

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: March 20, 2003  
(Date of earliest event reported)

**PAYCHEX, INC.**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

0-11330  
(Commission  
File Number)

16-1124166  
(IRS Employer  
Identification Number)

911 PANORAMA TRAIL SOUTH, ROCHESTER, NEW YORK  
(Address of principal executive offices)

14625-0397  
(Zip Code)

(585) 385-6666  
(Registrant's telephone number, including area code)

**ITEM 9. REGULATION FD DISCLOSURE**

The registrant's press release dated March 20, 2003, which reports its financial results for the third quarter and nine months ended February 28, 2003, is furnished (not filed) as Exhibit 99.1.

**SIGNATURES**

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

**PAYCHEX, INC.**

Date: March 20, 2003

/s/ B. Thomas Golisano

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B. Thomas Golisano  
Chairman, President and  
Chief Executive Officer

Date: March 20, 2003

/s/ John M. Morphy

\_\_\_\_\_  
John M. Morphy  
Senior Vice President, Chief  
Financial Officer and  
Secretary

**EXHIBIT INDEX**

Exhibit 99.1                      Press Release of Paychex, Inc. Dated March 20, 2003

FOR IMMEDIATE RELEASE

John Morphy, CFO, or Jan Shuler 585-383-3406. Media inquiries,  
Laura Saxby Lynch 585-383-3074

Access the Webcast of the Paychex, Inc. Third Quarter Earnings Release  
Conference Call scheduled for March 21, 2003 at 11:00 a.m. Eastern Time at  
[www.paychex.com](http://www.paychex.com) at the Investor Relations home page.

Paychex, Inc. news releases, current financial information, related SEC  
filings and Investor Relations presentation are accessible at the same Web site.

#### PAYCHEX, INC. REPORTS RECORD THIRD QUARTER RESULTS

ROCHESTER, NY, March 20, 2003 -- Paychex, Inc. (NASDAQ:PAYX) today announced net income of \$71.5 million, or \$.19 diluted earnings per share, for the quarter ended February 28, 2003, a 7% increase over net income of \$67.0 million, or \$.18 diluted earnings per share, for the same period last year. Total revenues were \$287.8 million, a 19% increase over \$242.8 million for the third quarter last year.

For the nine months ended February 28, 2003, the Company reported record net income of \$222.1 million, or \$.59 diluted earnings per share, an 8% increase over \$205.9 million, or \$.54 diluted earnings per share, for the same period last year. Total revenues were \$809.3 million, an increase of 14% over \$710.6 million for the same period last year.

On September 20, 2002, Paychex completed the acquisition of Advantage Payroll Services, Inc. ("Advantage"), a comprehensive payroll processor that serves small- to mid-sized businesses throughout the United States. The Company's financial results for the nine-month period ended February 28, 2003 include the results of Advantage since the date of acquisition.

#### INTERPAY ACQUISITION ANNOUNCED

On March 17, 2003, Paychex announced that it entered into an agreement to acquire InterPay, Inc., a wholly owned subsidiary of FleetBoston Financial Corporation ("Fleet"). The purchase price is \$155 million in cash. InterPay is a national payroll and human resource administrative services provider that serves more than 33,000 small- to medium-sized businesses throughout the United States. The acquisition is expected to close in early April 2003.

Paychex expects InterPay to contribute approximately \$50 million in revenue during the first 12 months after the acquisition. Paychex anticipates the acquisition will be slightly dilutive in the fourth quarter ended May 31, 2003, as the expenses of assimilating the acquisition and amortization of intangible assets will not be fully offset by anticipated gains realized in the corporate investment portfolio that will be liquidated in order to fund the acquisition. Paychex expects future earnings will be accretive as a result of this acquisition.

#### SERVICE REVENUES

For the quarter ended February 28, 2003, service revenues, which are comprised of the Payroll and Human Resource and Benefits product lines, were \$274.3 million, an increase of 20% over \$228.0 million for the prior year quarter. For the nine months ended February 28, 2003, service revenues were \$769.4 million, an increase of 16% over \$661.6 million for the same period last year.

Payroll service revenue increased 20% and 15% for the third quarter and nine-month periods to \$235.3 million and \$660.8 million, respectively. Positive year-over-year growth in Payroll service revenue resulted from the acquisition of Advantage, organic client base growth, increased utilization of ancillary services, and price increases. Payroll service revenue continues to be impacted by year-over-year decreases in checks per client. The year-over-year reductions in checks per client (excluding Advantage) for the first through third quarters of fiscal 2003 were 1.7%, .3%, and .1%, respectively. The reductions for the first through fourth quarters of fiscal 2002, respectively, were 1.9%, 3.8%, 4.1%, and 2.6%. The Company has adjusted the calculation of checks per client to eliminate the impact of client payroll frequency. The Company believes this calculation provides a more accurate indicator of underlying economic demand for its services.

As of February 28, 2003, 87% of all clients utilized the Company's tax filing and payment services. The Company's employee payment services were utilized by 59% of its clients. Major Market Services revenue increased 42% for both the third quarter and nine-month periods to \$27.3 million and \$73.3 million, respectively.

Human Resource and Benefits service revenue was \$39.0 million and \$108.6 million for the third quarter and nine-month periods, year-over-year increases of 21% and 23%, respectively. The increases are related primarily to growth in clients for Retirement Services and in client employees served by the Company's comprehensive Paychex Administrative Services (PAS) and Professional Employer Organization (PEO) bundled services. Retirement Services revenue increased 15% and 20% in the third quarter and nine-month periods to \$17.6 million and \$49.5 million, respectively.

#### INTEREST ON FUNDS HELD FOR CLIENTS

Interest on funds held for clients decreased 9% for the third quarter and 19% for the nine-month period to \$13.5 million and \$39.9 million, respectively. The decreases are primarily the result of lower average interest rates earned in fiscal 2003 and a decrease in net realized gains on the sale of available-for-sale securities offset somewhat by higher average portfolio balances from organic client growth and the acquisition of Advantage. Average portfolio balances for the third quarter and first nine months of fiscal 2003 were \$2.37 billion and \$2.07 billion, respectively, compared with \$1.95 billion and \$1.80 billion in the prior year quarter and nine-month periods. The average interest rate earned by the funds held for clients portfolio was 2.1% and 2.4%, respectively, for the third quarter and first nine months of fiscal 2003 compared with 2.6% and 3.1% for the respective prior year periods. Net realized gains included in interest on funds held for clients were \$.7 million and \$3.0 million for the third quarter and nine-month periods of fiscal 2003 compared with net realized gains of \$2.3 million and \$7.6 million for the respective prior year periods.

#### OPERATING INCOME

Consolidated operating, selling, general, and administrative expenses increased 20% in the third quarter and 15% for the nine-month period over the prior year periods. These increases are due to the acquisition of Advantage and increases in personnel, information technology, and facility costs to support the growth of the Company. For the quarter ended February 28, 2003, operating income was \$101.4 million, an increase of 16% over the same period last year. For the nine months ended February 28, 2003, operating income increased 11% to \$303.1 million.

Operating income (excluding interest on funds held for clients) increased 21% in the third quarter and 18% in the nine-month period to \$87.9 million and \$263.2 million, respectively. Operating income (excluding interest on funds held for clients) as a percentage of total service revenues was 32% for the third quarter and 34% for the nine-month period of fiscal 2003, which was comparable to the respective prior year periods. Operating income (excluding interest on funds held for clients) exclusive of the Advantage acquisition as a percentage of total service revenues was 34% and 36% in the third quarter and nine months, respectively.

#### ADVANTAGE

For the third quarter ended February 28, 2003, Advantage revenues included service revenue of \$18.6 million and interest on funds held for clients of \$1.4 million. For the nine-month period, Advantage revenues were comprised of \$32.7 million of service revenue and \$2.6 million of interest on funds held for clients. Operating, selling, general and administrative expenses for Advantage totaled \$17.0 million and \$31.3 million, respectively, for the third quarter and nine-month periods. Included in these expenses is amortization of intangible assets of \$2.1 million and \$3.7 million for the respective quarter and year-to-date periods.

The acquisition of Advantage resulted in \$.01 of earnings per share accretion since acquisition and is expected to result in \$.01 of earnings per share dilution in the fourth quarter of fiscal 2003. The Company expects the results of Advantage to be accretive in the next fiscal year.

#### INVESTMENT INCOME, NET

Investment income, net decreased 55% for the third quarter and 2% for the nine-month period to \$3.8 million and \$23.5 million, respectively. The decreases are due to lower average portfolio balances, lower average interest rates earned, and the timing of gains realized on the sale of available-for-sale securities. In the second quarter of fiscal 2003, Paychex realized \$7.0 million of gains related to the sale of corporate investments to fund the acquisition of Advantage. Average portfolio balances for the corporate investment portfolio were approximately \$495 million and \$585 million for the third quarter and nine months of fiscal 2003 compared to average balances of \$697 million and \$669 million in the respective prior year periods. The average interest rates earned for the corporate investment portfolio were 3.2% and 3.3%, respectively, for the third quarter and first nine months of fiscal 2003 compared with 3.6% and 3.9% in the respective prior year periods. There were no net realized gains included in investment income for the third quarter and \$9.6 million in net realized gains for the nine-month period of fiscal 2003. This compares to net realized gains of \$2.4 million and \$5.2 million for the respective prior year periods.

#### INCOME TAXES

The effective income tax rate was 32.0% for both the third quarter and nine months ended February 28, 2003, compared to 30.0% and 30.5% for the same periods last year. These increases are primarily the result of lower levels of tax-exempt income on funds held for clients and corporate investments.

B. Thomas Golisano, Chairman, President, and Chief Executive Officer of Paychex, said, "We are very pleased with our financial results for the third quarter of fiscal 2003. In light of current economic conditions, the Company's year-over-year increase in operating income (excluding interest on funds held for clients) of 18% for the first nine months of fiscal 2003 is quite impressive. Including Advantage, estimated total revenue growth for fiscal 2003 is expected to be in the range of 13% to 15%, with net income growth in the high single digits. Excluding Advantage, the Company estimates total revenue growth in fiscal 2003 to be in the range of 8% to 10%, with net income growth slightly less than total revenue growth. These expectations are based on current economic and interest rate conditions continuing with no significant changes and exclude the impact of the acquisition of InterPay."

#### ABOUT PAYCHEX

Paychex, Inc. is a leading national provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses. The company offers comprehensive payroll services, including payroll processing, payroll tax administration, and employee pay services, including direct deposit, check signing, and Readychex(R). Human resource and benefits outsourcing services include 401(k) plan recordkeeping, workers' compensation administration, section 125 plans, a professional employer organization, and other administrative services for business. Paychex was founded in 1971. With headquarters in Rochester, New York, the company has more than 100 offices and serves more than 440,000 payroll clients nationwide.

#### "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain written and oral statements made by Paychex, Inc. (the "Company") management may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by such words and phrases as "we expect," "expected to," "estimates," "we look forward to," "would equate to," "projects," "projected to be," "anticipates," "we believe," "could be," and other similar phrases. All statements addressing operating performance, events, or developments that the Company expects or anticipates will occur in the future, including statements relating to revenue growth, earnings, earnings per share growth, or similar projections, are forward-looking statements within the meaning of the Reform Act. Because they are forward-looking, they should be evaluated in light of important risk factors. These risk factors include, but are not limited to the following or those which are described in the Company's SEC filings: general market and economic conditions, including demand for the Company's products and services, competition, price levels, availability of internal and external resources, effective execution of expansion plans and effective integration of acquisitions; changes in the laws regulating collection and payment of payroll taxes, professional employer organizations, and employee benefits, including 401(k) plans, workers' compensation, state unemployment, and section 125 plans; delays in the development, timing of the introduction, and marketing of new products and services; changes in technology, including use of the Internet; the possibility of catastrophic events that could impact the Company's operating facilities, computer systems, and communication systems; the possibility of third-party service providers failing to perform their functions; the possibility of penalties and losses resulting from errors and omissions in performing services; potential damage to the Company's business reputation due to these and other operational risks; the possible inability of clients to meet payroll obligations; stock volatility; and changes in short- and long-term interest rates, changes in market value of available-for-sale securities, and the credit rating of cash, cash equivalents, and securities held in the Company's investment portfolios, all of which could cause actual results to differ materially from anticipated results. The information provided in this document is based upon the facts and circumstances known at this time.



can be found in the Company's SEC filings, including Forms 10-K, 10-Q, and 8-K under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and subheadings "Results of Operations" and "Market Risk Factors." These SEC filings are accessible at the Company's Web site.

PAYCHEX, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	FEBRUARY 28, 2003		MAY 31, 2002	
<S>	<C>		<C>	
<b>ASSETS</b>				
Cash and cash equivalents	\$	169,603	\$	61,897
Corporate investments		382,673		663,316
Interest receivable		18,891		25,310
Accounts receivable, net		98,839		109,858
Prepaid expenses and other current assets		12,347		10,106
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CURRENT ASSETS BEFORE FUNDS HELD FOR CLIENTS		682,353		870,487
Funds held for clients		2,522,082		1,944,087
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TOTAL CURRENT ASSETS		3,204,435		2,814,574
Other assets		7,154		7,895
Property and equipment, net		153,815		121,566
Intangible assets, net		66,453		9,040
Goodwill		243,317		--
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TOTAL ASSETS	\$	3,675,174	\$	2,953,075
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<b>LIABILITIES</b>				
Accounts payable	\$	21,627	\$	14,104
Accrued compensation and related items		57,149		46,819
Deferred revenue		4,885		4,137
Accrued income taxes		16,460		3,140
Deferred income taxes		5,516		9,503
Other current liabilities		20,573		14,810
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CURRENT LIABILITIES BEFORE CLIENT FUND DEPOSITS		126,210		92,513
Client fund deposits		2,492,505		1,930,893
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TOTAL CURRENT LIABILITIES		2,618,715		2,023,406
Other long-term liabilities		13,148		5,688
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TOTAL LIABILITIES		2,631,863		2,029,094
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<b>STOCKHOLDERS' EQUITY</b>				
Common stock, \$.01 par value, 600,000 authorized shares				
Issued: 376,428 at February 28, 2003 and 375,859 at				
May 31, 2002		3,764		3,759
Additional paid-in capital		193,811		185,006
Retained earnings		816,283		718,192
Accumulated other comprehensive income		29,453		17,024
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TOTAL STOCKHOLDERS' EQUITY		1,043,311		923,981
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	3,675,174	\$	2,953,075
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</TABLE>

(A) The combined funds held for clients and corporate investment portfolio balances reflected unrealized gains of \$46.1 million at February 28, 2003 compared with \$26.7 million at May 31, 2002. During the first nine months of fiscal 2003, the unrealized gain position ranged from approximately \$22.3 million to \$46.3 million. The unrealized gain position of the Company's investment portfolios was approximately \$39.7 million at March 19, 2003.

(B) Intangible assets primarily represent client lists and license agreements with associate offices, which are amortized over periods ranging from 7 to 12 years using either accelerated or straight-line methods. Goodwill recorded from the purchase of Advantage will not be amortized, but instead be tested for impairment on an annual basis.