

Edgar Filing: PAYCHEX INC - Form DEF 14A

PAYCHEX INC
Form DEF 14A
August 24, 2001

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

PAYCHEX, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

 Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was

Edgar Filing: PAYCHEX INC - Form DEF 14A

paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Paychex

Notice of 2001 Annual Meeting and Proxy Statement

Paychex, Inc.
911 Panorama Trail South
Rochester, New York 14625-0397

Paychex

August 24, 2001

Dear Paychex Stockholder:

The Board of Directors cordially invites you to attend our Annual Meeting of Stockholders on Thursday, October 11, 2001 at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, New York.

This booklet includes the formal notice of the meeting and the proxy statement. The proxy statement tells you about the agenda items and the procedures for the meeting. It also provides certain information about the Company, its Board of Directors and its executive officers.

It is important that your shares be represented at the meeting. Whether or not you plan to attend the meeting, you are encouraged to vote. You may vote by Internet, telephone, written proxy, or written ballot at the meeting. We encourage you to use the Internet because it is the most cost-effective way to

Edgar Filing: PAYCHEX INC - Form DEF 14A

vote.

We hope you will be able to attend the Annual Meeting and would like to take this opportunity to remind you that your vote is important. If you need special assistance at the meeting, please contact the Secretary of the Company at (716) 385-6666, or write to Paychex, Inc., c/o Secretary, 911 Panorama Trail South, Rochester, New York 14625-0397.

Sincerely,

/s/ B. Thomas Golisano

B. Thomas Golisano
Chairman, President &
Chief Executive Officer

Paychex, Inc.
911 Panorama Trail South - Rochester, New York 14625-0397

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time: 10:00 a.m. on Thursday, October 11, 2001. Continental
breakfast will be available from 9:00 a.m. to 10:00 a.m.

Location: Rochester Riverside Convention Center
123 East Main Street
Rochester, NY 14604

Items of Business: (1) To elect seven members of the Board of Directors for
one-year terms; and
(2) To transact such other business as may properly come
before the meeting.

Record Date: Stockholders of record as of the close of business on August
13, 2001 are entitled to notice of, and to vote at, the
meeting.

Proxy Voting: Whether or not you plan to attend the meeting, it is
important that your shares be represented and voted at the
meeting. Please vote in one of these ways:

- (1) Call the toll-free telephone number shown on your proxy
card;
- (2) Visit the Web site noted on your proxy card to vote via
the Internet; or
- (3) Mark, sign, date and promptly return the enclosed
proxy card in the postage-paid envelope provided.

Signing and returning the proxy card or submitting your proxy
via Internet or by telephone does not affect your right to
vote in person if you attend the Annual Meeting and your
shares are registered in your name. Any proxy can be revoked
at any time prior to its exercise at the meeting.

Edgar Filing: PAYCHEX INC - Form DEF 14A

Annual Meeting

Webcast:

The Annual Meeting will be simultaneously broadcast over the Internet at 10:00 a.m. on October 11, 2001. It will then be archived and available for replay for approximately one week. You can listen to the live Webcast or the archived replay by visiting our Web site at www.paychex.com. You are encouraged to visit the Web site in advance of the broadcast to ensure that your PCs are properly configured.

August 24, 2001

John M. Morphy
Secretary

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS OF PAYCHEX, INC.
TO BE HELD ON OCTOBER 11, 2001

This Proxy Statement is being furnished to stockholders of Paychex, Inc. ("Paychex" or the "Company") in connection with the solicitation of proxies by the Board of Directors (the "Board") to be voted at the 2001 Annual Meeting of Stockholders. The Annual Meeting will be held on October 11, 2001 at 10:00 a.m. at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, New York.

Stockholders entitled to vote:

The Board has fixed the close of business on August 13, 2001, as the record date for determining the holders of common stock entitled to notice of, and to vote at, the meeting. Stockholders will be entitled to one vote per share for each share of common stock held as of the record date.

How to vote:

Your vote is very important and we hope that you will attend the Annual Meeting. However, whether or not you plan to attend the meeting, please vote by proxy in accordance with the instructions on your proxy card, voting instruction form (from your bank or broker), or that you received through electronic mail. There are three convenient ways of submitting your vote:

- o Voting by telephone - You can vote your shares by telephone by calling the toll-free telephone number indicated on your proxy card and following the voice prompt instructions. Telephone voting is available 24 hours a day.
- o Voting by the Internet - You can also vote via the Internet by

Edgar Filing: PAYCHEX INC - Form DEF 14A

visiting the web site noted on your proxy card. Internet voting is available 24 hours a day. We encourage you to vote via the Internet, as it is the most cost-effective way to vote.

- o Voting by mail - If you choose to vote by mail, simply mark your proxy, date and sign it, and return it in the postage-paid envelope provided.

If you vote by telephone or Internet, you do not need to return your proxy card. Signing and returning the proxy card or submitting your proxy via Internet or by telephone does not affect your right to vote in person if you attend the Annual Meeting and your shares are registered in your name. If your shares are held in the name of a bank, broker, or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

Revoking your proxy:

You can revoke your proxy at any time before it is voted at the meeting by either:

- o Sending written notice of revocation to the Secretary of the Company;
- o Submitting a later-dated proxy via mail, telephone, or Internet; or
- o Voting in person at the meeting.

General information on voting:

The Company had outstanding on the record date 374,218,301 shares of common stock, each of which is entitled to one vote. A majority of the outstanding shares (187,109,152 shares) present in person or by proxy will constitute a quorum.

All shares that have been properly voted and not revoked will be voted at the meeting in accordance with the stockholder's directions. If the proxy is signed and returned without choices having been specified, the shares will be voted FOR the seven nominees described in the following pages.

A plurality of votes cast is required for the election of directors. You may choose to vote for a nominee or withhold your vote. Votes that are withheld will be excluded entirely from the vote and will have no effect. A broker non-vote will have no effect on the outcome of the election of directors.

Cost of solicitation of proxies:

The Company will pay the cost of solicitation of proxies. The Company will reimburse any banks, brokers and other custodians, nominees and fiduciaries for their expenses in forwarding proxies and proxy solicitation material to the beneficial owners of the shares held by them.

Edgar Filing: PAYCHEX INC - Form DEF 14A

Proposals for next year's Annual Meeting:

The Company must receive stockholder proposals for inclusion in the Proxy Statement for the next Annual Meeting of Stockholders at its executive offices on or before April 25, 2002.

Delivery of Proxy Materials and Annual Report:

The 2001 Annual Report, Notice of Annual Meeting, Proxy Statement and Proxy are being mailed to stockholders on or about August 24, 2001. You may also obtain a copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission without charge upon written request submitted to Paychex, Inc., c/o Secretary, 911 Panorama Trail South, Rochester, New York 14625-0397.

The 2001 Annual Report, Notice of Annual Meeting and Proxy Statement are also available on our Internet site at www.paychex.com. Instead of receiving paper copies of the Annual Report and Proxy Statement in the mail, stockholders can elect to receive an e-mail, which will provide a link to these documents on the Internet. Opting to receive your proxy materials online saves us the cost of producing and mailing bulky documents. To give your consent to

receive future documents via electronic delivery, please vote your proxy via the Internet and follow the instructions to register for electronic delivery.

PROPOSAL 1 - ELECTION OF DIRECTORS FOR A ONE-YEAR TERM

Seven persons are to be elected to the Board of Directors. The Board of Directors has nominated for election the persons listed below, each of whom currently serves as a director. If elected, each nominee will hold office until the Annual Meeting to be held in 2002, and until his successor is elected and has qualified.

Although the Board of Directors believes that all of the nominees will be available to serve, the proxies may exercise discretionary authority to vote for substitutes proposed by the Board of Directors of the Company.

The following biographies set forth certain information with respect to the nominees for election as directors of the Company, none of whom is related to any other nominee or executive officer.

Name	Age	Director Since	Position, Principal Occupation, Business Directorships
B. Thomas Golisano	59	1979	Mr. Golisano founded Paychex, Inc. in 1979, and served as its President, and Chief Executive Officer until 1997. He currently serves on the Board of Trustees of the Rochester Institute of Technology and is a member of the Board of Directors of Mountain Corporation and several privately held companies.

Edgar Filing: PAYCHEX INC - Form DEF 14A

is former chairman of Greater Rochester coalition to combat illegal drugs and served as a member of the Board of Directors of non-profit organizations, and is founder of Golisano Foundation.

G. Thomas Clark	63	1980	Mr. Clark retired as Senior Vice President, Secretary, and Treasurer of Paychex, Inc., joined Paychex in 1979 after spending 15 years in commercial banking business. He is a member of the Board of Directors of Unity Health Systems, the Rochester Holy Childhood, the Heritage Christian Home, Harris Interactive, Inc., as well as several other companies. Mr. Clark is a Trustee of the Golisano Foundation.
-----------------	----	------	---

Name	Age	Director Since	Position, Principal Occupation, Business and Other Directorships
------	-----	----------------	--

David J. S. Flaschen	45	1999	Mr. Flaschen is currently a General Partner of Paychex Ventures. From 1997 to 1999, he was the Executive Officer of Thomson Financial, an investment company focused on the financial industry. Prior to 1997, he served as Chairman and Chief Executive Officer of Marketing, Inc., a consumer information company. Prior to 1995, he was with Dun & Bradstreet as the President and Chief Operating Officer for North America, and held senior management positions at DataQuest. Mr. Flaschen is a member of the Board of Buyerzone.com and a member of the Board of Paychex Ventures.
----------------------	----	------	---

Phillip Horsley	62	1982	Mr. Horsley is the founder and Managing Director of Bridge Partners, formed in 1983. Horsley Br equity investments for institutional investors.
-----------------	----	------	---

Grant M. Inman	59	1983	Mr. Inman is the founder and President of Inman Management, a private venture capital investment firm, in 1998. Prior to 1998, he co-founded and managed Inman & Bowman, a private venture capital firm, in 1985. He is a member of the Board of Directors of Research Corporation, Wind River Systems, and several privately held companies. Mr. Inman is a member of the University of California, Berkeley Foundation and the University of Oregon Foundation.
----------------	----	------	---

J. Robert Sebo	65	1979	Mr. Sebo retired as Senior Vice President/General Manager of Operations of Paychex, Inc., in December 1999. He held many sales and operations positions
----------------	----	------	---

Edgar Filing: PAYCHEX INC - Form DEF 14A

In 1974, he started his own Paychex from Cleveland, Ohio. For fourteen years pri sales, marketing, and business management Cadillac Motor Car Division of General Motor

Name	Age	Director Since	Position, Principal Occupation, Business Directorships
Joseph M. Tucci	53	2000	Mr. Tucci is the President and Chief Execu Corporation, a leading provider of int information storage systems, software, net From January 2000 to January 2001, he was Operating Officer of EMC Corporation. Pri Mr. Tucci served as Deputy Chief Executive NV, an information technology services comp through December 1999. From 1993 to June Chairman and Chief Executive Officer of Wa in networked technology services and so acquired by Getronics NV in June 1999. Mr of the Board of Directors of Telecom Italia

The Board of Directors recommends the election of the seven nominees and it is intended that the proxies named (unless otherwise directed) will vote the proxy FOR the election of these nominees.

Retiring Directors

Mr. Steven D. Brooks and Mr. Harry P. Messina, Jr. have decided not to stand for the election of Directors at the 2001 Annual Meeting of Stockholders.

BOARD MEETINGS AND COMMITTEE MEMBERSHIP

The Board of Directors of the Company met four times during the fiscal year ended May 31, 2001 ("fiscal 2001"). No director attended fewer than 75% of all meetings held of the Board of Directors and of the committees on which such director served during fiscal 2001.

Non-employee directors are paid \$8,000 annually plus \$1,000 for each Board meeting attended and \$500 for each committee meeting attended. In fiscal 2001, under the 1998 Stock Option Plan, each non-employee director received a grant of options to purchase 10,000 shares of common stock. The options carry an exercise price of fair market value on the date of the grant and have a term of ten

Edgar Filing: PAYCHEX INC - Form DEF 14A

years. The grant will vest one-third annually, commencing two years after the date of grant.

The Board has four standing committees.

The Executive Committee is comprised of Mr. Golisano, Mr. Clark and Mr. Horsley and may exercise all the powers and authority of the Board of Directors except as limited by law. The Committee held one meeting during fiscal 2001.

The Audit Committee is comprised of Mr. Brooks, Mr. Clark, Mr. Flaschen (Chairman) and Mr. Inman, all of whom meet the independence and experience requirements of the National Association of Securities Dealers listing

standards. The Committee's responsibilities are described in the Audit Committee Charter adopted by the Board, which is attached as Appendix A to this Proxy Statement. The Committee held two meetings during fiscal 2001. In addition, the Chairman of the Committee, Mr. Flaschen, met with the Company's management, internal auditors and independent auditors to review the financial statements included in the Company's Quarterly Reports on Form 10-Q during fiscal 2001.

The Compensation Committee is comprised of Mr. Flaschen, Mr. Horsley, Mr. Inman and Mr. Tucci (Chairman). The Committee makes recommendations with respect to officers' salaries and grants of stock options to the Company's employees. The Committee met once during fiscal 2001.

The Investment Committee is comprised of Mr. Brooks, Mr. Horsley (Chairman) and Mr. Inman. The Committee is responsible for setting and reviewing investment policies and reviewing the investment portfolio's performance, market risks and credit risks. The Committee met once during fiscal 2001.

The Board does not have a Nominating Committee.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the "Committee") oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Fiscal Year 2001 Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Company's independent auditors, Ernst & Young LLP, are responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles. The Committee reviewed with the independent auditors their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with the independent auditors the auditors' independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees). The Committee has also considered whether the independent auditors provision of other non-audit services to the Company is compatible with the auditor's independence. The Committee held two meetings during fiscal 2001.

Edgar Filing: PAYCHEX INC - Form DEF 14A

The Committee discussed with the Company's internal auditors and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended and the Board of Directors approved that the audited financial statements be included in the Annual Report on Form 10-K for the year ended May 31, 2001 for filing with the Securities and Exchange Commission. The Audit Committee will recommend to the Board of Directors, who will approve, the selection of the Company's internal auditors.

The Audit Committee:

David J. S. Flaschen, Chairman
Steven D. Brooks
G. Thomas Clark
Grant M. Inman

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors (the "Committee") is responsible for making recommendations regarding the compensation of the Chief Executive Officer and other executive officers of the Company. The Committee's recommendations are presented to the Board for discussion and decision.

The compensation for executive officers is designed to be competitive with companies of similar size and performance, reward exceptional individual performance, tie compensation to overall Company objectives and align the interest of executive officers with the interests of stockholders. The components of the compensation program are base salary, annual incentive bonus and stock option awards under the Company's Stock Incentive Plan.

Base Salary and Annual Incentive Plan (Bonus)

Annual compensation is composed primarily of base salary and an annual incentive bonus. The salaries of the executive officers are determined based on their performance and comparisons with base salaries paid to executive officers having similar responsibilities in comparable companies. The Committee and the Board have instituted an Officer Incentive Program, which provides for the executive officers annual cash bonuses of up to 40% of base salary based on the Company's annual net income growth. The purpose of this bonus plan is to make a significant component of the officers' annual compensation tied directly to overall Company financial performance. For fiscal 2001, a bonus equalling 34.6% of base salary was earned.

Stock Incentive Plan

The Company's Stock Incentive Plan is designed to align executive officers' compensation with long-term performance of the Company's stock. Stock options are granted to executive officers, with the exception of Mr. Golisano, in amounts based upon their individual performance. Stock options are granted at fair market value as of the date of the grant, and have a term of up to ten years. These options vest one-third each year commencing two years after the date of grant. Stock options provide incentive for the executive officers to create stockholder value over the long term.

Edgar Filing: PAYCHEX INC - Form DEF 14A

Compensation of Chief Executive Officer

The Committee meets annually without the Chief Executive Officer to evaluate his performance and recommends to the Board the compensation to be paid to him. In performing that function, the Committee reviews the range and components of compensation paid to CEOs of other public companies. In particular, the Committee looks to those public companies whose size and performance are similar to those of Paychex, Inc.

Mr. Golisano's substantial stock position in the Company assures the Committee of his close identification with the interests of its stockholders. In view of his substantial stock position, Mr. Golisano has chosen not to receive any stock option grants. His compensation is reflective in part of the Committee's evaluation of the Company's performance in the areas of revenue, profitability, return on stockholders' equity and other areas. Salary adjustments reflect the Committee's opinion of the impact, both short- and long-term, which Mr. Golisano's creativity, strategic focus and leadership had on these and other factors.

Mr. Golisano's fiscal 2001 compensation (including base salary and bonus under the Officer Incentive Program) increased 4% over his compensation for fiscal 2000. Mr. Golisano's bonus was determined based on the Officer Incentive Program described above. In fiscal 2001, the Company's total revenues increased 19% and net income increased 34% over the prior year's figures, while return on stockholders' equity was 38%.

Compensation of Other Executive Officers

The Committee sets compensation for executive officers other than the CEO after the CEO provides the Committee with his evaluation of the performance of each executive officer and his recommendation with respect to base salary, bonus and stock options. Committee members discuss his recommendations in light of their own experiences and familiarity with levels and components of compensation for persons with similar responsibilities in other public companies. The goal of the Committee is to compensate fairly for the job done, to reward extraordinary performance or promise and to encourage long-term identification with stockholder interest through the award of stock options under the Company's Stock Incentive Plan. Company performance is also considered.

Impact of Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code generally limits the tax deductibility of annual compensation paid to certain executive officers to \$1 million, unless specified requirements are met. The Committee has carefully considered the impact of this provision. At this time, it is the Committee's intention to continue to compensate all officers based on overall performance. The Committee expects that most, if not all compensation paid to officers will qualify as a tax-deductible expense. However, it is possible that at some point in the future, circumstances may cause the Committee to authorize compensation that is not deductible.

The Compensation Committee:

Joseph M. Tucci, Chairman
Grant M. Inman
David J. S. Flaschen
Phillip Horsley

Edgar Filing: PAYCHEX INC - Form DEF 14A

OTHER EXECUTIVE OFFICERS OF THE COMPANY

Name	Age	Position and Business Experience
Daniel A. Canzano	47	Mr. Canzano was elected Vice President, Information Technology, in April 1993. Mr. Canzano has been with the Company since 1989 and has served as a Zone Sales Manager for the Company's Information Technology.
William G. Kuchta, Ed. D.	54	Mr. Kuchta joined the Company in February 1993 as Vice President, Organizational Development. From 1993 to 1995, Mr. Kuchta was principal of Kuchta & Associates, a consulting firm, and from 1989 to 1993, he served as Director of Human Resources of Fisons Corporation.
John M. Morphy	54	Mr. Morphy joined the Company in October 1993 as Vice President, Director of Finance and Financial Officer and Secretary. Upon joining the Company, Mr. Morphy served as Vice President, Financial Officer and in other senior management capacities for 15 years at Goulds Pumps, Incorporated.
Diane Rambo	50	Ms. Rambo was named Vice President, Human Resources, in fiscal 2001 and prior to that was Vice President, Human Resources Network Services from October 1994. Ms. Rambo has been with the Company since August 1980 and has served as Vice President of Electronic Network Services and as a Branch Manager.
Walter Turek	49	Mr. Turek has served as Vice President, Information Technology, since 1989. Mr. Turek has been with the Company since 1989 and has served in various sales management capacities.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires directors, officers and beneficial owners of more than 10% of the Company's common stock to file with the Securities and Exchange Commission (SEC) reports of transactions in the stock. Based solely on the filings made with the SEC, the Company believes that during the fiscal year ended May 31, 2001, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than ten percent beneficial owners were complied with, with the exception of a report on a sale of 80 shares of common stock by Harry P. Messina, Jr. in June 2000, which was filed late.

Edgar Filing: PAYCHEX INC - Form DEF 14A

EXECUTIVE OFFICER COMPENSATION

The following table sets forth all compensation received by the Company's Chief Executive Officer and the Company's four other most highly compensated executive officers during the three fiscal years ended May 31, 2001, 2000 and 1999.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-term Compensation
		Salary	Bonus	Number of Common Shares Underlying Options Granted
B. Thomas Golisano Chairman, President & Chief Executive Officer	2001	\$694,230	\$242,200	-
	2000	\$644,230	\$260,000	-
	1999	\$594,230	\$240,000	-
Walter Turek Vice President, Sales	2001	\$304,115	\$105,807	-
	2000	\$289,910	\$116,480	9,000
	1999	\$274,810	\$112,000	20,250
John M. Morphy Vice President, Chief Financial Officer & Secretary	2001	\$282,040	\$ 98,714	15,000
	2000	\$254,840	\$102,800	22,500
	1999	\$235,925	\$ 95,200	40,500
Daniel A. Canzano Vice President, Information Technology	2001	\$255,400	\$ 89,130	9,000
	2000	\$236,965	\$ 95,400	13,500
	1999	\$223,615	\$ 90,000	20,250
Diane Rambo Vice President, Human Resource Services	2001	\$248,320	\$ 86,742	12,000
	2000	\$228,335	\$ 92,000	13,500
	1999	\$213,500	\$ 86,000	20,250

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth stock options granted to the Company's Chief Executive Officer and the Company's four other most highly compensated executive officers during fiscal 2001. Under SEC regulations, companies are required to project an estimate of appreciation of the underlying shares of stock during the option term. The Company has chosen the 5% - 10% formula approved by the SEC. However, the ultimate value will depend on the market value of the Company's

Edgar Filing: PAYCHEX INC - Form DEF 14A

stock at a future date, which may or may not correspond to the projections below.

Individual Grants						
Name	Number of Common Shares Underlying Options Granted (1)	% of Total Options Granted to Employees in 2001	Exercise Price Per Share	Expiration Date	Potential Value of Annual Payout for 5%	
B. T. Golisano	-	-%	\$ -	-	\$	
W. Turek	-	-%	\$ -	-	\$	
J. Morphy	15,000	1.9%	\$42.69	7/13/2010	\$402,69	
D. Canzano	9,000	1.1%	\$42.69	7/13/2010	\$241,61	
D. Rambo	12,000	1.5%	\$42.69	7/13/2010	\$322,15	

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth stock options exercised by the Company's Chief Executive Officer and the Company's four other most highly compensated executive officers during fiscal 2001, and the number and value of all unexercised options at May 31, 2001. The value of "in-the-money" options refers to options having an exercise price that is less than the market price of the Company's stock at May 31, 2001.

Number Of Common Shares	Number of Common Shares Underlying Unexercised Options at	Value In-
-------------------------	---	-----------

Edgar Filing: PAYCHEX INC - Form DEF 14A

Name	Acquired On Exercise	Net Value Realized (1)	May 31, 2001		Exercisa
			Exercisable	Unexercisable	
B. T. Golisano	-	\$ -	-	-	\$
W. Turek	-	\$ -	351,521	39,375	\$11,790,
J. Morphy	66,938	\$2,374,939	-	87,000	\$
D. Canzano	113,907	\$4,267,213	224,439	46,125	\$ 7,219,
D. Rambo	80,251	\$3,112,688	77,625	49,125	\$ 2,009,

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGERS

The following table sets forth information, based upon reports filed by such persons with the Securities and Exchange Commission (SEC) as of July 31, 2001, with respect to the beneficial ownership of common stock of the Company by each beneficial owner of more than 5% of the common stock, by each director and nominee for director of the Company, by each of the executive officers of the Company named in the Summary Compensation Table and by all directors and executive officers of the Company as a group. Under the rules of the SEC, "beneficial ownership" is deemed to include shares for which the individual, directly or indirectly, has or shares voting or investment power, whether or not they are held for the individual's benefit.

Name	Amount of Beneficial Ownership of Common Stock
More than 5% owners:	
B. Thomas Golisano (2) 911 Panorama Trail South Rochester, NY 14625	39,867,253
Janus Capital Corporation (3) 100 Fillmore Street Denver, CO 80206	34,399,955

Edgar Filing: PAYCHEX INC - Form DEF 14A

Directors:

B. Thomas Golisano (2)	39,867,253
Steven D. Brooks	3,376
G. Thomas Clark (2), (4), (5)	484,550
David J. S. Flaschen	2,250
Phillip Horsley (4)	291,973
Grant M. Inman (4)	213,125
Harry P. Messina, Jr. (4), (5)	458,806
J. Robert Sebo (4), (5)	4,952,971
Joseph M. Tucci	-

Named Executive Officers:

Walter Turek (4)	1,040,369
John M. Morphy	5,000
Daniel A. Canzano (4), (5)	259,667
Diane Rambo (4)	66,599

All Directors and Officers

Of the Company	
As a Group (14 persons) (4)	47,706,205

INDEPENDENT PUBLIC ACCOUNTANTS

The Company's independent public accountant since 1983 has been Ernst & Young LLP. The Audit Committee and Management expects to re-appoint this firm for fiscal year 2002. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting of Stockholders to respond to appropriate questions. They will also have the opportunity to make a statement if they so desire.

Annual Audit Fees: The aggregate fees billed by Ernst & Young for professional services rendered for the audit of the Company's consolidated financial statements for fiscal 2001 and reviews of the financial statements included in the Company's quarterly Form 10-Q's for fiscal 2001 were approximately \$125,000.

Financial Information Systems Design and Implementation Fees: Ernst & Young

Edgar Filing: PAYCHEX INC - Form DEF 14A

provided no professional services of this nature to the Company in fiscal year 2001.

All Other Fees: The fiscal 2001 aggregate fees billed for services rendered to the Company by Ernst & Young other than the services described above were approximately \$499,100. These fees were comprised of \$199,600 of audit related services for benefit plan audits, various statutory audits and internal control reviews, and \$299,500 of non-audit services for tax planning and compliance.

PERFORMANCE GRAPH

The following graph shows a five-year comparison of the total cumulative returns of investing \$100 on May 31, 1996, in Paychex, Inc. common stock, the S&P Services (Data Processing) Super Composite (the "S&P S(DP)") Index, the S&P Midcap 400 Index, and the S&P 500 Index. The S&P S(DP) Index includes a representative peer group of companies, and includes Paychex, Inc. The S&P Midcap 400 Index represents a broad market group of companies with an average market capitalization, which included Paychex, Inc. until September 1998. Since September 1998, the Company has been a participant in the S&P 500 Index, a market group of companies with a larger than average market capitalization. The S&P Midcap 400 Index is shown for transitional purposes. All comparisons of stock price performance shown assume reinvestment of dividends.

[OBJECT OMITTED]

May 31,	1996	1997	1998	1999	2000
Paychex, Inc.	\$100	\$126	\$187	\$232	\$415
S&P S(DP)	\$100	\$110	\$110	\$132	\$168
S&P Midcap 400	\$100	\$118	\$153	\$172	\$209
S&P 500	\$100	\$129	\$169	\$205	\$226

OTHER MATTERS AND INFORMATION

As of the date of this Proxy Statement, management does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Annual Meeting other than those described in this Proxy Statement. If any other matters properly come before the meeting, the persons named in the enclosed proxy will vote the proxy on such matters in accordance with their judgment.

By order of the Board of Directors,

/s/ John M. Morphy

Edgar Filing: PAYCHEX INC - Form DEF 14A

John M. Morphy
Secretary

Rochester, New York
August 24, 2001

APPENDIX A

PAYCHEX, INC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities to the stockholders, potential stockholders and the investment community by reviewing: financial reports and other financial information provided by the Company to governmental bodies or the public; the Company's systems of internal controls and the Company's auditing, accounting and financial reporting processes. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels. The Audit Committee's primary duties and responsibilities are to:

- o Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system.
- o Review and appraise the audit efforts of the Company's independent accountants and internal auditing department.
- o Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditing department, and the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

II. COMPOSITION

The Audit Committee shall be comprised of at least three directors who meet the independence and experience requirements of the Nasdaq Stock Market, Inc. The members shall be appointed by the Board. The Board will designate a Chairman who will also be the primary contact to management, the independent accountants and the manager of Internal Audit during the time periods between the formal Audit Committee meetings.

All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.

Edgar Filing: PAYCHEX INC - Form DEF 14A

III. MEETINGS

The Committee shall meet at least two times annually and participation can be in person or telephonic. The Committee shall make regular reports to the Board. As part of its job to foster open communication, the Committee should ensure management, the manager of the Internal Audit department and the independent accountants are present at these meetings. The Committee will complete each meeting with the following exit protocol, the Committee will meet individually with the manager of the Internal Audit department and then with the independent accountants to discuss any matters that the Committee or each of these groups believes should be discussed privately. The independent accountants will have access to the full Board of Directors if the independent accountants determine it is necessary. In addition, the Chair of the Committee should communicate with management and the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditors limited review procedures.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Audit Committee shall:

1. Review and update this Charter at least annually and recommend any proposed changes to the full Board of Directors for their approval.
2. Review the Company's annual audited financial statements prior to filing or distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, financial reporting issues and judgments as well as the adequacy of internal controls that could significantly affect the Company's financial statements.
3. Review significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the independent auditors and the Internal Audit department together with management's responses.
4. The Chair of the Committee should review with financial management and the independent auditors the Company's quarterly financial results prior to the release of earnings and/or the Company's quarterly financial statements prior to filing or distribution. Discuss significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with auditing standards.
5. Recommend to the Board of Directors the selection of the independent accountants, which firm is ultimately accountable to the Audit Committee and the Board. On an annual basis, the Committee should review and discuss with the accountants all significant relationships the accountants have with the Company to determine the accountants' independence consistent with Independence Standards Board Standard Number 1.
6. Review the performance of the independent accountants and approve any proposed discharge of the independent accountants when circumstances warrant.
7. Periodically consult with the independent accountants out of the presence of management about internal controls and the fullness and accuracy of the organization's financial statements.

Edgar Filing: PAYCHEX INC - Form DEF 14A

8. Consider the independent accountants' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
9. Receive periodic reports regarding any significant judgments made in management's preparation of the financial statements and the appropriateness of such judgments.
10. Following completion of the annual audit, review separately with each of management, the independent accountants and the Internal Audit manager any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
11. Review any significant disagreement among management and the independent accountants or the Internal Audit department in connection with the preparation of the financial statements.
12. Review with the independent accountants, the Internal Audit manager and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.
13. Establish, review and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code.
14. Review activities, organizational structure, and qualifications of the Internal Audit department.
15. Perform any other activities and prepare any other reports consistent with this Charter, the Company's By-laws and applicable federal or state law, as the Committee or the Board deems necessary or appropriate.
16. Review, at least annually, report(s) from the Company's general counsel concerning legal and regulatory matters that may have a material impact on the financial statements.
17. The manager of Internal Audit is required to annually document in the form of a memorandum the actions of the Audit Committee which indicate compliance with the Charter. This memo will be presented to the Audit Committee at the July Audit Committee meeting.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Company's Code of Ethical Conduct.

PAYCHEX, INC.

PROXY

The undersigned hereby appoints B. THOMAS GOLISANO and JOHN M. MORPHY, or either one of them, with full power of substitution, attorneys and proxies to represent the undersigned at the Annual Meeting of Shareholders of the Company to be held

Edgar Filing: PAYCHEX INC - Form DEF 14A

on October 11, 2001, and at any adjournment thereof, with all the powers which the undersigned would possess if personally present to vote all shares of stock which the undersigned may be entitled to vote at said meeting.

1. ELECTION OF DIRECTORS

FOR all Nominees WITHHOLD all Nominees For all EXCEPT _____

01) B. Thomas Golisano, 02) G. Thomas Clark, 03) David J. S. Flaschen,
04) Phillip Horsley, 05) Grant M. Inman, 06) J. Robert Sebo, and
07) Joseph M. Tucci.

(TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, MARK "FOR ALL EXCEPT" AND WRITE THE NOMINEE'S NUMBER ON THE LINE ABOVE.)

2. In accordance with their judgement in connection with such other business, if any may come before the meeting.

THIS PROXY IS SOLICITED ON BEHALF OF THE COMPANY'S BOARD OF DIRECTORS. PLEASE DATE, SIGN AND RETURN IT IN THE ENCLOSED ENVELOPE. IF NOT OTHERWISE MARKED, THE SHARES REPRESENTED BY THIS PROXY SHALL BE VOTED "FOR" THE SEVEN NOMINEES.

Dated: _____, 2001

Signed: _____

(Name of Shareholder to be signed exactly as it appears on this proxy)