shareholder of the procedures to follow in forwarding his or her Pay-Fone stock certificates to the Exchange Agent. Upon receipt of such stock certificates, the Exchange Agent will deliver full shares of Paychex Common Stock to such shareholder in accordance with the Exchange Ratio and cash in lieu of fractional shares pursuant to the terms of the Merger Agreement and in accordance with the transmittal letter, together with any dividends or other distributions to which such shareholder is entitled.

There will be no further transfers of Common Stock on Pay-Fone's

stock transfer books after the Effective Time. If a certificate representing Pay-Fone Shares is presented for transfer, it will be canceled and a certificate representing the appropriate number of full shares of Paychex Common Stock and cash in lieu of fractional shares and any dividends and distributions will be issued in exchange therefor.

After the Effective Time and until surrendered, Pay-Fone Shares will be deemed for all corporate purposes, other than the payment of dividends and distributions, to evidence ownership of the number of full shares of Paychex Common Stock into which such Pay-Fone Shares were converted in the Merger. No dividends or other distributions, if any, payable to holders of Paychex Common Stock will be paid to the holders of any certificates for Pay-Fone Shares until such certificates are surrendered. Upon surrender of such certificates, all such declared dividends and distributions which shall have become payable with respect to such Paychex Common Stock in respect of a record date after the Effective Time will be paid to the holder of record of the full shares of Paychex Common Stock represented by the certificate issued in exchange therefor, without interest.

SHAREHOLDERS OF PAY-FONE SHOULD NOT FORWARD STOCK CERTIFICATES TO THE EXCHANGE AGENT UNTIL THEY HAVE RECEIVED TRANSMITTAL LETTERS. SHAREHOLDERS OF PAY-FONE SHOULD NOT RETURN STOCK CERTIFICATES WITH THE ENCLOSED PROXY.

#### Certain Federal Income Tax Consequences

The following is a summary of certain federal income tax consequences of the Merger that are generally applicable to Paychex, Pay-Fone and the Pay-Fone shareholders. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), regulations promulgated thereunder, and applicable rulings and decisions, as currently in effect, all of which are subject to change. This summary does not discuss any aspect of state, local or foreign taxation and does not discuss all of the tax consequences that may be relevant to particular Pay-Fone shareholders in light of their personal investment circumstances, or to certain types of shareholders that may be subject to special tax rules, such as financial institutions, tax-exempt organizations, insurance companies, dealers in securities, foreign corporations, individuals who are not citizens or residents of the United States and individuals who acquired their Pay-Fone Shares in connection with stock option plans or in other compensatory transactions. In addition, the discussion does not address the effects of the Merger on holders of Pay-Fone Options. The discussion with respect to Pay-Fone shareholders is limited to those shareholders who have held the Pay-Fone Shares and who will hold the Paychex Common Stock received in the Merger as "capital assets" within the meaning of Section 1221 of the Code.

This summary is based upon an opinion of Hughes Hubbard & Reed, tax counsel for Pay-Fone. It should be noted that tax counsel's opinion does not address all of the federal income tax consequences of the Merger, and neither this summary nor tax counsel's opinion is binding on the Internal Revenue Service ("IRS"). Pay-Fone has not requested and will not request a ruling from the IRS with regard to any of the federal income tax consequences of the Merger.

Accordingly, Pay-Fone shareholders and others affected by the Merger should consult their own tax advisors as to the consequences of the Merger, including the application to their particular situation of the tax consequences discussed below, as well as the application of state, local, foreign or other tax laws.

The federal income tax consequences of the Merger will depend on whether, among other things, the Merger satisfies the requirements for a "tax-free" reorganization ("Reorganization") under Code Sections 368(a)(1)(A) and 368(a)(2)(E). Among the requirements for a Reorganization are that: (i) Pay-Fone after the Merger will have continued its historic business or will have used a significant portion of its historic business assets in a business; and (ii) the significant historic shareholders of Pay-Fone will not have had a plan or intention, existing at or prior to the Effective Time of the Merger, to dispose of the Paychex Common Stock to be received in the Merger such that they would not have retained a significant continuing interest in Pay-Fone after the Merger through their continued ownership of Paychex Common Stock. Pay-Fone will not be obligated after the Merger to continue its historic business or to use a significant portion of its historic assets in a business. Moreover, while the Affiliates of Pay-Fone have represented that they do not currently have and at the Closing Date will not have a present plan or intention to dispose of more than 50 percent of the Paychex Common Stock to be received in the Merger, they will not be obligated to continue to hold any Paychex Common Stock, apart from: (i) a contractual commitment with Paychex to hold all of the Paychex Common Stock received by them until results covering at least 30 days of combined operations of Pay-Fone and Paychex have been publicly disseminated by Paychex; and (ii) restrictions on resale, if any, imposed by the federal securities laws. Each of the Affiliates has expressly reserved the right at any time after the Closing Date to evaluate his or her investment portfolio, including



Paychex Common Stock, and to make such investment decision with respect to such securities as such Affiliate shall deem to be in his or her interest.

Because certain actions by Pay-Fone or its historic shareholders occurring after the Merger could violate the continuity of business enterprise or continuity of interest requirements for a Reorganization, tax counsel has expressed no opinion as to whether the Merger will satisfy the requirements for a Reorganization. Accordingly, there can be no assurance that the Merger will satisfy the requirements for a Reorganization or that the IRS would not challenge the status of the Merger as a Reorganization based on events which take place after the Merger.

If the Merger qualifies as a Reorganization, tax counsel has advised that the following federal income tax consequences will result from the Merger.

- (a) No gain or loss would be recognized by a holder of Pay-Fone Shares upon the receipt of the Paychex Common Stock in exchange for his Pay-Fone Shares (except for cash received in lieu of a fractional share).
- (b) The aggregate tax basis of the Paychex Common Stock received by a Pay-Fone shareholder in the Merger (including a fractional share interest, if any) would be the same as the aggregate tax basis of the Pay-Fone Shares surrendered in exchange therefor.
- (c) The holding period of the Paychex Common Stock (including a fractional share interest, if any) received by a Pay-Fone shareholder in the Merger would include the holding period of the Pay-Fone Shares surrendered in exchange therefor, provided that the Pay-Fone Shares so surrendered are held as a capital asset at the Effective Time of the Merger.
- (d) A Pay-Fone shareholder who receives cash in lieu of a fractional share of Paychex Common Stock in connection with the Merger would recognize gain or loss equal to the difference between the cash received and the basis of such fractional share. Such gain or loss would be capital gain or loss, provided that the Pay-Fone Shares are held as a capital asset at the Effective Time of the Merger, and would be long-term capital gain or loss if the Pay-Fone Shares had been held for more than one year.
- (e) No gain or loss would be recognized by Paychex, Merger Sub or Pay-Fone in connection with the Merger.

If the Merger does not satisfy the requirements for a Reorganization, tax counsel has advised that a Pay-Fone shareholder would be treated as if he sold his Pay-Fone Shares in a taxable transaction. In such event, a Pay-Fone shareholder would recognize capital gain or loss in an amount equal to the difference between the fair market value, as of the Effective Time of the Merger, of the Paychex Common Stock (and the amount of cash received in lieu of a fractional share) and the tax basis of the Pay-Fone Shares surrendered in exchange therefor, provided that the Pay-Fone Shares so surrendered are held as a capital asset at the Effective Time of the Merger. Such capital gain or loss would be long-term capital gain or loss if the Pay-Fone Shares have been held for more than one year. A Pay-Fone shareholder's aggregate basis in the Paychex Common Stock received in the Merger would equal its fair market value as of the Effective Time of the Merger, and the Pay-Fone shareholder's holding period of such Paychex Common Stock would begin the day after the Merger.

Whether or not the Merger qualifies as a Reorganization, tax counsel has advised that a Pay-Fone shareholder who exercises dissenters' rights and receives cash in the Merger in lieu of Paychex Common Stock will be treated as having received the cash as a distribution in redemption of his Pay-Fone Shares as provided in Code Section 302. Such shareholder generally will recognize capital gain or loss measured by the difference between the amount of cash received and his aggregate adjusted tax basis in the Pay-Fone Shares, provided the Pay-Fone Shares were held as a capital asset at the Effective Time of the Merger. Such capital gain or loss will be long-term capital gain or loss if the Pay-Fone Shares have been held for more than one year. A shareholder exercising dissenters' rights who also owns Paychex Common Stock, or who is deemed for federal income tax purposes to own constructively Paychex Common Stock actually owned by other persons or entities, may recognize dividend income, taxable as ordinary income, equal to the amount of the cash received.

The discussion set forth above is included for general information only. It does not address the state, local or foreign tax aspects of the Merger. The discussion is based on currently existing provisions of the Code, existing and proposed treasury regulations thereunder and current

administrative rulings and court decisions. All of the foregoing are subject to change and any such change could affect the continuing validity of this discussion. Each shareholder should consult his or her own tax advisor with respect to the specific tax consequences of the Merger to him or her, including the application and effect of state, local and foreign tax laws.

#### Accounting Treatment

The Merger is intended to be treated as a pooling of interests transaction for accounting and financial reporting purposes. Under the pooling of interests method of accounting, the recorded assets and liabilities of Paychex and Pay-Fone will be carried forward to Paychex' consolidated financial statements at their recorded amounts, the consolidated earnings of Paychex will include earnings of Paychex and Pay-Fone for the entire fiscal year in which the Merger occurs and the reported retained earnings of Paychex and Pay-Fone for prior periods will be combined and restated as consolidated retained earnings of Paychex. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS -- Conditions/Waiver."

Paychex and Pay-Fone have agreed that during the period from the date of the Merger Agreement through the Effective Time, unless the parties shall have otherwise agreed in writing, neither of them will take any action that such party knows or has been advised would prevent Paychex from accounting for the Merger as a pooling of interests. Paychex and Pay-Fone have also agreed to use all reasonable efforts to cause their respective affiliates, and each of Pay-Fone's Affiliates (its officers and directors and Allied Contractors, Inc.) has agreed, not to take certain actions, including transfers of Pay-Fone Shares, that would impair Paychex' ability to account for the Merger as a pooling of interests. The Merger Agreement provides that a condition to the consummation of the Merger is the receipt by Paychex of an opinion of its independent auditors that the Merger will qualify for pooling of interests accounting treatment.

#### Rights of Dissenting Shareholders

Sections 1300-1312 of the California General Corporation Law (the "CGCL"), contain provisions which permit the shareholders of Pay-Fone who comply with the procedures specified therein to receive payment in cash for the fair market value of their shares instead of shares of Paychex Common Stock in the Merger. Sections 1300-1312 are set forth in full in Annex II to this Proxy Statement/Prospectus. The following is a brief summary of the provisions of those sections.

The Pay-Fone Shares are listed on the American Stock Exchange. Under the CGCL, dissenters' rights are not available with respect to shares listed on the American Stock Exchange unless (i) the shares are subject to a restriction on transfer imposed by Pay-Fone or by any law or regulation ("Restricted Shares"), or (ii) 5% or more of the outstanding shares demand payment in accordance with the procedures described below. A condition to Paychex' obligation to consummate the Merger is that Demands (as defined below) shall not have been filed with respect to 5% or more of outstanding Pay-Fone Shares.

Only record holders of Pay-Fone Shares may exercise dissenters' rights. Accordingly, in any case in which Pay-Fone Shares are held in the name of a nominee or agent, such as Shares held in "street name" by a broker, the beneficial owner of such Shares must make arrangements for the record holder of the Pay-Fone Shares to take all actions and to deliver all documents required to perfect the beneficial owner's dissenters' rights.

To exercise dissenters' rights, a record shareholder (the "dissenting shareholder") must vote against the Merger, Pay-Fone or its transfer agent must timely receive a written statement from such dissenting shareholder demanding that Pay-Fone pay in cash the fair market value of the dissenting shareholder's Pay-Fone Shares (the "dissenting shares") and there must be a timely and proper submission to Pay-Fone or its transfer agent of the certificates representing the dissenting shares. A vote against the Merger will not satisfy the requirements with respect to the demand for payment in cash or other actions required to perfect dissenters' rights. Shareholders who vote in favor of the Merger, abstain from voting or provide no direction on their proxy cards to vote against the Merger will lose their dissenters' rights. Except as expressly limited in Sections 1300-1312 of the CGCL, dissenting shareholders have all the rights otherwise incident to Pay-Fone Shares until the dissenting shares' fair market value is agreed upon or determined.

For purposes of determining Pay-Fone's purchase price for dissenting shares, fair market value shall be determined as of the day before the first announcement of the terms of the proposed Merger, excluding any appreciation or depreciation in consequence of the proposed Merger, but adjusted for any stock split or stock dividend which later becomes effective. On March 17, 1995, the day before the issuance of Pay-Fone's

press release announcing the proposed Merger, the closing sale price for Pay-Fone Common Stock on American Stock Exchange was \$4.50. See "SUMMARY - - Comparative Market Prices and Dividend Data."

By June 15, 1995, the date of the Special Meeting, a dissenting shareholder must make, and Pay-Fone or its transfer agent must receive, a written demand (the "Demand") for Pay-Fone to purchase the dissenting shares in cash at their fair market value. The Demand must state the number and class of the shares held of record which the dissenting shareholder demands that Pay-Fone purchase and must contain a statement of what such shareholder claims to be the fair market value of the dissenting shares as of the day before the announcement of the proposed Merger. Once made, dissenting shareholder may not withdraw a Demand without the consent of Pay-Fone.

Within ten days after the approval of the Merger by the shareholders, Pay-Fone will give written notice (the "Notice") by mail of such approval to those shareholders who voted against the Merger and who timely delivered a Demand; provided, however, that the Notice shall be mailed to dissenting shareholders other than holders of Restricted Shares only if Demands were timely delivered with respect to 5% or more of the outstanding Pay-Fone Shares. The Notice shall be accompanied by a copy of Sections 1300-1304 of the CGCL relating to dissenters' rights, a statement of the price Pay-Fone considers to represent the fair market value of the dissenting shares and a brief description of the procedure to be followed to exercise dissenters' rights. Within 30 days of the mailing of the Notice, a dissenting shareholder must submit to Pay-Fone at its principal office or at the office of its transfer agent the certificates representing the dissenting shares for endorsement thereon of a statement that the shares are dissenting shares or for an exchange for certificates so endorsed.

Within 30 days after Pay-Fone and the dissenting shareholder agree that the shares are dissenting shares and agree as to the price of the shares, Pay-Fone must pay the agreed price plus interest thereon from the date of agreement. If, however, there is disagreement as to the status of the shares as dissenting shares or as to the fair market value of the shares or both, the shareholder may, within six months of the mailing of the Notice, seek a judicial determination of the status of the shares as dissenting shares or of the dissenting shares' fair market value.

A dissenting shareholder loses dissenters' rights if (i) Pay-Fone abandons the Merger (upon such abandonment Pay-Fone shall pay on demand to any dissenting shareholder who has initiated proceedings in good faith all necessary expenses incurred in such proceeding and reasonable attorneys' fees), (ii) the shares are transferred prior to their submission for endorsement as dissenting shares or are surrendered for conversion into shares of another class, (iii) there is disagreement as to the status of the shares as dissenting shares or as to the purchase price thereof and such shareholder fails to seek a judicial determination thereof within six months of the date on which the Notice was mailed, or (iv) such shareholder's Demand is withdrawn with the consent of Pay-Fone. No shareholder who has a right to demand payment of cash for his Pay-Fone Shares shall have any right at law or in equity to attack the validity of the Merger or have it set aside or rescinded except in an action to test whether a sufficient number of Pay-Fone Shares were legally voted in favor of the Merger.

All written communications from shareholders with respect to the exercise of dissenters' rights should be delivered to Mark Leekley, President of Pay-Fone Systems, Inc., 8100 Balboa Avenue, Van Nuys, California 91406. For purposes of the foregoing discussion regarding dissenters' rights, the terms "written" and "in writing" include facsimile or telegraphic communications.

The foregoing summary does not purport to be a complete statement of the provisions of the CGCL relating to the rights of dissenting shareholders and is qualified in its entirety by reference to Annex II hereto.

#### Effect on Pay-Fone Stock Options

At the Effective Time each outstanding option to purchase Pay-Fone Shares ("Pay-Fone Option") shall be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such Pay-Fone Option, a number of shares of Paychex Common Stock equal to the product of the Exchange Ratio and the number of Pay-Fone Shares subject to the Pay-Fone Option at a price per share equal to the aggregate exercise price for the Pay-Fone Shares subject to such option divided by the number of full shares of Paychex Common Stock deemed purchasable pursuant to such option; the terms of the conversion of any incentive stock option shall be determined in a manner that complies with applicable provisions of the Internal Revenue Code; and the number of shares of Paychex Common Stock that may be purchased upon exercise of any Pay-Fone Option shall not include any fractional share and, upon exercise of such option as to all remaining shares of Paychex Common Stock, a cash payment shall be made for

any fractional share based upon the closing price of a share of Paychex Common Stock on the trading day next preceding the date of exercise and the exercise price.

Paychex has agreed to take all corporate action necessary to reserve a sufficient number of shares of Paychex Common Stock for issuance and delivery upon exercise of the Pay-Fone Options and to register such shares under the Securities Act.

#### Interests of Certain Persons in the Merger

The obligation of Paychex to consummate the Merger is subject to the condition that the employment agreement between Paychex and Mark Leekley, President and Chief Executive Officer of Pay-Fone, executed on March 17, 1995, shall have become effective. Pursuant to such employment agreement, Mr. Leekley will be employed commencing at the Effective Time for a term of one year for an annual salary of \$93,000, plus a bonus of up to \$21,000 and certain other benefits. Mr. Leekley will also be awarded stock options to purchase 1,500 shares of Paychex Common Stock at the closing price thereof at the Effective Time.

As an incentive for remaining with Pay-Fone from the date of the Merger Agreement until the end of a period not to exceed eight months after the Effective Time, Pay-Fone will pay bonuses to its executive officers and other key employees in amounts ranging from \$15,000 to \$25,000 with respect to executive officers. A total of 17 employees (including five executive officers) are eligible for the bonuses, and the total bonus pool equals \$175,500. Such employees will also be paid additional severance compensation (up to \$10,263 with respect to executive officers) if they are terminated by Paychex for any reason other than for cause in the first 12 months after the Effective Time. In consideration for such payments, each employee must agree to release Pay-Fone from any claims relating to his or her employment and must execute Paychex' standard employee confidentiality agreement.

In recognition of extraordinary services rendered in negotiating the Merger, the Board of Directors of Pay-Fone (with Mark Kelton and David Malcolm abstaining) has approved and Pay-Fone has paid bonuses to Mark Kelton, Mark Leekley and David Malcolm of \$50,000, \$25,000 and \$25,000, respectively.

Pursuant to an Affiliates Agreement dated as of March 17, 1995 with Paychex, Pay-Fone's directors and executive officers and Allied Contractors, Inc. (the Affiliates) have agreed to vote their Pay-Fone Shares in favor of the Merger. The Affiliates collectively own approximately 76% of the Pay-Fone Shares outstanding and entitled to vote as of the record date for the Special Meeting and, accordingly, will be able to approve the Merger without the vote of any other shareholder. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Affiliates Agreement" and "OWNERSHIP OF PAY-FONE SHARES."

The Merger Agreement prohibits Pay-Fone from, directly or indirectly, soliciting or engaging in any discussions or negotiations with any third party, other than Paychex, concerning a transfer of control of Pay-Fone. Consistent with their fiduciary duties, Affiliates who are also directors of Pay-Fone are required to act in good faith and in the best interests of Pay-Fone and its shareholders. Accordingly, notwithstanding the terms of the Affiliates Agreement or the Merger Agreement, Pay-Fone's directors, in the exercise of their fiduciary duties, may withdraw their approval and recommendation of, or abandon, the Merger if, for example, a third party were to propose a transaction which the directors determined to be more favorable to Pay-Fone and its shareholders. The Merger Agreement provides that if the Pay-Fone Board takes a position contrary to the Merger, the holders of 5% or more of Pay-Fone Shares exercise dissenters' rights and Paychex elects to terminate the Merger Agreement, or if Pay-Fone fails to cooperate as required by the Merger Agreement in presenting the Merger to the Pay-Fone shareholders for their vote, then Pay-Fone will be required to pay \$300,000 to Paychex as liquidated damages within ten days after written demand.

In order to satisfy a Paychex requirement that Paychex not bear any substantial economic risk with respect to the Tax Claims and certain related claims as a result of the Merger, the six individuals serving as directors of Pay-Fone and Allied Contractors, Inc., a shareholder of Pay-Fone (collectively, the "EIA Shareholders"), have executed an Escrow and Indemnity Agreement with Paychex, Pay-Fone and an escrow agent which under certain circumstances will become effective at the Effective Time. Pursuant to the Escrow and Indemnity Agreement, the EIA Shareholders will indemnify Paychex and Pay-Fone against expenses and deficiencies paid after the Effective Time with respect to the Tax Claims and certain related claims. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Escrow and Indemnity Agreement." The formula for the Exchange Ratio in the Merger Agreement provides for an adjustment which would reduce the Exchange Ratio based on amounts expended by Pay-Fone between the date of the Merger Agreement and the Effective Time in contesting and resolving the Tax Claims. As a result of this provision in

the Merger Agreement, expenses and deficiencies paid with respect to the Tax Claims prior to the Merger will negatively affect the Exchange Ratio and thereby all shareholders of Pay-Fone, while such expenses and deficiencies paid after the Merger may instead be borne by the EIA Shareholders.

#### Resale of Paychex Common Stock

The shares of Paychex Common Stock to be issued to the shareholders of Pay-Fone pursuant to the Merger Agreement are being registered under the Securities Act pursuant to the Registration Statement of which this Proxy Statement/Prospectus is a part. However, persons who are affiliates of Pay-Fone will not be able to resell the Paychex Common Stock received by them in the Merger unless the Paychex Common Stock is registered for resale under the Securities Act, is sold in compliance with an exemption from the registration requirements of the Securities Act or is sold in compliance with Rule 145 under the Securities Act.

Pursuant to Rule 145 under the Securities Act, the sale of Paychex Common Stock acquired by former affiliates of Pay-Fone pursuant to the Merger will be subject to certain restrictions. For two years after the Effective Date such persons may sell Paychex Common Stock under Rule 145 only if (i) Paychex has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding twelve months, (ii) the Paychex Common Stock is sold in a "broker's transaction," which is defined in Rule 144 under the Securities Act as a sale in which (a) the seller does not solicit or arrange for orders to buy the securities, (b) the seller does not make any payment other than to the broker, (c) the broker does no more than execute the order and receive a nominal commission and (d) the broker does not solicit customer orders to buy the securities, and (iii) such sale and all other sales made by such person within the preceding three months do not collectively exceed the greater (x) 1% of the outstanding shares of Paychex Common Stock and (y) the average weekly trading volume of Paychex Common Stock on all national securities exchanges during the four-week period preceding the sale.

The Affiliates have agreed to certain other restrictions with respect to the transferability of their Paychex Common Stock as described in "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS - Affiliates Agreement."

#### CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS

The following description does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, including exhibits thereto, a copy of which is attached as Annex I to the Proxy Statement/Prospectus and is incorporated herein by reference.

#### Representations and Warranties

The Merger Agreement contains various representations and warranties of the parties thereto. The Merger Agreement includes representations and warranties by Pay-Fone and Paychex as to (i) the corporate organization, standing and power of Pay-Fone and Paychex and their subsidiaries, (ii) approvals by their respective Boards of Directors or Committees thereof, (iii) their capitalization, (iv) the authorization of the Merger Agreement, (v) pending or threatened litigation, (vi) the Merger Agreement's non-contravention of any agreement, law, charter or by-law provision and the absence of the need (except as specified) for governmental or third-party consents to the Merger, (vii) the terms, existence, operations, liabilities and compliance with applicable laws of Pay-Fone employee plans, and certain other matters relating to the Employment Retirement Income Security Act of 1974, as amended, (viii) certain tax matters, (ix) ownership of and rights to use certain intellectual property, (x) the accuracy of financial statements and filings with the SEC, (xi) the conduct of business in the ordinary and usual course and the absence of any material adverse change in financial condition, business, results of operations, properties, assets, liabilities or prospects, (xii) certain contracts and leases, (xiii) certain transactions with affiliates, (xiv) brokers and finders, and (xv) the accuracy of information supplied for inclusion in this Proxy Statement/Prospectus and in the Registration Statement.

#### Business of Pay-Fone Pending the Merger

Pay-Fone has agreed that, among other things, prior to the Effective Time or earlier termination of the Merger Agreement, it will conduct its operations according to its ordinary course of business consistent with its past practice and that it will seek to preserve its current business organizations, keep available the service of its current officers and

employees and preserve its relationships with customers, suppliers and others having business dealings with it. Pay-Fone further agrees that, except with the consent of Paychex or as otherwise permitted pursuant to the Merger Agreement, prior to the Effective Time it will refrain from taking certain actions with respect to, among other things, its securities, employee benefits, corporate existence, or form thereof, assets, indebtedness, and major transactions.

#### Certain Covenants of Paychex

Paychex has agreed that, prior to the Effective Time or earlier termination of the Merger Agreement, except as permitted in the Merger Agreement or with Pay-Fone's prior written consent, Paychex will not (i) adopt a plan of complete or partial liquidation, dissolution, merger or consolidation (other than a merger or consolidation in which Paychex would not become a subsidiary of any other person); (ii) adopt any amendments to the Certificate of Incorporation of Paychex or take any other action requiring a vote of the other holders of Paychex Common Stock, which would adversely effect the terms and provisions of the Paychex Common Stock or the rights of the holders thereof, (iii) authorize, recommend, propose or announce an intention, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing, or (iv) during the 60 days prior to the Closing purchase shares of Paychex Common Stock or take other actions a principal purpose of which is to affect the Actual Price of Paychex Common Stock or the Exchange Ratio.

#### No Solicitation

Under the Merger Agreement, Pay-Fone has agreed that, prior to the consummation of the Merger, Pay-Fone will not, and it will not authorize any of its officers, employees, representatives, agents or affiliates to, directly or indirectly, encourage, solicit or engage in discussions or negotiations with any third party (other than Paychex) concerning any merger, consolidation, share exchange or similar transaction involving Pay-Fone or any purchase of all or a significant portion of the assets of or equity interest in Pay-Fone, or any other transaction that would involve a transfer or potential transfer of control of Pay-Fone, other than the transactions contemplated by the Merger Agreement, provided, however, that the Pay-Fone Board may take and disclose to Pay-Fone shareholders a position under applicable Exchange Act rules with respect to a tender offer for Pay-Fone Shares commenced by a third party and otherwise act in a manner consistent with its fiduciary duties. Pay-Fone has agreed to notify Paychex immediately of any inquiries or proposals with respect to any such transactions that are received by, or any such negotiations or discussions that are sought to be initiated with, Pay-Fone.

Pay-Fone has agreed that, in the event that its Board takes a position contrary to the proposed Merger and the holders of 5% or more of the Pay-Fone Shares elect dissenters' rights and Paychex elects to terminate the Merger Agreement in accordance with the provisions thereof, then Pay-Fone will pay Paychex the sum of \$300,000. Similarly, Paychex has agreed that, in the event it fails to cooperate as required by the Merger Agreement or unreasonably fails to provide its consent or unreasonably employs an immaterial breach or failure to terminate the Merger Agreement, it will pay Pay-Fone the sum of \$300,000. In both instances the payment represents liquidated damages which shall extinguish all other claims.

#### Conditions/Waivers

##### Conditions to Each Party's Obligations to Effect the Merger.

It is a condition of each party's obligations under the Merger Agreement that the following conditions be satisfied or waived: (i) the Merger shall have been approved by the holders of a majority of the outstanding Pay-Fone Shares, (ii) all governmental authorizations required for performance of the obligations under the Merger Agreement have been obtained, (iii) there shall be no judgment, writ, order, injunction or decree of any court or governmental body enjoining or otherwise preventing consummation of the transactions contemplated by the Merger Agreement, (iv) there shall be no stop order suspending the effectiveness of, or any action by the SEC to suspend the effectiveness of the Registration Statement, (v) the Paychex Common Stock to be issued in the Merger shall have been approved for listing on the NASDAQ National Market, (vi) Paychex shall have received all state securities or blue sky authorizations for issuance of Paychex Common Stock pursuant to the Merger and (vii) all required authorizations, consents or approvals (other than those described in clause (ii) of this sentence) for the performance of the obligations under the Merger Agreement, the failure of which would have a material adverse affect on Paychex and its subsidiaries taken as a whole, shall have been obtained.

Conditions to Paychex' and Merger Sub's Obligations.

The obligations of Paychex and Merger Sub under the Merger Agreement are subject to the fulfillment or waiver of the following additional conditions: (i) each of the representations and warranties of Pay-Fone contained in the Merger Agreement or otherwise expressly required by the Merger Agreement to be made after the execution thereof (A) shall have been true in all material respects when made and (B) in some cases shall be true in all material respects at the time of the Closing with the same effect as though such representations and warranties had been made at such time, (ii) at or prior to the Closing, Pay-Fone shall have performed or complied in all material respects with all agreements and conditions required of it pursuant to the Merger Agreement, (iii) Pay-Fone shall have delivered to Paychex a certificate, dated the date of the Closing and signed by the President or any Vice President of Pay-Fone, certifying as to the fulfillment of the conditions specified in clauses (i) and (ii) of this sentence, (iv) Paychex shall have received a legal opinion from counsel for Pay-Fone satisfactory to Paychex, (v) all corporate proceedings taken by Pay-Fone in connection with the transactions contemplated by the Merger Agreement shall be reasonably satisfactory to Paychex and Paychex' counsel, (vi) Paychex shall have received a tax opinion of Woods, Oviatt, Gilman, Sturman & Clarke LLP, counsel for Paychex, as contemplated by the Merger Agreement, (vii) Paychex shall have received an opinion from Ernst & Young LLP that the Merger will qualify for pooling-of-interests accounting treatment, (viii) no suit, action, investigation, inquiry or other proceeding by any United States governmental body or other material governmental body shall have been instituted and be pending which imposes or which would be reasonably expected to impose any condition or restriction unacceptable to Paychex in its reasonable judgment, (ix) the Registration Statement shall disclose no information in existence on the date of the execution of the Merger Agreement which is materially adverse to Pay-Fone's business, properties, operations, condition or prospects not previously disclosed in reports of Pay-Fone filed with the SEC or in the Merger Agreement, (x) the Employment Agreement between Paychex and Mark Leekley, Pay-Fone's President, shall have become effective, (xi) Pay-Fone shareholders holding 5% or more of the outstanding Pay-Fone Shares shall not have exercised appraisal rights, (xii) all persons required so to sign shall have signed the Affiliates Agreement, (xiii) the Escrow Agreement shall have become effective, if required, and (xiv) the Actual Price shall not be less than \$20.67, unless Pay-Fone agrees that the Formula Price will be \$22.67.

Conditions to Pay-Fone's Obligations.

Pay-Fone's obligations under the Merger Agreement are subject to the fulfillment or waiver of the following additional conditions: (i) each of the representations and warranties of Paychex and Merger Sub contained in the Merger Agreement or otherwise expressly required by the Merger Agreement to be made after the execution thereof (A) shall have been true in all material respects when made and (B) in some cases shall be true in all material respects at the time of the Closing with the same effect as though such representations and warranties had been made at such time, (ii) at or prior to the Closing, Paychex shall have performed or complied in all material respects with all agreements and conditions required of it pursuant to the Merger Agreement, (iii) Paychex shall have delivered to Pay-Fone a certificate, dated the date of the Closing and signed by the President or any Vice President of Paychex certifying as to the fulfillment of the conditions specified in clauses (i) and (ii) of this sentence, (iv) Pay-Fone shall have received a legal opinion from Woods, Oviatt, Gilman, Sturman & Clarke LLP counsel for Paychex satisfactory to Pay-Fone, (v) all corporate proceedings taken by Paychex in connection with the transactions contemplated by the Merger Agreement shall be reasonably satisfactory to Pay-Fone and Pay-Fone's counsel, (vi) the Registration Statement shall disclose no information in existence on the date of the execution of the Merger Agreement which is materially adverse to Paychex' business, properties, operations, condition or prospects not previously disclosed in reports of Paychex filed with the SEC or in the Merger Agreement, (vii) the Actual Price shall not be more than \$32.67 (unless Paychex agrees that the Formula Price will be \$30.67), and (viii) the aggregate amount subtracted from \$10,475,000 in the Exchange Ratio calculation by reason of the provisions relating to the General Adjustment and Positive Adjustment do not exceed \$360,000. If Pay-Fone elects to terminate the Merger Agreement because condition (viii) is not satisfied, Pay-Fone has agreed to pay Paychex \$70,000.

Amendment/Termination

The parties to the Merger Agreement may amend it by a writing signed by both parties.

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, before or after the approval of Pay-Fone shareholders, either by the mutual written consent of Paychex and Pay-Fone or by the mutual action of their respective Boards of Directors.

The Merger Agreement may also be terminated by action of either the Paychex Board or the Pay-Fone Board if (i) the Merger has not been consummated by August 31, 1995 (provided that the right to terminate under this clause (i) will not be available to any party whose failure to fulfill any obligation under the Merger Agreement or whose action or inaction, even though not prohibited by the Merger Agreement, has been the cause of or resulted in the failure of the Merger to occur on or before such date), (ii) any court or governmental body in the United States has issued a final and nonappealable order, decree or ruling or taken any other final and nonappealable action permanently restraining, enjoining or otherwise prohibiting the Merger, or (iii) a party acquires verified information regarding the other party not known to the first party when the Merger Agreement was signed which has or would reasonably be expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial and other) or prospects of the other party.

In the event of termination of the Merger Agreement and abandonment of the Merger, neither Paychex nor Pay-Fone (or any of their directors or officers) will have any liability or further obligation to any party to the Merger Agreement, except with respect to certain confidentiality requirements as provided for in the Merger Agreement. Nevertheless, each party to the Merger Agreement will remain liable for any breach thereof.

#### Regulatory Approvals

There are no federal or state regulatory requirements which must be complied with or approvals which must be obtained in connection with the Merger.

#### Expenses and Fees

Paychex and Pay-Fone will each pay their own expenses in connection with the Merger, whether or not consummated. However, in the event that the aggregate adjustments to the \$10,475,000 numerator in the Exchange Ratio formula exceeds \$360,000 and Pay-Fone terminates the Merger Agreement, Pay-Fone must pay Paychex \$70,000. See "THE MERGER - Merger Consideration."

In the event that the Pay-Fone Board takes a position contrary to the proposed Merger, the holders of 5% or more of Pay-Fone Shares elect dissenters' rights and Paychex elects to terminate the Merger Agreement, then Pay-Fone must pay Paychex \$300,000. Similarly, if Paychex fails to cooperate as required by the Merger Agreement or unreasonably fails to provide its consent or unreasonably employs an immaterial breach or failure to terminate the Merger Agreement, it must pay Pay-Fone \$300,000. See "CERTAIN PROVISIONS OF THE MERGER AGREEMENT AND OTHER AGREEMENTS."

#### Affiliates Agreement

Concurrently with the original execution of the Agreement and Plan of Merger, Paychex, Merger Sub, Pay-Fone and the Affiliates entered into the Affiliates Agreement, pursuant to which each Affiliate agreed to attend the Special Meeting in person or by proxy and to vote all Pay-Fone Shares owned by such Affiliate for approval and adoption of the Merger Agreement.

The Affiliates Agreement also contains certain provisions relating to the treatment of the Merger as a pooling of interests for accounting purposes. Certain of the Affiliates (the "Members"), who own more than 70% of the outstanding Pay-Fone Shares, have agreed to continue to own their Pay-Fone Shares at all times prior to the Effective Time; while the remaining Affiliates have agreed not to sell, transfer or otherwise dispose of Pay-Fone securities only from and after the date which is 30 days prior to the Special Meeting. All Affiliates have agreed to hold their Pay-Fone Shares or the shares of Paychex Common Stock received in exchange therefor from the applicable date until after such time as results covering at least 30 days of combined operations of Pay-Fone and Paychex have been published by Paychex (the "Publication Date").

Each Member has represented that such Member does not have, and as of the Closing Date such Member will not have, any present plan to sell more than 50% of the shares of Paychex Common Stock issued to such Member in connection with the Merger, but no Member has undertaken any obligation to hold any amount of such shares of Paychex Common Stock beyond the



Publication Date.

## Escrow and Indemnity Agreement

Concurrently with the original execution of the Agreement of and Plan of Merger and the Affiliates Agreement, Paychex and certain owners of more than 70% of the outstanding Pay-Fone Shares (the "EIA Shareholders") executed an Escrow and Indemnity Agreement with Mara Escrow Company ("Escrow Agent"). The EIA Shareholders are the six Pay-Fone directors and a shareholder, Allied Contractors, Inc. The EIA Shareholders agreed under certain circumstances to deposit with the Escrow Agent at Closing that number of shares of Paychex Common Stock (the "Escrow Shares") as shall be equal to the quotient (rounded to the nearest whole number) derived by dividing \$400,000 by the Formula Price. The Escrow Shares are to secure Pay-Fone and Paychex against loss resulting from Internal Revenue Service ("IRS") claims against Pay-Fone for the fiscal years ended June 30, 1987 through 1991 (the "Federal Tax Claims"), which currently aggregate \$471,000, to the extent they are unresolved at the Closing Date. The EIA Shareholders (along with qualified professionals designated by them and approved by Paychex) would be authorized to negotiate and litigate to a final resolution the Federal Tax Claims and under certain circumstances claims asserted by the California Franchise Tax Board ("CFTB") for state income or franchise taxes with respect to the same periods and based on the same facts in the event the EIA Shareholders are responsible therefor. The authorization may also extend to similar IRS and CFTB claims relating to subsequent periods through June 30, 1995 for which the EIA Shareholders may also be responsible.

Upon a final resolution of the Federal Tax Claims, Paychex will cause Pay-Fone to pay to the IRS the amounts still due with respect to the Federal Tax Claims and to pay to the EIA Shareholders the amount of the expenses incurred by them for which they seek reimbursement. The EIA Shareholders and Paychex will then agree upon (or accountants will determine) the net economic cost to Paychex and Pay-Fone ("Federal Tax Claim Cost") after reasonably anticipated tax benefits (taking deferred benefits into account by discounting them at the prime rate then in effect) of such resolution including reimbursement of EIA Shareholders' expenses.

The Escrow Agent will release to Paychex that number of Escrow Shares as results from dividing the Federal Tax Claim Cost by the Formula Price and release to the EIA Shareholders the remaining Escrow Shares. If the quotient of such division is greater than the number of Escrow Shares, then the EIA Shareholders (in proportion) shall deliver to Paychex shares of Paychex Common Stock equal to the amount by which such quotient exceeds the number of Escrow Shares. If an EIA Shareholder no longer holds shares of Paychex Common Stock, he shall deliver in lieu of any such share cash in an amount equal to the Formula Price. The liability of the EIA Shareholders is several and not joint and is proportional.

Upon delivery of all Escrow Shares, the escrow shall terminate. However, if the amount paid the IRS with respect to the Federal Tax Claims is more than \$25,000, the EIA Shareholders agree to indemnify Paychex and Pay-Fone against the net economic cost of any claim, loss, liability or expense arising out of any IRS claim for fiscal years 1992 through 1995, and for CFTB claims for fiscal years 1987 through 1995 which claims are based on the same issues or facts as the Federal Tax Claims. If the amount paid the IRS with respect to the Federal Tax Claims is \$25,000 or less, but includes some liability with respect to accumulated earnings claims, the EIA Shareholders agree to indemnify Paychex and Pay-Fone from the net economic cost of any claim, loss, liability or expense arising out of any IRS claim for fiscal years 1992 through 1995 and CFTB claims for fiscal years 1987 through 1995 which claims are based on the same issues and facts that result in liability in connection with the accumulated earnings claim.

The EIA Shareholders agree to pay the Escrow Agent's fees for standard services; and Paychex and Pay-Fone on the one hand, and EIA Shareholders on the other, agree to share equally the fees of the Escrow Agent for extraordinary services required.

The EIA Shareholders agreed to enter into the Escrow and Indemnity Agreement in order to satisfy a requirement of Paychex that Paychex not bear any substantial economic risk with respect to the Federal Tax Claims and related claims as a result of the Merger. Amounts paid by Pay-Fone with respect to the Federal Tax Claims and certain CFTB claims prior to the Effective Time could have the effect of reducing the Exchange Ratio. See "THE MERGER -Merger Consideration."

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND  
RESULTS OF OPERATION OF PAY-FONE

The following discussion should be read in conjunction with the consolidated financial statements of Pay-Fone contained elsewhere in this Proxy Statement/Prospectus.

## Results of Operations

Nine Months ended March 31, 1995 and 1994 (Unaudited):

Pay-Fone experienced a net loss of \$287,425 for the nine months ended March 31, 1995 compared to net income of \$167,440, for the nine months ended March 31, 1994. The 1995 loss was primarily due to expenditures associated with Pay-Fone's introduction of in-house tax filing services and entrance into the large-employer market as well as approximately \$117,500, of expenses incurred in the third quarter of fiscal 1995 attributed to the proposed Paychex Merger. Management anticipated that the increased expenditures related to the in-house tax filing services and entry into the large employer market and increased marketing expenses would have a negative impact on earnings in the first half of fiscal year 1995, but that the expenditures would position Pay-Fone for continued revenue growth in fiscal 1995 and beyond.

Revenues for the nine months ended March 31, 1995 increased \$240,655 (7.1%) over the nine months ended March 31, 1994. This increase in revenues is attributable primarily to Pay-Fone's acquisition of Concentric Computer Corporation in February 1994 and additional revenues generated by Pay-Fone's introduction of in-house tax filing services and entrance into the large-employer market.

Direct operating costs as a percentage of revenues increased to 46% in the nine months ended March 31, 1995 as compared to 37% in the same nine months in the prior year due to the costs associated with the establishment of Pay-Fone's second branch location in Northern California and Pay-Fone's introduction of in-house tax filing services and entrance into the large-employer market.

Selling, general and administrative expenses as a percentage of revenues increased to 63% in the nine month period ended March 31, 1995, as compared to 56% in the same period of the prior year. Again, this increase is due to the expenditures related to the introduction of in-house tax filing services and entrance into the large-employer market, including increased staffing and marketing expenses.

Pay-Fone incurred approximately \$117,500 of Merger related costs in the third quarter of fiscal 1995. The Company expects to incur additional legal and other costs associated with the Merger during the balance of the fiscal year.

Fiscal Years ended June 30, 1994, 1993 and 1992.

Net income for the fiscal year ended June 30, 1994 was \$188,966 as compared to net income of \$151,015 for the fiscal year ended June 30, 1993 and net income of \$110,596 for the fiscal year ended June 30, 1992. The 25% improvement in net income in fiscal 1994 compared to fiscal 1993 was primarily due to Pay-Fone's ongoing program of cost controls, a \$38,000 increase in rent earned in fiscal 1994 by leasing excess space in its corporate headquarters building, a \$20,976 credit to earnings arising from the change in the method of accounting for income taxes, and a reduction in legal expenses. This improvement occurred despite a slight reduction in revenues and additional expenses incurred with the establishment of a second branch office in Northern California.

Pay-Fone's gross revenues declined 1% in fiscal 1994 after declining 13.1% in fiscal 1993 and 1.2% in fiscal 1992. Despite the slight decline in revenues in fiscal 1994, in the fourth quarter revenues increased 7.6% as compared to the same quarter in the prior fiscal year. In fiscal 1994, it was management's objective to improve Pay-Fone's sales and marketing results and to continue to actively pursue acquisition opportunities so as to increase Pay-Fone's gross revenues, net income and shareholder value. Pay-Fone's acquisition of Concentric Computer Corporation on February 1, 1994 contributed significantly to the increase in fourth quarter revenues above 1993 levels. Additionally, Pay-Fone continued to add new services and enhancements to its operating segments, including the introduction of in-house tax filing services and entrance into the large-employer market in the third quarter of fiscal 1994. While management expects that the increased expenditures in these areas and in marketing expenses will have a negative impact on earnings in the first half of the fiscal year, it believes that these expenditures will position Pay-Fone for continued revenue growth in fiscal 1995.

The decline in Pay-Fone's revenues over the past several years was due to several factors, including the sale or discontinuation of portions of Pay-Fone's business outside California which were not profitable. In fiscal 1993, Pay-Fone sold its New York payroll business and terminated

its Mobile, Alabama franchise, and in fiscal 1992 Pay-Fone terminated its franchise in Greenville, South Carolina, which in the aggregate contributed .5% and 5.5% of Pay-Fone's revenues in fiscal 1993 and 1992, respectively.

Also, although the number of clients in fiscal 1993 and 1992 remained approximately the same, the average revenue per client declined because of a decrease in the number of employees which resulted in reduced payroll services. Management believes this was due, at least in part, to prevailing economic and employment conditions in California, Pay-Fone's main market. With the acquisition of Concentric Computer Corporation and Pay-Fone's increased sales efforts, the number of clients at June 30, 1994 increased approximately 9% over the number at June 30, 1993.

Direct operating costs as a percentage of revenues increased from 36% in fiscal 1993 to 38% in fiscal 1994 due to the decrease in revenues and the expenses incurred with the establishment of Pay-Fone's second branch location in Northern California. Direct operating costs as a percentage of revenues decreased to 36% in fiscal 1993 as compared to 39% in fiscal 1992 due to the Company's cost controls.

Selling, general and administrative costs as a percentage of revenues decreased to 57% in fiscal 1994 compared to 59% in fiscal 1993 and 60% in fiscal 1992 due to Pay-Fone's program of cost controls and a reduction in legal expenses in fiscal 1994. Combined marketing and advertising expenditures for fiscal 1994 increased approximately \$62,000 to \$1,032,571 as compared to \$970,304 in fiscal 1993 and \$1,088,090 in fiscal 1992.

Research and development expenses in fiscal 1994 totaled \$148,527 as compared to \$182,255 in fiscal 1993 and \$172,784 in fiscal 1992. Research and development expenditures are for payroll system enhancements and improvements to service and output to clients.

Income from operations for fiscal 1994 increased \$34,124 over fiscal 1993 after increasing \$133,277 over fiscal 1992 due primarily to the reduction in selling, general and administrative costs.

Pay-Fone adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109) in fiscal year 1994 and applied the provisions of Statement 109 retroactively to July 1, 1993. The cumulative effect of the change in the method of accounting for income taxes as of July 1, 1993 was reported separately in fiscal 1994 as a \$20,976 credit to earnings.

#### Liquidity and Capital Resources

Pay-Fone relies on cash flow from operations and working capital to finance its business and operations. Pay-Fone's overall financial position continues to be strong with a current ratio of 8.3 at March 31, 1995. This compares to a current ratio of 12.0 at June 30, 1994. At March 31, 1995, Pay-Fone had \$2.4 million in working capital. Pay-Fone has no legal obligation for material capital commitments. In management's opinion, current working capital together with cash flow from operations are sufficient to meet its normal operating requirements. Pay-Fone does not have any long-term debt, lines of credit or other material financing arrangements.

#### OWNERSHIP OF PAY-FONE SHARES

The following table sets forth information as of May 1, 1995, as to Pay-Fone Shares owned by (a) persons known to Pay-Fone to be the beneficial holders of more than 5% of the outstanding Pay-Fone Shares, (b) each director and the chief executive officer of Pay-Fone, and (c) all executive officers and directors of Pay-Fone as a group.

<TABLE>  
<CAPTION>

Beneficial Owner*	Number of Shares	Percent
Beneficially Owned of Class		
<S>	<C>	<C>
Allied Contractors, Inc. 2716 Ocean Park Boulevard Suite 3006 Santa Monica, CA 90405-5207	386,669 (1)	25.86%
Richard Kelton 2716 Ocean Park Boulevard Suite 3006 Santa Monica, CA 90405-5207	629,436 (2)	41.76%
David Kelton 2716 Ocean Park Boulevard Suite 3006		

Santa Monica, CA 90405-5207	229,688 (3)	15.31%
Allen Kahn, M.D. 55 East Washington Street Chicago, IL 60602-2174	253,400 (4)	16.79%
Mark Kelton 2716 Ocean Park Boulevard Suite 3006 Santa Monica, CA 90405-5207	114,596 (5)	7.64%
Edwin Johnson	43,700 (6)	2.90%
David L. Malcolm	23,100 (7)	1.55%
Mark Leekley	17,100 (8)	1.13%
All Executive Officers and Directors as a Group (11 persons)	1,228,920 (9)	77.39%

</TABLE>

\* Includes the address of more than 5% shareholders.

(1) Allied Contractors, Inc. ("Allied") is a California corporation owned by members of the Kelton family. Richard Kelton, David Kelton and Mark Kelton each serve as officers and directors of Allied. As President of Allied, Richard Kelton has the sole power to vote and dispose of all Pay-Fone Shares owned by Allied. Allied has granted each of Richard, David and Mark Kelton an option to purchase 54,000 Pay-Fone Shares owned by Allied.

(2) Includes 386,669 shares owned by Allied (see Note 1) and exercisable options to purchase 12,200 shares from the Company.

(3) Includes exercisable options to purchase 5,000 shares from the Company and exercisable options to purchase 54,000 shares from Allied.

(4) Includes exercisable options to purchase 14,000 shares from the Company.

(5) Includes exercisable options to purchase 5,000 shares from the Company and exercisable options to purchase 54,000 shares from Allied.

(6) Includes 1,000 shares owned by Mr. Johnson's wife, 10,000 shares owned by Economy Service Station, Inc., a corporation of which Mr. Johnson is the sole stockholder, and exercisable options to purchase 14,000 shares from the Company.

(7) Includes 5,500 shares owned by Suncoast Financial Corporation, a corporation wholly-owned by Mr. Malcolm and his wife.

(8) Includes exercisable options to purchase 16,800 shares from the Company.

(9) Includes exercisable options to purchase 25,900 shares held by executive officers not named in the foregoing table. Also includes the shares identified in Notes (2) through (8) except that all of the shares owned by Allied, all of which have been attributed to Richard Kelton and some of which have also been attributed to David and Mark Kelton by reason of options granted by Allied, have been counted only once.

Allied Contractors, Inc. and each of Pay-Fone's executive officers and directors have agreed to vote all voting securities of Pay-Fone owned by them, representing 76.47% of the Pay-Fone Shares outstanding and entitled to vote at the Special Meeting, for approval and adoption of the Merger Agreement.

#### DESCRIPTION OF PAYCHEX COMMON STOCK

The holders of Paychex Common Stock are entitled to one vote per share on all matters voted on by stockholders, including elections of directors, and, except as otherwise required by law, the holders of such shares exclusively possess all voting power. The Paychex Certificate of Incorporation does not provide for cumulative voting in the election of directors. The holders of Paychex Common Stock are entitled to such dividends as may be declared from time to time by the Paychex Board from funds available therefore, and upon liquidation, are entitled to receive pro rata all assets of Paychex available for distribution to such holders.

All shares of Paychex Common Stock, when issued, are fully paid and non-assessable and the holders thereof do not have preemptive rights. As of May 2, 1995, there were \_\_\_\_\_ shares of Paychex Common Stock (as then constituted) issued and outstanding. The Paychex Board has declared the Paychex 1995 Stock Split, a 3-for-2 stock split of Paychex Common Stock in the form of a stock dividend payable on May 25, 1995 to stockholders of record on May 2, 1995.

COMPARISON OF RIGHTS OF  
HOLDERS OF PAY-FONE SHARES AND  
PAYCHEX COMMON STOCK

Pay-Fone is a California corporation and, accordingly, the rights of its shareholders are governed by California law. If the Merger is consummated, Pay-Fone shareholders will become shareholders of Paychex and their rights as such will be governed by the Delaware General Corporation Law ("Delaware Law"), the Certificate of Incorporation, as amended, of Paychex (the "Paychex Certificate") and the Bylaws of Paychex, (the "Paychex Bylaws"). The following is a summary of certain material differences between the Delaware Law, Paychex Certificate and Paychex Bylaws, on the one hand, and the California Corporations Code ("California Law"), Pay-Fone's Articles of Incorporation, as amended (the "Pay-Fone Articles"), and Pay-Fone's Bylaws, as amended (the "Pay-Fone Bylaws"), on the other.

#### Indemnification

Although generally similar, Delaware Law permits a corporation to indemnify its directors, officers, employees and agents (collectively "agents") against liabilities and expenses arising out of legal proceedings brought against them by reason of their service as agents under a broader range of circumstances than does California Law. For example, under Delaware Law a corporation has the power to indemnify its directors and officers for expenses incurred or amounts paid in connection with a proceeding that is settled. California Law does not permit indemnification for expenses incurred or amounts paid in connection with a proceeding that is settled without court approval. Delaware Law allows a corporation to include in its bylaws, and in agreements between the corporation and its agents, provisions which expand the scope of indemnification beyond that otherwise provided by law. Under California Law, on the other hand, expanded indemnification is permitted only to the extent the additional rights to indemnification are authorized in the articles of incorporation. Pay-Fone has no such authorization in its Articles.

The Pay-Fone Bylaws require Pay-Fone to indemnify its directors and officers to the extent permitted by law. The Paychex Bylaws require Paychex to indemnify its agents to the full extent permitted by law. In addition, Paychex has entered into separate indemnification agreements with its directors which may afford greater indemnification rights than Delaware Law. Paychex also maintains directors' and officers' liability insurance.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted pursuant to the foregoing provisions, the SEC has taken the position that such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### Limitation of Director Liability

As permitted by Delaware Law, the Paychex Certificate includes a provision which eliminates the personal liability of directors for monetary damages for breach of fiduciary duty as a director. Thus, no director of Paychex may be personally liable for monetary damages for negligence or gross negligence, including grossly negligent business decisions in the case of a takeover attempt under Delaware Law; however, each director remains personally liable for failure to act in good faith, for breach of his duty of loyalty, for engaging in a transaction from which the director derives an improper personal benefit, for engaging in intentional misconduct or a knowing violation of law, or for the improper payment of a dividend or repurchase of shares. Paychex or any stockholder may seek an injunction or any other non-monetary relief in the event of a breach of a director's fiduciary duty. The limitation of liability applies only to claims against a director arising out of his role as a director and does not extend to the liability of a person who is a director for acts or omissions in his capacity as an officer. Furthermore, a director's liability under, and duty to comply with, the federal securities laws or other obligations unrelated to his fiduciary duty remain unaffected.

California Law authorizes a corporation to adopt a provision in its articles of incorporation which similarly limits a director's personal liability for breach of his duties to the corporation (although Delaware Law limits director liability in a broader range of circumstances), but

the Pay-Fone Articles do not contain such a provision.

#### Cumulative Voting

Under California Law, cumulative voting in the election of directors is available to shareholders unless specifically eliminated in the articles of incorporation of a listed corporation (a corporation whose shares are listed on the New York Stock Exchange or American Stock Exchange, or whose shares are listed on the NASDAQ National Market and which has 800 or more shareholders). The Pay-Fone Articles do not eliminate cumulative voting. Under Delaware Law, cumulative voting in the election of directors is not available unless the corporation's certificate of incorporation so provides. The Paychex Certificate does not provide for cumulative voting.

#### Super-Majority Voting

Delaware Law permits a corporation to include in its certificate of incorporation a provision requiring for any corporate action the vote of a larger proportion of the outstanding shares, or any class or series thereof, than required by Delaware Law ("super-majority vote"). Under California Law, a corporation may provide for a super-majority vote in its articles of incorporation for any corporate action except with respect to the election of directors, the removal of directors without cause, and the approval of the voluntary dissolution of a corporation. In the case of a corporation which has more than 100 shareholders of record (with certain exceptions not applicable to Pay-Fone), such corporation may not provide for a super-majority vote which exceeds 66-2/3% of the outstanding shares or any class or series thereof. Such super-majority vote provision must be approved by the same proportion of the outstanding shares as is required in the super-majority vote provision and such provision is effective only for a period of two years, subject to re adoption by the shareholders for additional two-year periods. Neither the Pay-Fone Articles nor the Paychex Certificate contains a super-majority vote provision.

#### Size of Board of Directors

Under California Law, although changes in the number of directors must in general be approved by the shareholders, the board of directors may fix the exact number of directors within a stated range set forth in the articles of incorporation or bylaws, provided that such provision has been approved by the shareholders. The Pay-Fone Articles provide that the Board of Directors shall consist of not less than four nor more than seven members and that the exact number shall be fixed by the Board of Directors or the shareholders. The current number of directors of Pay-Fone is six.

Delaware Law permits the Board of Directors to change the authorized number of directors by amendment of the bylaws or in the manner provided in the bylaws, unless the number of directors is fixed in the certificate of incorporation, in which case the number of directors may be changed only by an amendment to the certificate of incorporation. The Paychex Certificate does not fix the number of directors, nor do the Paychex By-Laws which provide that the Paychex Board may fix the number by resolution adopted prior to the annual meeting of stockholders. The Paychex Board has currently fixed the number of directors at seven.

#### Special Meetings of Shareholders

Under California Law, a special meeting of shareholders may be called by the board of directors, the chairman of the board, the president, the holders of shares entitled to cast not less than 10% of the votes at a meeting or such other persons as may be provided in the articles of incorporation or bylaws. The Pay-Fone Articles and Bylaws do not provide for any additional persons who may call a special meeting of shareholders. Under Delaware Law, a special meeting of stockholders may be called by the board of directors or such other persons as may be provided in the certificate of incorporation or bylaws. The Paychex Bylaws provide that the President, the Board of Directors or stockholders owning a majority of the outstanding shares may call a special meeting of stockholders.

#### Vote Required for Certain Mergers and Reorganizations

Delaware Law relating to mergers and other corporate reorganizations differs from California Law in a number of respects. Generally, California Law requires a shareholder vote in more situations than does Delaware Law.

Both California and Delaware Law generally provide for a shareholder vote of both the acquiring and acquired corporation in a merger and of the selling corporation for the sale of all or substantially all of its assets. In addition, with certain exceptions, California Law requires the affirmative vote of a majority of the outstanding shares of each class of (i) the acquiring corporation in a share-for-share exchange; (ii) the acquiring corporation (if it issues its securities) and acquired corporation in a sale-of-assets reorganization; and (iii) any parent

corporation whose equity securities are issued or transferred in connection with a corporate reorganization.

Delaware Law generally does not require a shareholder vote of the surviving corporation in a merger if the number of shares to be issued by the surviving corporation in the merger does not exceed 20 percent of the shares outstanding immediately prior to such issuance. California law contains a similar exception to its voting requirements for reorganizations where any corporation or its shareholders or both immediately before the reorganization own (immediately after the reorganization) more than five-sixths of the voting power of the surviving or acquiring corporation (or its parent).

Under California Law, a sale of all or substantially all of a corporation's assets to a buyer in control of, or under common control with, the selling corporation requires the approval of at least 90 percent of the voting power of the selling corporation, unless the sale is in consideration of the nonredeemable common shares of the buying corporation or its parent, or the selling corporation obtains the approval of the Commissioner of Corporations, in either of which cases the sale must instead be approved by a majority of the outstanding shares. Under Delaware Law, a corporation may sell all or substantially all of its assets with the approval of a majority of the outstanding stock entitled to vote thereon, and there is no required super-majority stockholder approval for such a sale to a buyer that controls the selling corporation.

#### Class Vote for Certain Reorganizations

With certain exceptions, California Law requires that reorganizations (mergers, certain sales and purchases of assets and similar transactions) be approved by a majority vote of each class of shares outstanding, and provides for separate series votes in certain circumstances. In contrast, the Delaware Law generally does not require such class voting, except in certain circumstances if the transaction involves an amendment to the certificate of incorporation which affects a class of shares adversely.

#### Fairness Opinion for Certain Reorganizations

California Law provides that if a proposal for a tender offer, merger or other reorganization (including a share-exchange tender offer) or for certain sales of assets (a "Proposal") is made by a party who (i) directly or indirectly controls the target corporation, (ii) is, or is directly or indirectly controlled by, an officer or director of the target, or (iii) is an entity in which a material financial interest is held by any director or executive officer of the target, then an independent affirmative opinion as to fairness of the consideration to the shareholders of the target corporation must be delivered to the shareholders. The fairness opinion requirement does not apply if the target does not have shares held of record by 100 or more persons or if the transaction has been qualified under the California securities laws. If any other proposal for a reorganization (the "Later Offer") is received at least ten days prior to the date for acceptance of the tender offer or vote on the reorganization, the directors must inform the shareholders of the Later Offer, and must forward any Later Offer written material to the shareholders. In such event, the shareholders must be given a reasonable opportunity to withdraw any shares tendered or any vote, consent, or proxy given in connection with the Proposal. Delaware Law does not contain a similar provision.

#### Delaware Anti-Takeover Law

Delaware Law prevents an "Interested Stockholder" (defined as any person that owns 15 percent or more of the outstanding voting securities of a corporation), from engaging in certain business combinations with a Delaware corporation for three years following the date such person became an Interested Stockholder unless certain conditions (such as approval by the board of directors or shareholders) are met. California Law has no comparable provision, although California Law regulates certain tender offers or proposals for reorganization by persons who directly or indirectly control the corporation. See "Fairness Opinion for Certain Reorganizations" above.

This Delaware Law may have the effect of deterring an attempt to take control of Paychex or significantly delaying a purchaser's ability to acquire the entire interest in Paychex if such acquisition is not approved by Paychex' Board of Directors. The Paychex Certificate and Bylaws do not contain any additional anti-takeover provisions.

#### Appraisal Rights

Delaware Law provides dissenters' rights of appraisal (statutory rights of dissenting shareholders to demand that, upon consummation of certain reorganizations, the corporation purchase their shares at an

appraised fair market value) generally in connection with mergers and consolidations, but not with respect to (a) a sale-of-assets reorganization, (b) a merger by a corporation, the shares of which are either listed on a national securities exchange or the NASDAQ National Market System, or widely held (by more than 2,000 record shareholders) if such shareholders receive shares of the surviving corporation or of a listed or widely held corporation, and (c) shares of a corporation which survives the merger if no vote of such corporation's shareholders is required to approve the merger. California Law affords dissenters' rights in a reorganization which requires shareholder approval, including in a sale-of-assets reorganization, but excluding a share-exchange tender offer. California Law does not afford dissenters' rights in the case of shares that are listed on a national securities exchange or are on the list of OTC margin stocks, unless such shares are subject to restrictions on transfer or at least five percent (5%) of the outstanding shares claim dissenters' rights. See "THE MERGER - Rights of Dissenting Shareholders."

#### Inspection of Shareholder List

California Law provides for an absolute right of inspection of the shareholder list for persons holding 5% or more of a corporation's voting shares or persons holding 1% or more of such shares who have filed a Schedule 14B with the SEC relating to the election of directors. Both California Law and Delaware Law allow any shareholder to inspect the shareholder list and certain corporate books and records for a purpose reasonably related to such person's interest as a shareholder. Delaware Law contains no provisions comparable to the absolute right to inspect the shareholder list provided by California Law to certain shareholders. California Law, however, purports to apply such provision to any foreign corporation if its principal executive office is in California or if it customarily holds meetings of its board of directors in California. Paychex may be considered to be within the penumbra of this provision of California law since currently one of the four quarterly meetings of its board of directors is annually held in California.

#### Loans to Directors, Officers and Employees

Under Delaware Law, a corporation may make loans to or guarantee the obligations of its officers or other employees, including officers or employees who are also directors, when such action, in the judgment the directors, may reasonably be expected to benefit the corporation. Under California Law, a corporation may not make any loan to, or guarantee the obligation of, a director or officer without shareholder approval. Although California Law would permit Pay-Fone's shareholders to adopt a bylaw permitting a disinterested majority of the directors to approve such loans or guarantees without shareholder approval, the Pay-Fone Bylaws do not contain such a provision.

#### Interested Director Transactions

Under both California Law and Delaware Law certain contracts or transactions in which one or more of a corporation's directors has an interest are not void or voidable because of such interest or because such director was present at the meeting where such contract or transaction was authorized, approved or ratified by the shareholders or the board of directors if certain conditions are met, such as obtaining the required approval and fulfilling the requirement of good faith and full disclosure. Generally, with certain exceptions, the conditions are similar under California Law and Delaware. Generally, under both Laws shareholder or board approval of such contracts or transactions is required, except that pursuant to California Law, if shareholder approval is sought, the interested director is not entitled to vote his shares at a shareholder meeting with respect to any action regarding such contract or transaction. Under California Law, the contract or transaction must be approved by a majority vote of a quorum of the directors without counting the vote of the interested director (except for purposes of establishing a quorum) while under Delaware Law, the contract or transaction must be approved by a majority of the disinterested directors (even though less than a quorum).

#### Voting by Ballot

California Law grants to each shareholder the right to require a vote by written ballot for the election of directors. Delaware Law provides that all actions of stockholders must be by written ballot unless otherwise provided in the certificate of incorporation. The Paychex Certificate does not require ballot voting, nor do the Paychex By-Laws.

#### Payment of Dividends and Repurchase of Shares of Common Stock

Under Delaware Law, a corporation may pay dividends only out of surplus (generally the shareholders' equity of the corporation less the par value of the capital stock outstanding) or, if there exists no surplus, out of the net profits of the corporation for the fiscal year in which the dividend is declared and/or the preceding fiscal year (provided that provision must be made for outstanding stock having a liquidation preference). In general, shares of a corporation's capital stock may only



be repurchased or redeemed by the corporation out of surplus.

Under California Law, a corporation may pay dividends and may purchase or redeem outstanding shares of its capital stock only if the retained earnings of the corporation immediately prior thereto equal or exceed the amount of the proposed distribution or, in general, if immediately after giving effect to such distribution the assets of the corporation (excluding certain intangible assets) equal at least 125% of the liabilities of the corporation and the current assets of the corporation equal at least 100% or 125% (depending on whether certain financial tests are met) of the current liabilities.

#### LEGAL OPINIONS

The legality of the Paychex Common Stock to be issued in connection with the Merger is being passed upon for Paychex by Woods, Oviatt, Gilman, Sturman & Clarke LLP. As of May 2, 1995, the attorneys in that firm owned 49,444 shares of Paychex Common Stock and held options to purchase an additional 10,500 shares. A member of the firm also serves as a director of Paychex.

Certain of the tax consequences of the Merger to Pay-Fone shareholders at the Effective Time will be passed upon by Hughes Hubbard & Reed, Los Angeles, California, on behalf of Pay-Fone. See "THE MERGER - Certain Federal Income Tax Consequences." As of May 2, 1995, attorneys in that firm did not beneficially own any shares of Paychex Common Stock or Pay-Fone Shares.

#### EXPERTS

The consolidated financial statements of Paychex, Inc. incorporated by reference in Paychex' Annual Report (Form 10-K) for the year ended May 31, 1994, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Pay-Fone Systems, Inc. as of June 30, 1994 and 1993, and for each of the years then ended, have been included herein and in the registration statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The report of KPMG Peat Marwick LLP covering the June 30, 1994 consolidated financial statements refers to a change in the method of accounting for income taxes.

The financial statements of Pay-Fone for the fiscal year ended June 30, 1992, included in this Proxy Statement/Prospectus have been audited by Clumeck, Stern, Phillips and Schwartz, independent public accountants, whose report given on the authority of that firm as experts in accounting and auditing, is included herein.

CLUMECK, STERN, PHILLIPS & SCHWARTZ  
Certified Public Accounts  
15910 Ventura Blvd. Suite 1633  
Encino, CA 91436

August 21, 1992

#### INDEPENDENT AUDITORS' REPORT

To the Shareholders and The Board of Directors  
of Pay-Fone Systems, Inc.

We have audited the accompanying statements of operations, shareholders' investment and cash flows of Pay-Fone Systems, Inc. for the year ended June 30, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of its operations and cash flows for the year ended June 30, 1992, in conformity with generally accepted accounting principles.

/s/CLUMECK, STERN, PHILLIPS & SCHWARTZ  
 Certified Public Accountants

KPMG Peat Marwick LLP

Independent Auditors' Report

The Board of Directors and Shareholders  
 of Pay-Fone Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Pay-Fone Systems, Inc. and subsidiary as of June 30, 1994 and 1993, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pay-Fone Systems, Inc. and subsidiary as of June 30, 1994 and 1993 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in notes 1 and 3 to the consolidated financial statements, effective July 1, 1993, the company changed its method of accounting for income taxes.

/s/KPMG Peat Marwick LLP

Los Angeles, California  
 September 1, 1994

PAY-FONE SYSTEMS, INC.  
 CONSOLIDATED BALANCE SHEETS

<TABLE>  
 <CAPTION>

	1994	June 30, 1993	March 31, 1995 (Unaudited)
ASSETS			
<S>	<C>	<C>	<C>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 740,734	\$ 1,116,949	\$ 399,182
Short term investments	1,382,203	1,100,714	1,256,941
Accounts receivable, less \$8,000 allowance for doubtful accounts	516,704	476,285	567,429
Prepaid supplies and other	347,824	266,792	454,392
TOTAL CURRENT ASSETS	2,987,465	2,960,740	2,677,944
PROPERTY AND EQUIPMENT, at Cost:			
Building	3,001,540	3,001,540	3,001,540
Terminals and computer equipment	2,020,258	2,580,377	2,024,671
Other	1,231,633	999,851	1,484,724
	6,253,431	6,581,768	6,510,935
Less: Accumulated depreciation and amortization	(3,753,268)	(4,168,114)	(3,925,789)
	2,500,163	2,413,654	2,585,146
Intangible assets, net of amortization	111,920	--	131,920
	\$ 5,599,548	\$ 5,374,394	\$ 5,395,010
	=====	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:			
Accounts payable	\$ 76,892	\$ 41,341	\$ 40,560
Accrued wages and other related costs	111,152	105,965	138,474
Other accrued liabilities	25,118	70,782	141,977
Customer security deposits	35,785	65,577	400
Income taxes payable	--	9,653	--
TOTAL CURRENT LIABILITIES	248,947	293,318	321,411
Deferred Income Taxes	143,047	62,488	143,047
SHAREHOLDERS' EQUITY:			
Common stock \$.10 par value			
Authorized - 10,000,000 shares			
Issued and Outstanding - 1,467,813			
at June 30, 1994 and 1993; and			
1,484,233 (unaudited) at March 31, 1995	90,781	90,781	92,423
Additional paid-in capital	2,755,826	2,755,826	2,804,607
Retained earnings	2,360,947	2,171,981	2,073,522
Unrealized Loss on Debt			
and Equity Marketable Securities	--	--	(40,000)
TOTAL SHAREHOLDERS' EQUITY	5,207,554	5,018,588	4,930,552
Commitments, Contingencies and			
Subsequent Event	\$ 5,599,548	\$ 5,374,394	\$ 5,395,010
	=====	=====	=====

See accompanying notes to consolidated financial statements.

</TABLE>

PAY-FONE SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>

<CAPTION>

	1994	1993	June 30, 1992	Nine Months Ended March 31,	
				1995	1994
				(Unaudited)	(Unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	\$4,459,935	\$4,505,111	\$5,185,819	\$3,612,130	\$3,371,475
Direct costs	1,695,727	1,636,677	2,021,492	1,652,861	1,248,252
Gross profit	2,764,208	2,868,434	3,164,327	1,959,269	2,123,223
Selling, general and administrative expenses	2,541,995	2,680,345	3,109,515	2,277,914	1,890,318
Miscellaneous merger costs	--	--	--	117,500	--
Income (loss) from operations	222,213	188,089	54,812	(436,145)	232,905
Interest income	61,369	58,108	67,584	53,220	39,535
Income (loss) before income taxes, extraordinary item and cumulative effect of change in method of accounting for income taxes	283,582	246,197	122,396	(382,925)	272,440
Income tax expense (benefit)	115,592	95,182	40,000	(95,500)	105,000
Income (loss) before extraordinary item and cumulative effect of change in method of accounting for income taxes	167,990	151,015	82,396	(287,425)	167,440
Extraordinary item -- income tax benefit resulting from utilization of net operating loss carryforward	--	--	28,200	--	--
Cumulative effect of change in method of accounting for income taxes	20,976	--	--	--	--
Net income (loss)	\$ 188,966	\$ 151,015	\$ 110,596	\$ (287,425)	\$ 167,440
	=====	=====	=====	=====	=====
Per share amounts:					
Income (loss) before extraordinary item and cumulative effect of change in method of accounting for income taxes	\$ 0.12	\$ 0.10	\$ 0.05	\$ (0.19)	\$ 0.11
Extraordinary item -- income tax benefit resulting from utilization of net operating loss carryforward	--	--	0.02	--	--
Cumulative effect of change in method of accounting for income taxes	0.01	--	--	--	--
Net income (loss) per common share	\$ 0.13	\$ 0.10	\$ 0.07	\$ (0.19)	\$ 0.11
	=====	=====	=====	=====	=====
Weighted average shares					



Balance, June 30, 1992	1,467,813	90,781	2,755,826	2,020,966	--	4,867,573
Net Income	--	--	--	151,015	--	151,015
-----						
Balance, June 30, 1993	1,467,813	90,781	2,755,826	2,171,981	--	5,018,588
Net Income	--	--	--	188,966	--	188,966
-----						
Balance, June 30, 1994	1,467,813	90,781	2,755,826	2,360,947	--	5,207,554
Net Loss (Unaudited)	--	--	--	(287,425)	--	(287,425)
Options Exercised (Unaudited)	16,420	1,642	48,781	--	--	50,423
Unrealized Loss on Debt and Equity Marketable Securities (Unaudited)	--	--	--	--	(40,000)	(40,000)
-----						
Balance, March 31, 1995 (Unaudited)	1,484,233	\$ 92,423	\$2,804,607	\$2,073,522	\$(40,000)	\$4,930,552
=====						

See accompanying notes to consolidated financial statements.

</TABLE>

PAY-FONE SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information for the nine month periods ended March 31, 1995 and 1994 is unaudited.)

Note 1 - Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the financial statements of Pay-Fone Systems, Inc. and its wholly-owned subsidiary (collectively the "Company"). All significant inter-Company balances and transactions have been eliminated in consolidation.

Business

The Company operates in the data processing service industry. It provides automated payroll services for businesses located primarily in California.

Revenue Recognition

Revenues are recognized as the services are performed.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

Short-term investments at June 30, 1994 consist primarily of certificates of deposit with original maturities between three and six months, adjustable-rate preferred stock and treasury instruments and are carried at cost which approximates market.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which adopts changes that apply to all companies holding short- or long-term investments. Adoption of Standard No. 115 is required for the Company's 1995 fiscal year. The Company plans to adopt Statement No. 115 in the first quarter of fiscal 1995 and believes the application of Statement No. 115 will have no material effect on the Company's consolidated financial statements.

Property and Equipment

The Company follows the policy of capitalizing expenditures that materially increase the life or serviceability of equipment and charging ordinary maintenance and repairs to operations as incurred. When property is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss resulting from sales or abandonments is recorded on the consolidated statements of operations. The depreciation and amortization of property is provided over the estimated useful life of the asset using straight-line and accelerated methods as follows:

Building	38 Years
Terminals and Computer Equipment	5 - 12 Years

#### Intangible Assets

Intangible assets consist of a covenant not to compete and goodwill arising from an acquisition in fiscal 1994 (see Note 2). The values assigned to intangible assets are being amortized on a straight-line basis. The covenant is being amortized over its contractual life, five years. Goodwill, representing the excess of the purchase price over the estimated fair value of the net assets of the acquired business, is being amortized over the period of expected benefit, ten years. Amortization expense for the year ended June 30, 1994 and accumulated amortization at June 30, 1994 aggregated \$5,000.

#### Note 1 - Summary of Significant Accounting Policies (con't.):

##### Research and Development Costs:

For financial reporting purposes, research and development costs related to the designing, developing and testing of new and existing software products are charged to expense as incurred. Accordingly, for the years ended June 30, 1994, 1993 and 1992 the Company expensed \$148,527, \$182,255, and \$172,784, respectively.

##### Net Income Per Common Share

Net income per common share has been computed based on the weighted average number of outstanding shares and common stock equivalents, if dilutive.

##### Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109). Statement 109 requires a change from the deferred method of accounting for income taxes under APB Opinion 11 to the asset and liability method of accounting for income taxes. Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Further, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company adopted Statement 109 in fiscal year 1994 and has applied the provisions of Statement 109 retroactively to July 1, 1993. The cumulative effect of the change in the method of accounting for income taxes as of July 1, 1993 has been reported separately in the fiscal year 1994 consolidated statement of operations.

##### Interim Financial Statements

The accompanying consolidated balance sheet as of March 31, 1995 and the consolidated statements of operations and cash flows for the nine month periods ended March 31, 1995 and 1994 are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring accruals necessary for a fair presentation of the results for the periods presented were made. The operating results for the nine month period ended March 31, 1995 are not necessarily indicative of the results that may be expected for the year ending June 30, 1995.

In fiscal 1995, the Company adopted SFAS No. 115. Such adoption had no cumulative effect on retained earnings at July 1, 1994 and reduced the net loss for the nine months ended March 31, 1995 by \$40,000. The fair market value and gross unrealized holding losses for available-for-sale debt and marketable equity securities aggregated approximately \$760,000 and \$40,000, respectively, at March 31, 1995.

#### Note 2 - Acquisition:

On February 1, 1994, the Company acquired Concentric Computer Corporation of Aptos, California ("Concentric"), a provider of automated payroll services, for cash plus a percentage of future net revenues, as defined. The acquisition was accounted for as a purchase with the results of Concentric included from the acquisition date. The excess of the payments made in fiscal 1994 over the fair value of the net assets acquired has been allocated to goodwill. Additional payments made in subsequent fiscal years, if any, will be allocated to goodwill. Proforma financial information is not presented as the acquisition, for accounting purposes, is not deemed significant.

#### Note 3 - Income Taxes:

As discussed in Note 1, the Company adopted Statement 109 in fiscal year 1994 and has applied the provisions of the Statement retroactively to July 1, 1993. The cumulative effect of this change in accounting for income taxes as of July 1, 1993 is reported separately in the accompanying consolidated statement of operations as a \$20,976 credit to earnings.

The provision for income taxes, which excludes the Statement 109 cumulative effect adjustment, consists of the following:

	1994	1993	1992
Current:			
Federal	\$ 23,089	\$ 47,351	\$ 54,500
State	3,775	28,931	22,500
	26,864	75,282	77,000
Deferred:			
Federal	68,029	24,529	(26,300)
State	20,699	(5,629)	(10,000)
	88,728	18,900	(37,000)
	115,592	95,182	40,000
Extraordinary item - tax benefit resulting from utilization of net operating loss carryforwards	--	--	(28,200)
	\$ 115,592	\$ 95,182	\$ 11,800
	=====	=====	=====

Actual income tax expense differs from the expected income tax expense determined by applying the Federal tax rate of 34% to income before income taxes and cumulative effect of a change in the method of accounting for income taxes as follows:

	1994	1993	1992
Expected income tax expense	\$ 96,418	\$ 83,700	\$ 31,000
State income taxes, net of Federal benefit	16,153	15,380	7,000
Other	3,021	(3,898)	2,000
	\$ 115,592	\$ 95,182	\$ 40,000
	=====	=====	=====

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities is as follows:

	1994	1993
Deferred tax assets:		
Tax credits	\$ 28,700	\$ 40,200
State loss carryforwards	--	14,600
Amortization of intangible assets	10,400	--
Other	4,500	12,400
Total gross deferred tax assets	43,600	67,200
Deferred tax liabilities:		
Depreciation	105,000	104,000
Capitalized software development costs	71,500	--
Other	10,147	25,688
Total gross deferred tax liability	186,647	129,688
Net deferred tax liability	\$ 143,047	\$ 62,488
	=====	=====

At June 30, 1994, the Company had a general business credit carryforward totaling \$ 5,500, which is available to reduce federal taxes otherwise payable in future years. This carryforward expires in the year 2001.

The Company is currently undergoing an examination by the Internal Revenue Service of its June 30, 1989, 1990 and 1991 income tax returns. The audit is not yet complete. It is the opinion of management that no assessments are proper and the audit will not have a material impact on the consolidated financial statements.

Note 4 - Stock Options:

At June 30, 1994, 51,650 shares of common stock were reserved for issuance under the Company's Incentive and Executive Stock Option Plans. Options to purchase common stock may be granted at exercise prices not less than fair market value and in no event less than \$1 per share at the grant date, and are subject to certain conditions with respect to continuous employment, and are exercisable within a one to ten-year period from the date of grant in such manner as set forth in the option agreements. The following is a summary of stock option activity for the years ended June 30, 1994, 1993 and 1992:

<TABLE>  
<CAPTION>

	1981	1983	1987	1990	1993	Option Price Per Share (Range)
<S>	Incentive	Incentive	Incentive	Incentive	Incentive	<C>
<C>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding at June 30, 1991	88,000	69,950	45,600	--	--	\$2.13-\$5.25
Options terminated	(40,000)	(20,100)	(19,400)	--	--	\$2.50-\$4.75
Options granted	40,000	26,750	2,250	--	--	\$2.13-\$2.75
Options outstanding at June 30, 1992	88,000	76,600	28,450	--	--	\$2.13-\$5.25
Options terminated	(45,000)	(8,650)	(4,900)	(2,000)	--	\$2.13-\$5.25
Options granted	--	15,900	26,850	45,800	--	\$3.13-\$3.44
Options outstanding at June 30, 1993	43,000	83,850	50,400	43,800	--	\$2.13-\$4.75
Options terminated	--	(4,750)	(9,850)	(1,000)	(500)	\$2.50-\$4.50
Options granted	--	3,150	--	1,850	63,650	\$2.88-\$3.30
Options outstanding at June 30, 1994	43,000	82,250	40,550	44,650	63,150	\$2.13-\$4.75
	=====	=====	=====	=====	=====	
Options exercisable at June 30, 1994	28,400	44,290	16,770	8,560	--	
	=====	=====	=====	=====	=====	

</TABLE>

Note 5 - Related Party Transactions:

Richard Kelton, who is shareholder, officer and member of the Board of Directors, also acts in the capacity of Company attorney from time to time. Fees for legal and executive services paid to Richard Kelton for the years ended June 30, 1994, 1993 and 1992 amounted to \$10,990, \$18,562, and \$24,077, respectively.

Note 6 - Payroll and Payroll Tax Filing Services:

During fiscal 1994, the Company developed the ability to perform tax filing in-house. As part of its integrated payroll and payroll tax filing services, the Company collects funds for Federal, state and local employment taxes from clients, files applicable tax returns, handles all regulatory correspondence and amendments, absorbs regulatory charges for certain penalties and interest, and remits the funds to the appropriate tax agencies. In addition to fees paid by clients for these services, the Company receives interest during the interval between the receipt and disbursement of funds by investing the funds in savings accounts. The amount of collected but unremitted funds varies significantly during the year. At June 30, 1994, the amount of such funds was \$194,662. Such funds and the related tax obligations are neither assets nor liabilities of the Company and, therefore, are not included in the accompanying consolidated financial statements. Related income earned from these investments is included in revenue.

Note 7 - Commitments and Contingencies:

The Company occupies certain of its facilities under non-cancellable operating leases expiring at various dates through fiscal year ended June 30, 2025.

The non-cancellable ground lease for the corporate offices, expiring in 2025, calls for a rent readjustment every five years with the midpoint of each five year period subject to Producer Price Index changes. The current ground lease payments amount to \$2,948 per month.

Minimum annual commitments under all non-cancellable leases are as follows:

Fiscal Year Ended June 30:

1995	\$	151,473
1996		151,473
1997		143,770
1998		38,382
1999		36,504
2000 - 2025		912,600
	\$	1,434,202
		=====

For the years ended June 30, 1994, 1993, and 1992, the total rental expense charged to operations under these leases totaled \$170,049, \$199,478, and \$298,712, respectively.

The Company also subleases a portion of its corporate offices and records rental income based on square footage leased. Sublease income recognized by the Company in fiscal 1994, 1993 and 1992 totaled \$126,930, \$88,992, and \$63,306, respectively.

Note 8 - Subsequent Event:

On March 17, 1995, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Paychex, Inc., a Delaware



corporation ("Paychex"), and Paychex Merger Corp., a wholly owned subsidiary of Paychex ("Merger Sub"), pursuant to which, subject to approval by the Company's shareholders and the satisfaction of certain other conditions, Merger Sub will merge into the Company and the Company will become a wholly owned subsidiary of Paychex (the "Merger"). Pursuant to the Merger Agreement, outstanding shares of the Company's Common Stock will be converted into shares of Paychex Common Stock in accordance with a formula set forth in the Merger Agreement based on a total value of \$10,475,000 (subject to certain reductions) and the market price of Paychex Common Stock during a period prior to the Merger. The Merger will be accounted for as a pooling of interests.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Amendment No. 1 Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rochester, State of New York, on May \_\_\_\_, 1995.

PAYCHEX, INC.

By: /s/ G. Thomas Clark  
 -----  
 G. Thomas Clark, Vice President  
 of Finance

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/B. Thomas Golisano B. Thomas Golisano	Chairman of the Board, Chief Executive Officer, President and Director	May 18, 1995
/s/ G. Thomas Clark G. Thomas Clark	Vice President of Finance and Director (principal financial and accounting officer)	May 18, 1995
*Donald W. Brinckman Donald W. Brinckman	Director	May 18, 1995
*Phillip Horsley Phillip Horsley	Director	May 18, 1995
*Grant M. Inman Grant M. Inman	Director	May 18, 1995
*Harry P. Messina, Jr. Harry P. Messina, Jr.	Director	May 18, 1995
*J. Robert Sebo J. Robert Sebo	Director	May 18, 1995

\*By: /s/ G. Thomas Clark  
 G. Thomas Clark, as Attorney-in-Fact  
 PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 21. Exhibits and Financial Statement Schedules

Exhibit No.	Description
2	Restated Agreement and Plan of Merger, dated as of May 8, 1995, by and among Paychex, Inc., Paychex Merger Corp. and Pay-Fone Systems, Inc. (attached as Annex 1 to the Proxy Statement/Prospectus included in this Registration Statement)
23.1	Consent of Ernst & Young LLP
23.2	Consent of KPMG Peat Marwick LLP
23.4	Consent of Clumeck, Stern, Phillips & Schwartz

Chapter 13

DISSENTERS' RIGHTS

1300. Right to Require Purchase - "Dissenting Shares" and "Dissenting Shareholder" Defined

(a) If the approval of the outstanding shares (Section 152) of a corporation is required for a reorganization under subdivisions (a) and (b) or subdivision (e) or (f) of Section 1201, each shareholder of the corporation entitled to vote on the transaction and each shareholder of a subsidiary corporation in a short-form merger may, by complying with this chapter, require the corporation in which the shareholder holds shares to purchase for cash at their fair market value the shares owned by the shareholder which are dissenting shares as defined in subdivision (b). The fair market value shall be determined as of the day before the first announcement of the terms of the proposed reorganization or short-form merger, excluding any appreciation or depreciation in consequence of the proposed action, but adjusted for any stock split, reverse stock split, or share dividend which becomes effective thereafter.

(b) As used in this chapter, "dissenting shares" means shares which come within all of the following descriptions:

(1) Which were not immediately prior to the reorganization or short-form merger either (A) listed on any national securities exchange certified by the Commissioner of Corporations under subdivision (c) of Section 25100 or (B) listed on the list of OTC margin stocks issued by the Board of Governors of the Federal Reserve System, and the notice of meeting of shareholders to act upon the reorganization summarizes this section and Sections 1301, 1302, 1303 and 1304; provided, however, that this provision does not apply to any shares with respect to which there exists any restriction on transfer imposed by the corporation or by any law or regulation; and provided, further, that this provision does not apply to any class of shares described in subparagraph (A) or (B) if demands for payment are filed with respect to 5 percent or more of the outstanding shares of that class.

(2) Which were outstanding on the date for the determination of shareholders entitled to vote on the reorganization and (A) were not voted in favor of the reorganization, or (B) if described in subparagraph (A) or (B) of paragraph (1) (without regard to the provisos in that paragraph), were voted against the reorganization, or which were held of record on the effective date of a short-form merger; provided, however, that subparagraph (A) rather than subparagraph (B) of this paragraph applies in any case where the approval required by Section 1201 is sought by written consent rather than at a meeting.

(3) Which the dissenting shareholder has demanded that the corporation purchase at their fair market value, in accordance with Section 1301.

(4) Which the dissenting shareholder has submitted for endorsement, in accordance with Section 1302.

(c) As used in this chapter, "dissenting shareholder" means the recordholder of dissenting shares and includes a transferee of record.

1301 Demand for Purchase

(a) If, in the case of a reorganization, any shareholders of a corporation have a right under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, to require the corporation to purchase their shares for cash, such corporation shall mail to each such shareholder a notice of the approval of the reorganization by its outstanding shares (Section 152) within 10 days after the date of such approval, accompanied by a copy of Sections 1300, 1302, 1303, 1304 and this section, a statement of the price determined by the corporation to represent the fair market value of the dissenting shares, and a brief description of the procedure to be followed if the shareholder desires to exercise the shareholder's right

under such sections. The statement of price constitutes an offer by the corporation to purchase at the price stated any dissenting shares as defined in subdivision (b) of Section 1300, unless they lose their status as dissenting shares under Section 1309.

(b) Any shareholder who has a right to require the corporation to purchase the shareholder's shares for cash under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, and who desires the corporation to purchase such shares shall make written demand upon the corporation for the purchase of such shares and payment to the shareholder in cash of their fair market value. The demand is not effective for any purpose unless it is received by the corporation or any transfer agent thereof (1) in the case of shares described in clause (i) or (ii) of paragraph (1) of subdivision (b) of Section 1300 (without regard to the provisos in that paragraph), not later than the date of the shareholders' meeting to vote upon the reorganization, or (2) in any other case within 30 days after the date on which the notice of the approval by the outstanding shares pursuant to subdivision (a) or the notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder.

(c) The demand shall state the number and class of the shares held of record by the shareholder which the shareholder demands that the corporation purchase and shall contain a statement of what such shareholder claims to be the fair market value of those shares as of the day before the announcement of the proposed reorganization or short-form merger. The statement of fair market value constitutes an offer by the shareholder to sell the shares at such price.

#### 1302. Endorsement of Shares

Within 30 days after the date on which notice of the approval by the outstanding shares or the notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder, the shareholder shall submit to the corporation at its principal office or at the office of any transfer agent thereof, (a) if the shares are certificated securities, the shareholder's certificates representing any shares which the shareholder demands the corporation purchase, to be stamped or endorsed with a statement that the shares are dissenting shares or to be exchanged for certificates of appropriate denomination so stamped or endorsed or (b) if the shares are uncertificated securities, written notice of the number of shares which the shareholder demands that the corporation purchase. Upon subsequent transfers of the dissenting shares on the books of the corporation, the new certificates, initial transaction statement, and other written statements issued therefor shall bear a like statement, together with the name of the original dissenting holder of the shares.

#### 1303 Agreed Price - Time For Payment

(a) If the corporation and the shareholder agree that the shares are dissenting shares and agree upon the price of the shares, the dissenting shareholder is entitled to the agreed price with interest thereon at the legal rate on judgments from the date of the agreement. Any agreements fixing the fair market value of any dissenting shares as between the corporation and the holders thereof shall be filed with the secretary of the corporation.

(b) Subject to the provisions of Section 1306, payment of the fair market value of dissenting shares shall be made within 30 days after the amount thereof has been agreed or within 30 days after any statutory or contractual conditions to the reorganization are satisfied, whichever is later, and in the case of certificated securities, subject to surrender of the certificates therefor, unless provided otherwise by agreement.

#### 1304 Dissenter's Action to Enforce Payment.

(a) If the corporation denies that the shares are dissenting shares, or the corporation and the shareholder fail to agree upon the fair market value of the shares, then the shareholder demanding purchase of such shares as dissenting shares or any interested corporation, within six months after the date on which notice of the approval by the outstanding shares (Section 152) or notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder, but not thereafter, may file a complaint in the superior court of the proper county praying the court to determine whether the shares are dissenting shares

or the fair market value of the dissenting shares or both or may intervene in any action pending on such a complaint.

(b) Two or more dissenting shareholders may join as plaintiffs or be joined as defendants in any such action and two or more such actions may be consolidated.

(c) On the trial of the action, the court shall determine the issues. If the status of the shares as dissenting shares is in issue, the court shall first determine that issue. If the fair market value of the dissenting shares is in issue, the court shall determine, or shall appoint one or more impartial appraisers to determine, the fair market value of the shares.

#### 1305. Appraisers' Report - Payment - Costs

(a) If the court appoints an appraiser or appraisers, they shall proceed forthwith to determine the fair market value per share. Within the time fixed by the court, the appraisers, or a majority of them, shall make and file a report in the office of the clerk of the court. Thereupon, on the motion of any party, the report shall be submitted to the court and considered on such evidence as the court considers relevant. If the court finds the report reasonable, the court may confirm it.

(b) If a majority of the appraisers appointed fail to make and file a report within 10 days from the date of their appointment or within such further time as may be allowed by the court or the report is not confirmed by the court, the court shall determine the fair market value of the dissenting shares.

(c) Subject to the provisions of Section 1306, judgment shall be rendered against the corporation for payment of an amount equal to the fair market value of each dissenting share multiplied by the number of dissenting shares which any dissenting shareholder who is a party, or who has intervened, is entitled to require the corporation to purchase, with interest thereon at the legal rate from the date on which judgment was entered.

(d) Any such judgement shall be payable forthwith with respect to uncertificated securities and, with respect to certificated securities, only upon the endorsement and delivery to the corporation of the certificates for the shares described in the judgment. Any party may appeal from the judgment.

(e) The costs of the action, including reasonable compensation to the appraisers to be fixed by the court, shall be assessed or apportioned as the court considers equitable, but, if the appraisal exceeds the price offered by the corporation, the corporation shall pay the costs (including in the discretion of the court attorneys' fees, fees of expert witnesses and interest at the legal rate on judgments from the date of compliance with Sections 1300, 1301 and 1302 if the value awarded by the court for the shares is more than 125% of the price offered by the corporation under subdivision (a) of Section 1301).

#### 1306. Dissenting Shareholder's Status as Creditor

To the extent that the provisions of Chapter 5 prevent the payment to any holders of dissenting shares of their fair market value, they shall become creditors of the corporation for the amount thereof together with interest at the legal rate on judgments until the date of payment, but subordinate to all other creditors in any liquidation proceeding, such debt to be payable when permissible under the provisions of Chapter 5.

#### 1307. Dividends Paid as Credit Against Payment

Cash dividends declared and paid by the corporation upon the dissenting shares after the date of approval of the reorganization by the outstanding shares (Section 152) and prior to payment for the shares by the corporation shall be credited against the total amount to be paid by the corporation therefor.

#### 1308. Continuing Rights and Privileges of Dissenting Shareholders

Except as expressly limited in this chapter, holders of dissenting shares continue to have all the rights and privileges incident to their shares, until the fair market of their shares

is agreed upon or determined. A dissenting shareholder may not withdraw a demand for payment unless the corporation consents thereto.

#### 1309. Termination of Dissenting Shareholder Status

Dissenting shares lose their status as dissenting shares and the holders thereof cease to be dissenting shareholders and cease to be entitled to require the corporation to purchase their shares upon the happening of any of the following:

(a) The corporation abandons the reorganization. Upon abandonment of the reorganization, the corporation shall pay on demand to any dissenting shareholder who has initiated proceedings in good faith under this chapter all necessary expenses incurred in such proceedings and reasonable attorneys' fees.

(b) The shares are transferred prior to their submission for endorsement in accordance with Section 1302 or are surrendered for conversion into shares of another class in accordance with the articles.

(c) The dissenting shareholder and the corporation do not agree upon the status of the shares as dissenting shares or upon the purchase price of the shares, and neither files a complaint or intervenes in a pending action as provided in Section 1304, within six months after the date on which notice of the approval by the outstanding shares or notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder.

(d) The dissenting shareholder, with the consent of the corporation, withdraws the shareholder's demand for purchase of the dissenting shares.

#### 1310. Suspension of Proceedings For Payment Pending Litigation

If litigation is instituted to test the sufficiency or regularity of the votes of the shareholders in authorizing a reorganization, any proceedings under Sections 1304 and 1305 shall be suspended until final determination of such litigation.

#### 1311. Exempt Shares

This chapter, except Section 1312, does not apply to classes of shares whose terms and provisions specifically set forth the amount to be paid in respect to such shares in the event of a reorganization or merger.

#### 1312. Attacking Validity of Reorganization or Merger.

(a) No shareholder of a corporation who has a right under this chapter to demand payment of cash for the shares held by the shareholder shall have any right at law or in equity to attack the validity of the reorganization or short-form merger, or to have the reorganization or short-form merger set aside or rescinded, except in an action to test whether the number of shares required to authorize or approve the reorganization have been legally voted in favor thereof; but any holder of shares of a class whose terms and provisions specifically set forth the amount to be paid in respect to them in the event of a reorganization or short-form merger is entitled to payment in accordance with those terms and provisions or, if the principal terms of the reorganization are approved pursuant to subdivision (b) of Section 1202, is entitled to payment in accordance with the terms and provisions of the approved reorganization.

(b) If one of the parties to a reorganization or short-form merger is directly or indirectly controlled by, or under common control with, another party to the reorganization or short-form merger, subdivision (a) shall not apply to any shareholder of such party who has not demanded payment of cash for such shareholder's shares pursuant to this chapter; but if the shareholder institutes an action to attack the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded, the shareholder shall not thereafter have any right to demand payment of cash for the shareholder's shares pursuant to this chapter. The court in any action attacking the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded shall not restrain or enjoin the consummation of the transaction except upon 10 days' prior notice

to the corporation and upon a determination by the court that clearly no other remedy will adequately protect the complaining shareholder or the class of shareholders of which such shareholder is a member.

(c) If one of the parties to a reorganization or short-form merger is directly or indirectly controlled by, or under common control with, another party to the reorganization or short-form merger, in any action to attack the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded, (1) a party to a reorganization or short-form merger which controls another party to the reorganization or short-form merger shall have the burden of proving that the transaction is just and reasonable as to the shareholders of the controlled party, and (2) a person who controls two or more parties to a reorganization shall have the burden of proving that the transaction is just and reasonable as to the shareholders of any party so controlled.

RESTATED AGREEMENT

AND

PLAN OF MERGER

Among

Paychex, Inc.,

Paychex Merger Corp.

and

Pay-Fone Systems, Inc.

May 8, 1995

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EXHIBITS

- Pay-Fone Disclosure Statement
- Pay-Fone Systems, Inc. Tax Matters Certificate
- Paychex, Inc. Disclosure Statement
- Paychex, Inc. Tax Matters Certificate
- AGREEMENT AND PLAN OF MERGER

This Restated Agreement and Plan of Merger hereby amends and restates as of May 8, 1995 in its entirety that certain Agreement and Plan of



Merger dated March 17, 1995 (as so amended and restated, hereinafter called this "Agreement") between PAYCHEX, INC. a Delaware corporation ("Paychex"), PAYCHEX MERGER CORP., a Delaware corporation and a direct Wholly Owned Subsidiary of Paychex ("Merger Sub") and PAY-FONE SYSTEMS, INC., a California corporation ("Pay-Fone").

R E C I T A L S:

WHEREAS, the Boards of Directors of Paychex, Merger Sub and Pay-Fone each have determined that it is in the best interests of their respective stockholders for Merger Sub to merge with and into Pay-Fone, upon the terms and subject to the conditions of this Agreement;

WHEREAS, it is intended that the Merger shall be recorded for accounting purposes as a pooling of interests; and

WHEREAS, Paychex, Merger Sub and Pay-Fone desire to make certain representations, warranties, covenants and agreements in connection with the Merger.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements set forth herein, Paychex, Merger Sub and Pay-Fone hereby agree as follows:

ARTICLE I  
-----  
DEFINITIONS

As used in this Agreement, the following terms shall have the respective meanings set forth below:

"Affiliate": as defined in Rule 12b-2 under the Exchange Act.

"Affiliates Agreement": the agreement, referred to in Section 7.8 hereof, among Paychex, Merger Sub, Pay-Fone, and Affiliates of Pay-Fone, executed by Paychex, Merger Sub, Pay-Fone and some of said Affiliates simultaneously with this Agreement.

"Affiliates Block": Allied Contractors, Inc., Richard Kelton, David Kelton, Mark Kelton, Allen Kahn, M.D., Edwin Johnson and David L. Malcolm who, as shareholders of Pay-Fone, own in the aggregate in excess of 70% of the outstanding Shares of Pay-Fone.

"Amex": the American Stock Exchange.

"Authorization": Any consent, approval or authorization of, expiration or termination of any waiting period requirement (including pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976) by, or filing, registration, qualification, declaration or designation with, any Governmental Body.

"Benefit Arrangement": As defined in Section 5.7(a).

"CGCL": The California General Corporation Law.

"Certificate of Merger": The certificate of merger with respect to the merger of Merger Sub with and into Pay-Fone, containing the provisions required by, and executed in accordance with, Section 1103 of the CGCL and Section 252 of the DGCL.

"Certificates": As defined in Section 4.2(b).

"Closing": The closing of the Merger.

"Closing Date": The date on which the Closing occurs.

"Closing Price": On any day, the last reported sale price of one share of Paychex Common Stock on NASDAQ or such other market as may from time to time be the principal market for Paychex Common Stock.

"Code": The Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder, as in effect from time to time.

"DGCL": The Delaware General Corporation Law.

"Dissenting Share": Share held by any Pay-Fone stockholder who exercises and perfects dissenters rights under CGCL Sections 1300 et seq.

"Effective Time": As defined in Section 2.2.

"Employee Plan": As defined in Section 5.7(a).

"Employees": As defined in Section 5.7(a).

"ERISA": The Employee Retirement Income Security Act of 1974, as amended, and all regulations promulgated thereunder, as in effect from time to time.

"ERISA Affiliates": Any trade or business, whether or not incorporated, that is now or has at any time in the past been treated as a single employer with Pay-Fone or any of its Subsidiaries under Section 414(b) or (c) of the Code and the Treasury Regulations thereunder.

"Excess Shares": As defined in Section 4.3.

"Exchange Act": The Securities Exchange Act of 1934, as amended.

"Exchange Agent": As defined in Section 4.2(a).

"Exchange Fund": As defined in Section 4.2(a).

"Exchange Ratio": As defined in Section 4.1(a).

"General Adjustment": As defined in Section 4.1(a).

"Fractional Securities Fund": As defined in Section 4.3.

"Governmental Body": Any Federal, state, municipal, political subdivision or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign.

"Intellectual Property": All industrial and intellectual property rights including, but not limited to, Proprietary Technology, patents, patent applications, trademarks, trademark applications and registrations, service marks, service mark applications and registrations, copyrights, know-how, licenses, trade secrets, proprietary processes, formulae and customer lists. "Proprietary Technology" means all proprietary processes, formulae, inventions, trade secrets, know-how, development tools and other proprietary rights used by Pay-Fone or Paychex and its Subsidiaries, as the case may be, pertaining to any product, software or service manufactured, marketed, licensed or sold by Pay-Fone or Paychex and its Subsidiaries, as the case may be, in the conduct of their business or used, employed or exploited in the development, license, sale, marketing, distribution or maintenance thereof, and all documentation and media constituting, describing or relating to the above, including, but not limited to, manuals, memoranda, know-how, notebooks, software, records and disclosures.

"Merger Sub": Paychex Merger Corp., a Delaware corporation.

"Merger": The merger of Merger Sub with and into Pay-Fone.

"NASD": The National Association of Securities Dealers, Inc.

"NASDAQ": The NASD Automated Quotation System.

"Option": As defined in Section 4.1(f).

"Pay-Fone": Pay-Fone Systems, Inc., a California corporation.

"Pay-Fone Disclosure Statement": The disclosure statement dated the date of this Agreement delivered by Pay-Fone to Paychex.

"Pay-Fone SEC Reports": As defined in Section 5.10.

"Pay-Fone Stock Option Plans": Pay-Fone Systems, Inc. 1981 Incentive Stock Option Plan; Pay-Fone Systems, Inc. 1983 Incentive Stock Option Plan; Pay-Fone Systems, Inc. 1987 Incentive Stock Option Plan; Pay-Fone Systems, Inc. 1990 Incentive Stock Option Plan; Pay-Fone Systems, Inc. 1993 Incentive Stock Option Plan; and stock option agreements with various directors covering an aggregate of 90,000 Shares.

"Pay-Fone Subsidiary": Concentric Computer Corp., a Wholly-

Owned Subsidiary of Pay-Fone.

"Pay-Fone Tax Matters Certificate": As defined in Section 5.16.

"Paychex": Paychex, Inc., a Delaware corporation.

"Paychex Closing Price": With respect to one share of Paychex Common Stock as constituted upon and after payment of the Paychex 1995 Stock Split, the seventeen trading days average of the Closing Prices for a share of Paychex Common Stock during the eight trading days commencing with May 26, 1995 and terminating on June 7, 1995 and two-thirds (2/3) of the Closing Prices for a share of Paychex Common Stock (as then constituted) during the nine trading days commencing on May 15, 1995 and terminating on May 25, 1995; provided, however, that:

(i) if the Paychex Closing Price is greater than Twenty-Eight Dollars and Sixty-Seven Cents (\$28.67), but no more than Thirty Dollars and Sixty-Seven Cents (\$30.67), subject in each case to appropriate adjustment to reflect any event described in the final sentence of Section 4.1(a), other than the Paychex 1995 Stock Split, the Paychex Closing Price shall be deemed for purposes of Section 4.1(a) of this Agreement to be Twenty-Eight Dollars and Sixty Seven Cents (\$28.67);

(ii) if the Paychex Closing Price is greater than Thirty Dollars and Sixty-Seven Cents (\$30.67) subject to appropriate adjustment to reflect any event described in the final sentence of Section 4.1(a), other than the Paychex 1995 Stock Split, the Paychex Closing Price shall be deemed for purposes of Section 4.1(a) of this Agreement to be the remainder calculated by subtracting (x) Two Dollars (\$2.00) from (y) the Paychex Closing Price;

(iii) if the Paychex Closing Price is less than Twenty-Four Dollars and Sixty-Seven Cents (\$24.67) but not less than Twenty-Two Dollars and Sixty-Seven Cents (\$22.67), subject in each case to appropriate adjustment to reflect any event described in the final sentence of Section 4.1(a), other than the Paychex 1995 Stock Split, the Paychex Closing Price shall be deemed for purposes of Section 4.1(a) of this Agreement to be Twenty-Four Dollars and Sixty-Seven (\$24.67); and

(iv) if the Paychex Closing Price is less than Twenty-Two Dollars and Sixty-Seven Cents (\$22.67) subject to appropriate adjustment to reflect any event described in the final sentence of Section 4.1(a), other than the Paychex 1995 Stock Split, the Paychex Closing Price shall be deemed for purposes of Section 4.1(a) of this Agreement to be the sum of (r) Two Dollars (\$2.00) and (s) the Paychex Closing Price.

"Paychex Common Stock": Shares of Common Stock, par value \$.01 per share, of Paychex.

"Paychex Companies": Paychex and any Wholly-Owned Subsidiary of Paychex.

"Paychex Disclosure Statement": The disclosure statement dated the date of this Agreement delivered by Paychex to Pay-Fone.

"Paychex 1995 Stock Split": A 3-for-2 stock split of Paychex Common Stock in the form of a stock dividend declared by the Board of Directors of Paychex and payable on May 25, 1995 to stockholders of record on May 2, 1995.

"Paychex SEC Reports": As defined in Section 6.9(a).

"Paychex Tax Matters Certificate": As defined in Section 6.14.

"Person": Any individual or corporation, company, partnership, trust, incorporated or unincorporated association, joint venture or other entity of any kind.

"Positive Adjustment": As defined in Section 4.1(a).

"Proxy Statement/Prospectus": As defined in Section 7.4.

"Respective Representatives": As defined in Section 7.6.

"S-4 Registration Statement": As defined in Section 7.4.

"SEC": The Securities and Exchange Commission.

"Securities Act": The Securities Act of 1933, as amended.

"Share Consideration": As defined in Section 4.1(b).

"Shareholders Meeting": As defined in Section 7.3.

"Shares": The shares of Common Stock, par value \$.10 per share, of Pay-Fone.

"Significant Subsidiary": As defined under Rule 12b-2 of the Exchange Act.

"Subsidiary": As to any Person, any other Person of which at least 50% of the equity or voting interests are owned, directly or indirectly, by such first Person.

"Surviving Corporation": The surviving corporation in the Merger.

"Tax Claim Adjustment": As defined in Section 4.1(a).

"Wholly-Owned Subsidiary": A Subsidiary of which 100% of the equity interest is owned directly or indirectly by the parent company.

## ARTICLE II

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### THE MERGER; EFFECTIVE TIME; CLOSING

2.1 The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, Merger Sub shall be merged with and into Pay-Fone in accordance with the provisions of Section 252 of the DGCL and with the effect provided in Section 1107 of the CGCL. The separate corporate existence of Merger Sub shall thereupon cease and Pay-Fone shall be the Surviving Corporation and shall continue to be governed by the laws of the State of California. At the election of Paychex, any other Wholly-Owned Subsidiary of Paychex may be substituted for Merger Sub as a constituent corporation in the Merger, provided that the parties shall have executed an appropriate amendment to this Agreement in form and substance reasonably satisfactory to Pay-Fone and Paychex in order to reflect such substitution.

2.2 Effective Time. The Merger shall become effective on the date and at the time (the "Effective Time") that the Certificate of Merger shall have been accepted for filing by the Secretary of State of the State of Delaware (or such later date and time as may be specified in the Certificate of Merger), and an Agreement of Merger, with officers' certificates of the constituent corporations attached shall have been accepted for filing by the Secretary of State of the State of California, which shall be the Closing Date or as soon as practicable thereafter.

2.3 Closing. Subject to the fulfillment or waiver of the conditions set forth in Article VIII, the Closing shall take place (i) at the offices of Pay-Fone, 8100 Balboa Drive, Van Nuys, California 91406, following adjournment of the meeting of Pay-Fone shareholders called to consider this Agreement, provided that the parties have received the last Authorization required by Section 8.1(a) and (b) or (ii) at such other place and/or time and/or on such other date as Paychex and Pay-Fone may agree or as may be necessary to permit the fulfillment or waiver of the conditions set forth in Article VIII. Paychex and Pay-Fone agree to take such actions as may be reasonably necessary and appropriate in order to obtain each Authorization so required and to fulfill such conditions.

## ARTICLE III

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### TERMS OF MERGER

3.1 Articles of Incorporation. The Articles of Incorporation of Pay-Fone as in effect immediately prior to the Effective Time shall be the Articles of Incorporation of the Surviving Corporation, until duly amended in accordance with the terms thereof and of the CGCL.

3.2 The By-Laws. The By-Laws of Pay-Fone in effect at the Effective Time shall be the By-Laws of the Surviving Corporation, until duly amended in accordance with the terms thereof, of the Articles of Incorporation of the Surviving Corporation and of the CGCL.

3.3 Directors. The directors of Merger Sub at the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the surviving Corporation's Articles of Incorporation and By-Laws. To that end, Pay-Fone agrees to increase the number of directors which comprise its entire Board of Directors, effective at the Effective Time, from six to seven.

3.4 Officers. The officers of Merger Sub at the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Articles of Incorporation and By-Laws and the CGCL.

ARTICLE IV  
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MERGER CONSIDERATION; CONVERSION OR  
CANCELLATION OF SHARES IN THE MERGER

4.1 Share Consideration; Conversion or Cancellation of Shares in the Merger. Subject to the provisions of this Article IV, at the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, the Shares of Pay-Fone shall be converted as follows:

(a) Each Share issued and outstanding immediately prior to the Effective Time (other than Shares owned by Paychex and any Dissenting Share) shall be converted into the right to receive and become exchangeable for that number of shares of Paychex Common Stock equal to ER ("Exchange Ratio") determined in accordance with the following formula:

$$ER = \frac{TV}{PCP \times OSO}$$

where

ER is the Exchange Ratio so computed;

TV is the total value calculated by subtracting from \$10,475,000 the sum of the (i) Tax Claim Adjustment, and (ii) General Adjustment, which sum shall be offset (but not to a negative number) by the Positive Adjustment.

PCP is the Paychex Closing Price; and

OSO is the sum of (i) the number of Shares issued and outstanding at the close of business on June 7, 1995, excluding, however, any such Shares owned by Paychex, and (ii) the number of Shares issuable upon exercise of then immediately exercisable options outstanding under Pay-Fone Stock Option Plans at the close of business on June 7, 1995.

For purposes of this Agreement and this Section 4.1(a) in particular:

"Tax Claim Adjustment" is the sum of all amounts expended by Pay-Fone between the date hereof and June 7, 1995 (other than time spent by regular employees of Pay-Fone in the ordinary discharge of their responsibilities) in contesting and resolving claims asserted by the Internal Revenue Service against Pay-Fone for fiscal years 1987 through 1991 and described more fully in the Pay-Fone Tax Matters Certificate delivered to Paychex and Merger Sub pursuant hereto, and claims for California state income or franchise tax based on the same facts and for the same periods, including without limitation professional fees, taxes, interest and penalties, if any;

"General Adjustment" is the amount by which (A) the aggregate of all losses, costs, damages or expenses (excluding, however, all losses, costs, damages or expenses which have been or are to be taken into account in calculating the Tax Claim Adjustment), each of which exceeds in amount \$25,000 and would be suffered by Paychex absent the adjustment contemplated by the definition of "TV" in Section 4.1(a) hereof, resulting from any breach of warranty, misrepresentation, omission or failure to perform any covenant contained herein by Pay-Fone and which are identified in notices given by Paychex to Pay-Fone prior to June 8, 1995, exceeds (B) \$175,000; provided, however, that for purposes of this General Adjustment only, the determination of whether there has been a breach of warranty, misrepresentation, omission or failure to perform shall be made without regard to whether the relevant warranty, representation or

covenant requires that the consequences of a breach, misrepresentation, omission or failure be material or materially adverse in order to be considered to be in violation of this Agreement. Pay-Fone undertakes to advise Paychex of all matters of which it becomes aware prior to June 8, 1995 which should be taken into account in computing the General Adjustment hereunder; and

"Positive Adjustment" is the sum of all of the benefits (including tax benefits arising out of issues other than those asserted by the Internal Revenue Service against Pay-Fone for the fiscal years 1987 through 1991), each of which exceeds in amount \$25,000 and would be enjoyed by Paychex upon the Closing of the Merger, which are identified in notices given by Pay-Fone to Paychex prior to June 8, 1995 and relate to or arise out of (i) conditions or circumstances which are better or more favorable to a company acquiring Pay-Fone than the conditions or circumstances warranted or represented by Pay-Fone hereunder or (ii) a performance of an obligation by Pay-Fone hereunder that is more beneficial to a company acquiring Pay-Fone than the performance that is required hereunder. Paychex undertakes to advise Pay-Fone of all matters of which it becomes aware prior to June 8, 1995 which should be taken into account in computing the Positive Adjustment hereunder.

If, prior to the Effective Time, Paychex should split or combine the Paychex Common Stock, or pay a stock dividend or other stock distribution in Paychex Common Stock, or otherwise change the Paychex Common Stock into any other securities, or make any other dividend or distribution on the Paychex Common Stock (other than normal quarterly cash dividends as the same may be adjusted from time to time in the ordinary course and other than the Paychex 1995 Stock Split which has already been taken into account hereunder), or establish a record date prior to the Effective Time with respect to any of the foregoing, then the Exchange Ratio will be appropriately adjusted to reflect such split, combination, dividend or other distribution or change.

(b) All Shares to be converted into Paychex Common Stock pursuant to this Section 4.1 shall cease to be outstanding, shall be canceled and retired and shall cease to exist, and each holder of a certificate representing any such Shares shall thereafter cease to have any rights with respect to such Shares, except the right to receive for each of the Shares, upon the surrender of such certificate in accordance with Section 4.2, the amount of Paychex Common Stock specified above (the "Share Consideration") and cash in lieu of fractional shares of Paychex Common Stock as contemplated by Section 4.3.

(c) Each Share, if any, issued and outstanding and owned by Paychex immediately prior to the Effective Time shall cease to be outstanding, shall be canceled and retired without payment of any consideration therefor and shall cease to exist.

(d) Each Dissenting Share shall be converted into the right to receive payment from Pay-Fone with respect thereto in accordance with the provisions of the CGCL.

(e) The outstanding shares of capital stock of the Merger Sub shall not be changed or converted as a result of the Merger and shall, at the Effective Time, be the only issued and outstanding capital stock of the Surviving Corporation.

(f) Each outstanding option to purchase Shares (each, an "Option") issued pursuant to the Pay-Fone Stock Option Plans (collectively, the "Option Plans") set forth in the Pay-Fone SEC Reports or the Pay-Fone Disclosure Schedule, whether or not vested or exercisable, shall be assumed by Paychex and shall constitute an option to acquire, on the same terms and conditions as were applicable under such assumed Option, a number of shares of Paychex Common Stock equal to the product of the Exchange Ratio and the number of Shares subject to such Option, at a price per share equal to the aggregate exercise price for the Shares subject to such Option divided by the number of full shares of Paychex Common Stock deemed to be purchasable pursuant to such Option; provided, however, that (i) subject to the provisions of clause (ii) below, the number of shares of Paychex Common Stock that may be purchased upon exercise of such Option shall not include any fractional shares and, upon the exercise of such Option for the final whole share that may be acquired thereunder, a cash payment shall be made for any fractional share based upon the Closing Price of Paychex Common Stock on the trading day next preceding such exercise, and (ii) in the case of any Option to which Section 421 of the Code applies by reason of its qualification under Section 422 or Section 423 of the Code ("qualified stock options"), the option price, the number of shares purchasable pursuant to such Option and the terms and

conditions of exercise of such Option shall be determined in order to comply with Section 424 of the Code.

Paychex shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Paychex Common Stock for delivery upon exercise of the Options assumed in accordance with this Section 4.1(f). Paychex shall file a registration statement on Form S-8 (or any successor form) or another appropriate form, effective as of the Effective Time, with respect to Paychex Common Stock subject to such Options and shall use all reasonable efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Options remain outstanding.

4.2 Payment for Shares in the Merger. The manner of making payment for Shares in the Merger shall be as follows:

(a) At the Effective Time, Paychex shall make available to an exchange agent selected by Paychex and reasonably acceptable to Pay-Fone (the "Exchange Agent") through or on behalf of Merger Sub, for the benefit of those Persons who immediately prior to the Effective Time were the holders of Shares, certificates representing a sufficient number of shares of Paychex Common Stock to effect the delivery of the aggregate consideration required to be issued pursuant to Section 4.1 (the certificates representing Paychex Common Stock comprising such aggregate consideration being hereinafter referred to as the "Exchange Fund"). The Exchange Agent shall, pursuant to irrevocable instructions, deliver the Paychex Common Stock contemplated to be issued pursuant to Section 4.1 and this Section 4.2 and effect the redemption provided for in Section 4.3 out of the Exchange Fund. The Exchange Fund shall not be used for any other purpose.

(b) Promptly after the Effective Time, the Exchange Agent shall mail to each holder of record (other than holders of certificates for Shares referred to in Section 4.1(c)) of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates") (i) a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent) and (ii) instructions for use in effecting the surrender of the Certificates for payment therefor. Upon surrender of Certificates for cancellation to the Exchange Agent, together with such letter of transmittal duly executed and any other required documents, the holder of such Certificates shall be entitled to receive for each of the Shares represented by such Certificates the Share Consideration, and the Certificates so surrendered shall forthwith be canceled. Until so surrendered, Certificates shall represent solely the right to receive the Share Consideration and any cash in lieu of fractional shares of Paychex Common Stock as contemplated by Section 4.3 with respect to each of the Shares represented thereby.

No dividends or other distributions that are declared after the Effective Time on Paychex Common Stock and payable to the holders of record thereof after the Effective Time will be paid to Persons entitled by reason of the Merger to receive Paychex Common Stock until such Persons surrender their Certificates. Upon such surrender, there shall be paid to the Person in whose name the shares of Paychex Common Stock are issued any dividends or other distributions having a record date after the Effective Time and payable with respect to such Paychex Common Stock between the Effective Time and the time of such surrender. After such surrender there shall be paid to the Person in whose name the shares of Paychex Common Stock are issued any dividends or other distributions on such Paychex Common Stock which shall have a record date after the Effective Time and prior to such surrender and a payment date after such surrender, and such payment shall be made on such payment date. In no event shall the persons entitled to receive such dividends or other distributions be entitled to receive interest on such dividends or other distributions.

If any cash or any certificate representing Paychex Common Stock is to be paid to or issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it shall be a condition of such exchange that the Certificate so surrendered shall be properly endorsed and otherwise in proper form for transfer and that the Person requesting such exchange shall pay to the Exchange Agent any transfer or other taxes required by reason of the issuance of certificates for such Paychex Common Stock in a name other than

that of the registered holder of the Certificate surrendered, or shall establish to the satisfaction of the Exchange Agent that such tax has been paid or is not applicable.

Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to a holder of Shares for any shares of Paychex Common Stock or dividends thereon or, in accordance with Section 4.3, proceeds representing fractional interests, delivered to a public official pursuant to applicable escheat law. The Exchange Agent shall not be entitled to vote or exercise any rights of ownership with respect to the Paychex Common Stock held by it from time to time hereunder, except that it shall receive and hold all dividends or other distributions paid or distributed with respect to such Paychex Common Stock for the account of the Persons entitled thereto.

(c) Certificates surrendered for exchange by any Person constituting an Affiliate of Pay-Fone at the Effective Time shall not be exchanged for certificates representing Paychex Common Stock until Paychex has received a written agreement from such Person as provided in Section 7.8 or, if no such written agreement is received, the third anniversary of the Effective Time.

(d) Any portion of the Exchange Fund and the Fractional Securities Fund which remains unclaimed by the former shareholders of Pay-Fone for one year after the Effective Time shall be delivered to Pay-Fone upon demand of Pay-Fone, and any former shareholders of Pay-Fone shall thereafter look only to Pay-Fone for payment of their claim for the Share Consideration for the Shares or for any cash in lieu of fractional shares of Paychex Common Stock.

(e) Any portion of the Exchange Fund and the Fractional Securities Fund which is attributable to Dissenting Shares shall be delivered to Pay-Fone upon demand of Pay-Fone.

4.3 Fractional Shares. No fractional shares of Paychex Common Stock shall be issued in the Merger. In lieu of any such fractional securities, each holder of Shares who would otherwise have been entitled to a fraction of a share of Paychex Common Stock upon surrender of the Certificates for exchange pursuant to this Article IV will be paid an amount in cash (without interest) equal to such holder's proportionate interest in the proceeds from the redemption by Paychex at the Paychex Closing Price as applied for purposes of Section 4.1(a) of this Agreement from the Exchange Agent, on behalf of all such holders, of the aggregate fractional shares of Paychex Common Stock issued pursuant to this Article IV. As soon as practicable following the Effective Time, the Exchange Agent shall determine the excess of (i) the number of full shares of Paychex Common Stock delivered to the Exchange Agent by Paychex over (ii) the aggregate number of full shares of Paychex Common Stock to be distributed to holders of Shares (such excess being herein called the "Excess Shares"), and the Exchange Agent, as agent for the former holders of Shares, shall deliver the Excess Shares to Paychex for redemption against receipt of an amount equal to the Paychex Closing Price as applied for purposes of Section 4.1(a) hereof for each Excess Share. Until such proceeds have been distributed to the former shareholders of Pay-Fone, the Exchange Agent will hold such proceeds in trust for such former shareholders (the "Fractional Securities Fund"). As soon as practicable after receipt of cash to be paid to former shareholders of Pay-Fone in lieu of any fractional interests, the Exchange Agent shall make available in accordance with this Agreement such amounts to such former shareholders.

4.4 Transfer of Shares after the Effective Time. No transfers of Shares shall be made on the stock transfer books of Pay-Fone after the Effective Time.

#### ARTICLE V

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#### REPRESENTATIONS AND WARRANTIES OF PAY-FONE

Pay-Fone hereby represents and warrants to Paychex as of March 17, 1995 that, except as set forth in the Pay-Fone Disclosure Statement:

5.1 Organization, Etc. of Pay-Fone. Pay-Fone is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted and proposed by Pay-Fone to be conducted, to enter into this Agreement and to carry out the provisions of the Agreement and consummate the transactions contemplated hereby. Pay-Fone is duly qualified and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary and where the failure to be so qualified has or



would be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole. Pay-Fone has obtained from the appropriate Governmental Bodies all approvals and licenses necessary for the conduct of its business and operations as currently conducted, which approvals and licenses are valid and remain in full force and effect, except where the failure to have obtained such approvals or licenses or the failure of such licenses and approvals to be valid and in full force and effect does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole. Pay-Fone is not subject to any order, complaint, proceeding or investigation pending or, to the knowledge of Pay-Fone, threatened, which affects or would be reasonably expected (so far as can be foreseen at the time) to affect the validity of any such approvals or licenses or impair the renewal thereof, except where the invalidity of any such approvals or licenses or the non-renewal thereof does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole.

5.2 Operations of Subsidiary. The Subsidiary of Pay-Fone (a) is a corporation or other legal entity duly organized, validly existing and (if applicable) in good standing under the laws of the jurisdiction of its organization and has the full power and authority to own its properties and conduct its business and operations as currently conducted, except where the failure to be duly organized, validly existing and in good standing does not have, and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole, (b) is duly qualified and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so qualified does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole, (c) has obtained from the appropriate Governmental Bodies all approvals and licenses necessary for the conduct of its business and operations as currently conducted, which licenses and approvals are valid and remain in full force and effect, except where the failure to have obtained such approvals and licenses or the failure of such licenses and approvals to be valid and in full force and effect does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole and (d) is subject to no order, complaint, proceeding or investigation pending or, to the knowledge of Pay-Fone or its Subsidiary, threatened, which would be reasonably expected (so far as can be foreseen at the time) to affect the validity of any such approvals or licenses or impair the renewal thereof, except where the invalidity of any such approvals or licenses or the non-renewal thereof does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole.

5.3 Agreement. This Agreement and the consummation of the transactions contemplated hereby have been unanimously approved by the Board of Directors of Pay-Fone and have been duly authorized by all other necessary corporate action on the part of Pay-Fone (except for the approval of Pay-Fone's shareholders contemplated by Section 7.3). This Agreement has been duly executed and delivered by a duly authorized officer of Pay-Fone and constitutes a valid and binding agreement of Pay-Fone, enforceable against Pay-Fone in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general applicability which may affect the enforcement of creditors' rights generally and by general equitable principles. Pay-Fone has delivered to Paychex true and correct copies of resolutions adopted by the Board of Directors of Pay-Fone approving this Agreement.

5.4 Capital Stock. The authorized capital stock of Pay-Fone consists of 10,000,000 shares of Common Stock \$.10 par value, of which 1,484,233 shares are outstanding as of the date

hereof. All outstanding Shares are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock of Pay-Fone is entitled to preemptive rights. All outstanding shares of capital stock of Pay-Fone Subsidiary are owned by Pay-Fone, free and clear of all liens, charges, claims, encumbrances, and options of any nature. Pay-Fone has initiated action to merge the Pay-Fone Subsidiary with and into Pay-Fone pursuant to Section 1110 of the CGCL. In the event such merger occurs prior to the Effective Time, from and after the time the merger of the Pay-Fone Subsidiary with and into Pay-Fone is effective all references herein to the Pay-Fone Subsidiary shall be considered to be references to Pay-Fone.

There are outstanding on the date hereof no options, warrants or other rights to acquire capital stock from Pay-Fone, except options representing in the aggregate the right to purchase up to 282,855 Shares pursuant to the Pay-Fone Stock Option Plans and there are no other Shares reserved for issuance. The Pay-Fone options outstanding on the date of this Agreement are exercisable with respect to 123,710 Shares and will not be exercisable as to more Shares until July 17, 1995 when (if outstanding) they shall be exercisable as to an additional 4,110 Shares.

5.5 Litigation. Except as disclosed in Pay-Fone SEC Reports, there are no actions, suits, investigations or proceedings (adjudicatory, rulemaking or otherwise) pending or, to the knowledge of Pay-Fone, threatened against Pay-Fone or its Subsidiary (or any Employee Plan or Benefit Arrangement), or any property of Pay-Fone or its Subsidiary (including Intellectual Property), in any court or before any arbitrator of any kind or before or by any Governmental Body, except actions, suits, investigations or proceedings which, in the aggregate, (a) do not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on (i) the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole or (ii) the ability of Pay-Fone to perform its obligations under this Agreement.

5.6 Compliance with Other Instruments, Etc. Neither Pay-Fone nor its Subsidiary is in violation of any term of (a) its charter, by-laws or other organizational documents, (b) any agreement or instrument related to indebtedness for borrowed money or any other agreement to which it is a party or by which it is bound, (c) any applicable law, ordinance, rule or regulation of any Governmental Body, or (d) any applicable order, judgment or decree of any court, arbitrator or Governmental Body, the consequences of which violation, whether individually or in the aggregate, have or would be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on (i) the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole or (ii) the ability of Pay-Fone to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement by Pay-Fone will not result in any violation of or conflict with, constitute a default under, or require any consent under any term of the charter, by-laws or other organizational document of Pay-Fone or any such agreement, instrument, law, ordinance, rule, regulation, order, judgment or decree or result in the creation of (or impose any obligation on Pay-Fone or its Subsidiary to create) any mortgage, lien, charge, security interest or other encumbrance upon any of the properties or assets of Pay-Fone or its Subsidiary pursuant to any such term, except where such violation, conflict or default, or the failure to obtain such consent, individually or in the aggregate, does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on (i) the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole or (ii) the ability of Pay-Fone to perform its obligations under this Agreement.

#### 5.7 Employee Benefit Plans.

(a) The Pay-Fone SEC Reports or the Pay-Fone Disclosure Statement sets forth as to Pay-Fone and its Subsidiary a true and complete list of all the following: (i) each "employee benefit plan," as such term is defined in Section 3(3) of ERISA, pursuant to which Pay-Fone has (A) any material liability with respect to current or former employees, agents, directors, or independent contractors of Pay-Fone and its Subsidiary ("Employees") or (B) any obligation to issue capital stock of Pay-Fone or its Subsidiary (each, an "Employee Plan"), and (ii) each other plan, program, policy, contract or

arrangement providing for bonuses, pensions, deferred pay, stock, or stock related awards, severance pay, salary continuation or similar benefits, hospitalization, medical, dental or disability benefits, life insurance or other employee benefits, or compensation to or for any Employees or any beneficiaries or dependents of any Employees (other than directors' and officers' liability insurance policies), whether or not insured or funded (A) pursuant to which Pay-Fone or its Subsidiary has any material liability or (B) constituting an employment or severance agreement or arrangement with any officer or director of Pay-Fone or its Subsidiary (each, a "Benefit Arrangement"). No such Benefit Arrangements constituting employment or severance agreements are in the aggregate material to Pay-Fone and its Subsidiary taken as a whole. Pay-Fone has used its reasonable efforts to provide to Paychex with respect to each Employee Plan and Benefit Arrangement, (i) a true and complete copy of all written documents comprising such Employee Plan or Benefit Arrangement (including amendments and agreements or forms of agreement relating thereto) or, if there is no such written document, an accurate and complete description of such Employee Plan or Benefit Arrangement; (ii) the most recent Form 5500 or Form 5500-C (including all schedules thereto), if applicable; (iii) the most recent financial statements and actuarial reports, if any; (iv) the summary plan description currently in effect and all material modifications thereof, if any; and (v) the most recent Internal Revenue Service determination letter, if any. Any such Employee Plans and Benefit Arrangements with respect to which such materials are not so provided are not in the aggregate material to Pay-Fone and its Subsidiary taken as a whole.

(b) Each Employee Plan and Benefit Arrangement has been established and maintained in all material respects in accordance with its terms and in material compliance with all applicable laws, including, but not limited to, ERISA and the Code. Neither Pay-Fone nor its Subsidiary nor any current or former directors, officers, or employees, nor, to the best knowledge of Pay-Fone, any other disqualified person or party-in-interest with respect to any Employee Plan, have engaged directly or indirectly in any "prohibited transaction," as such term is defined in Section 4975 of the Code or Section 406 of ERISA, with respect to which Pay-Fone or its Subsidiary could have or has any material liability. All contributions required to be made to the Employee Plans and Benefit Arrangements have been made in a timely fashion. Each Employee Plan that is intended to be qualified under Section 401(a) of the Code is so qualified, and each related trust is exempt from taxation under Section 501(a) of the Code.

(c) Neither the execution or delivery of this Agreement, nor the consummation of the transactions contemplated hereby (either alone or together with any additional or subsequent events), constitutes an event under any Employee Plan, Benefit Arrangement, loan to, or individual agreement or contract with, an Employee that may result in any material payment (whether of severance pay or otherwise), restriction or limitation upon the assets of any Employee Plan or Benefit Arrangement, acceleration of payment or vesting, increase in benefits or compensation, or required funding, with respect to any Employee, or forgiveness of any loan or other commitment of any Employees.

(d) There are no actions, suits, arbitrations, inquiries, investigations or other proceedings (other than routine claims for benefits) pending or, to Pay-Fone's knowledge, threatened, with respect to any Employee Plan or Benefit Arrangement.

(e) No amounts paid or payable by Pay-Fone or its Subsidiary to or with respect to any Employee will fail to be deductible for federal income tax purposes by reason of Section 280G of the Code.

(f) No Employees and no beneficiaries or dependents of Employees are or may become entitled under any Employee Plan or Benefit Arrangement to post-employment welfare benefits of any kind, including, without limitation, death or medical benefits, other than coverage mandated by Section 4980B of the Code.

(g) There are no agreements with, or pending petitions for recognition of, a labor union or association as the exclusive bargaining agent for any of the employees of Pay-Fone or its Subsidiary; no such petitions have been pending at any time within two years of the date of this Agreement and, to the best knowledge of Pay-Fone, there has not been any organizing effort by any union or other group seeking to represent any employees of

Pay-Fone or its Subsidiary as their exclusive bargaining agent at any time within two years of the date of this Agreement. There are no labor strikes, work stoppage or other labor troubles, other than routine grievance matters, now pending, or, to Pay-Fone's knowledge, threatened against Pay-Fone or its Subsidiary, nor have there been any such labor strikes, work stoppages or other labor troubles, other than routine grievance matters, with respect to Pay-Fone or its Subsidiary at any time within two years of this Agreement.

5.8 Taxes. Except as set forth in the Pay-Fone Tax Matters Certificate, each of Pay-Fone and its Subsidiary has filed all federal, state, county, local and foreign tax returns required to be filed by it and has paid all taxes shown to be due thereon, other than taxes appropriate reserves for which have been made in Pay-Fone's or its Subsidiary's financial statements (and, to the extent material, such reserves have been accurately described to Paychex); there are no assessments or adjustments that have been asserted in writing against Pay-Fone or its Subsidiary for any period for which Pay-Fone or its Subsidiary has not made appropriate reserves (if any are appropriate) in Pay-Fone's financial statements; and Pay-Fone has established on its books and records reserves appropriate in all material respects for the payment of all taxes not yet due and payable.

5.9 Intellectual Property. Pay-Fone owns or has the defensible right to use, the Intellectual Property used in Pay-Fone's business, except where the failure to own or have the right to use such Intellectual Property, in the aggregate, does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and its Subsidiary taken as a whole.

#### 5.10 Documents, Reports and Financial Statements.

(a) Pay-Fone has filed all reports (including, without limitation, proxy statements) required to be filed with the SEC since July 1, 1991 (collectively, the "Pay-Fone SEC Reports"), and has previously furnished or made available to Paychex true and complete copies thereof, amended through the date hereof. None of the Pay-Fone SEC Reports, as of their respective dates (as amended through the date hereof), contained any untrue statement of material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the balance sheets (including the related notes) included in Pay-Fone SEC Reports presents fairly, in all material respects, the financial position of Pay-Fone as of the respective dates thereof, and the other related statements (including the related notes) included therein present fairly, in all material respects, the results of operations and the changes in financial position of Pay-Fone for the respective periods set forth therein, all in conformity with generally accepted accounting principles consistently applied during the periods involved, except as otherwise noted therein and subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and any other adjustments described therein. All of Pay-Fone SEC Reports, as of their respective dates (as amended through the date hereof), complied in all material respects with the requirements of the Exchange Act and the applicable rules and regulations thereunder.

(b) Pay-Fone has not made any misstatements of fact, or omitted to disclose any fact, to any federal or state regulatory authority, or taken or failed to take any action, which misstatements or omissions, actions or failures to act, individually or in the aggregate, subject or would be reasonably expected (so far as can be foreseen at the time) to subject any licenses or approvals referred to in Section 5.1 to revocation or failure to renew, except where such revocation or failure to renew, individually or in the aggregate, does not have and would not be reasonably expected to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone.

(c) Each of the documents, agreements and records delivered by Pay-Fone to Paychex or its advisors is true and complete in all material respects, and no written information delivered by Pay-Fone to Paychex, including, but not limited to, the Pay-Fone Disclosure Statement, contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

5.11 Absence of Certain Changes or Events. During the period since December 31, 1994, (a) the business of Pay-Fone and its Subsidiary has been conducted only in the ordinary course, consistent with past practice, (b) neither Pay-Fone nor its Subsidiary has entered into any material transaction other than in the ordinary course, consistent with past practice, and (c) there has not been any material adverse change in the business, financial condition, results of operations, properties, assets, liabilities or prospects of Pay-Fone and its Subsidiary taken as a whole (other than as a result of economic or political developments of general applicability).

5.12 Contracts and Leases. The Pay-Fone SEC Reports contain an accurate and complete listing of all material contracts, leases, agreements or understandings, whether written or oral, required to be described therein or filed as exhibits thereto pursuant to the Exchange Act and the applicable rules and regulations thereunder. Pay-Fone has provided Paychex a list of all material contracts, leases, agreements or understandings, whether written or oral, to which the Pay-Fone Subsidiary is a party. Each of such contracts, leases, agreements and understandings which has not expired or otherwise terminated is in full force and effect and (a) neither Pay-Fone, its Subsidiary nor, to Pay-Fone's best knowledge, any other party thereto, has materially breached or is in material default thereunder, (b) no event has occurred which, with the passage of time or the giving of notice would constitute such a material breach or default, (c) no claim of material default thereunder has, to Pay-Fone's best knowledge, been asserted or threatened and (d) neither Pay-Fone, its Subsidiary nor, to Pay-Fone's best knowledge any other party thereto is seeking the renegotiation thereof or substitute performance thereunder, except where such breach or default, or attempted renegotiation or substitute performance, individually or in the aggregate, does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone.

5.13 Affiliated Transactions. The Pay-Fone SEC Reports contain an accurate and complete listing of all contracts, leases, agreements or understandings, whether written or oral, with or on behalf of any Affiliate of Pay-Fone, to which Pay-Fone or its Subsidiary is a party or is otherwise bound and which is required to be described in or filed as an exhibit to any Pay-Fone SEC Report pursuant to the Exchange Act and the applicable rules and regulations thereunder. There are no transactions between the Pay-Fone Subsidiary and any Affiliate of such Subsidiary, other than Pay-Fone.

5.14 Brokers and Finders. Neither Pay-Fone nor its Subsidiary has employed any investment banker, broker, finder, consultant or intermediary in connection with the transactions contemplated by this Agreement which would be entitled to any investment banking, brokerage, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby.

5.15 S-4 Registration Statement and Proxy Statement/Prospectus. None of the information supplied by Pay-Fone which is contained in the S-4 Registration Statement or the Proxy Statement/Prospectus will (a) in the case of the S-4 Registration Statement, at the time it becomes effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading or (b) in the case of the Proxy Statement/Prospectus, at the time of the mailing of the Proxy Statement/Prospectus and at the time of the Shareholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If, at any time prior to the Effective Time any event with respect to Pay-Fone or its officers and directors should occur which is required to be described in an amendment of, or a supplement to, the Proxy Statement/Prospectus or the S-4 Registration Statement, Pay-Fone shall notify Paychex thereof by reference to this Section 5.15 and shall provide appropriate information regarding such event for inclusion in such amendment or supplement. Any such amendment or supplement shall be considered to be part of the S-4 Registration Statement or the Proxy Statement/Prospectus for purposes of this Section. The Proxy Statement/Prospectus will (with respect to Pay-Fone) comply as to form in all material respects with the requirements of the Exchange Act.

5.16 Tax Matters. The representations set forth in the

numbered paragraphs of the form of Tax Matters Certificate of Pay-Fone attached to the Pay-Fone Disclosure Statement (the "Pay-Fone Tax Matters Certificate") are true and correct in all material respects and such representations are hereby incorporated herein by reference with the same effect as if set forth herein in their entirety.

#### ARTICLE VI

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#### REPRESENTATIONS AND WARRANTIES OF PAYCHEX AND MERGER SUB

Paychex and Merger Sub each represents and warrants to Pay-Fone as of March 17, 1995 that, except as set forth in the Paychex Disclosure Statement:

6.1 Organization, Etc. of Paychex. Paychex is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted and proposed by Paychex to be conducted, to enter into this Agreement and to carry out the provisions of this Agreement and consummate the transactions contemplated hereby. Paychex is duly qualified and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary and where the failure to be so qualified has or would be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole. Paychex has obtained from the appropriate Governmental Bodies all approvals and licenses necessary for the conduct of its business and operations as currently conducted, which approvals and licenses are valid and remain in full force and effect, except where the failure to have obtained such approvals or licenses or the failure of such licenses and approvals to be valid and in full force and effect does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole. Paychex is not subject to any order, complaint, proceeding or investigation pending or, to the knowledge of Paychex, threatened, which affects or would be reasonably expected (so far as can be foreseen at the time) to affect the validity of any such approvals or licenses or impair the renewal thereof, except where the invalidity of any such approvals or licenses or the non-renewal thereof does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole.

6.2 Operations of Subsidiaries. Each Subsidiary of Paychex (a) is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has the full power and authority to own its properties and conduct its business and operations as currently conducted, except where the failure to be duly organized, validly existing and in good standing does not have, and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole, (b) is duly qualified and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so qualified does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole, (c) has obtained from the appropriate Governmental Bodies all approvals and licenses necessary for the conduct of its business and operations as currently conducted, which licenses and approvals are valid and remain in full force and effect, except where the failure to have obtained such approvals and licenses or the failure of such licenses and approvals to be valid and in full force and effect does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole and (d) is subject to no order, complaint, proceeding or investigation pending or, to the knowledge of Paychex or such Subsidiary, threatened, which would

be reasonably expected (so far as can be foreseen at the time) to affect the validity of any such approvals or licenses or impair the renewal thereof, except where the invalidity of any such approvals or licenses or the non-renewal thereof does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole.

6.3 Agreement. This Agreement and the consummation of the transactions contemplated hereby have been approved by the respective Boards of Directors or Executive Committees of Paychex and Merger Sub and have been duly authorized by all other necessary corporate action on the part of Paychex and Merger Sub. This Agreement has been duly executed and delivered by a duly authorized officer of each of Paychex and Merger Sub and constitutes a valid and binding agreement of Paychex and Merger Sub, enforceable against Paychex and Merger Sub in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. Paychex has delivered to Pay-Fone true and correct copies of resolutions adopted by the Board of Directors of each of Paychex and Merger Sub approving this agreement.

6.4 Capital Stock. The authorized capital stock of Paychex consists of 50,000,000 shares of Paychex Common Stock, \$.01 par value per share. All of the outstanding shares of capital stock of Paychex are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock Paychex is entitled to preemptive rights. As of the close of business on January 31, 1995, 29,987,596 shares of Paychex Common Stock were issued and outstanding. Except as disclosed in the Paychex SEC Reports, all outstanding shares of capital stock of Merger Sub and the Significant Subsidiaries of Paychex are owned by Paychex or a Wholly-Owned Subsidiary of Paychex, free and clear of all liens, charges, encumbrances, claims and options of any nature. As of the closing of business on January 31, 1995, there were 941,340 shares of Paychex Common Stock reserved for issuance pursuant to Paychex Stock Option Plans and there were no other shares reserved for issuance.

6.5 Authorization for Paychex Common Stock. Prior to the Effective Time, Paychex will have taken all necessary action to permit it to issue the number of shares of Paychex Common Stock required to be issued pursuant to Article IV. The Paychex Common Stock issued pursuant to Article IV will, when issued, be duly authorized, validly issued, fully paid and nonassessable, and no stockholder of Paychex will have any preemptive right of subscription or purchase in respect thereof. The Paychex Common Stock will, when issued, be registered under the Securities Act and the Exchange Act and registered or exempt from registration under any applicable state securities laws.

6.6 Litigation. Except as disclosed in the Paychex SEC Reports, there are no actions, suits, investigations or proceedings (adjudicatory, rulemaking or otherwise) pending or, to the knowledge of Paychex, threatened against Paychex or any of its Subsidiaries, or any property of Paychex or any such Subsidiary (including Intellectual Property), in any court or before any arbitrator of any kind or before or by any Governmental Body, except actions, suits, investigations or proceedings which, in the aggregate, do not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on (i) the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole or (ii) the ability of Paychex to perform its obligations under this Agreement.

6.7 Compliance with Other Instruments, Etc. Neither Paychex nor any Subsidiary of Paychex is in violation of any term of (a) its charter, by-laws or other organizational documents (b) any agreement or instrument related to indebtedness for borrowed money or any other agreement to which it is a party or by which it is bound, (c) any applicable law, ordinance, rule or regulation of any Governmental Body, or (d) any applicable order, judgment or decree of any court, arbitrator or Governmental Body, the consequences of which violation, whether individually or in the aggregate, have or would be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on (i) the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole or (ii) the ability of Paychex to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement by Paychex will not result in any violation of or conflict with, constitute a default under, or require any consent

under any term of the charter or by-laws of Paychex (or any of its Subsidiaries) or any such agreement, instrument, law, ordinance, rule, regulation, order, judgment or decree of result in the creation of (or impose any obligation on Paychex or any of its Subsidiaries to create) any mortgage, lien, charge, security interest or other encumbrance upon any of the properties or assets of Paychex or any of its subsidiaries pursuant to any such term, except where such violation, conflict or default, or the failure to obtain such consent, individually or in the aggregate, does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on (i) the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole or (ii) the ability of Paychex to perform its obligations under this Agreement.

6.8 Intellectual Property. Paychex and its Subsidiaries own, or have the defensible right to use, the Intellectual Property used in Paychex' business, except where the failure to own or have the right to use such Intellectual Property, in the aggregate, does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole.

#### 6.9 Documents, Reports and Financial Statements.

(a) Paychex has filed all reports (including, without limitation, proxy statements) required to be filed with the SEC since June 1, 1991 (collectively, the "Paychex SEC Reports"), and has previously furnished or made available to Pay-Fone true and complete copies of all Paychex SEC Reports. None of the Paychex SEC Reports, as of their respective dates (as amended through the date hereof), contained any untrue statement of material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the balance sheets (including the related notes) included in the Paychex SEC Reports presents fairly, in all material respects, the consolidated financial position of Paychex and its Subsidiaries as of the respective dates thereof, and the other related statements (including the related notes) included therein present fairly, in all material respects, the results of operations and the changes in financial position of Paychex and Subsidiaries for the respective periods set forth therein, all in conformity with generally accepted accounting principles consistently applied during the periods involved, except as otherwise noted therein and subject, in the case of the unaudited interim financial statements to normal year-end adjustments and any other adjustments described therein. All of the Paychex SEC Reports, as of their respective dates (as amended through the date hereof), complied in all material respects with the requirements of the Exchange Act and the applicable rules and regulations thereunder.

(b) Paychex and its Subsidiaries have not made any misstatements of fact, or omitted to disclose any fact, to any federal or state regulatory authority, or taken or failed to take any action, which misstatements or omissions, actions, or failures to act, individually or in the aggregate, subject or would be reasonably expected (so far as can be foreseen at the time) to subject any licenses or approvals referred to in Section 6.1 or 6.2 to revocation or failure to renew, except where such revocation or failure to renew, individually or in the aggregate, does not have and would not be reasonably expected to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole.

(c) Each of the documents, agreements and records delivered by Paychex to Pay-Fone or its advisors is true and complete in all material respects and no written information delivered by Paychex to Pay-Fone, including, but not limited to, the Paychex Disclosure contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

6.10 Absence of Certain Changes or Events. During the period since November 30, 1994, there has not been any material adverse change in the business, financial condition, results of operations, properties, assets, liabilities or prospects of Paychex and its Subsidiaries taken as a whole (other than as a result of economic or political developments of general



applicability).

6.11 Contracts and Leases. The Paychex SEC Reports contain an accurate and complete listing of all material contracts, leases, agreements or understandings, whether written or oral, required to be described therein or filed as exhibits thereto pursuant to the Exchange Act and the applicable rules and regulations thereunder. Each of such contracts, leases, agreements and understandings which has not expired or otherwise terminated is in full force and effect and (a) none of Paychex or its Subsidiaries or, to Paychex' best knowledge, any other party thereto, has materially breached or is in material default thereunder, (b) no event has occurred which, with the passage of time or the giving of notice would constitute such a material breach or default, (c) no claim of material default thereunder has, to Paychex' best knowledge, been asserted or threatened and (d) none of Paychex or its Subsidiaries or, to Paychex' best knowledge, any other party thereto is seeking the renegotiation thereof or substitute performance thereunder, except where such breach or default, or attempted renegotiation or substitute performance, individually or in the aggregate, does not have and would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Paychex and its Subsidiaries taken as a whole.

6.12 Brokers and Finders. Paychex has not employed any investment banker, broker, finder, consultant or intermediary in connection with the transactions contemplated by this Agreement which would be entitled to any investment banking, brokerage, finder's or similar fee or commission in connection with this Agreement or the transactions contemplated hereby.

6.13 S-4 Registration Statement and Proxy Statement/Prospectus. None of the information supplied by Paychex which is contained or incorporated by reference in the S-4 Registration Statement or the Proxy Statement/Prospectus will (a) in the case of the S-4 Registration Statement, at the time it becomes effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading or (b) in the case of the Proxy Statement/Prospectus, at the time of the mailing of the Proxy Statement/Prospectus and at the time of the Shareholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If, at any time prior to the Effective Time any event with respect to Paychex, its officers and directors or any of its Subsidiaries shall occur which is required to be described in the Proxy Statement/Prospectus or the S-4 Registration Statement, Paychex shall notify Pay-Fone thereof by reference to this Section 6.13 and shall provide appropriate information regarding such event for inclusion in such amendment or supplement. Any such amendment or supplement shall be considered to be part of the S-4 Registration Statement or the Proxy Statement/Prospectus for purposes of this Section. The S-4 Registration Statement will comply (with respect to Paychex) as to form in all material respects with the provisions of the Securities Act.

6.14 Tax Matters. The representations set forth in the numbered paragraphs of the form of Tax Matters Certificate of Paychex attached to the Paychex Disclosure Statement (the "Paychex Tax Matters Certificate") are true and correct in all respects, and such representations are hereby incorporated herein by reference with the same effect as if set forth herein in their entirety.

ARTICLE VII  
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ADDITIONAL COVENANTS AND AGREEMENTS

7.1 Conduct of Business of Pay-Fone and Its Subsidiary. Except as contemplated by this Agreement, as set forth in the Pay-Fone Disclosure Statement, or with the prior written consent of Paychex, during the period from the date of this Agreement to the Effective Time, (i) each of Pay-Fone and its Subsidiary will conduct its operations according to its ordinary course of business consistent with past practice, (ii) neither Pay-Fone nor its Subsidiary will enter into any material transaction other than in the ordinary course of business consistent with past practice and (iii) to the extent consistent with the foregoing, with no less diligence and effort than would be applied in the

absence of this Agreement, each of Pay-Fone and its Subsidiary, to the same extent as it would in the absence of the Agreement, will seek to preserve its current business organizations, keep available the service of its current officers and employees and preserve its relationships with customers, suppliers and others having business dealings with it with the objective that the goodwill and going concern value of Pay-Fone and its Subsidiary shall not be materially impaired at the Effective Time. Without limiting the generality of the foregoing, and except as otherwise permitted in this Agreement, prior to the Effective Time, or the termination of this Agreement, neither Pay-Fone nor its Subsidiary will, without the prior written consent of Paychex which shall not be unreasonably withheld or delayed (except to the extent set forth in the Pay-Fone Disclosure Statement):

(a) except for Shares issued upon exercise of options outstanding as of the date hereof under Pay-Fone's Stock Option Plans, as set forth in Section 5.7, issue, deliver, sell, dispose of, pledge or otherwise encumber, or authorize or propose the issuance, sale, disposition or pledge or other encumbrance of any additional shares of its capital stock of any class (including the Shares), or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of its capital stock, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any shares of its capital stock or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of its capital stock, or (b) any other securities in respect of, in lieu of, or in substitution for, Shares outstanding on the date hereof;

(b) redeem, purchase or otherwise acquire, or propose to redeem, purchase or otherwise acquire, any of its outstanding securities (including the Shares);

(c) split, combine, subdivide or reclassify any shares of its capital stock or declare, set aside for payment or pay any dividend, or make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to shareholders in their capacity as such;

(d) (i) grant any material increases in the compensation of any of its directors, officers or key employees, except in the ordinary course of business consistent with the past practice, (ii) pay or agree to pay pension, retirement allowance or other material employee benefit not required or contemplated by any of the existing benefit, severance, pension or employment plans, agreements or arrangements as in effect on the date hereof to any such director, officer or key employees, whether past or present, (iii) enter into any new or materially amend any existing employment agreement with any such director, officer, or key employee, except for employment agreements with new employees entered into in the ordinary course of business consistent with past practice, (iv) enter into any new or materially amend any existing severance agreement with any such director, officer, or key employee, or (v) except as may be required to comply with applicable law, become obligated under any new pension plan or arrangement, welfare plan or arrangement, multi-employer plan or arrangement, employee benefit plan or arrangement, severance plan or arrangement, benefit plan or arrangement, or similar plan or arrangement, which was not in existence on the date hereof, or amend any such plan or arrangement in existence on the date hereof if such amendment would have the effect of enhancing or accelerating any benefits thereunder;

(e) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization, or other reorganization of Pay-Fone (other than the Merger);

(f) make any acquisition, by means of merger, consolidation or otherwise, of (i) any direct or indirect ownership interest in any other business enterprise or operation or (ii) except in the ordinary course and consistent with past practice, any other material assets;

(g) (i) dispose of any direct or indirect ownership interest or make any other disposition of any direct or indirect ownership in or assets comprising any business enterprise or operation or (ii) except in the ordinary course and consistent with past practice, dispose of any other material assets;

(h) except for advances to employees which do not exceed \$1,000 per individual or \$10,000 in the aggregate, incur any indebtedness for borrowed money or guarantee any such

indebtedness or make any loans, advances or capital contributions to, or investments in, any other Person;

(i) engage in the conduct of business other than payroll preparation and processing and related services;

(j) enter into any agreement providing for acceleration of payment or performance or other adverse consequences as a result of a change of control of Pay-Fone;

(k) enter into any lease of real property or equipment or enter into any contract, arrangement or understanding requiring the purchase of equipment, materials, supplies or services for the expenditure in any individual or related series of transactions of more than \$25,000; or

(l) authorize, recommend, propose (other than to Paychex) or announce an intention to do any of the foregoing, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing.

(m) between June 8, 1995 and the Effective Date, expend any amounts that would have entered into the calculation of the Tax Claim Adjustment if expended prior to June 8, 1995.

7.2 Transactions. Prior to the Closing, or the termination of this Agreement, Pay-Fone will not, and Pay-Fone will not authorize any of its officers, employees, representatives, agents or Affiliates to, directly or indirectly, encourage, solicit, or engage in discussions or negotiations with any third party (other than Paychex) concerning any merger, consolidation, share exchange or similar transaction involving Pay-Fone or any purchase of all or a significant portion of the assets of or equity interest in Pay-Fone or any other transaction that would involve the transfer or potential transfer of control of Pay-Fone, other than the transactions contemplated hereby. Pay-Fone will notify Paychex immediately of any inquiries or proposals with respect to any such transaction that are received by, or any such negotiations or discussions that are sought to be initiated with, Pay-Fone. Nothing contained in this Agreement shall prohibit or restrict Pay-Fone's Board of Directors from taking and disclosing to Pay-Fone's shareholders a position in accordance with Rules 14d-9 and 14e-2 under the Exchange Act with respect to a tender offer or an exchange offer for shares of Pay-Fone Common Stock commenced by a third party or otherwise acting in a manner consistent with its fiduciary duties. However, if the Pay-Fone Board of Directors takes a position contrary to the Merger and the holders of five percent or more of the Shares issued and outstanding exercise their appraisal rights under CGCL Section 1300 et seq. and Paychex elects to terminate this Agreement as allowed by Section 8.2(k), or if Pay-Fone fails to cooperate as required by this Agreement in presenting the Merger to the Pay-Fone shareholders for their vote, then Pay-Fone shall pay to Paychex within ten days after written demand the sum of \$300,000.

Paychex represents and warrants to Pay-Fone that Paychex has been advised by Ernst & Young, LLP that the transactions contemplated by this Agreement as presently disclosed to it by Paychex and by Pay-Fone's accountants, KPMG Peat Marwick LLP qualify for pooling of interests accounting and that in the absence of some change in the transactions so contemplated, Ernst & Young, LLP will be able to deliver at the Closing the opinion referred to in Section 8.2(g).

In the event Paychex fails to cooperate as required by this Agreement in consummating the Merger or unreasonably fails to provide its consent to some matter necessary to permit the consummation of the Merger or unreasonably employs an immaterial failure of a condition to Closing, an immaterial breach of a representation, warranty or covenant or an immaterial addition to or alteration of the Pay-Fone Disclosure Statement to cause the termination of this Agreement or otherwise by breach of the Agreement causes the Merger not to be consummated, then Paychex shall pay to Pay-Fone within ten days after written demand the sum of \$300,000.

The parties agree that the sum of \$300,000 is a reasonable approximation of the amount of damages each of them would sustain if damages were readily ascertainable. Thus, in each case, the \$300,000 payment specified in this Section 7.2 shall be deemed liquidated damages (and not a penalty) such that the receiving party, upon being tendered such payment, shall have no further claim against the paying party, under this Agreement or otherwise.

7.3 Meeting of Shareholders. Pay-Fone will take all action necessary in accordance with applicable law and its Articles of Incorporation and By-Laws to convene a meeting of its shareholders (the "Shareholders Meeting") as promptly as reasonably practicable to consider and vote upon the approval of the Merger. Subject to the fiduciary duties of Pay-Fone's Board of Directors under applicable law as advised in writing by counsel, the Board of Directors of Pay-Fone shall recommend and declare advisable such approval, and Pay-Fone shall take reasonable action to solicit, and use reasonable efforts to obtain, such approval. By agreement dated the date hereof, each of the members of the Affiliates Block executing the Affiliates Agreement has agreed to vote Shares owned by such member in favor of approval of the Merger at the Shareholders Meeting. Pay-Fone represents and warrants that the favorable vote of such Shares by members of the Affiliates Block shall be sufficient to obtain the requisite approval of the Merger at the Shareholders Meeting.

7.4 Registration Statement. Paychex will, as promptly as practicable, prepare and file with the SEC a registration statement on Form S-4 (the "S-4 Registration Statement"), containing a proxy statement/prospectus, in connection with the registration under the Securities Act of the Paychex Common Stock issuable upon conversion of the Shares and the other transactions contemplated hereby. The S-4 Registration Statement will, if required by the Securities Act, contain pro forma financial statements accounting for the Merger as a pooling of interests (unless Paychex shall have irrevocably and unconditionally waived in writing the condition set forth in Section 8.2(g)). Pay-Fone will, as promptly as practicable, prepare and file with the SEC a proxy statement that will be the same proxy statement/prospectus contained in the S-4 Registration Statement and a form of proxy, in connection with the vote of Pay-Fone's shareholders with respect to the Merger (such proxy statement/prospectus, together with any amendments thereof or supplements thereto, in each case in the form or forms mailed to Pay-Fone's shareholders, is herein called the "Proxy Statement/Prospectus"). The Proxy Statement/Prospectus shall be in form and substance reasonably satisfactory to Paychex, Pay-Fone and their respective counsel. Paychex and Pay-Fone will use all reasonable efforts to cause the S-4 Registration Statement to be declared effective as promptly as practicable and also will take any other action reasonably required to be taken under federal or state securities laws to consummate the Merger, and Pay-Fone will use all reasonable efforts to cause the Proxy Statement/Prospectus to be mailed to shareholders of Pay-Fone at the earliest reasonably practicable date.

7.5 Reasonable Efforts. Pay-Fone and Paychex shall in good faith (i) promptly make all filings and seek and use all reasonable efforts to obtain all Authorizations required under all applicable laws with respect to the Merger and the other transactions contemplated hereby and will cooperate with each other with respect thereto; (ii) use all reasonable efforts to promptly take, or cause to be taken, all other actions and do, or cause to be done, all other things necessary, proper or appropriate to satisfy the conditions set forth in Article VIII and to consummate and make effective the transactions contemplated by this Agreement on the terms and conditions set forth herein as soon as reasonably practicable (including seeking to remove promptly any injunction or other legal barrier that may prevent such consummation); (iii) not take any action (including, without limitation, effecting or agreeing to effect or announcing an intention or proposal to effect, any acquisition, business combination or other transaction) which might reasonably be expected to impair the ability of the parties to consummate the Merger at the earliest reasonably possible time (regardless of whether such action would otherwise be permitted or not prohibited hereunder); (iv) not unreasonably withhold any consents requested hereunder; (v) not refuse to proceed with the transactions contemplated hereby because of an immaterial failure of a condition, an immaterial breach of a representation, warranty or covenant or an immaterial addition to or alteration of the Pay-Fone Disclosure Schedule; (vi) not take any action (regardless of whether such action would otherwise be permitted or not prohibited hereunder) that at the time of taking the action it knows or has reason to believe will prevent Paychex from accounting for the Merger as a pooling of interests, it being understood that Pay-Fone may rely upon the response it receives in writing from Paychex with respect to whether any contemplated Pay-Fone action has such an effect and that Pay-Fone will consult with Paychex before taking any action affecting its securities; provided, however, that in connection with any filing or submission required or action to be taken by either Pay-Fone

or Paychex or any of their Subsidiaries to effect the Merger and to consummate the other transactions contemplated hereby, (A) Pay-Fone shall not, without Paychex' prior written consent, commit to any divestiture or hold separate or similar transaction and (B) neither Paychex nor any of its Subsidiaries shall be required to divest or hold separate or otherwise take or commit to take any action that limits its freedom of action with respect to, or its ability to retain, Pay-Fone or any material portion of the assets of Pay-Fone or any of the existing (as of the date hereof) businesses, product lines or assets of Pay-Fone. Each party hereby agrees that it will not, and it will direct its accountants not to, discuss with or make any written presentations to the SEC concerning the application of pooling treatment accounting to transactions engaged in by the other parties hereto or the Affiliates thereof, unless such party has provided to the other parties a reasonable opportunity to participate fully in any such discussion or presentation. Paychex represents and warrants to Pay-Fone that Paychex has been advised by Ernst & Young, LLP that the transactions contemplated by this Agreement as presently disclosed to it qualify for pooling of interests accounting and that in the absence of some change in the transactions so contemplated, Ernst & Young, LLP will be able to deliver at the Closing the opinion referenced to in Section 8.2(g). Paychex shall promptly notify Pay-Fone if at any time it has reason to believe that Ernst & Young, LLP will not be able to deliver the opinion referred to in Section 8.2(g) at the Closing, and each of Paychex and Pay-Fone shall promptly advise the other of any fact or circumstance of which it becomes aware (and which has not theretofore been disclosed to the other) which it believes would adversely impact the ability to satisfy such condition set forth in Section 8.2(g).

During the period of 60 days prior to the Closing, neither Paychex nor any Affiliate of Paychex will repurchase or otherwise acquire in the public market any shares of its capital stock (other than immaterial numbers of shares in the ordinary course and consistent with past practice), nor will Paychex take any other action a principal purpose of which is to affect the Paychex Closing Price and the calculation of the Exchange Ratio, nor will Paychex or any Affiliate of Paychex take any other action a purpose of which is to affect or, other than actions taken in good faith in furtherance of its business or in compliance with its statutory or regulatory obligations, which could reasonably be expected to affect materially the Paychex Closing Price and the Exchange Ratio. Except for acquisitions by trustees or agents under employee benefit plans maintained by or for the benefit of Paychex and its employees, no such repurchases or acquisitions shall be made during the final hour of trading, and Paychex shall request such trustees or agents, to the extent consistent with their fiduciary duties, to refrain from making such acquisitions during the final hour of trading.

7.6 Access to Information. Subject to currently existing contractual and legal restrictions applicable to Pay-Fone (which Pay-Fone represents and warrants are not material) or to Paychex (which Paychex represents and warrants are not material), and upon reasonable notice, each of Pay-Fone and Paychex shall (and shall cause each of its Subsidiaries to) afford to officers, employees, counsel, accountants and other authorized representatives of the other party ("Respective Representatives") access, during normal business hours throughout the period prior to the Effective Time, to its properties, books and records (including, without limitation, the work papers of independent accountants) and, during such period, shall (and shall cause each of its Subsidiaries to) furnish promptly to such Respective Representatives all information concerning its business, properties and personnel as may reasonably be requested, provided that no investigation pursuant to this Section 7.6 shall affect or be deemed to modify any of the respective representations or warranties made by Paychex or Pay-Fone. In particular, Pay-Fone agrees to provide to Paychex promptly upon completion thereof (and not later than 25 days after month end), detailed monthly financial statements. Each of Pay-Fone and Paychex agrees that it will not, and will cause its Respective Representatives not to, use any information obtained pursuant to this Section 7.6 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. Subject to the requirements of law, each party hereto will keep confidential, and will cause its Respective Representatives to keep confidential, all information and documents obtained pursuant to this Section 7.6 except as otherwise consented to by the other party, provided, however, that neither Paychex nor Pay-Fone shall be precluded from making any disclosure which it deems required by law in connection with the Merger. In the event any party is required to disclose any information or documents pursuant to the immediately preceding sentence, such party shall promptly give written notice of such

disclosure that is proposed to be made to the other party so that parties can work together to limit the disclosure to the greatest extent possible and, in the event that either party is legally compelled to disclose any information to seek a protective order or other appropriate remedy or both. Upon any termination of this Agreement, each of Pay-Fone and Paychex will collect and deliver to the other party all documents obtained pursuant to this Section 7.6 or otherwise from such party or its Respective Representatives by it or any of its Respective Representatives then in their possession and any copies thereof. All requests for access to Pay-Fone or Paychex and their Subsidiaries pursuant to this Section 7.6 shall be made through their Respective Representatives named in the Paychex Disclosure Statement or the Pay-Fone Disclosure Statement, as the case may be. In the event that either Paychex or Pay-Fone, pursuant to this Section 7.6, requests more than incidental consultation with the independent accountants or other professional advisors of the other party, the party requesting such consultation shall pay the fees of such professional advisors for such consultation.

#### 7.7 Registration and Listing of Paychex Common Stock.

(a) Paychex will use all reasonable efforts to register the Paychex Common Stock to be issued pursuant to this Agreement, under the applicable provisions of the Securities Act.

(b) Paychex will use all reasonable efforts to cause the Paychex Common Stock to be issued pursuant to this Agreement to be listed for trading on the NASDAQ.

7.8 Affiliates of Paychex and Pay-Fone. Pay-Fone shall use all reasonable efforts to cause each Person who is an Affiliate of Pay-Fone at the time of the execution of this Agreement to execute and deliver to Paychex and Pay-Fone contemporaneously with the execution hereof or as soon thereafter as practicable a counterpart of the Affiliates Agreement, which shall also be executed by Paychex and Pay-Fone. In the event any Person other than Paychex becomes an Affiliate of Pay-Fone between the date hereof and the Effective Time, Pay-Fone shall use all reasonable efforts to cause such Person to execute and deliver to Paychex and Pay-Fone a counterpart of the Affiliates Agreement.

Each of Paychex and Pay-Fone shall use all reasonable efforts to cause their respective Affiliates not to take any action that would impair Paychex's ability to account for the Merger as a pooling of interests. Without limiting the foregoing, Paychex and Pay-Fone shall use all reasonable efforts to cause their respective Affiliates to refrain from selling or in any other way reducing such Affiliate's risk relative to any shares of Paychex Common Stock held at the time of or received in the Merger (within the meaning of the SEC's Codification of Financial Reporting Policies 201.01) until such time as financial results, including combined sales and net income, covering at least 30 days of post-Merger combined operations have been published, except as permitted by SEC Staff Accounting Bulletin No. 76. Furthermore, Pay-Fone shall use all reasonable efforts to enable its accountants, KPMG Peat Marwick, LLP to issue an opinion in form and substance sufficient to enable Paychex' accountants Ernst & Young, LLP, to issue the pooling opinion referred to in Section 8.2(g).

In the event the Effective Time is prior to July 1, 1995, Paychex agrees to publish financial results covering at least 30 days of post-Merger combined operations concurrently with the filing with the SEC of its Annual Report on Form 10-K for the fiscal year ending May 31, 1995 but in any event no later than August 29, 1995. In the event the Effective Time is during July or August, 1995, Paychex agrees to publish such financial results no later than October 5, 1995. In the event Effective Time is after August 31, 1995, Paychex agrees to publish such financial results within 35 days after the completion of the fiscal quarter during which the 30 days of post-Merger combined operations is completed.

7.9 Certain Covenants of Paychex. Except as otherwise permitted in this Agreement, prior to the Effective Time, Paychex will not, without the prior written consent of Pay-Fone:

(a) adopt a plan of complete or partial liquidation, dissolution, merger or consolidation (other than the Merger and any other merger or consolidation in which Paychex would be the surviving entity);

(b) adopt any amendments to its Certificate of

Incorporation, or take any other action requiring a vote of the holders of Paychex Common Stock (other than approval of the Paychex, Inc. 1995 Stock Incentive Plan), which would adversely affect the terms and provisions of the Paychex Common Stock or the rights of the holders of such shares; or

(c) authorize, recommend, propose or announce an intention to do any of the foregoing, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing or take any other action that would materially decrease the likelihood that the Merger will be consummated as contemplated hereunder, except as to the timing of the Effective Date.

7.10 Amendment to Disclosure Statement. At any time prior to the Closing, Paychex and Pay-Fone shall amend the Paychex Disclosure Schedule and the Pay-Fone Disclosure Schedule, respectively, to reflect additional information that has become known.

#### ARTICLE VIII

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#### CONDITIONS

8.1 Conditions to Each Party's Obligations. The respective obligations of each party to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by the party being benefitted thereby, to the extent permitted by applicable law:

(a) Shareholder Approval. This Agreement and the transactions contemplated hereby shall have been duly approved or ratified by the requisite holders of Shares in accordance with applicable law and the Articles of Incorporation and By-Laws of Pay-Fone.

(b) Government Consents, Etc. All Authorizations required in connection with the execution and delivery of this Agreement and the performance of the obligations hereunder shall have been made or obtained, in each case without limitation or restriction unacceptable to Paychex in its reasonable judgment (which reasonable judgment shall take into account, without limitation, the size and scope of the transactions contemplated hereby and the benefits anticipated to be derived by Paychex from its rights and obligations hereunder), except where the failure to have obtained such Authorizations would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone and Paychex and its Subsidiaries taken as a whole.

(c) No Injunction. There shall not be in effect any judgment, writ, order, injunction or decree of any court or Governmental Body of competent jurisdiction, restraining, enjoining or otherwise preventing consummation of the transactions contemplated by this Agreement or permitting such consummation only subject to any condition or restriction unacceptable to Paychex in its reasonable judgment (which reasonable judgment shall take into account, without limitation, the size and scope of the transactions contemplated hereby and the benefits anticipated to be derived by Paychex from its rights and obligations hereunder); except where the condition or restriction would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, conditions (financial or other) or prospects of Pay-Fone and Paychex and its Subsidiaries taken as a whole.

(d) Registration Statement. The S-4 Registration Statement shall have been declared effective and shall be effective at the Effective Time, and no stop order suspending effectiveness shall have been issued, no action, suit, proceeding or investigation by the SEC to suspend the effectiveness thereof shall have been initiated and be continuing, and all necessary approvals under state securities laws or the Securities Act or Exchange Act relating to the issuance or trading of the Paychex Common Stock shall have been received.

(e) Listing of Paychex Common Stock on NASDAQ. The Paychex Common Stock required to be issued hereunder shall have been approved for listing on the NASDAQ subject only to official notice of issuance.

(f) Blue Sky Approvals. Paychex shall have received all state securities or blue sky permits or other authorizations necessary to issue the shares of Paychex Common Stock pursuant to the Merger.

(g) Third Party Consents. All required authorizations, consents or approvals of any third party (other than a Governmental Body), the failure to obtain which would have a material adverse effect on Paychex and its Subsidiaries taken as a whole (assuming the Merger had taken place), shall have been obtained, including, but not limited to, the consents of the landlord of premises on which Pay-Fone's headquarters building is located, if required by the lease.

8.2 Conditions to Obligations of Paychex and Merger Sub. The respective obligations of Paychex and Merger Sub to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or part by Paychex and Merger Sub to the extent permitted by applicable law:

(a) Representations and Warranties True. The representations and warranties of Pay-Fone contained in Article V and Section 7.6 or otherwise required hereby to be made after the date hereof in a writing expressly referred to herein by or on behalf of Pay-Fone pursuant to this Agreement shall have been true in all material respects when made. The representations and warranties of Pay-Fone set forth in Sections 5.1 through 5.4, (except for an increase in outstanding Shares as a result of the exercise of options outstanding on the date of the Agreement), Section 5.5 (excluding any such pending or threatened actions, suits, investigations or proceedings brought by or on behalf of Pay-Fone's shareholders insofar as they relate to the transactions contemplated by this Agreement), Section 5.6, Sections 5.8 through 5.11, Sections 5.14 through 5.16, and Section 7.6 shall be true in all material respects at the time of the Closing with the same effect as though such representations and warranties had been made at such time, except for changes resulting from the consummation of the transactions contemplated by this Agreement, and except for changes which would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or prospects of Pay-Fone. The omission of any representations and warranties from the condition set forth in the preceding sentence shall not be construed to mean that the matters covered by such omitted representations and warranties are necessarily excluded from coverage under one or more representations or warranties specified in such sentence.

(b) Performance. Pay-Fone shall have performed or complied in all material respects with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the time of the Closing, including, without limitation, arranging for the delivery to Paychex of a Phase One Environmental Report with respect to the premises at 8100 Balboa Boulevard, Van Nuys, California, and, if said Phase One Environmental Report either discloses the presence of environmental problems or recommends further action, a Phase Two Environmental Report with respect to such premises; provided that Paychex shall reimburse Pay-Fone for the cost of any Phase Two Environmental Report.

(c) Compliance Certificate. Pay-Fone shall have delivered to Paychex a certificate, dated the date of the Closing, signed by the President or any Vice President of Pay-Fone, certifying as to the fulfillment of the conditions specified in Section 8.2(a) and (b).

(d) Opinion of Counsel for Pay-Fone. Paychex shall have received from Shapiro, Rosenfeld & Close or other counsel for Pay-Fone satisfactory to Paychex an opinion, dated the Closing Date.

(e) Proceedings. All corporate proceedings taken by Pay-Fone in connection with the transactions contemplated hereby and all documents incident thereto shall be reasonably satisfactory in all respects to Paychex and Paychex's counsel, and Paychex and Paychex's counsel shall have received all such counterpart originals or certified or other copies of such documents as they may reasonably request.

(f) Tax Opinion. Paychex shall have received an opinion of Woods, Oviatt, Gilman, Sturman and Clarke LLP dated



the Effective Time, regarding the tax consequences of the transactions contemplated by this Agreement. In rendering such opinion, Woods, Oviatt, Gilman, Sturman and Clarke LLP may receive and rely upon representations contained in certificates of Pay-Fone, Paychex and others, including, without limitation, the Paychex Tax Matters Certificate and Pay-Fone Tax Matters Certificate.

(g) Pooling Opinion. Paychex shall have received subsequent to the effectiveness of the Registration Statement, an opinion of Ernst & Young, LLP in form and substance reasonably satisfactory to Paychex, that the Merger will qualify for pooling-of-interests accounting treatment; provided, that this condition shall be deemed satisfied if the inability or failure of Ernst & Young, LLP to deliver such an opinion is attributable to actions taken or omitted by Paychex or Affiliates of Paychex.

(h) No Government Proceeding or Litigation. No suit, action, investigation, inquiry or other proceeding by any U.S. Federal Governmental Body or any other material Governmental Body shall have been instituted and be pending, or which imposes or would be reasonably expected (so far as can be foreseen at the time) to impose any remedy, condition or restriction unacceptable to Paychex in its reasonable judgment (which reasonable judgment shall take into account, without limitation, the size and scope of the transactions contemplated hereby and the benefits anticipated to be derived by Paychex from its rights and obligations hereunder), except remedies, conditions and restrictions which would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial or other) or properties of Paychex and its Subsidiaries (assuming the Merger had taken place).

(i) Certain Disclosures. The S-4 Registration Statement, at the time it shall have been declared effective, shall disclose no information in existence on the date hereof materially adverse to Pay-Fone's business, properties, operations, condition (financial or other) or prospects not previously disclosed in Pay-Fone SEC Reports or this Agreement (including the Pay-Fone Disclosure Statement provided hereunder).

(j) Employment of Leekley. The written employment agreement between Paychex and Mark Leekley, President and CEO of Pay-Fone, the effectiveness of which is contingent on the Closing, shall have become effective.

(k) Dissenting Shares. Demands for payment, as contemplated by Section 1301(b) of the CGCL, shall not have been filed with respect to five (5%) percent or more of the Shares outstanding and entitled to vote on the Merger.

(l) Affiliates Agreement. All of the Persons identified by Pay-Fone to Paychex as Affiliates shall have executed and delivered to Paychex the Affiliates Agreement and the same shall not have been breached by any such Person.

(m) Escrow and Indemnity Agreement. Allied Contractors, Inc., Richard Kelton, David Kelton, Mark Kelton, Allen Kahn, David Malcolm and Edwin Johnson, shall have executed and delivered to Paychex (along with the Escrow Agent therein named) the Escrow and Indemnity Agreement attached hereto as Exhibit B and the Escrow Shares described therein shall have been deposited with the Escrow Agent; provided, however, that the Escrow and Indemnity Agreement shall not be executed and delivered and the foregoing shall not be a condition if the Federal income tax dispute described in the Pay-Fone Tax Matters Certificate has been resolved by a payment to the Internal Revenue Service of an amount no greater than \$25,000, no portion of which was attributable to claims related to the unreasonable accumulation of earnings.

(n) Paychex Closing Price. The Paychex Closing Price, without regard to any proviso relating to Section 4.1(a), is not less than Twenty Dollars and Sixty-Seven Cents (\$20.67), provided that this condition shall be deemed satisfied in the event Pay-Fone agrees in writing that for purposes of Section 4.1(a) the Paychex Closing Price shall be deemed to be Twenty-Two Dollars and Sixty-Seven (\$22.67) or such other lesser amount as may be approved in writing by Paychex.

8.3 Conditions to Obligations of Pay-Fone. The obligations of Pay-Fone to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by Pay-Fone to the extent permitted by applicable law:

(a) Representations and Warranties True. The representations and warranties of Paychex contained in Article VI and Section 7.6 or otherwise required hereby to be made after the date hereof in a writing expressly referred to herein by or on behalf of Paychex pursuant to this Agreement shall have been true in all material respects when made; and the representations contained in Section 6.1 through 6.3, Section 6.5, Section 6.6 (excluding any such pending or threatened actions, suits, investigations or proceedings brought by or on behalf of Pay-Fone's stockholders insofar as they relate to the transactions contemplated by this Agreement), Section 6.7, Sections 6.8 through 6.10, Sections 6.12 through 6.14 and Section 7.6 shall be true in all material respects at the time of the Closing with the same effect as though such representations and warranties had been made at such time, except for changes resulting from the consummation of the transactions contemplated by this Agreement, and, except for changes which would not be reasonably expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial and other) or prospects of Paychex. The omission of any representations and warranties from the condition set forth in the preceding sentence shall not be construed to mean that the matters covered by such omitted representations and warranties are necessarily excluded from coverage under one or more representations or warranties specified in such sentence.

(b) Performance. Paychex shall have performed or complied in all material respects with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the time of the Closing.

(c) Compliance Certificate. Paychex shall have delivered to Pay-Fone a certificate, dated the date of the Closing, signed by the President or any Vice President of Paychex, certifying as to the fulfillment of the conditions specified in Section 8.3(a) and (b).

(d) Opinion of Counsel for Paychex. Pay-Fone shall have received from Woods, Oviatt, Gilman, Sturman & Clarke LLP or other counsel for Paychex satisfactory to Pay-Fone an opinion, dated the Closing Date.

(e) Proceedings. All corporate proceedings taken by Paychex in connection with the transactions contemplated hereby and all documents incident thereto shall be reasonably satisfactory in all respects to Pay-Fone and Pay-Fone's special counsel, and Pay-Fone and Pay-Fone's special counsel shall have received all such counterpart originals or certified or other copies of such documents as they may reasonably request.

(f) Paychex Closing Price. The Paychex Closing Price, without regard to the proviso relating to Section 4.1(a), is not more than Thirty-Two Dollars and Sixty-Seven Cents (\$32.67), provided that this condition shall be deemed satisfied in the event Paychex agrees in writing that for purposes of Section 4.1(a) the Paychex Closing Price shall be deemed to be Thirty Dollars and Sixty-Seven Cents (\$30.67) or such other greater amount as may be approved in writing by Pay-Fone.

(g) Certain Disclosures. The S-4 Registration Statement, at the time it shall have been declared effective and on the Closing Date, shall disclose no information materially adverse to Paychex's business, properties, operations, condition (financial or other) or prospects not previously disclosed in the Paychex SEC Reports or this Agreement.

(h) Certain Adjustments. The aggregate amount subtracted from \$10,475,000 in calculating the "TV" for purposes of the formula set forth in Section 4.1(a) hereof by reason of the provisions relating to the General Adjustment and Positive Adjustment in the definition of "TV" in said Section 4.1(a) does not exceed \$360,000. In the event this condition is not satisfied or waived and Pay-Fone elects to terminate this Agreement, then Pay-Fone agrees to pay to Paychex simultaneously with delivery of its notice of termination the sum of \$70,000.

ARTICLE IX  
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TERMINATION

9.1 Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, before or after the approval by holders of Shares, either by the mutual written consent of Paychex and Pay-

Fone, or by mutual action of their respective Boards of Directors.

9.2 Termination by Either Paychex or Pay-Fone. This Agreement may be terminated (upon notice from the terminating party to the other parties) and the Merger may be abandoned by action of the Board of Directors of either Paychex or Pay-Fone if (a) the Merger shall not have been consummated by August 31, 1995 (provided that the right to terminate this Agreement under this clause (a) shall not be available to any party whose failure to fulfill any obligation under this Agreement or whose action or inaction, even though not prohibited by this Agreement, has been the cause of or resulted in the failure of the Merger to occur on or before such date, unless such party has agreed to a reasonable extension of such date and the Merger is not consummated by such later date through no fault of such party), (b) any court of competent jurisdiction in the United States or Governmental Body in the United States shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable, (c) the S-4 Registration Statement shall not have been declared effective by July 31, 1995 (provided that the right to terminate this Agreement under this clause (c) shall not be available to any party whose failure to fulfill any obligation under this Agreement or whose action or inaction, even though not prohibited by this Agreement, has been the cause of or resulted in the failure of the S-4 Registration Statement to be declared effective on or before such date, unless such party has agreed to a reasonable extension of such date and the S-4 Registration Statement is not declared effective by such later date through no fault of such party), or (d) subsequent to the date hereof through the amendment of the Pay-Fone Disclosure Schedule or the Paychex Disclosure Schedule, the preparation or amendment of the S-4 Registration Statement or otherwise, a party hereto acquires verified information regarding the other party not known to the first party on the date hereof which has or would reasonably be expected (so far as can be foreseen at the time) to have a material adverse effect on the business, properties, operations, condition (financial and other) or prospects of the other party.

9.3 Effect of Termination and Abandonment. In the event of termination of this Agreement and abandonment of the Merger pursuant to this Article IX, no party hereto (or any of its directors or officers) shall have any liability or further obligation to any other party to this Agreement, except as provided in Sections 7.2 and 7.6 and except that nothing herein will relieve any party from liability for any breach of this Agreement.

#### ARTICLE X

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#### MISCELLANEOUS AND GENERAL

10.1 Expenses. Each party shall bear its own expenses, including the fees and expenses of any attorneys, accountants, investment bankers, brokers, finders or other intermediaries or other Persons engaged by it, incurred in connection with this Agreement and the transactions contemplated hereby.

10.2 Notices, Etc.. All notices, requests, demands or other communications required by or otherwise with respect to this Agreement shall be in writing and shall be deemed to have been duly given to any party when delivered personally (by courier service or otherwise), when delivered by telecopy with confirmed delivery (that is, the sender's telecopier produced written evidence of receipt by the other party's telecopier), or seven days after being mailed by first-class mail, postage prepaid and return receipt requested in each case to the applicable addresses set forth below:

If to Pay-Fone:

Pay-Fone Systems, Inc.  
2716 Ocean Park Boulevard  
Suite 3006  
Santa Monica, California 90405-5207  
Attn: Mark Kelton, Director  
Telecopy: (310) 399-0062

with a copy to:

Alan Jacobson, Esq.  
Shapiro, Rosenfeld & Close

2029 Century Park East - Suite 2600  
Los Angeles, California 90067  
Telecopy: (310) 277-1804

If to Paychex:

Paychex, Inc.  
911 Panorama Trail South  
Rochester, New York 14625  
ATTN: G. Thomas Clark  
Vice President of Finance  
Telecopy: (716) 383-3428

with a copy to:

Harry P. Messina, Jr., Esq.  
Woods, Oviatt, Gilman & Clarke LLP  
44 Exchange Street  
Rochester, New York 14614  
Telecopy: (716) 454-3968

or to such other address as such party shall have designated by notice so given to each other party.

10.3 Amendments, Waivers, Etc.. This Agreement may not be amended, changed, supplemented, waived or otherwise modified except by an instrument in writing signed by the party against whom enforcement is sought.

10.4 No Assignment. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns; provided that, except as otherwise expressly set forth in this Agreement, neither the rights nor the obligations of any party may be assigned or delegated without the prior written consent of the other party.

10.5 Entire Agreement. Except as otherwise provided herein, this Agreement embodies the entire agreement and understanding between the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement (including the Pay-Fone Disclosure Statement and the Paychex Disclosure Statement) and any writings expressly required hereby.

10.6 Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that any party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunctive or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

10.7 Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

10.8 No Waivers. The failure of any party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

10.9 No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any Person or entity who or which is not a party hereto.

10.10 Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the Central District of California or any court of the State of California located in Los Angeles County, California in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue

therein); provided, however, that such consent to jurisdiction is solely for the purpose referred to in this section 10.10 and shall not be deemed to be a general submission to the jurisdiction of said Courts or in the State of California other than for such purpose. Paychex and Pay-Fone hereby waive any right to a trial by jury in connection with any such action, suit or proceeding

10.11 Public Announcements. Paychex and Pay-Fone will agree upon the timing and content of the initial and each subsequent press release to be issued describing the transactions contemplated by this Agreement, and will not make any public announcement thereof prior to reaching such agreement unless required to do so by applicable law or regulation.

10.12 Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to principles of conflict of laws.

10.13 Name, Captions, Etc.. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Unless otherwise specified, (a) the terms "hereof", "herein" and similar terms refer to this Agreement as a whole and (b) references herein to Articles or Sections refer to articles or sections of this Agreement.

10.14 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

10.15 Knowledge. The term "knowledge" or "best knowledge" and any derivatives thereof when applied to any party to this Agreement shall refer only to the actual knowledge of that party (or in the case of a corporation, partnership or other entity, the actual knowledge of its executive officers) after reasonable investigation, but no information known by any other employee, or any attorney, accountant or other representative, of such party shall be imputed to such party.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties set forth below.

PAY-FONE SYSTEMS, INC.

By: /s/Mark Leekley

-----  
Name: Mark Leekley  
Title: President

PAYCHEX, INC.

By:/s/G. Thomas Clark

-----  
Name: G. Thomas Clark  
Title: Vice President -Finance

PAYCHEX MERGER CORP.

By:/s/G. Thomas Clark

-----  
Name: G. Thomas Clark  
Title: Vice President -Finance  
AFFILIATES AGREEMENT

MADE as of March 17, 1995, by and among PAYCHEX, INC., a Delaware corporation ("Paychex"), PAYCHEX MERGER CORP., a Delaware corporation and a wholly-owned subsidiary of Paychex ("Merger Sub") and PAY-FONE SYSTEMS, INC., a California corporation ("Pay-Fone" and together with Paychex and Merger Sub, the "Companies") on the one hand, and ALLIED CONTRACTORS, INC., RICHARD KELTON, DAVID KELTON, MARK KELTON, ALLEN KAHN, M.D, EDWIN JOHNSON and DAVID MALCOLM (collectively the "D Members"), and those other persons whose names are set forth on and who have executed the signature page hereto (collectively, including the D

Members, the "Affiliates Block" and individually a "Member"), on the other hand.

WHEREAS, concurrently herewith, Paychex, Merger Sub and Pay-Fone are entering into an Agreement and Plan of Merger (the "Merger Agreement"); capitalized terms used without definition herein having the meanings ascribed thereto in the Merger Agreement;

WHEREAS, the Members are the record owners, respectively, of the number of Pay-Fone Shares set forth opposite the name of each in Schedule I hereto (the "Affiliates' Shares");

WHEREAS, approval of the Merger Agreement by Pay-Fone's shareholders is a condition to the consummation of the Merger; and

WHEREAS, as a condition to its entering into the Merger Agreement, Paychex has required that the Members of the Affiliates Block agree, and the Members of the Affiliates Block have agreed, to enter into this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

#### SECTION 1. Agreement to Vote.

(a) Each Member hereby agrees to attend the Shareholders Meeting, in person or by proxy, and to vote (or cause to be voted) all Affiliates' Shares then owned by such Member, and any other voting securities of Pay-Fone, whether issued heretofore or hereafter, that such Member then owns, for approval and adoption of the Merger Agreement and the Merger, such agreement to attend and vote to apply also to any adjournment or adjournments of the Shareholders Meeting.

(b) Each D Member hereby agrees that at all times prior to the Effective Time, such D Member shall continue to own the number of Affiliates' Shares set opposite his name in Schedule I hereto.

(c) To the extent inconsistent with the foregoing provisions of this Section 1, each Member hereby revokes any and all previous proxies with respect to such Member's Affiliates' Shares.

SECTION 2. Securities Act Covenants and Representations. Each Member hereby agrees and represents to the Companies as follows:

(a) Such Member has been advised that the offering, sale and delivery of Paychex Common Stock pursuant to the Merger will be registered under the Securities Act on a Registration Statement on Form S-4. Such Member has also been advised, however, that to the extent such Member is considered an "affiliate" of Pay-Fone at the time the Merger Agreement is submitted for a vote of the shareholders of Pay-Fone, any sale or transfer by such Member of any shares of Paychex Common Stock received by such Member in the Merger will, under current law, require either (i) the further registration under the Securities Act of any Paychex Common Stock to be sold or transferred by such Member, (ii) compliance with Rule 145 promulgated by the SEC under the Securities Act or (iii) the availability of another exemption from such registration under the Securities Act.

(b) Such Member has read this Agreement and the Merger Agreement and has discussed such Member's requirements and the applicable limitations upon such Member's ability to sell, transfer or otherwise dispose of shares of Paychex Common Stock, to the extent such Member believed necessary, with such Member's counsel or counsel for Pay-Fone.

(c) Such Member also understands that stop transfer instructions will be given to Paychex's transfer agent with respect to shares of Paychex Common Stock issued to such Member and that a legend will be placed on the certificates for the shares of Paychex Common Stock issued to such Member, or any substitutions therefor, in the event such Member is considered an "affiliate" of Pay-Fone at the time the Merger Agreement is submitted for a vote of the shareholders of Pay-Fone as hereinafter provided.

SECTION 3. Pooling Covenants and Representations. Each Member hereby agrees and represents to the Companies that from and after 30 days prior to the date fixed for the vote on the Merger by the shareholders of Pay-Fone, which date shall be identified to each Member by the Companies at the earliest practicable time, such Member will not sell, transfer or otherwise dispose of any securities of Pay-Fone other than in the Merger or of any shares of Paychex Common Stock received by such Member in the Merger or other shares of capital stock of Paychex until after such time as results covering at least 30 days of combined operations of Pay-Fone and Paychex have been published by Paychex, in the form of a quarterly earnings report, an effective registration statement filed with the SEC, a report to the SEC on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes the combined results of operations.

SECTION 4. Additional Covenants and Representations. In addition to, and not in lieu of, the representations and covenants set forth in Sections 2 and 3 hereof, each Member agrees and represents to Paychex as follows, each of which representations and covenants may be relied upon by counsel to Paychex and to Pay-Fone in connection with their opinions and other matters.

(a) Such Member will not sell, transfer, exchange, pledge or otherwise dispose of, or in any other way reduce his risk of ownership or investment in or make any offer or agreement relating to any of the foregoing with respect to, any shares of Paychex Common Stock or any rights, options or warrants to purchase shares of Paychex Common Stock, or any securities that may be paid as a dividend or otherwise distributed on such shares of Paychex Common Stock or with respect thereto or issued or delivered in exchange or substitution therefor or upon exercise of options held by such Member to acquire Paychex Common Stock (all such shares and other securities of Paychex being herein sometimes collectively referred to as "Subject Securities"), or other securities of Paychex during the period commencing 30 days prior to the date fixed for the vote on the Merger by the Pay-Fone shareholders and terminating on the Closing Date.

(b) Such Member has, and as of the Closing Date will have, no present plan or intention (a "Plan") to sell, transfer, exchange, pledge (other than in a preexisting bona fide margin account) or otherwise dispose of, including a distribution by a partnership to its partners, or a corporation to its shareholders, or any other transaction which results in a reduction in the risk of ownership (any of the foregoing, a "Sale") of more than fifty percent (50%) of the shares of Paychex Common Stock issued to such Member in connection with the Merger, or any securities that may be paid as a dividend or otherwise distributed thereon or with respect thereto or issued or delivered in exchange or substitution therefor or upon exercise of options held by such Member. For purposes of the preceding sentence, Pay-Fone Shares (or the portion thereof) (i) with respect to which dissenters' rights are exercised, (ii) which are exchanged for cash in lieu of fractional shares of Paychex Common Stock, or (iii) with respect to which a Sale will occur prior to the Merger, shall be considered to be Pay-Fone Shares that are exchanged for Paychex Common Stock in the Merger and then disposed of pursuant to a Plan. Such Member is not aware of, or participating in, any Plan on the part of Pay-Fone shareholders to engage in sales of shares of Paychex Common Stock to be issued in the Merger such that the aggregate fair market value, as of the Closing Date, of the shares subject to such Plan would exceed fifty percent (50%) of the aggregate fair market value of all outstanding Pay-Fone Shares immediately prior to the Merger. For purposes of the preceding sentence, Pay-Fone Shares (i) with respect to which dissenters' rights are exercised (ii) which are exchanged for cash in lieu of fractional shares of Paychex Common Stock, or (iii) with respect to which a pre-Merger Sale occurs in a related transaction shall be considered to be Pay-Fone Shares that are exchanged for Paychex Common Stock in the Merger and then disposed of pursuant to a Plan. A Sale of Paychex Common Stock shall be considered to have occurred pursuant to a Plan if, among other things, such Sale occurs in a Related Transaction. For purposes of this Section, a "Related Transaction" shall mean a transaction that is in contemplation of, or related or pursuant to, the Merger or the Merger Agreement. If any representations of such Member of Affiliates Group in this Section ceases to be true at any time prior to the Closing Date, such Member will deliver to each of Pay-Fone and Paychex, prior to the Closing Date, a written statement to that effect, signed by such Member. Each Member reserves the right at any time after the Closing Date

to evaluate such Member's investment portfolio, including Paychex Common Stock and any other securities issued by Paychex, and to make such investment decision with respect to such securities as such Member and his investment advisors, if any, shall deem to be in such Member's interest. Each Member specifically disavows any undertaking, except as set forth in Section 3 hereof, to hold any securities issued by Paychex for any specific period.

(c) Such Member has filed, or prior to the Effective Time will have filed (whether timely or late), with the SEC all reports required of such Member as an Affiliate of Pay-Fone and such Member has not violated the relevant provisions of the Securities Exchange Act of 1934, as amended, and such Member represents and warrants that the foregoing representations shall be true as of the Effective Time. Such Member agrees to indemnify Paychex and Pay-Fone and to hold them harmless from and against any loss, damage, claim or expense (including reasonable attorneys' fees) arising out of a breach of the foregoing representations and warranties.

SECTION 5. Further Assurances. In addition to this Agreement, each Member shall execute and deliver such additional instruments and other documents in form and substance reasonably acceptable to such Member and his counsel, and shall take or refrain from taking such further reasonable actions as may be necessary or appropriate to effectuate, carry out and comply with all of such Member's obligations under this Agreement. Without limiting the generality of the foregoing, none of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of any party to effectuate, carry out or comply with all the terms of this Agreement. If requested by Paychex, each Member agrees to execute a letter to Paychex representing that such Member has complied with such Member's obligations hereunder as of the date of such letter.

SECTION 6. Representations and Warranties of the Members of the Affiliates Block. Each Member, as to such Member, represents and warrants to Paychex as follows: This Agreement has been duly executed and delivered by such Member. This Agreement constitutes the valid and binding agreement of such Member, enforceable against such Member in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Shares listed next to the name of such Member on Schedule I hereto are the only voting securities of Pay-Fone owned (beneficially or of record) by such Member other than in a fiduciary capacity.

SECTION 7. Representations and Covenants of Paychex.

(a) Paychex represents and warrants to each Member as follows: Each of this Agreement and the Merger Agreement has been approved by the Board of Directors or Executive Committee of Paychex representing all necessary corporate action on the part of Paychex (no action by the stockholders of Paychex being required). Each of this Agreement and the Merger Agreement has been duly executed and delivered by a duly authorized officer of Paychex. Each of this Agreement and the Merger Agreement constitutes a valid and binding agreement of Paychex, enforceable against Paychex in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

(b) From and after the Closing Date and for so long as is necessary in order to permit a Member to sell pursuant to Rule 145 and, to the extent applicable, Rule 144 promulgated under the Securities Act, the Subject Securities owned by such Member, Paychex will use its best efforts to file on a timely basis all reports required to be filed by it pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, referred to in paragraph (c) (1) of Rule 144 promulgated under the Securities Act, in order to permit him to sell the Subject Securities held by him pursuant to the terms and conditions of Rule 145 and the applicable provisions of Rule 144.

SECTION 8. Legends. Each Member of Affiliate Group



understands and agrees that stop transfer instructions will be given to Paychex' transfer agent with respect to certificates evidencing the Subject Securities and that there will be placed on the certificates evidencing the Subject Securities legends stating in substance:

"The shares represented by this certificate may not be offered, sold, pledged, exchanged, transferred or otherwise disposed of except in accordance with the requirements of the Securities Act of 1933, as amended, and the other conditions specified in that certain Affiliates Agreement dated as of March \_\_\_\_\_, 1995, among Paychex, Inc., the shareholder and other parties thereto, a copy of which Affiliates Agreement may be inspected by the holder of this Certificate at the offices of Paychex, Inc. which will furnish, without charge, a copy thereof to the holder of this Certificate upon written request therefor."

After release of the report described in Section 3(b) hereof, certificates evidencing Subject Securities may be surrendered for cancellation and reissuance with the following legend referring only to the applicability of Rule 145(d) restrictions:

"The shares represented by the certificate on which this legend is endorsed may be transferred or otherwise disposed of only in compliance with the terms of Rule 145 promulgated under the Securities Act of 1933, as amended, pursuant to another applicable exemption from the registration requirements of said Act, or upon registration under said Act."

Paychex agrees to remove promptly such stop transfer instructions and to transfer Subject Securities presented for transfer after the release of the report described in Section 3(b) promptly in accordance with securities industry practices so long as the Subject Securities are accompanied by documentation certifying compliance with Rule 145. The certificates issued to transferees of Subject Securities (other than affiliates of Paychex) shall bear no restrictive legends and shall be subject to no stop transfer instructions. At the request of a Member at any time after the second anniversary of the Closing Date, Paychex shall reissue any certificate representing Subject Securities without endorsing any restrictive legends thereon.

SECTION 9. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Merger Agreement shall have been executed and delivered and be in full force and effect. In the event the Merger Agreement is terminated in accordance with its terms, this Agreement shall automatically terminate and be of no further force or effect. Upon such termination, except for any rights any party may have in respect of any breach by any other party of its or his obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder.

#### SECTION 10. Miscellaneous.

(a) Notices, Etc. All notices, requests, demands or other communications required by or otherwise with respect to this Agreement shall be in writing and shall be deemed to have been duly given to any party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or one day after being sent by overnight courier service (Federal Express, etc.) or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Companies:

Paychex, Inc.  
911 Panorama Trail South  
Rochester, New York 14625  
Attn: G. Thomas Clark, Vice President - Finance  
Telecopy: (716) 383-3428

with a copy to:

Harry P. Messina, Jr., Esq.  
Woods, Oviatt, Gilman, Sturman & Clarke LLP  
44 Exchange Boulevard  
Rochester, New York 14614  
Telecopy: (716) 454-3968

and

Mark Kelton  
2716 Ocean Park Boulevard  
Santa Monica, California 90405-5207  
Telecopy: (310) 399-0062

If to any Member:

To his address, as set forth in Schedule I

with a copy to:

Alan Jacobson, Esq.  
Shapiro, Rosenfeld & Close  
2029 Century Park East, Suite 2600  
Los Angeles, California 90067  
Telecopy: (310) 277-1804

and

Pay-Fone Systems Affiliates  
2716 Ocean Park Boulevard, Suite 3006  
Santa Monica, California 90405-5207  
ATTN: Mark Kelton  
Telecopy: (310) 399-0062

or to such other address as such party shall have designated by notice so given to each other party.

(b) Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Companies and each Member; provided that: without the consent of any party no such amendment, change, supplement, waiver, modification or termination shall in any way further restrict the transferability of any Shares held by a party hereto, impose any obligation on such party, diminish the benefits of such party hereunder or restrict the rights of such party as set forth herein (in each case, other than in a de minimis respect), without the consent of such party.

(c) Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation in the case of any corporate party hereto any corporate successor by merger or otherwise, and in the case of any individual party hereto any trustee, executor, heir, legatee or personal representative succeeding to the ownership of such party's Shares or other securities subject to this Agreement. Notwithstanding any transfer of Shares, the transferor shall remain liable for the performance of all obligations under this Agreement of transferor.

(d) Entire Agreement. This Agreement (together with the Merger Agreement) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement and the Merger Agreement.

(e) Severability. If any term of this Agreement or the application thereof to any party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law, provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

(f) Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that any party may, in its sole discretion, apply to a court of competent jurisdiction for specific

performance or injunctive or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereto and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

(g) Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

(h) No Waiver. The failure of any party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(i) No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

(j) Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the Central District of California or any court of the State of California located in Los Angeles County, California in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein); provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be a general submission to the jurisdiction of said Courts or in the State of California other than for such purposes. Each party hereto hereby waives any right to a trial by jury in connection with any such action, suit or proceeding.

(k) Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to principles of conflicts of law.

(l) Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

(m) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

(n) Limitation on Liability. No Member shall have any liability hereunder for any actions or omissions of any other Members of the Affiliates Block. All representations and agreements of Member hereunder and any liability attaching to actions by Member shall be several and not joint.

(o) Expenses. Paychex shall bear its own expenses, and Pay-Fone shall bear the expenses of the Affiliates Block, incurred in connection with this Agreement and the transactions contemplated hereby, except that in the event of a dispute concerning the terms or enforcement of this Agreement, the prevailing party in any such dispute shall be entitled to reimbursement of reasonable legal fees and disbursements from the other party or parties to such dispute.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

PAYCHEX, INC.

By:/s/G. Thomas Clark

-----  
G. Thomas Clark,  
Vice President-Finance

ALLIED CONTRACTORS, INC.

By:/s/Richard Kelton  
-----  
Richard Kelton, President

/s/Richard Kelton  
-----  
Richard Kelton

/s/David Kelton  
-----  
David Kelton

/s/Mark Kelton  
-----  
Mark Kelton

/s/Allen Kahn, M.D.  
-----  
Allen Kahn, M.D.

/s/Edwin Johnson  
-----  
Edwin Johnson

/s/David L. Malcolm  
-----  
David L. Malcolm

/s/Mark Leekley  
-----  
Mark Leekley

-----  
Michele Kehoe

-----  
Adam A. Rodriguez

-----  
Thomas A. Zachary

-----  
Kim Spaulding

SCHEDULE I

Share Ownership

Affiliate	No. Shares Owned Beneficially	Pay-Fone Options Currently Exercisable
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Allied Contractors, Inc. 2716 Ocean Park Boulevard Suite 3006 Santa Monica, CA 90405-5207	386,669	-0-
Richard Kelton 2716 Ocean Park Boulevard Suite 3006 Santa Monica, CA 90405-5207	230,567	12,200
David Kelton 2716 Ocean Park Boulevard	170,688	5,000

Suite 3006  
Santa Monica, CA 90405-5207

Mark Kelton                    55,596                    5,000  
2716 Ocean Park Boulevard  
Suite 3006  
Santa Monica, CA 90405-5207

Allen Kahn, M.D.            239,400                    14,000  
55 East Washington Street  
Chicago, IL 60602-2174

Edwin Johnson                29,700                    14,000  
P.O. Box 288  
Hazelcrest, IL 60429

David L. Malcolm            23,100                    -0-  
750 "B" Street - Suite 3130  
San Diego, California 92101

Mark Leekley

Michele Kehoe

Alan A. Rodriguez

Thomas A. Zachary

Kim Spaulding

#### ESCROW AND INDEMNITY AGREEMENT

ESCROW AND INDEMNITY AGREEMENT, dated as of March 17, 1995 among PAYCHEX, INC., a Delaware corporation ("Paychex") PAY-FONE SYSTEMS, INC., a California corporation ("Pay-Fone"), each of the individuals whose names appear on the signature page of this Agreement (collectively, the "KL Shareholders"), and MARA ESCROW COMPANY, an escrow company licensed by the state of California, as escrow agent (the "Escrow Agent"). This Agreement shall become effective at the Effective Time, as defined (as are all other capitalized terms not defined herein) in that certain Agreement and Plan of Merger dated March 17, 1995, by and among Paychex, Paychex Merger Corp., a Delaware corporation and wholly-owned subsidiary of Paychex ("Subsidiary"), and Pay-Fone (the "Merger Agreement");

WHEREAS, at the Effective Time, subsidiary will be merged with and into Pay-Fone (the "Merger") pursuant to the terms of the Merger Agreement;

WHEREAS, at the Effective Time, pursuant to Section 4.1(b) of the Merger Agreement, the outstanding shares issued by Pay-Fone (except for those owned by Paychex or held by shareholders who perfect dissenters' rights under CGCL Section 1300 et seq.) shall be converted into shares of Paychex Common stock;

WHEREAS, certain claims asserted by the Internal Revenue service against Pay-Fone for fiscal years 1987 through 1991 and described in the Pay-Fone Tax Matters Certificate (the "Tax Claims"), including claims described therein under the heading Unreasonable Accumulation of Earnings (the "Accumulated Earnings Claims") are pending, and the Shareholders are willing to assume certain responsibilities with respect to the Tax Claims and related claims and to deposit certain shares of Paychex Common Stock they are receiving pursuant to the Merger Agreement in order to indemnify Paychex against certain net losses it may suffer as a result of the resolution of such Tax Claims; and

WHEREAS, as set forth in Section 8.2(1) of the Merger Agreement, the obligations of Paychex and subsidiary to consummate the transactions contemplated by the Merger Agreement are subject, among other things, to the parties hereto entering into this Agreement.

NOW, THEREFORE, the KL Shareholders, Pay-Fone, Paychex and the Escrow Agent hereby agree as follows:

1. Appointment of the Escrow Agent; Deposit of Escrow

Amount. Paychex, Pay-Fone and the KL Shareholders hereby constitute and appoint the Escrow Agent as, and the Escrow Agent hereby agrees to assume and perform the duties of, the escrow agent under and pursuant to this Agreement. The Escrow Agent acknowledges receipt of an executed copy of the Merger Agreement and of a certificate or certificates representing that aggregate number of shares of Paychex common Stock registered in the name of Escrow Agent (such shares being referred to herein as the "Escrow Shares" and reflecting the deposit, beneficially, by each of the KL Shareholders of the number of shares set forth opposite such shareholders' name on schedule 1 attached hereto) equal to the quotient (rounded to the nearest whole number) derived by dividing (a) \$400,000 by (b) the Paychex Closing Price as applied pursuant to Section 4.1(a) of the Merger Agreement (the "Merger Agreement Price").

2. Holding of the Escrow Shares. The Escrow Agent shall hold the Escrow shares in escrow for the benefit of, and for distribution to, the parties hereto in accordance with the terms hereof. The Escrow shares shall not be subject to lien or attachment by any creditor of any party hereto and shall be held and transferred solely in the manner and for the purpose set forth in this Agreement. The Escrow Shares or any proceeds thereof shall not be available to, and shall not be used by, the Escrow Agent to set off any obligations of any KL Shareholder, Pay-Fone, subsidiary or Paychex owing to the Escrow Agent in any capacity.

3. Dividends and Other Distributions. As soon as practicable after receipt of any dividends paid on or in respect of the Escrow shares, the Escrow Agent shall remit the same to the KL Shareholders in proportion to the number of Escrow shares beneficially deposited by the KL Shareholders, respectively (the "Proportion").

Upon receipt of any other distributions made in respect of the Escrow Shares (including shares of Paychex Common stock resulting from stock splits), the Escrow Agent shall add such distributions to, and hold the same as, Escrow Shares.

4. Voting. Prior to the Termination Date, the Escrow Agent will vote the Escrow Shares then held by Escrow Agent hereunder as directed by the KL Shareholders, respectively, in writing and will execute any written consents to shareholder action or proxies as so directed in writing by the KL Shareholders, respectively, in each case in Proportion. In the absence of such written direction, the Escrow Agent shall not vote the Escrow Shares for any purpose and will not execute any consents to shareholder action or proxies.

#### 5. Resolution of Tax Claims; Delivery of Escrow Shares

(a) Following the Merger, Paychex shall cause Pay-Fone (or any successor in interest to Pay-Fone) to authorize and empower, and Pay-Fone shall take all appropriate action and execute all appropriate documents to authorize and empower, the KL Shareholders, or any one or more of them designated by the KL Shareholders, and any qualified professionals the KL Shareholders may designate (subject to the prior written approval of Paychex, which shall not be unreasonably withheld or delayed.), to negotiate or litigate the Tax Claims, and any claims asserted by the California Franchise Tax Board for state income or franchise tax liability with respect to the same periods and based on the same facts for which the KL Shareholders have responsibility hereunder (the "California Claims") to a final resolution. Such authorization and empowerment shall also extend to such claims, if any, similar to the Tax Claims and the California Claims but relating to subsequent periods for which the KL Shareholders are responsible pursuant to the terms hereof. The KL Shareholders agree diligently to pursue a settlement or other resolution of the Tax Claims and, when and if they are asserted, the California Claims and any other claims for which the KL Shareholders are so responsible. The authorization, empowerment and responsibility of the KL Shareholders hereunder with respect to the Tax Claims, the California Claims and any other claims shall be effective only while the KL Shareholders remain liable for payment of amounts related thereto hereunder. Any settlement or other final consensual resolution of the Tax Claims, California Claims and such other claims for which the KL Shareholders are responsible must be approved by KL Shareholders who beneficially deposited in excess of fifty (50%) percent of the Escrow Shares.

(b) Upon settlement or other final resolution of the Tax Claims (including the expiration of any applicable statute of limitations), the KL Shareholders shall deliver to Paychex and

Pay-Fone a notice describing the resolution (a "Resolution Notice"), to which Notice shall be attached (i) a copy of the settlement agreement, final judgment or other document embodying the resolution, (ii) an accounting of the expenses incurred by the KL Shareholders subsequent to the Effective Time with respect to the Tax Claims for which the KL Shareholders seek reimbursement (the "KL Expenses"), and (iii) the KL Shareholders' estimate (with supporting detail) of the net economic cost to Paychex and Pay-Fone (the "Tax Claim Cost"), after reasonably anticipated tax benefits and taking deferred benefits into account by discounting such benefits at the prime rate then in effect, of such resolution including reimbursement of the KL expenses referred to in item (ii) above.

(c) Promptly upon receipt of the Resolution Notice, Paychex shall cause Pay-Fone to pay, and Pay-Fone shall promptly pay, all amounts still due to the Internal Revenue Service with respect to the Tax Claims in accordance with the resolution thereof. Within thirty days after receipt of the Resolution Notice, Paychex shall respond to the KL Shareholders' estimate of the Tax Claim Cost. If Paychex agrees with the KL Shareholders' estimate, such amount shall be the Tax Claim Cost. If Paychex does not so agree, Paychex and the KL Shareholders shall attempt during the ensuing thirty days to negotiate a mutually acceptable Tax Claim Cost. If they are unable to negotiate a mutually acceptable amount, Paychex and the KL Shareholders shall each promptly appoint a firm of independent public accountants, and the two firms so appointed shall attempt during the ensuing thirty days to determine jointly the Tax Claim Cost. If they are unable to make such a joint determination, such firms shall promptly select a third firm of independent public accountants, which third firm shall have a national reputation, to determine in consultation with the first two firms the Tax Claim Cost, and such determination shall be binding on the parties hereto.

(d) Paychex and the KL Shareholders shall jointly notify the Escrow Agent of the Tax Claim Cost promptly upon its determination. Following such determination:

(i) the Escrow Agent shall promptly deliver to Paychex that number of Escrow Shares (rounded to the nearest whole share) determined by dividing (x) the Tax Claim Cost by (y) the Merger Agreement Price;

(ii) the Escrow Agent shall promptly deliver to the KL Shareholders, in Proportion, all Escrow Shares remaining after delivery to Paychex of Escrow Shares as contemplated in Section 5(d) (i) above; and

(iii) Paychex shall cause Pay-Fone to reimburse, and Pay-Fone shall promptly reimburse, the KL Shareholders for the KL Expenses.

(e) If the quotient derived by dividing the Tax Claim Cost by the Merger Agreement Price is greater than the number of Escrow Shares, then the KL Shareholders, in Proportion, shall deliver to Paychex that aggregate number of shares of Paychex Common Stock equal to the amount by which such quotient exceeds the number of Escrow Shares or, in the event any of the KL Shareholders no longer holds shares of Paychex Common Stock with which to satisfy such KL Shareholder's proportionate obligation, in lieu of any such share of Paychex Common Stock such KL Shareholder shall deliver cash in an amount equal to said Merger Agreement Price.

#### 6. Termination of Escrow; Continuing Obligations.

(a) Upon the delivery of the final Escrow Shares held hereunder, this Escrow shall terminate.

(b) The KL Shareholders agree that any distributions to the KL Shareholders and any exercise of rights or powers by the KL Shareholders under this Agreement shall be pro rata in proportion to the number of Escrow Shares beneficially deposited by the KL Shareholders hereunder, respectively.

(c) Notwithstanding the termination of the Escrow as contemplated above, in the event and only in the event that the amount paid to the Internal Revenue Service with respect to the Tax Claims was in excess of \$25,000, the KL Shareholders agree to indemnify Paychex and Pay-Fone and hold them harmless from and against the net economic cost of any claim, loss, liability or expense (including reasonable attorneys fees) arising out of any claim by the Internal Revenue Service for fiscal years ended June 30, 1992 through 1995 or the California Franchise Tax Board for

fiscal years ended June 30, 1987 through 1995 for federal or state income or franchise taxes owed by Pay-Fone, which claims are based upon the same issues or facts that result in liability in connection with the Tax Claims. The net economic cost to Paychex shall be calculated after taking into account reasonably anticipated tax benefits and taking deferred benefits into account by discounting such benefits at the prime rate then in effect.

In addition, in the event and only in the event that the amount paid to the Internal Revenue Service with respect to the Tax Claims was no greater than \$25,000 but included some liability with respect to the Accumulated Earnings Claims, the KL Shareholders agree to indemnify Paychex and Pay-Fone and hold them harmless from and against the net economic cost of any claim, loss, liability or expense (including reasonable attorneys fees) arising out of any claim by the Internal Revenue Service for fiscal years ended June 30, 1992 through 1995 or the California Franchise Tax Board for fiscal years ended June 30, 1987 through 1995 for federal or state income or franchise taxes owed by Pay-Fone, which claims are based upon the same issues or facts that result in liability in connection with the Accumulated Earnings Claims. The net economic cost to Paychex shall be calculated after taking into account reasonably anticipated tax benefits and taking deferred benefits into account by discounting such benefits at the prime rate then in effect.

Such indemnity obligation shall be satisfied by the delivery of that number of shares of Paychex Common Stock equal to the quotient derived by dividing the net economic cost for which indemnification is to be made by the Merger Agreement Price, provided in the event any of the KL Shareholders no longer holds shares of Paychex Common Stock with which to satisfy such KL Shareholder's proportionate indemnification obligation, in lieu of any such share of Paychex Common stock such KL Shareholder shall deliver cash in an amount equal to said Merger Agreement Price.

(d) The obligations of the respective KL Shareholders hereunder shall be several and not joint and shall be in Proportion.

7. Duties and Obligations of the Escrow Agent. The duties and obligations of the Escrow Agent shall be limited to and determined solely by the provisions of this Agreement, and the Escrow Agent is not charged with knowledge of or any duties or responsibilities in respect of any other agreement or document. In furtherance and not in limitation of the foregoing:

(i) the Escrow Agent shall be fully protected in relying in good faith upon any written certification, notice, direction, request, waiver, consent, receipt or other document that the Escrow Agent reasonably believes to be genuine and duly authorized, executed and delivered;

(ii) the Escrow Agent shall not be liable for any error of judgment, or for any act done or omitted by it, or for any mistake in fact or law, or for anything that it may do or refrain from doing in connection herewith; provided, however, that notwithstanding any other provision in this Agreement, the Escrow Agent shall be liable for its willful misconduct or gross negligence or breach of this Agreement;

(iii) the Escrow Agent may seek the advice of legal counsel selected with reasonable care in the event of any dispute or question as to the construction of any of the provisions of this Agreement or its duties hereunder, and it shall incur no liability and shall be fully protected in respect of any action taken, omitted or suffered by it in good faith in accordance with the written opinion of such counsel; and

(iv) in the event that the Escrow Agent shall in any instance, after seeking the advice of legal counsel pursuant to the immediately preceding clause, in good faith be uncertain as to its duties or rights hereunder, it shall be entitled to refrain from taking any action in that instance and its sole obligation, in addition to those of its duties hereunder as to which there is no such uncertainty, shall be to keep safely all property held in escrow until it shall be directed otherwise in writing by all of the parties hereto or by a final, nonappealable order of a court of competent jurisdiction; provided, however, in the event that the Escrow Agent has not received such written direction or court order within one hundred eighty



(180) calendar days after requesting the same, it shall have the right to interplead the KL Shareholders, Pay-Fone and Paychex in any court of competent jurisdiction and request that such court determine its rights and duties hereunder.

8. Cooperation. Each of the KL Shareholders, Pay-Fone and Paychex shall provide to the Escrow Agent all instruments and documents within their respective powers to provide that are necessary for the Escrow Agent to perform its duties and responsibilities hereunder.

9. Fees and Expenses; Indemnity. The KL Shareholders shall pay the fees of the Escrow Agent for its standard services in administering the Escrow hereunder as and when billed by the Escrow Agent. Paychex and Pay-Fone, on the one hand, and the KL Shareholders, on the other, shall in equal shares pay the fees of the Escrow Agent for any extraordinary services required hereunder and shall reimburse and indemnify the Escrow Agent for, and hold it harmless against, any loss, damages, cost or expense, including but not limited to reasonable attorneys' fees, reasonably incurred by the Escrow Agent in connection with the Escrow Agent's performance of its duties and obligations under this Agreement, as well as the reasonable costs and expenses of defending against any claim or liability relating to this Agreement; provided that notwithstanding the foregoing, Paychex, Pay-Fone and the KL Shareholders shall not be required to indemnify the Escrow Agent for any such loss, liability, cost or expense arising as a result of the Escrow Agent's willful misconduct or gross negligence or breach of this Agreement.

10. Resignation and Removal of the Escrow Agent.

(a) The Escrow Agent may resign as such thirty (30) calendar days following the giving of prior written notice thereof to Paychex, Pay-Fone and the KL Shareholders. In addition, the Escrow Agent may be removed and replaced on a date designated in a written instrument signed by Paychex, Pay-Fone and the KL Shareholders and delivered to the Escrow Agent. Notwithstanding the foregoing, no such resignation or removal shall be effective until a successor escrow agent has acknowledged its appointment as such as provided in paragraph (c) below. In either event, upon the effective date of such resignation or removal, the Escrow Agent shall deliver the Escrow Shares, any dividends and other distributions received in respect of the Escrow Shares and not previously distributed to the KL Shareholders, to such successor escrow agent, together with such records maintained by the Escrow Agent in connection with its duties hereunder and other information with respect to the Escrow Shares as such successor may reasonably request.

(b) If a successor escrow agent shall not have acknowledged its appointment as such as provided in paragraph (c) below, in the case of a resignation, prior to the expiration of thirty (30) calendar days following the date of a notice of resignation or, in the case of a removal, on the date designated for the Escrow Agent's removal, as the case may be, because Paychex and Pay-Fone, on the one hand, and the KL Shareholders, on the other, are unable to agree on a successor escrow agent, or for any other reason, the Escrow Agent may select a successor escrow agent and any such resulting appointment shall be binding upon all of the parties to this Agreement.

(c) Upon written acknowledgment by a successor escrow agent appointed in accordance with the foregoing provisions of this Section 10 of its agreement to serve as escrow agent hereunder and the receipt of the Escrow shares, dividends and other distributions received in respect of the Escrow Shares and not previously distributed to the KL Shareholders, the Escrow Agent shall be fully released and relieved of all duties, responsibilities and obligations under this Agreement, subject to the proviso contained in clause (ii) of Section 7, and such successor escrow agent shall for all purposes hereof be the Escrow Agent.

11. Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given if delivered personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

If to the KL Shareholders, to:

The address of each as set forth on Schedule 1 attached

with a copy to:

Alan Jacobson, Esq.  
Shapiro, Rosenfeld & Close  
2029 Century Park East - Suite 2600  
Los Angeles, California 90067  
Facsimile No.: (310) 277-1804

If to Paychex or Pay-Fone, to:

G. Thomas Clark,  
Vice President of Finance  
Paychex, Inc.  
911 Panorama Trail South  
Rochester, New York 14625  
Facsimile No.: (716) 383-3428

with a copy to:

Harry P. Messina, Jr., Esq.  
Woods, Oviatt, Gilman, Sturman & Clarke LLP  
44 Exchange Boulevard  
Rochester, New York 14614  
Facsimile No.: (716) 454-3968

If to the Escrow Agent, to:

Mara Escrow Company

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile -transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

12. Amendments. Etc. This Agreement may be amended or modified, and any of the terms hereof may be waived, only by a written instrument duly executed by or on behalf of each of the KL Shareholders, Pay-Fone and Paychex and, with respect to any amendment that could adversely affect the Escrow Agent, the Escrow Agent. No waiver by any party of any term or condition contained of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

14. Anti-Dilution. Any computation hereunder involving the Merger Agreement Price shall be appropriately adjusted to give effect to any change in the capital structure of Paychex having a record date after the Effective Date and prior to the application of such computation, including without limitation stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, and consolidations, such that the Merger Agreement Price shall relate to the securities into which a share of Paychex Common Stock outstanding on the Effective Date would have been transformed.

15. Miscellaneous. This Agreement is binding upon and will inure to the benefit of the parties hereto and their respective successors and permitted assigns. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

16. Absence of Escrow. In the event (a) the Tax Claims are resolved before the Effective Time, so that no escrow is to be established hereunder, but Pay-Fone either paid more than \$25,000 to the Internal Revenue Service with respect to the Tax Claims or

paid some amount to the Internal Revenue Service with respect to the Accumulated Earnings Claims so that obligations are imposed upon the KL Shareholders pursuant to Section 6(c) hereof or (b) the Escrow is terminated in accordance with Section 6(a) hereof and Pay-Fone either paid more than \$25,000 to the Internal Revenue Service with respect to the Tax Claims or paid some amount to the Internal Revenue Service with respect to the Accumulated Earnings Claims so that obligations are imposed upon the KL Shareholders pursuant to Section 6(c) hereof, then this agreement shall be entered into or continued, as the case may be, among Paychex, Pay-Fone and the shareholders without the involvement of the Escrow Agent or the imposition or continuation, as the case may be, of any rights and obligations on the part of the Escrow Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

PAYCHEX, INC.

By: /s/G. Thomas Clark

-----  
Name: G. Thomas Clark  
Title: Vice President

PAY-FONE SYSTEMS, INC.

By: /s/Mark Kelton

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Name: Mark Kelton  
Title: President

KL SHAREHOLDERS:

ALLIED CONTRACTORS, INC.

By: /s/Richard Kelton

-----  
Name: Richard Kelton  
Title: President

/s/Richard Kelton

-----  
Richard Kelton

/s/David Kelton

-----  
David Kelton

/s/Mark Kelton

-----  
Mark Kelton

/s/Allen Kahn, M.D.

-----  
Allen Kahn, M.D.

/s/Edwin Johnson

-----  
Edwin Johnson

/s/David L. Malcolm

-----  
David L. Malcolm

ESCROW AGENT:

Mara Escrow Company

By: \_\_\_\_\_

Name:  
Title:

SCHEDULE I

ESCROW SHARES

KL SHAREHOLDERS

Shares

Deposited

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- - - - -  
Allied Contractors, Inc.  
2716 Ocean Park Boulevard  
Suite 3006  
Santa Monica, CA 90405-5207

Richard Kelton  
2716 Ocean Park Boulevard  
Suite 3006  
Santa Monica, CA 90405-5207

David Kelton  
2716 Ocean Park Boulevard  
Suite 3006  
Santa Monica, CA 90405-5207

Mark Kelton  
2716 Ocean Park Boulevard  
Suite 3006  
Santa Monica, CA 90405-5207

Allen Kahn, M.D.  
55 East Washington Street  
Chicago, IL 60602-2174

Edwin Johnson  
P.O. Box 288  
Hazelcrest, IL 60429

David L. Malcolm  
750 "B" Street - Suite 3130  
San Diego, California 92101

EXHIBIT 23.1

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CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" in Amendment No. 1 to the Registration Statement (Form S-4 No. 33-58963) and related Prospectus of Paychex, Inc. for the registration of 462,134 shares of its common stock and to the incorporation by reference therein of our reports dated July 1, 1994, with respect to the consolidated financial statements of Paychex, Inc. incorporated by reference in its Annual Report (Form 10-K) for the year ended May 31, 1994 and the related financial statement schedules included therein, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

May 15, 1995

EXHIBIT 23.2

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The Board of Directors  
Pay-Fone Systems, Inc.:

We consent to the inclusion of our report dated September 1, 1994, with respect to the consolidated balance sheets of Pay-Fone Systems, Inc. and subsidiary as of June 30, 1994 and 1993, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, which report appears in the Proxy Statement/Prospectus of Paychex, Inc. We also consent to the reference to our firm under the heading "Experts" in the Proxy Statement/Prospectus of Paychex, Inc.

Our report refers to a change in the method of accounting for income taxes.

/s/ KPMG Peat Marwick, LLP

Los Angeles, California  
May 16, 1995

EXHIBIT 23.4

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CLUMECK, STERN, PHILLIPS & SCHWARTZ  
15910 Ventura Boulevard, Suite 1633  
Encino, CA 91436

The Board of Directors  
Pay-Fone Systems, Inc.:

We consent to incorporation in the registration statement on Form S-4 of Paychex, Inc. of our report dated August 21, 1992 relating to the statement of operations, shareholders' equity and cash flows of Pay-Fone Systems, Inc. for the year ended June 30, 1992.

/s/ CLUMECK, STERN, PHILLIPS & SCHWARTZ

Los Angeles, California  
May 17, 1995