UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 28, 2025
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from __________ to __________

Commission file number 0-11330

Paychex, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**16-1124166**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
911 Panorama Trail South	**14625-2396**
Rochester, NY	(Zip Code)
(Address of principal executive offices)	

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**PAYX**	**Nasdaq Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of February 28, 2025, 360,190,668 shares of the registrant’s common stock, $.01 par value, were outstanding.

PAYCHEX, INC.
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
In millions, except per share amounts

	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Revenue:				
Management Solutions	$ 1,100.7	$ 1,049.9	$ 3,025.3	$ 2,936.1
PEO and Insurance Solutions	365.4	345.5	1,002.6	939.0
Total service revenue	**1,466.1**	**1,395.4**	**4,027.9**	**3,875.1**
Interest on funds held for clients	42.9	43.9	116.5	108.1
Total revenue	**1,509.0**	**1,439.3**	**4,144.4**	**3,983.2**
Expenses:				
Cost of service revenue	387.4	379.8	1,146.5	1,104.1
Selling, general and administrative expenses	429.8	409.7	1,221.3	1,186.8
Total expenses	**817.2**	**789.5**	**2,367.8**	**2,290.9**
Operating income	**691.8**	**649.8**	**1,776.6**	**1,692.3**
Other (expense)/income, net	(6.0)	9.4	10.0	33.9
Income before income taxes	**685.8**	**659.2**	**1,786.6**	**1,726.2**
Income taxes	166.5	160.6	426.5	415.7
Net income	**$ 519.3**	**$ 498.6**	**$ 1,360.1**	**$ 1,310.5**
Other comprehensive income, net of tax	2.3	22.0	55.5	14.7
Comprehensive income	**$ 521.6**	**$ 520.6**	**$ 1,415.6**	**$ 1,325.2**
Basic earnings per share	**$ 1.44**	**$ 1.39**	**$ 3.78**	**$ 3.64**
Diluted earnings per share	**$ 1.43**	**$ 1.38**	**$ 3.76**	**$ 3.62**
Weighted-average common shares outstanding	**360.1**	**359.9**	**360.1**	**360.4**
Weighted-average common shares outstanding, assuming dilution	**362.0**	**361.7**	**361.9**	**362.2**

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
In millions, except per share amounts

	February 28, 2025	May 31, 2024
Assets		
Cash and cash equivalents	$ 1,563.8	$ 1,468.9
Restricted cash	49.1	47.8
Corporate investments	37.2	33.9
Interest receivable	22.6	23.3
Accounts receivable, net of allowance for credit losses	1,244.8	1,059.6
PEO unbilled receivables, net of advance collections	597.9	542.4
Prepaid income taxes	18.3	47.5
Prepaid expenses and other current assets	359.4	321.9
Current assets before funds held for clients	**3,893.1**	**3,545.3**
Funds held for clients	4,183.9	3,706.2
Total current assets	**8,077.0**	**7,251.5**
Long-term corporate investments	—	3.7
Property and equipment, net of accumulated depreciation	451.2	411.7
Operating lease right-of-use assets, net of accumulated amortization	48.2	46.9
Intangible assets, net of accumulated amortization	175.6	194.5
Goodwill	1,877.8	1,882.7
Long-term deferred costs	472.3	477.1
Other long-term assets	119.5	115.0
Total assets	**$ 11,221.6**	**$ 10,383.1**
Liabilities		
Accounts payable	$ 118.7	$ 104.3
Accrued corporate compensation and related items	157.8	135.0
Accrued worksite employee compensation and related items	746.8	662.4
Short-term borrowings	17.6	18.7
Deferred revenue	51.7	50.2
Other current liabilities	455.3	469.8
Current liabilities before client fund obligations	**1,547.9**	**1,440.4**
Client fund obligations	4,251.8	3,868.7
Total current liabilities	**5,799.7**	**5,309.1**
Accrued income taxes	118.2	102.6
Deferred income taxes	93.0	86.0
Long-term borrowings, net of debt issuance costs	799.0	798.6
Operating lease liabilities	47.1	49.0
Other long-term liabilities	248.0	236.8
Total liabilities	**7,105.0**	**6,582.1**
Commitments and contingencies — Note I		
Stockholders' equity		
Common stock, $0.01 par value; Authorized: 600.0 shares; Issued and outstanding: 360.2 shares as of February 28, 2025 and 360.1 shares May 31, 2024	3.6	3.6
Additional paid-in capital	1,814.8	1,729.5
Retained earnings	2,387.8	2,213.0
Accumulated other comprehensive loss	(89.6)	(145.1)
Total stockholders' equity	**4,116.6**	**3,801.0**
Total liabilities and stockholders' equity	**$ 11,221.6**	**$ 10,383.1**

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
In millions, except per share amounts

	For the nine months ended February 28, 2025								
	Common stock				Accumulated other comprehensive loss				
	Shares	Amount	Additional paid-in capital	Retained earnings	Net unrealized loss on AFS securities	Cash Flow Hedges	Foreign currency translation	Total accumulated comprehensive loss	Total
Balance as of May 31, 2024	**360.1**	**$ 3.6**	**$ 1,729.5**	**$ 2,213.0**	**$ (120.7)**	**$ —**	**$ (24.4)**	**$ (145.1)**	**$ 3,801.0**
Net income	—	—	—	1,360.1	—	—	—	—	1,360.1
Unrealized gains/(losses), net of $23.2 million in tax expense	—	—	—	—	70.9	(15.9)	—	55.0	55.0
Reclassification adjustment to earnings, net of $0.1 million in tax benefit [(1)]	—	—	—	—	0.3	7.3	—	7.6	7.6
Cash dividends declared ($2.94 per share)	—	—	—	(1,058.9)	—	—	—	—	(1,058.9)
Repurchases of common shares, including excise taxes of $0.5 million [(2)]	(0.8)	(0.0)	(4.0)	(100.5)	—	—	—	—	(104.5)
Stock-based compensation costs	—	—	50.5	—	—	—	—	—	50.5
Foreign currency translation adjustment	—	—	—	—	—	—	(7.1)	(7.1)	(7.1)
Activity related to equity-based plans	0.9	0.0	38.8	(25.9)	—	—	—	—	12.9
Balance as of February 28, 2025	**360.2**	**$ 3.6**	**$ 1,814.8**	**$ 2,387.8**	**$ (49.5)**	**$ (8.6)**	**$ (31.5)**	**$ (89.6)**	**$ 4,116.6**

	For the three months ended February 28, 2025								
	Common stock				Accumulated other comprehensive loss				
	Shares	Amount	Additional paid-in capital	Retained earnings	Net unrealized loss on AFS securities	Cash Flow Hedges	Foreign currency translation	Total accumulated comprehensive loss	Total
Balance as of November 30, 2024	**360.1**	**$ 3.6**	**$ 1,789.4**	**$ 2,224.6**	**$ (63.1)**	**$ —**	**$ (28.8)**	**$ (91.9)**	**$ 3,925.7**
Net income	—	—	—	519.3	—	—	—	—	519.3
Unrealized gains/(losses), net of $4.3 million in tax expense	—	—	—	—	13.3	(15.9)	—	(2.6)	(2.6)
Reclassification adjustment to earnings, net of $0.1 million in tax benefit [(1)]	—	—	—	—	0.3	7.3	—	7.6	7.6
Cash dividends declared ($0.98 per share)	—	—	—	(353.2)	—	—	—	—	(353.2)
Repurchases of common shares, including excise taxes of $0.0 million [(2)]	—	—	—	—	—	—	—	—	—
Stock-based compensation costs	—	—	17.6	—	—	—	—	—	17.6
Foreign currency translation adjustment	—	—	—	—	—	—	(2.7)	(2.7)	(2.7)
Activity related to equity-based plans	0.1	0.0	7.8	(2.9)	—	—	—	—	4.9
Balance as of February 28, 2025	**360.2**	**$ 3.6**	**$ 1,814.8**	**$ 2,387.8**	**$ (49.5)**	**(8.6)**	**$ (31.5)**	**$ (89.6)**	**$ 4,116.6**

(1)Reclassification adjustments to earnings on the sale of available-for-sale ("AFS") securities are reflected in interest on funds held for clients and other (expense)/income, net on the Consolidated Statements of Income and Comprehensive Income. Reclassification adjustments to earnings for the cash flow hedges relate to amortization of the excluded component of the initial fair value and are reflected in interest expense and included in other (expense)/income, net on the Consolidated Statements of Income and Comprehensive Income.

(2)The Company maintains a program to repurchase $400.0 million of its common stock, with authorization expiring May 31, 2027. The Company previously maintained a program to repurchase up to $400.0 million of its common stock, with an authorization that expired on January 31, 2024. The purpose of these programs is to manage common stock dilution.

	For the nine months ended February 29, 2024								
	Common stock				Accumulated other comprehensive loss				
	Shares	Amount	Additional paid-in capital	Retained earnings	Net unrealized loss on AFS securities	Cash Flow Hedges	Foreign currency translation	Total accumulated comprehensive loss	Total
Balance as of May 31, 2023	**360.5**	**$ 3.6**	**$ 1,626.4**	**$ 2,023.1**	**$ (130.3)**	**—**	**$ (29.6)**	**$ (159.9)**	**$ 3,493.2**
Net income	—	—	—	1,310.5	—	—	—	—	1,310.5
Unrealized gains on securities, net of $3.5 million in tax expense	—	—	—	—	9.9	—	—	9.9	9.9
Reclassification adjustment for realized losses on securities, net of $0.0 million in tax benefit [1]	—	—	—	—	0.0	—	—	0.0	0.0
Cash dividends declared ($2.67 per share)	—	—	—	(962.3)	—	—	—	—	(962.3)
Repurchases of common shares [2]	(1.5)	(0.0)	(6.2)	(163.0)	—	—	—	—	(169.2)
Stock-based compensation costs	—	—	45.1	—	—	—	—	—	45.1
Foreign currency translation adjustment	—	—	—	—	—	—	4.8	4.8	4.8
Activity related to equity-based plans	1.0	0.0	37.2	(22.1)	—	—	—	—	15.1
Balance as of February 29, 2024	**360.0**	**$ 3.6**	**$ 1,702.5**	**$ 2,186.2**	**$ (120.4)**	**—**	**$ (24.8)**	**$ (145.2)**	**$ 3,747.1**

	For the three months ended February 29, 2024								
	Common stock				Accumulated other comprehensive loss				
	Shares	Amount	Additional paid-in capital	Retained earnings	Net unrealized loss on AFS securities	Cash Flow Hedges	Foreign currency translation	Total accumulated comprehensive loss	Total
Balance as of November 30, 2023	**359.8**	**$ 3.6**	**$ 1,678.6**	**$ 2,009.4**	**$ (139.4)**	**—**	**$ (27.8)**	**$ (167.2)**	**$ 3,524.4**
Net income	—	—	—	498.6	—	—	—	—	498.6
Unrealized gains on securities, net of $6.3 million in tax expense	—	—	—	—	19.0	—	—	19.0	19.0
Reclassification adjustment for realized gains on securities, net of $0.0 million in tax expense [1]	—	—	—	—	(0.0)	—	—	(0.0)	(0.0)
Cash dividends declared ($0.89 per share)	—	—	—	(320.4)	—	—	—	—	(320.4)
Repurchases of common shares [2]	—	—	—	—	—	—	—	—	—
Stock-based compensation costs	—	—	14.4	—	—	—	—	—	14.4
Foreign currency translation adjustment	—	—	—	—	—	—	3.0	3.0	3.0
Activity related to equity-based plans	0.2	0.0	9.5	(1.4)	—	—	—	—	8.1
Balance as of February 29, 2024	**360.0**	**$ 3.6**	**$ 1,702.5**	**$ 2,186.2**	**$ (120.4)**	**—**	**$ (24.8)**	**$ (145.2)**	**$ 3,747.1**

(1)Reclassification adjustments to earnings on the sale of AFS securities are reflected in interest on funds held for clients and other (expense)/income, net on the Consolidated Statements of Income and Comprehensive Income. Reclassification adjustments to earnings for the cash flow hedges relate to amortization of the excluded component of the initial fair value and are reflected in interest expense and included in other (expense)/income, net on the Consolidated Statements of Income and Comprehensive Income.

(2)The Company maintained a program to repurchase up to $400.0 million of its common stock, with an authorization that expired on January 31, 2024. On January 19, 2024, the Company's Board of Directors approved a new repurchase plan authorizing up to $400 million of repurchases of its common stock, with authorization expiring on May 31, 2027. The purpose of these programs are to manage common stock dilution.

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
In millions

	For the nine months ended	
	February 28, 2025	February 29, 2024
Operating activities		
Net income	$ 1,360.1	$ 1,310.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	123.8	130.9
Amortization of premiums and discounts on AFS securities, cash flow hedges and long-term debt, net	5.1	(4.7)
Amortization of deferred contract costs	176.6	173.4
Stock-based compensation costs	50.5	45.1
Benefit from deferred income taxes	(16.1)	(20.9)
Provision for credit losses	17.6	14.9
Net realized losses on sales of AFS securities	0.4	0.0
Premiums paid on cash flow hedges	(19.2)	—
Changes in operating assets and liabilities:		
Interest receivable	0.7	1.6
Accounts receivable and PEO unbilled receivables, net	(99.9)	(3.5)
Prepaid expenses and other current assets	2.3	9.2
Accounts payable and other current liabilities	107.8	184.2
Deferred costs	(173.7)	(184.3)
Net change in other long-term assets and liabilities	25.4	21.6
Net change in operating lease right-of-use assets and liabilities	(4.3)	(2.0)
Net cash provided by operating activities	**1,557.1**	**1,676.0**
Investing activities		
Purchases of AFS securities	(8,473.2)	(6,007.4)
Proceeds from sales and maturities of AFS securities	8,500.4	6,345.6
Net purchases of short-term accounts receivable	(153.3)	(101.8)
Purchases of property and equipment	(131.3)	(120.1)
Acquisition of businesses, net of cash acquired	—	(208.3)
Purchases of other assets, net	(24.3)	(25.8)
Net cash used in investing activities	**(281.7)**	**(117.8)**
Financing activities		
Net change in client fund obligations	383.1	1,947.4
Net change in short-term borrowings	—	9.0
Dividends paid	(1,059.2)	(962.5)
Repurchases of common shares, including excise tax	(104.5)	(169.2)
Debt issuance fees	(11.4)	—
Activity related to equity-based plans	12.9	15.1
Net cash (used in)/provided by financing activities	**(779.1)**	**839.8**
Net change in cash, restricted cash, and equivalents	**496.3**	**2,398.0**
Cash, restricted cash, and equivalents, beginning of period	1,897.0	2,134.9
Cash, restricted cash, and equivalents, end of period	**$ 2,393.3**	**$ 4,532.9**
Reconciliation of cash, restricted cash, and equivalents		
Cash and cash equivalents	$ 1,563.8	$ 1,693.6
Restricted cash	49.1	41.0
Restricted cash and restricted cash equivalents included in funds held for clients	780.4	2,798.3
Total cash, restricted cash, and equivalents	**$ 2,393.3**	**$ 4,532.9**

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
February 28, 2025

Note A: Description of Business, Basis of Presentation, and Significant Accounting Policies

Description of business: Paychex, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Paychex") is an industry-leading human capital management ("HCM") company delivering a full suite of technology and advisory services in human resources ("HR"), employee benefit solutions, insurance and payroll processing for small- to medium-sized businesses and their employees across the United States ("U.S.") and parts of Europe. The Company also has operations in India. Paychex, a Delaware corporation formed in 1979, reports as one segment.

Basis of presentation: The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q ("Form 10-Q") and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statement presentation. The consolidated financial statements include the consolidated accounts of the Company with all intercompany transactions eliminated. Certain disclosures are reported as zero balances due to rounding. In the opinion of management, the information furnished herein reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair statement of the results for the interim period. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related Notes to Consolidated Financial Statements presented in the Company's Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended May 31, 2024 ("fiscal 2024"). Operating results and cash flows for the nine months ended February 28, 2025 are not necessarily indicative of the results that may be expected for other interim periods or for the fiscal year ending May 31, 2025 ("fiscal 2025").

Reclassifications: Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported consolidated earnings.

Restricted cash and restricted cash equivalents: Restricted cash and restricted cash equivalents are recorded at fair value, and consist of cash and cash equivalents, primarily money market securities, included in funds held for clients and cash that is restricted in use to secure commitments for certain workers' compensation insurance policies.

Accounts receivable, net of allowance for credit losses: Accounts receivable balances are shown on the Consolidated Balance Sheets net of the allowance for credit losses of $23.8 million and $21.3 million as of February 28, 2025 and May 31, 2024, respectively. These balances include trade receivables for services provided to clients and receivables purchased from the Company's clients under non-recourse arrangements. Trade receivables were $170.5 million and $141.3 million as of February 28, 2025 and May 31, 2024, respectively. Purchased receivables, at gross, were $1.1 billion and $939.6 million as of February 28, 2025 and May 31, 2024, respectively.

The Company is exposed to credit losses through the sale of services, payment of client obligations, and collection of purchased receivables. To mitigate this credit risk, the Company has multiple programs in place to assess and continuously monitor each client's ability to pay for these solutions and support. Credit monitoring programs include, but are not limited to, new client credit reviews, establishing appropriate credit limits, monitoring of credit distressed clients, and early electronic wire and collection procedures. The Company also considers contract terms and conditions, client business type or strategy and may require collateralized asset support or prepayment to mitigate credit risk.

Accounts receivable are written off and charged against the allowance for credit losses when the Company has exhausted all collection efforts without success. The Company estimates its credit losses based on historical loss activity adjusted for current economic conditions and reasonable and supportable forecast factors, when applicable. The provision for the allowance for credit losses and accounts written off were not material for the three and nine months ended February 28, 2025 and February 29, 2024. No single client had a material impact on total accounts receivable as of February 28, 2025 and May 31, 2024 or service revenue and results of operations for the three and nine months ended February 28, 2025 and February 29, 2024.

Professional Employer Organization ("PEO") unbilled receivables, net of advance collections: PEO unbilled receivables, including estimated revenues, offset by advance collections from clients, are recorded as PEO unbilled receivables, net of advance collections on the Company's Consolidated Balance Sheets. As of February 28, 2025 and May 31, 2024, advance collections were $0.6 million and $0.7 million, respectively.

PEO insurance reserves: As part of its PEO solution, the Company offers workers' compensation insurance and health insurance coverage to clients for the benefit of client employees. Workers' compensation insurance is primarily provided under fully insured high deductible workers' compensation insurance policies. Workers' compensation insurance reserves are established to provide for the estimated costs of paying claims up to per occurrence liability limits. These reserves include estimates of certain expenses associated with processing and settling claims. For fiscal 2025 and 2024, the Company has an aggregate maximum liability of $1.0 million for claims exceeding $1.0 million, and once met, the maximum individual claims liability is $1.0 million.

With respect to PEO health insurance coverage, the Company offers various health insurance plans that take the form of either fully insured guaranteed cost plans or fully insured insurance arrangements where the Company retains risk. A reserve for insurance arrangements where the Company retains risk is established to provide for the payment of claims in accordance with the Company's service contract with the carrier. The claims reserve includes estimates for reported losses, plus amounts for those claims incurred but not reported, and estimates of certain expenses associated with processing and settling the claims. The Company's maximum individual claims liability is $0.5 million under its policies covering both fiscal 2025 and fiscal 2024.

In establishing the PEO workers' compensation insurance reserves, the Company uses an independent actuarial estimate of undiscounted future cash payments that would be made to settle claims. Estimating the ultimate cost of future claims is an uncertain and complex process based upon historical loss experience and accepted actuarial methods and assumptions. These reserves are subject to change due to multiple factors, including economic trends, changes in legal liability law, and damage awards, all of which could materially impact the reserves as reported in the consolidated financial statements. Accordingly, final claim settlements may vary from the present estimates, particularly with workers' compensation insurance where those payments may not occur until well into the future. The Company regularly reviews the adequacy of its estimated insurance reserves. Adjustments to previously established reserves are reflected in the results of operations for the period in which the adjustment is identified. Such adjustments could be significant, reflecting any combination of new and adverse or favorable trends.

Stock-based compensation costs: The Company has issued stock-based awards to employees and members of its Board of Directors (the "Board") consisting of stock options, restricted stock units, and restricted stock awards. The Company accounts for all stock-based awards to employees and members of the Board as compensation costs in the consolidated financial statements based on their fair values measured as of the date of grant. These costs are recognized over the requisite service period. Stock-based compensation costs recognized were $17.6 million and $50.5 million for the three and nine months ended February 28, 2025, and $14.4 million and $45.1 million for the three and nine months ended February 29, 2024.

Derivative Instruments: Interest rate swaption contracts ("Swaption Contracts"), qualifying as cash flow hedges of interest payments, are used to hedge a portion of the Company's exposure to fluctuations in benchmark interest rates related to the anticipated issuances of long-term fixed rate debt. At inception, a derivative asset is recorded for the fair value of the premiums paid. Changes to the fair value of these cash flow hedges is temporarily reported in Accumulated other comprehensive loss on the Company's Consolidated Balance Sheets and reclassifed to earnings as the hedged item affects earnings. Refer to Note H Supplemental Information for additional information on the Company's Swaption Contracts.

We formally assess, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in cash flows of the related underlying exposure.

Recently adopted accounting pronouncements: There were no recently adopted accounting pronouncements during the nine months ended February 28, 2025 that had a material impact on the Company's consolidated financial statements or disclosures.

Recently issued accounting pronouncements: In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." This ASU expands public business entities' segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. The requirements are effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, and are required to be applied retrospectively. This ASU is applicable to the Company's Annual Report on Form 10-K for fiscal 2025, and subsequent interim periods, with early application permitted. The requirements of this ASU are disclosure-related and will not have an impact on the Company's financial condition, results of operations, or cash flows. The Company is currently evaluating the impact of adopting this ASU on its reportable segment disclosures.

In December 2023, the FASB issued ASU No. 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This ASU updates income tax disclosure requirements primarily by requiring specific categories and greater disaggregation within the rate reconciliation and disaggregation of income taxes paid by jurisdiction. This ASU is effective for annual periods beginning after December 15, 2024, and is applicable to the Company's fiscal year beginning June 1, 2025, with early application permitted. The transition method is prospective with the retrospective method permitted. The requirements of this ASU are disclosure-related and will not have an impact on the Company's financial condition, results of operations, or cash flows. The Company is currently evaluating the impact of adopting this ASU on its income tax disclosures.

In November 2024, the FASB issued ASU No. 2024-03 "Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses." ASU 2024-03 as amended by subsequent ASUs on the topic requires public business entities to disclose, for interim and annual reporting periods, additional information about certain income statement expense categories. The requirements are effective for annual reporting periods beginning after December 15, 2026, and for interim periods within annual reporting periods beginning after December 15, 2027. Entities are permitted to apply either the prospective or retrospective transition methods. This ASU is applicable to the Company's Annual Report on Form 10-K for the fiscal year ending May 31, 2028, and subsequent interim periods, with early application permitted. The requirements of this ASU are disclosure-related and will not have an impact on the Company's financial condition, results of operations, or cash flows. The Company is currently evaluating the impact of adopting this ASU on its disclosures.

Note B: Service Revenue

Service revenue is primarily attributable to fees for providing services to the Company's clients and is recognized when control of the contracted services is transferred to its clients, in an amount that reflects the consideration it expects to receive in exchange for such services. Insurance Solutions revenue is commissions earned on premiums collected and remitted to insurance carriers. The Company's contracts generally do not contain specified contract periods and may be terminated by either party with a 30-day notice of termination. Sales and other applicable non-payroll related taxes are excluded from service revenue.

Based upon similar operational and economic characteristics, the Company's service revenue is disaggregated by Management Solutions and PEO and Insurance Solutions as reported in the Company's Consolidated Statements of Income and Comprehensive Income. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors.

Management Solutions Revenue

Management Solutions revenue is primarily derived from the Company's integrated HCM services and HR solutions. Clients can select services on an á la carte basis or as part of various product bundles. The Company's offerings often leverage the information gathered in its base payroll processing service, allowing it to provide comprehensive services covering the HCM spectrum. Management Solutions revenue is generally recognized over time as services are performed and the client simultaneously receives and controls the benefits from these services.

Revenue earned from delivery service for the distribution of certain client payroll checks and reports is also included in Management Solutions revenue in the Company's Consolidated Statements of Income and Comprehensive Income. Delivery service revenue is recognized at a point in time following the delivery of payroll checks, reports, quarter-end packages, and tax returns to the Company's clients.

PEO and Insurance Solutions Revenue

PEO solutions are sold through the Company's registered and licensed subsidiaries and offer businesses HCM and HR solutions. The Company serves as a co-employer of its clients' employees, offers health insurance coverage to client employees, and assumes the risks and rewards of workers' compensation insurance and certain health insurance offerings. PEO Solutions revenue is recognized over time as the services are performed and the client simultaneously receives and controls the benefits from these services. PEO Solutions revenue is reported net of certain pass-through costs billed and incurred, which include payroll wages, payroll taxes, including federal and state unemployment insurance, and health insurance premiums on guaranteed cost benefit plans. For workers' compensation and health insurance plans where the Company retains risk, revenues and costs are recorded on a gross basis.

PEO pass-through costs netted within the PEO and Insurance Solutions revenue were as follows:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Payroll wages and payroll taxes	$ 7,783.0	$ 7,317.0	$ 21,836.6	$ 20,378.5
State unemployment insurance (included in payroll wages and payroll taxes)	$ 81.5	$ 78.0	$ 127.9	$ 116.3
Guaranteed cost benefit plans	$ 172.6	$ 165.6	$ 505.9	$ 499.4

Insurance solutions are sold through the Company's licensed insurance agency, Paychex Insurance Agency, Inc., which provides insurance through a variety of carriers, allowing companies to expand their employee benefit offerings at an affordable cost. Insurance offerings include property and casualty coverage such as workers' compensation, business-owner policies, commercial auto, cyber security, and health and benefits coverage, including health, dental, vision, life and disability. Insurance Solutions revenue reflects commissions earned on remitted insurance services premiums billed and is recognized over time as services are performed and the client simultaneously receives and controls the benefits from these services.

Contract Balances

The timing of revenue recognition for Management Solutions and PEO and Insurance Solutions is consistent with the invoicing of clients as they both occur during the respective client payroll period for which the services are provided. Therefore, the Company does not recognize a contract asset or liability resulting from the timing of revenue recognition and invoicing.

Payments received for certain of the Company's service offerings for set-up fees are considered a material right. Therefore, the Company defers revenue associated with these performance obligations, which exceed one year, and subsequently recognizes them as future services are provided, over approximately three to four years.

Changes in deferred revenue related to material rights that exceed one year were as follows:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Balance, beginning of period	$ 74.0	$ 69.8	$ 74.9	$ 62.0
Deferral of revenue	11.5	12.4	29.1	36.3
Recognition of unearned revenue	(9.9)	(8.9)	(28.4)	(25.0)
Balance, end of period	$ 75.6	$ 73.3	$ 75.6	$ 73.3

Deferred revenue related to material rights is reported in the deferred revenue and other long-term liabilities line items on the Company's Consolidated Balance Sheets. As of February 28, 2025, the Company expects to recognize deferred revenue related to these material rights for the remainder of fiscal 2025 and subsequent fiscal years as follows:

In millions Year ending May 31,	Estimated recognition of unearned revenue
2025	$ 9.4
2026	32.1
Thereafter	34.1
Total recognition of unearned revenue	$ 75.6

Assets Recognized from the Costs to Obtain and Fulfill Contracts

The Company recognizes an asset for the incremental costs of obtaining a contract with a client if it is expected that the economic benefit and amortization period will be longer than one year. The Company also recognizes an asset for the costs to fulfill a contract with a client if the costs are specifically identifiable, generate or enhance resources used to satisfy future performance obligations, and are expected to be recovered.

Deferred costs to obtain and fulfill contracts are reported in the prepaid expenses and other current assets and long-term deferred costs line items on the Company's Consolidated Balance Sheets. Amortization expense related to costs to obtain and fulfill a contract are included in cost of service revenue and selling, general and administrative expenses in the Company's Consolidated Statements of Income and Comprehensive Income and recognized over the expected economic benefit period.

The Company regularly reviews its deferred costs for potential impairment and did not recognize an impairment loss during the nine months ended February 28, 2025 or February 29, 2024.

Changes in deferred costs to obtain and fulfill contracts were as follows:

Costs to obtain contracts:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Balance, beginning of period	$ 600.7	$ 605.0	$ 609.4	$ 597.5
Capitalization of costs	59.0	53.7	154.2	163.1
Amortization	(52.6)	(51.6)	(156.5)	(153.5)
Balance, end of period	$ 607.1	$ 607.1	$ 607.1	$ 607.1

Costs to fulfill contracts:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Balance, beginning of period	$ 75.8	$ 75.8	$ 76.6	$ 75.3
Capitalization of costs	6.9	7.5	19.5	21.2
Amortization	(6.7)	(6.7)	(20.1)	(19.9)
Balance, end of period	$ 76.0	$ 76.6	$ 76.0	$ 76.6

Note C: Basic and Diluted Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

In millions, except per share amounts	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Basic earnings per share:				
Net income	$ 519.3	$ 498.6	$ 1,360.1	$ 1,310.5
Weighted-average common shares outstanding	360.1	359.9	360.1	360.4
Basic earnings per share	**$ 1.44**	**$ 1.39**	**$ 3.78**	**$ 3.64**
Diluted earnings per share:				
Net income	$ 519.3	$ 498.6	$ 1,360.1	$ 1,310.5
Weighted-average common shares outstanding	360.1	359.9	360.1	360.4
Dilutive effect of common share equivalents	1.9	1.8	1.8	1.8
Weighted-average common shares outstanding, assuming dilution	362.0	361.7	361.9	362.2
Diluted earnings per share	**$ 1.43**	**$ 1.38**	**$ 3.76**	**$ 3.62**
Weighted-average anti-dilutive common share equivalents	**0.0**	**0.6**	**0.3**	**0.6**

Weighted-average common share equivalents that have an anti-dilutive impact are excluded from the computation of diluted earnings per share.

Note D: Business Combinations

Effective July 31, 2023, substantially all of the net assets of Alterna Capital Solutions LLC ("Alterna"), were acquired by a wholly owned subsidiary of the Company. Alterna purchases outstanding accounts receivable of their customers under non-recourse arrangements. This acquisition allows the Company to increase and diversify its portfolio of solutions and support serving small- to medium-sized businesses. The acquisition consideration was comprised of a base purchase price of $95.1 million plus immediate settlement of debt totaling $128.9 million, net of $15.7 million in cash and restricted cash acquired. Accounts receivable balances acquired, net of allowance for credit losses, and less amounts due to clients related to funding arrangements, totaled $146.1 million. Management determined that intangible assets related to the client list were $18.9 million to be amortized utilizing an accelerated method of amortization over a weighted average of 8 years. Goodwill in the amount of $46.7 million was recorded as a result of the acquisition, which is tax-deductible. The Company finalized the purchase price allocation for the acquisition of Alterna as of November 30, 2023. The financial results of Alterna are included in the Company's consolidated financial statements from its respective date of acquisition. This acquisition was not material to the Company's results of operations, financial position, or cash flows.

On January 7, 2025, the Company entered into a definitive agreement to acquire Paycor HCM, Inc. ("Paycor") in an all-cash transaction for $22.50 per eligible share, without interest (the "Acquisition"). The Company expects the Acquisition will enhance its capabilities up market, broaden its suite of AI-driven HR Technology capabilities, and provide new channels for sustained long-term growth. The waiting period with respect to the consummation of the Acquisition under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, expired on February 21, 2025. The expiration of the waiting period satisfies one of the major conditions to the closing of the Acquisition, which remains subject to other customary closing conditions. The Company currently has a bridge commitment letter ("Bridge Loan Commitment") in place and expects to have long-term fixed financing in place prior to closing. The Acquisition is expected to close in April 2025, subject to customary closing conditions.

Note E: Other (Expense)/Income, Net

Other (expense)/income, net, consisted of the following items:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Interest income on corporate investments	$ 16.6	$ 19.3	$ 52.3	$ 61.1
Interest expense	(22.6)	(9.9)	(41.7)	(27.8)
Other	(0.0)	(0.0)	(0.6)	0.6
Other (expense)/income, net	**$ (6.0)**	**$ 9.4**	**$ 10.0**	**$ 33.9**

During the three months ended February 28, 2025, the Company entered into a Bridge Loan Commitment and executed three Swaption Contracts in connection with its pending acquisition of Paycor. This resulted in an additional $13.2 million of expense related to the amortization of debt issuance costs on the Bridge Loan Commitment and the excluded component of the initial fair value of the Swaption Contracts. These amounts are included in interest expense in the above table and in other (expense)/income, net on the Consolidated Statements of Income and Comprehensive Income. Refer to Note G Fair Value Measurements and Note H Supplemental Information for further discussion of the Bridge Loan Commitment and Swaption Contracts.

Note F: Funds Held for Clients and Corporate Investments

Funds held for clients and corporate investments were as follows:

	February 28, 2025			
In millions	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Type of issue:				
Funds held for clients' money market securities and other restricted cash equivalents	$ 780.4	$ —	$ —	$ 780.4
AFS securities:				
Asset-backed securities	166.9	1.1	(0.1)	167.9
Corporate bonds	1,358.3	7.2	(8.9)	1,356.6
Municipal bonds	1,043.1	0.5	(50.7)	992.9
U.S. government agency and treasury securities	904.7	2.4	(19.4)	887.7
Total AFS securities	3,473.0	11.2	(79.1)	3,405.1
Other	33.0	3.7	(1.1)	35.6
Total funds held for clients and corporate investments	**$ 4,286.4**	**$ 14.9**	**$ (80.2)**	**$ 4,221.1**

	May 31, 2024			
In millions	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Type of issue:				
Funds held for clients' money market securities and other restricted cash equivalents	$ 380.3	$ —	$ —	$ 380.3
AFS securities:				
Asset-backed securities	135.7	0.1	(1.1)	134.7
Corporate bonds	1,400.3	1.3	(32.8)	1,368.8
Municipal bonds	1,060.1	0.2	(86.9)	973.4
U.S. government agency and treasury securities	896.0	0.1	(43.4)	852.7
Total AFS securities	3,492.1	1.7	(164.2)	3,329.6
Other	32.3	3.2	(1.6)	33.9
Total funds held for clients and corporate investments	**$ 3,904.7**	**$ 4.9**	**$ (165.8)**	**$ 3,743.8**

Included in funds held for clients' money market securities and other restricted cash equivalents as of February 28, 2025 were bank demand deposit accounts, money market funds, and U.S. government agency and treasury securities.

Included in asset-backed securities as of February 28, 2025 were investment-grade securities primarily collateralized by fixed-rate auto loans and credit card receivables and all have credit ratings of AAA. The primary risk associated with these securities is the collection of the underlying receivables. Collateral on these asset-backed securities has performed as expected through February 28, 2025.

Included in corporate bonds as of February 28, 2025 were investment-grade securities covering a wide range of issuers, industries, and sectors primarily carrying credit ratings of A or better and having maturities ranging from March 6, 2025 through July 23, 2030.

Included in municipal bonds as of February 28, 2025 were general obligation bonds and revenue bonds primarily carrying credit ratings of AA or better and have maturities ranging from March 1, 2025 through August 1, 2032.

A substantial portion of the Company's portfolios are invested in high credit quality securities with ratings of AA or higher, and A-1/P-1 ratings on short-term securities.

The classification of funds held for clients and corporate investments on the Consolidated Balance Sheets was as follows:

In millions	February 28, 2025	May 31, 2024
Funds held for clients	$ 4,183.9	$ 3,706.2
Corporate investments	37.2	33.9
Long-term corporate investments	—	3.7
Total funds held for clients and corporate investments	**$ 4,221.1**	**$ 3,743.8**

Funds held for clients' money market securities and other restricted cash equivalents is collected from clients before due dates for payroll tax administration services and employee payment services and is invested until remitted to the applicable tax or regulatory agencies or client employees. Based upon the Company's intent and its contractual obligation to clients, these funds are considered restricted until they are remitted to fund these client obligations.

The Company's AFS securities reflected net unrealized losses of $67.9 million and $162.5 million as of February 28, 2025 and May 31, 2024, respectively. Included in net unrealized losses as of February 28, 2025 and May 31, 2024, were 658 and 957 AFS securities in an unrealized loss position, representing approximately 68% and 95% of the total securities held, respectively.

AFS securities in an unrealized loss position for which a credit loss has not been recognized were as follows:

	February 28, 2025					
	Securities in an unrealized loss position for less than twelve months		Securities in an unrealized loss position for more than twelve months		Total	
In millions	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Type of issue:						
Asset-backed securities	$ (0.0)	$ 3.0	$ (0.1)	$ 6.0	$ (0.1)	$ 9.0
Corporate bonds	(0.6)	249.2	(8.3)	280.3	(8.9)	529.5
Municipal bonds	(1.7)	29.5	(49.0)	922.3	(50.7)	951.8
U.S. government agency and treasury securities	(0.4)	78.4	(19.0)	529.5	(19.4)	607.9
Total	**$ (2.7)**	**$ 360.1**	**$ (76.4)**	**$ 1,738.1**	**$ (79.1)**	**$ 2,098.2**

	May 31, 2024					
	Securities in an unrealized loss position for less than twelve months		Securities in an unrealized loss position for more than twelve months		Total	
In millions	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Type of issue:						
Asset-backed securities	$ (0.4)	$ 77.4	$ (0.7)	$ 43.0	$ (1.1)	$ 120.4
Corporate bonds	(8.4)	620.8	(24.4)	647.8	(32.8)	1,268.6
Municipal bonds	(8.0)	102.5	(78.9)	864.7	(86.9)	967.2
U.S. government agency and treasury securities	(6.2)	268.2	(37.2)	547.2	(43.4)	815.4
Total	**$ (23.0)**	**$ 1,068.9**	**$ (141.2)**	**$ 2,102.7**	**$ (164.2)**	**$ 3,171.6**

The Company regularly reviews its investment portfolios to determine if any investment is impaired due to changes in credit risk or other potential valuation concerns. The Company believes the investments held as of February 28, 2025 that had gross unrealized losses of $79.1 million were not impaired due to credit risk or other valuation concerns, and the Company was not required to record a credit loss or an allowance for credit losses on its AFS securities. The Company believes it is probable that the principal and interest will be collected in accordance with contractual terms and that the unrealized losses on these securities were due to changes in interest rates and were not due to increased credit risk or other valuation concerns. A substantial portion of the securities in an unrealized loss position as of February 28, 2025 and as of May 31, 2024 held an AA rating or better. The Company does not intend to sell these investments until the recovery of their amortized cost basis or maturity and further believes that it is not more-likely-than-not that it will be required to sell these investments prior to that time. The Company's assessment that an investment is not impaired due to credit risk or other valuation concerns could change in the future due to new developments or changes in the Company's strategies or assumptions related to any particular investment.

Realized gains and losses on the sale of AFS securities are determined by specific identification of the cost basis of each security. On the Consolidated Statements of Income and Comprehensive Income, realized gains and losses from the funds held for clients portfolio and corporate investments portfolio are included in interest on funds held for clients and other income, net, respectively.

Realized gains and losses from the sale of AFS securities were as follows:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Gross realized gains	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Gross realized losses	(0.4)	—	(0.4)	(0.0)
Net realized (losses)/gains	**$ (0.4)**	**$ 0.0**	**$ (0.4)**	**$ (0.0)**

The amortized cost and fair value of AFS securities that had stated maturities as of February 28, 2025 are shown below by expected maturity.

In millions	February 28, 2025 Amortized cost	February 28, 2025 Fair value
Maturity date:		
Due in one year or less	$ 460.1	$ 455.4
Due after one year through three years	1,921.7	1,868.4
Due after three years through five years	879.5	867.9
Due after five years	211.7	213.4
Total	**$ 3,473.0**	**$ 3,405.1**

Variable rate demand notes ("VRDNs"), when held by the Company, are primarily categorized as due after five years in the table above as the contractual maturities on these securities are typically 20 to 30 years. Although these securities are issued as long-term securities, they are priced and traded as short-term instruments because of the liquidity provided through the tender feature.

Note G: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The accounting standards related to fair value measurements include a hierarchy for information and valuations used in measuring fair value that is broken down into three levels based on reliability, as follows:

- Level 1 valuations are based on quoted prices in active markets for identical instruments that the Company can access at the measurement date.

- Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for the instrument, either directly or indirectly, for substantially the full term of the asset or liability including the following:
    - quoted prices for similar, but not identical, instruments in active markets;
    - quoted prices for identical or similar instruments in markets that are not active;
    - inputs other than quoted prices that are observable for the instrument; or
    - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

The carrying values of cash and cash equivalents, restricted cash and restricted cash equivalents, accounts receivable, net of allowance for credit losses, PEO unbilled receivables, net of advance collections, accounts payable and short-term borrowings, when used by the Company, approximate fair value due to the short maturities of these instruments. Marketable securities included in funds held for clients and corporate investments consist primarily of securities classified as AFS and are recorded at fair value on a recurring basis.

The Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

	February 28, 2025			
In millions	Carrying value (Fair value)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Restricted and unrestricted cash equivalents:				
Money market securities	$ 58.1	$ 58.1	$ —	$ —
U.S. government agency and treasury securities	888.6	—	888.6	—
Total restricted and unrestricted cash equivalents	$ 946.7	$ 58.1	$ 888.6	$ —
AFS securities:				
Asset-backed securities	$ 167.9	$ —	$ 167.9	$ —
Corporate bonds	1,356.6	—	1,356.6	—
Municipal bonds	992.9	—	992.9	—
U.S. government agency and treasury securities	887.7	—	887.7	—
Total AFS securities	$ 3,405.1	$ —	$ 3,405.1	$ —
Interest Rate Swaption Contracts	$ 3.4	$ —	$ 3.4	$ —
Other	$ 35.6	$ 35.6	$ —	$ —
Liabilities:				
Other long-term liabilities	$ 35.6	$ 35.6	$ —	$ —

	May 31, 2024			
In millions	Carrying value (Fair value)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Restricted and unrestricted cash equivalents:				
Money market securities	$ 31.4	$ 31.4	$ —	$ —
U.S. government agency and treasury securities	386.4	—	386.4	—
Total restricted and unrestricted cash equivalents	$ 417.8	$ 31.4	$ 386.4	$ —
AFS securities:				
Asset-backed securities	$ 134.7	$ —	$ 134.7	$ —
Corporate bonds	1,368.8	—	1,368.8	—
Municipal bonds	973.4	—	973.4	—
U.S. government agency and treasury securities	852.7	—	852.7	—
Total AFS securities	$ 3,329.6	$ —	$ 3,329.6	$ —
Interest Rate Swaption Contracts	$ —	—	—	—
Other	$ 33.9	$ 33.9	$ —	$ —
Liabilities:				
Other long-term liabilities	$ 33.9	$ 33.9	$ —	$ —

In determining the fair value of its assets and liabilities, the Company predominately uses the market approach. Money market securities, which are cash equivalents, are considered Level 1 investments as they are valued based on quoted market prices in active markets. Cash equivalents also include U.S. government agency and treasury securities with original maturities of 90 days or less which are considered Level 2 investments as they are valued based on similar, but not identical, instruments in active markets. AFS securities, including asset-backed securities, corporate bonds, municipal bonds, U.S. government agency securities, and VRDNs, when held by the Company, are included in Level 2 and are valued utilizing inputs obtained from an independent pricing service. To determine the fair value of the Company's Level 2 AFS securities, the independent pricing service uses a variety of inputs, including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, new issue data, and monthly payment information. The Company has not adjusted the prices obtained from the independent pricing service because it believes that they are appropriately valued.

Swaption Contracts are considered a Level 2 asset as they are remeasured on a recurring basis using observable market inputs, such as forward curves, volatility levels, discount, and interest rates with gains and losses reported through other comprehensive income on the Consolidated Statements of Income and Comprehensive Income.

Assets included as other are mutual fund investments, consisting of participants' eligible deferral contributions under the Company's non-qualified and unfunded deferred compensation plans. The related liability is reported as other long-term liabilities. The mutual funds are considered Level 1 investments as they are valued based on quoted market prices in active markets.

The Company's long-term borrowings are accounted for on a historical cost basis. As of February 28, 2025 and May 31, 2024, the fair value of long-term borrowings, net of debt issuance costs was $398.2 million and $391.8 million for the Senior Notes, Series A, respectively, and $395.5 million and $386.0 million for the Senior Notes, Series B, respectively.

The Company's long-term borrowings are not traded in active markets, and as a result, its fair values were estimated using a market approach employing Level 2 valuation inputs, including borrowing rates the Company believes are currently available based on loans with similar terms and maturities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note H: Supplemental Information

Property and equipment, net of accumulated depreciation: Depreciation expense was $30.3 million and $86.8 million for the three and nine months ended February 28, 2025, respectively, compared to $32.3 million and $94.7 million for the three and nine months ended February 29, 2024, respectively.

Goodwill and intangible assets, net of accumulated amortization: Amortization expense relating to intangible assets was $12.8 million and $37.0 million for the three and nine months ended February 28, 2025, respectively, compared to $12.5 million and $36.2 million for the three and nine months ended February 29, 2024, respectively. Goodwill and intangible assets were recorded during the nine months ended February 29, 2024 related to the acquisition of Alterna. The goodwill related to this acquisition is included in the Purchased Receivable reporting unit for goodwill impairment testing. Refer to Note D Business Combinations for additional information regarding this acquisition and the impact it had on goodwill and intangible assets. The Company did not recognize an impairment loss as it relates to its goodwill or intangible assets during the nine months ended February 28, 2025 or February 29, 2024.

Short-term financing: Outstanding borrowings on the Company's credit facilities had a weighted-average interest rate of 4.11% and 6.14% as of February 28, 2025 and May 31, 2024, respectively. The unused amount available under these credit facilities as of February 28, 2025 was approximately $2.0 billion.

The credit facilities contain various financial and operational covenants that are usual and customary for such arrangements. The Company was in compliance with all of these covenants as of February 28, 2025.

Letters of credit: The Company had irrevocable standby letters of credit available totaling $168.7 million and $168.5 million as of February 28, 2025 and May 31, 2024, respectively, primarily to secure commitments for certain insurance policies. The letters of credit expire at various dates between March 03, 2025 and February 28, 2026. No amounts were outstanding on these letters of credit as of, or during the nine months ended February 28, 2025 and February 29, 2024, or as of May 31, 2024.

Long-term debt: There have been no material changes to the Company's long-term debt agreement or balances subsequent to May 31, 2024. The Company's long-term debt agreement contains customary representations, warranties, affirmative and negative covenants, including financial covenants that are usual and customary for such arrangements. The Company was in compliance with all of these covenants as of February 28, 2025.

Bridge Loan Commitment: On January 7, 2025, the Company and a Company subsidiary, Paychex of New York, LLC, entered into a Bridge Loan Commitment with JPMorgan Chase Bank, N.A. ("JPM"), pursuant to which JPM committed to provide a 364-day senior unsecured credit facility of up to $3.5 billion for the acquisition of Paycor, including related fees and expenses. The Company incurred $11.4 million in debt financing fees, including structuring and commitment fees, which were capitalized as Prepaid expenses and other current assets on the Company's Consolidated Balance Sheets and are recognized as interest expense on a straight-line basis until the expected issuance date for permanent financing. There were no borrowings under the Bridge Loan Commitment as of February 28, 2025 or for the period from January 7, 2025 to February 28, 2025.

The Company and certain subsidiaries will guarantee any borrowings that are made under the Bridge Loan Commitment. The Bridge Loan Commitment contains various financial and operational covenants that would have been applicable to any borrowings under the Bridge Loan Commitment and that are usual and customary for such arrangements. If such covenants were in effect, the Company would have been in compliance with all of these covenants as of February 28, 2025.

Interest Rate Swaption Contracts: On January 31, 2025, the Company executed three Swaption Contracts with JPM. The Swaption Contracts qualify as cash flow hedges, have an aggregate notional amount of $3.0 billion, and are being utilized to manage exposure to fluctuations in benchmark interest rates associated with the anticipated issuance of long-term fixed rate debt to fund the planned acquisition of Paycor. At inception, the Company recorded Swaption Contract assets related to paid premiums of $19.2 million. The fair value of the Swaption Contract assets is classified as Prepaid expenses and other current assets on the Company's Consolidated Balance Sheets. Refer to Note G: Fair Value Measurements for additional information on the Company's Swaption Contracts.

Note I: Commitments and Contingencies

Other commitments: The Company had outstanding commitments under existing workers' compensation insurance agreements and other legally binding contractual arrangements. The Company also enters into various purchase commitments with vendors in the ordinary course of business and had outstanding commitments to purchase capital assets of approximately $6.1 million as of February 28, 2025 and $2.9 million as of May 31, 2024.

In the normal course of business, the Company makes representations and warranties that guarantee the performance of services under service arrangements with clients. Historically, there have been no material losses related to such guarantees. The Company has also entered into indemnification agreements with its officers, directors, and fiduciaries of certain of its retirement plans, which require the Company to defend and, if necessary, indemnify these individuals for certain pending or future claims as they relate to their services provided to the Company.

The Company currently self-insures the deductible portion of various insured exposures under certain corporate employee and PEO employee health and medical benefit plans. The Company's estimated loss exposure under these insurance arrangements is recorded in other current liabilities on the Consolidated Balance Sheets. Historically, the amounts accrued have not been material and were not material as of February 28, 2025. The Company also maintains insurance, in addition to its purchased primary insurance policies, for gap coverage for employment practices liability, errors and omissions, warranty liability, theft and embezzlement, cyber threats, and acts of terrorism, as well as capacity for deductibles and self-insured retentions through its captive insurance company.

Contingencies: The Company is subject to various claims and legal matters that arise in the normal course of its business. These include disputes or potential disputes related to breach of contract, tort, employment-related claims, tax claims, statutory, and other matters.

The Company’s management currently believes that resolution of any outstanding legal matters will not have a material adverse effect on the Company’s financial position or results of operations. However, legal matters are subject to inherent uncertainties and there exists the possibility that the ultimate resolution of these matters could have a material adverse impact on the Company’s financial position and results of operations in the period in which any such effects are recorded.

Note J: Income Taxes

The Company’s effective income tax rate was 24.3% and 23.9% for the three and nine months ended February 28, 2025, respectively, compared to 24.4% and 24.1% for the three and nine months ended February 29, 2024, respectively. All periods were impacted by the recognition of excess tax benefits related to employee stock-based compensation payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations reviews the operating results of Paychex, Inc. and its wholly owned subsidiaries ("Paychex," the "Company," "we," "our," or "us") for the three months ended February 28, 2025 (the "third quarter"), the nine months ended February 28, 2025 (the "nine months"), the respective prior year periods ended February 29, 2024 (the "prior year periods"), and our financial condition as of February 28, 2025. The focus of this review is on the underlying business reasons for material changes and trends affecting our revenue, expenses, net income, and financial condition. This review should be read in conjunction with the February 28, 2025 consolidated financial statements and the related Notes to Consolidated Financial Statements (Unaudited) contained in this Quarterly Report on Form 10-Q ("Form 10-Q"). This review should also be read in conjunction with our Annual Report on Form 10-K ("Form 10-K") for the year ended May 31, 2024 ("fiscal 2024"). Forward-looking statements in this Form 10-Q are qualified by the cautionary statement included under the next sub-heading, "Cautionary Note Regarding Forward-Looking Statements."

Cautionary Note Regarding Forward-Looking Statements

Certain written statements made in this Form 10-Q may contain, and members of management may from time to time make or discuss statements which constitute, "forward-looking statements" within the meaning of the safe harbor provisions of the United States ("U.S.") Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by such words and phrases as "expect," "outlook," "will," "guidance," "projections," "strategy," "mission," "anticipate," "believe," "can," "could," "design," "look forward," "may," "possible," "potential," "should," and other similar words or phrases. Forward-looking statements include, without limitation, all matters that are not historical facts. Examples of forward-looking statements include, among others, statements we make regarding operating performance, events, or developments that we expect or anticipate will occur in the future, including statements relating to our outlook, revenue growth, earnings, earnings-per-share growth, and similar projections, and the pending acquisition of Paycor HCM, Inc. ("Paycor").

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to known and unknown uncertainties, risks, changes in circumstances, and other factors that are difficult to predict, many of which are outside our control. Our actual performance and outcomes, including without limitation, our actual results and financial condition, may differ materially from those indicated in or suggested by the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to keep pace with changes in technology or provide timely enhancements to our solutions and support;
- software defects, undetected errors, and development delays for our solutions;
- the possibility of cyberattacks, security vulnerabilities or Internet disruptions, including data security and privacy leaks and data loss and business interruptions;
- the possibility of failure of our business continuity plan during a catastrophic event;
- the failure of third-party service providers to perform their functions;
- the possibility that we may be exposed to additional risks related to our co-employment relationship with our professional employer organization ("PEO") business;
- changes in health insurance and workers' compensation insurance rates and underlying claim trends;
- risks related to acquisitions and the integration of the businesses we acquire, including risks related to the acquisition and integration of Paycor;
- our clients' failure to reimburse us for payments made by us on their behalf;
- the effect of changes in government regulations mandating the amount of tax withheld or the timing of remittances;
- our failure to comply with covenants in our debt agreements;
- changes in governmental regulations, laws, and policies;
- our ability to comply with U.S. and foreign laws and regulations;
- our compliance with data privacy and artificial intelligence laws and regulations;
- our failure to protect our intellectual property rights;
- potential outcomes related to pending or future litigation matters;
- the impact of macroeconomic factors on the U.S. and global economy, and in particular on our small- and medium-sized business clients;
- volatility in the political and economic environment, including inflation and interest rate changes;

- our ability to attract and retain qualified people; and
- the possible effects of negative publicity on our reputation and the value of our brand.

Any of these factors, as well as other factors discussed in our Form 10-K for fiscal 2024 or in our other periodic filings with the Securities and Exchange Commission (“SEC”), could cause our actual results to differ materially from our anticipated results. The information provided in this Form 10-Q is based upon the facts and circumstances known as of the date of this report, and any forward-looking statements made by us in this Form 10-Q speak only as of the date on which they are made. Except as required by law, we undertake no obligation to update these forward-looking statements after the date of filing this Form 10-Q with the SEC to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

Our investor presentation regarding the financial results for the third quarter is available and accessible on our Paychex Investor Relations portal at https://investor.paychex.com. Information available on our website is not a part of, and is not incorporated into, this Form 10-Q. We intend to make future investor presentations available exclusively on our Paychex Investor Relations portal.

Overview

We are an industry-leading human capital management (“HCM”) company delivering a full suite of technology and advisory services in human resources (“HR”), employee benefit solutions, insurance and payroll processing for small- to medium-sized businesses and their employees across the U.S. and parts of Europe.

We offer a full range of integrated HCM solutions from hire to retire for businesses and their employees. Clients may choose from a breadth of solutions that cover the spectrum of the employee life cycle, but we also allow integrations with popular HR, accounting, point-of-sale, and productivity applications available on the market today.

We support our small-business clients by utilizing our proprietary, robust, software as a service (“SaaS”) Paychex Flex® platform and the Company’s SurePayroll® SaaS-based solutions. Our medium-sized clients generally have more complex payroll and employee benefit needs, though with the environment of increasing regulations, we believe the need for HR outsourcing services has been moving down-market. Any of our clients on Paychex Flex can opt for the integrated suite of HCM solutions, which allows clients to choose the service and software solutions that will meet the needs of their businesses.

Our portfolio of technology, HR advisory, and employee benefits-related solutions is disaggregated into two categories, (1) Management Solutions and (2) PEO and Insurance Solutions, as discussed under the heading “Description of Solutions” in Part I, Item 1 of our Form 10-K for fiscal 2024.

Our mission is to be the leading provider of HR, employee benefits, insurance, and payroll solutions by being an essential partner to small- and medium-sized businesses across the U.S. and parts of Europe. Our strategy focuses on providing industry-leading, integrated technology; delivering superior customer experiences; expanding our leadership in HR; growing our client bases; and engaging in strategic acquisitions. We believe that successfully executing this strategy will lead to strong, long-term financial performance.

We maintain industry-leading margins by managing our personnel costs and expenses while continuing to invest in our business, particularly in sales and marketing and leading-edge technology. We believe these investments are critical to our success. Looking to the future, we believe that investing in our solutions, people, and digital capabilities will position us to capitalize on opportunities for long-term growth.

We closely monitor the evolving challenges and needs of small- and medium-sized businesses, and proactively aid our clients in navigating macroeconomic challenges, legislative changes, and other complexities they may face. Through our unique blend of innovative technology solutions, backed by our extensive compliance and HR expertise, we help clients more effectively hire, develop, and retain top talent in this challenging workforce environment. Our ongoing investments in our platforms have prepared us well for the demands of the current business and regulatory environments, allowing us to adapt while maintaining strong solutions and support delivery, resulting in high levels of client satisfaction and retention.

On January 7, 2025, we entered into an agreement to acquire Paycor, a leading provider of HCM, payroll and talent software, in an all-cash transaction for $22.50 per eligible share, representing an enterprise value of approximately $4.1 billion. This acquisition will extend our upmarket position and expand our suite of HR technology and advisory solutions. This acquisition is expected to close in April 2025, subject to customary closing conditions. Refer to the “Liquidity and Capital Resources” section of this Item 2 for additional information.

Third Quarter and Year to Date Business Highlights

Highlights compared to the prior year periods are as follows:

In millions, except per share amounts	For the three months ended February 28, 2025	For the three months ended February 29, 2024	Change[2]	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024	Change[2]
Total service revenue	$ 1,466.1	$ 1,395.4	5 %	$ 4,027.9	$ 3,875.1	4 %
Total revenue	$ 1,509.0	$ 1,439.3	5 %	$ 4,144.4	$ 3,983.2	4 %
Operating income	$ 691.8	$ 649.8	6 %	$ 1,776.6	$ 1,692.3	5 %
Adjusted operating income[1]	$ 708.5	$ 649.8	9 %	$ 1,793.3	$ 1,692.3	6 %
Net income	$ 519.3	$ 498.6	4 %	$ 1,360.1	$ 1,310.5	4 %
Adjusted net income[1]	$ 541.1	$ 498.3	9 %	$ 1,373.3	$ 1,305.0	5 %
Diluted earnings per share	$ 1.43	$ 1.38	4 %	$ 3.76	$ 3.62	4 %
Adjusted diluted earnings per share[1]	$ 1.49	$ 1.38	8 %	$ 3.79	$ 3.60	5 %
Dividends paid to stockholders	$ 353.0	$ 320.4	10 %	$ 1,059.2	$ 962.5	10 %

(1) Adjusted operating income, adjusted net income and adjusted diluted earnings per share are not U.S. generally accepted accounting principle ("GAAP") measures. Refer to the "Non-GAAP Financial Measures" section of this Item 2 for a discussion of non-GAAP measures and a reconciliation to the U.S. GAAP measures of operating income, net income, and diluted earnings per share.

(2) Percentage changes are calculated based on unrounded numbers.

For further analysis of our results of operations for the third quarter and nine months, the prior year periods, and our financial position as of February 28, 2025, refer to the tables and analysis in the "Results of Operations" and "Liquidity and Capital Resources" sections of this Item 2.

RESULTS OF OPERATIONS

Summary of Results of Operations:

In millions, except per share amounts	For the three months ended February 28, 2025	For the three months ended February 29, 2024	Change[1]	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024	Change[1]
Revenue:						
Management Solutions	$ 1,100.7	$ 1,049.9	5 %	$ 3,025.3	$ 2,936.1	3 %
PEO and Insurance Solutions	365.4	345.5	6 %	1,002.6	939.0	7 %
Total service revenue	**1,466.1**	**1,395.4**	**5 %**	**4,027.9**	**3,875.1**	**4 %**
Interest on funds held for clients	42.9	43.9	(2) %	116.5	108.1	8 %
Total revenue	**1,509.0**	**1,439.3**	**5 %**	**4,144.4**	**3,983.2**	**4 %**
Total expenses	817.2	789.5	4 %	2,367.8	2,290.9	3 %
Operating income	**691.8**	**649.8**	**6 %**	**1,776.6**	**1,692.3**	**5 %**
Other (expense)/income, net	(6.0)	9.4	n/m	10.0	33.9	n/m
Income before income taxes	**685.8**	**659.2**	**4 %**	**1,786.6**	**1,726.2**	**4 %**
Income taxes	166.5	160.6	4 %	426.5	415.7	3 %
Effective income tax rate	24.3 %	24.4 %		23.9 %	24.1 %	
Net income	**$ 519.3**	**$ 498.6**	**4 %**	**$ 1,360.1**	**$ 1,310.5**	**4 %**
Diluted earnings per share	**$ 1.43**	**$ 1.38**	**4 %**	**$ 3.76**	**$ 3.62**	**4 %**

(1) Percentage changes are calculated based on unrounded numbers.

n/m — not meaningful

Total revenue increased to $1.5 billion for the third quarter and $4.1 billion for the nine months, reflecting increases of 5% and 4% respectively, compared to the prior year periods. Excluding the impact of the expiration of the Employee Retention Tax Credit ("ERTC") program, revenue growth for both the third quarter and the nine months was 6%. The changes in revenue as compared to the prior year periods were primarily driven by the following factors:

• ***Management Solutions revenue:*** $1.1 billion for the third quarter and $3.0 billion for the nine months, reflecting increases of 5% and 3%, respectively:
  - o Continued growth in the number of clients served across our suite of HCM solutions and client worksite employees for HR solutions;
  - o Higher revenue per client resulting from price realization and product penetration, including HR solutions and retirement; and
  - o Lower revenue from ancillary services, primarily due to the expiration of our ERTC program during the three-month period ended February 29, 2024.

• ***PEO and Insurance Solutions revenue:*** $365.4 million for the third quarter and $1.0 billion for the nine months, reflecting increases of 6% and 7%, respectively:
  - o Growth in the number of average PEO worksite employees; and
  - o Increase in PEO insurance revenues.

• ***Interest on funds held for clients:*** $42.9 million for the third quarter reflecting a decrease of 2%, primarily due to lower average interest rates. $116.5 million for the nine months, reflecting an increase of 8%, primarily due to higher average interest rates and average investment balances.

We invest in highly liquid, investment-grade fixed income securities. Details regarding our combined funds held for clients and corporate cash equivalents and investment portfolios were as follows:

$ in millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	Change[1]	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024	Change[1]
Average investment balances:						
Funds held for clients	$ 5,116.8	$ 4,975.7	3 %	$ 4,551.7	$ 4,389.6	4 %
Corporate cash equivalents and investments	1,541.4	1,526.8	1 %	1,544.3	1,591.3	(3) %
Total	$ 6,658.2	$ 6,502.5	2 %	$ 6,096.0	$ 5,980.9	2 %
Average interest rates earned (exclusive of net realized (losses)/gains):						
Funds held for clients	3.4 %	3.5 %		3.4 %	3.3 %	
Corporate cash equivalents and investments	4.3 %	5.1 %		4.5 %	5.1 %	
Combined funds held for clients and corporate cash equivalents and investments	3.6 %	3.9 %		3.7 %	3.8 %	
Total net realized (losses)/gains	$ (0.4)	$ 0.0		$ (0.4)	$ (0.0)	

(1) Percentage changes are calculated based on unrounded numbers.

$ in millions	February 28, 2025	May 31, 2024
Net unrealized losses on available for sale (“AFS”) securities [1]	$ (67.9)	$ (162.5)
Federal Funds rate [2]	4.50 %	5.50 %
Total fair value of AFS securities	$ 3,405.1	$ 3,329.6
Weighted-average duration of AFS securities in years [3]	2.2	2.7
Weighted-average yield-to-maturity of AFS securities [3]	3.1 %	3.0 %

(1) The net unrealized loss on our investment portfolio was approximately $70.2 million as of March 24, 2025. Refer to Note F in the Notes to Consolidated Financial Statements and the "Market Risk Factors" caption contained in this Form 10-Q for more information regarding AFS securities held in an unrealized loss position.
(2) The Federal Funds rate was in the range of 4.25% to 4.50% as of February 28, 2025 and 5.25% to 5.50% as of May 31, 2024.
(3) These items exclude the impact of variable rate demand notes ("VRDNs") as they are tied to short-term interest rates.

Total expenses: The following table summarizes the total combined cost of service revenue and selling, general and administrative expenses for the periods below:

In millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	Change[1]	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024	Change[1]
Compensation-related expenses	$ 455.7	$ 461.6	(1) %	$ 1,361.4	$ 1,369.5	(1) %
PEO direct insurance costs	127.7	119.8	7 %	388.8	341.5	14 %
Depreciation and amortization	43.1	44.8	(4) %	123.8	130.9	(5) %
Acquisition-related costs	16.7	—	n/m	16.7	—	n/m
Other expenses	174.0	163.3	7 %	477.1	449.0	6 %
Total expenses	$ 817.2	$ 789.5	4 %	$ 2,367.8	$ 2,290.9	3 %

(1) Percentage changes are calculated based on unrounded numbers.

n/m — not meaningful

Total expenses increased 4% to $817.2 million for the third quarter and 3% to $2.4 billion for the nine months, compared to the prior year periods. Total expenses increased as a result of the following:

- ***PEO direct insurance costs:*** $127.7 million for the third quarter and $388.8 million for the nine months, reflecting increases of 7% and 14% respectively, related to growth in average worksite employees and PEO insurance revenues.
- ***Acquisition-related costs:*** $16.7 million in the third quarter and nine months, primarily reflecting third-party professional service fees related to the pending Paycor acquisition.
- ***Other expenses:*** $174.0 million for the third quarter and $477.1 million for the nine months, reflecting increases of 7% and 6% respectively, primarily related to continued investment in technology, general cost increases to support business growth, and the benefit from a sales tax audit recognized in the three-month period ended February 29, 2024. In addition, the increase for the nine months included continued investment in sales and marketing.

Total expenses, excluding acquisition-related costs noted above, increased 1% to $800.5 million for the third quarter and 3% to $2.4 billion for the nine months, compared to the prior year periods.

Operating income: Operating income increased 6% to $691.8 million for the third quarter and 5% to $1.8 billion for the nine months, as a result of revenue growth which outpaced expense increases as previously discussed. Adjusted operating income[1], which excludes the impact of the acquisition-related costs, increased 9% to $708.5 million for the third quarter and 6% to $1.8 billion for the nine months. Operating income for both periods was impacted by the expiration of the ERTC program.

Operating margin (operating income as a percentage of total revenue) and adjusted operating margin[1] (operating income, as adjusted for acquisition-related costs, as a percentage of total revenue) were as follows:

	For the three months ended February 28, 2025	For the three months ended February 29, 2024	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024
Operating margin	45.8 %	45.1 %	42.9 %	42.5 %
Adjusted operating margin [1]	46.9 %	45.1 %	43.3 %	42.5 %

(1) Adjusted operating income and adjusted operating margin are not U.S. GAAP measures. Refer to the "Non-GAAP Financial Measures" section of this Item 2 for a discussion of non-GAAP measures and a reconciliation to the U.S. GAAP measures of net income and diluted earnings per share.

Other (expense)/income, net: Other (expense)/income, net decreased $15.4 million to expense of $6.0 million for the third quarter and decreased $23.9 million to income of $10.0 million for the nine months, primarily as a result of acquisition-related costs associated with the pending Paycor acquisition recognized in interest expense and lower average interest rates earned on our corporate investments.

Income taxes: Our effective income tax rate was 24.3% for the third quarter and 23.9% for the nine months, compared to 24.4% and 24.1%, for the prior year periods, respectively. All periods were impacted by the recognition of excess tax benefits related to employee stock-based compensation payments.

Non-GAAP Financial Measures: Adjusted operating income, adjusted operating margin, adjusted other income, net, adjusted net income, adjusted diluted earnings per share, earnings before interest, taxes, depreciation, and amortization ("EBITDA"), and adjusted EBITDA are summarized as follows:

$ in millions	For the three months ended February 28, 2025	For the three months ended February 29, 2024	Change	For the nine months ended February 28, 2025	For the nine months ended February 29, 2024	Change
Operating income	$ 691.8	$ 649.8	6 %	$ 1,776.6	$ 1,692.3	5 %
Non-GAAP adjustments:						
Acquisition-related costs(1)	16.7	—		16.7	—	
Adjusted operating income	$ 708.5	$ 649.8	9 %	$ 1,793.3	$ 1,692.3	6 %
Adjusted operating margin	46.9%	45.1%		43.3%	42.5%	
Other (expense)/income, net	$ (6.0)	$ 9.4	n/m	$ 10.0	$ 33.9	n/m
Non-GAAP adjustments:						
Acquisition-related costs(1)	13.2	—		13.2	—	
Adjusted other income, net	$ 7.2	$ 9.4	(23) %	$ 23.2	$ 33.9	(31) %
Net income	$ 519.3	$ 498.6	4 %	$ 1,360.1	$ 1,310.5	4 %
Non-GAAP adjustments:						
Acquisition-related costs(1)	29.9	—		29.9	—	
Income tax (benefit)/provision for acquisition-related costs	(7.3)	—		(7.3)	—	
Excess tax benefits related to employee stock-based compensation payments(2)	(0.8)	(0.3)		(9.4)	(5.5)	
Adjusted net income	$ 541.1	$ 498.3	9 %	$ 1,373.3	$ 1,305.0	5 %
Diluted earnings per share(3)	$ 1.43	$ 1.38	4 %	$ 3.76	$ 3.62	4 %
Non-GAAP adjustments:						
Acquisition-related costs(1)	0.08	—		0.08	—	
Income tax (benefit)/provision for acquisition-related costs	(0.02)	—		(0.02)	—	
Excess tax benefits related to employee stock-based compensation payments(2)	(0.00)	—		(0.03)	(0.02)	
Adjusted diluted earnings per share	$ 1.49	$ 1.38	8 %	$ 3.79	$ 3.60	5 %
Net income	$ 519.3	$ 498.6	4 %	$ 1,360.1	$ 1,310.5	4 %
Non-GAAP adjustments:						
Interest expense/(income), net	6.0	(9.4)		(10.6)	(33.3)	
Income taxes	166.5	160.6		426.5	415.7	
Depreciation and amortization expense	43.1	44.8		123.8	130.9	
EBITDA	$ 734.9	$ 694.6	6 %	$ 1,899.8	$ 1,823.8	4 %
Non-GAAP adjustments:						
Acquisition-related costs(1)	16.7	—		16.7	—	
Adjusted EBITDA	$ 751.6	$ 694.6	8 %	$ 1,916.5	$ 1,823.8	5 %

(1) Acquisition-related costs recognized related to the pending Paycor acquisition, including (i) $16.7 million for the third quarter and nine months primarily reflecting third-party professional service fees included in Selling, general, and administrative expenses and (ii) $13.2 million for the third quarter and nine months reflecting the amortization of financing fees related to debt instruments associated with the financing of the pending Paycor acquisition and the excluded component of the initial fair value of the interest rate swaption contracts ("Swaption Contracts") that are included in Other (expense)/income, net in the Company's Consolidated Statements of Income.

(2) Excess tax benefits related to employee stock-based compensation payments recognized in income taxes. This item is subject to volatility and will vary based on employee decisions on exercising employee stock options and fluctuations in our stock price, neither of which is within the control of management.

(3) The calculation of the impact of non-GAAP adjustments on diluted earnings per share is performed on each line independently. The table may not add down by +/- $0.01 due to rounding.

n/m — not meaningful

In addition to reporting operating income, operating margin, other (expense)/income, net, net income, and diluted earnings per share, which are U.S. GAAP measures, we present adjusted operating income, adjusted operating margin, adjusted other income, net, adjusted net income, adjusted diluted earnings per share, EBITDA, and adjusted EBITDA, which are non-GAAP measures. We believe these additional measures are indicators of our core business operations' performance period over period. Adjusted operating income, adjusted operating margin, adjusted other income, net, adjusted net income, adjusted diluted earnings per share, EBITDA, and adjusted EBITDA are not calculated through the application of U.S. GAAP and are not required forms of disclosure by the SEC. As such, they should not be considered a substitute for the U.S. GAAP measures of operating income, operating margin, other (expense)/income, net, net income and diluted earnings per share, and, therefore, they should not be used in isolation, but in conjunction with the U.S. GAAP measures. The use of any non-GAAP measure may produce results that vary from the U.S. GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position as of February 28, 2025 remained strong with cash, restricted cash, and total corporate investments of $1.7 billion. Short-term borrowings of $17.6 million and long-term borrowings of $800.0 million were outstanding as of February 28, 2025. Our unused capacity under our unsecured credit facilities was approximately $2.0 billion as of February 28, 2025. We also maintain a bridge commitment letter ("Bridge Loan Commitment") in connection with our acquisition of Paycor. Our primary source of cash is our ongoing operations, which was $1.6 billion for the nine months. Our positive cash flows have allowed us to support our business and pay dividends. We currently anticipate that corporate cash, corporate restricted cash, and total corporate investments as of February 28, 2025, along with projected operating cash flows and available short-term financing, will support our business operations, capital purchases, primarily investment in our technology solutions, share repurchases, dividend payments, and the servicing of long-term debt for the foreseeable future.

For client funds liquidity, we have the ability to borrow on our unsecured credit facilities or use corporate liquidity when necessary to meet short-term funding needs related to client fund obligations. Historically, we have borrowed, typically on an overnight basis, to settle short-term client fund obligations, rather than liquidate previously collected client funds invested in our long-term AFS portfolio. We believe that our investments in an unrealized loss position as of February 28, 2025 were not impaired due to increased credit risk or other valuation concerns, nor has any event occurred subsequent to that date to indicate any change in our assessment. We do not intend to sell these investments until recovery of their amortized cost basis or maturity and further believe that it is not more-than-likely that we would be required to sell these investments prior to that time.

Financing

Short-term financing: We maintain committed and unsecured credit facilities and irrevocable letters of credit as part of our normal and recurring business operations. The purpose of these credit facilities is to meet short-term funding requirements, finance working capital needs, and for general corporate purposes. We typically borrow on an overnight or short-term basis under our credit facilities. Refer to Note M of the Notes to Consolidated Financial Statements contained in Item 8 of our Form 10-K for fiscal 2024 for further discussion of our credit facilities.

Details of our credit facilities as of February 28, 2025 were as follows:

$ in millions	Expiration Date	Maximum Amount Available	February 28, 2025 Outstanding Amount	February 28, 2025 Available Amount
Credit facilities:				
JP Morgan Chase Bank, N.A. ("JPM")	April 12, 2029	$ 1,000.0	$ -	$ 1,000.0
JPM	September 17, 2026	$ 750.0	-	750.0
PNC Bank, National Association ("PNC")	February 6, 2026	$ 250.0	17.6	232.4
Total Lines of Credit Outstanding and Available			$ 17.6	$ 1,982.4

Amounts outstanding under the PNC credit facility as of February 28, 2025 remain outstanding as of the date of this report.

Details of borrowings under each credit facility during the third quarter were as follows:

	For the three months ended February 28, 2025 Credit Facility		
$ in millions	$1 Billion JPM	$750 Million JPM	$250 Million PNC
Number of days borrowed	—	—	90
Maximum amount borrowed	$ —	$ —	$ 18.2
Weighted-average amount borrowed	$ —	$ —	$ 17.8
Weighted-average interest rate	— %	— %	4.57 %

We primarily use short-term borrowings to settle client fund obligations, rather than liquidating previously collected client funds invested in our long-term AFS investment portfolio.

We expect to have access to the amounts available under our current credit facilities to meet our ongoing financial needs. However, if we experience reductions in our operating cash flows due to any of the risk factors outlined in, but not limited to, Item 1A in our Form 10-K for fiscal 2024 and other SEC filings, we may need to adjust our capital, operating and other discretionary spending to realign our working capital requirements with the capital resources available to us. Furthermore, if we determine the need for additional short-term liquidity, there is no assurance that such financing, if pursued and obtained, would be adequate or on terms acceptable to us.

Letters of credit: As of February 28, 2025, we had irrevocable standby letters of credit available totaling $168.7 million, primarily to secure commitments for certain insurance policies. The letters of credit expire at various dates between March 03, 2025 and February 28, 2026. No amounts were outstanding on these letters of credit during the third quarter or as of February 28, 2025.

Long-term financing: We have borrowed $800.0 million through the issuance of long-term private placement debt. Refer to Note N of the Notes to Consolidated Financial Statements contained in Item 8 of our Form 10-K for fiscal 2024 for further discussion on our long-term financing.

Bridge Loan Commitment: In addition to our recurring credit facilities, on January 7, 2025, we and our subsidiary, Paychex of New York, LLC, entered into a Bridge Loan Commitment with JPM, pursuant to which JPM committed to provide a 364-day senior unsecured credit facility not to exceed $3.5 billion for the acquisition of Paycor, including related fees and expenses. We incurred $11.4 million in debt financing fees, including structuring and commitment fees, which were capitalized as Prepaid expenses and other current assets on the Company’s Consolidated Balance Sheets and are recognized as interest expense on a straight-line basis until the expected issuance date for permanent financing. There were no borrowings under the Bridge Loan Commitment as of February 28, 2025 or for the period from January 7, 2025 to February 28, 2025.

We and certain of our subsidiaries will guarantee any borrowings that are made under the Bridge Loan Commitment. The Bridge Loan Commitment contains various financial and operational covenants that would have been applicable to any borrowings under the Bridge Loan Commitment and that are usual and customary for such arrangements. If such covenants were in effect, we would have been in compliance with all of these covenants as of February 28, 2025.

Interest Rate Swaption Contracts: On January 31, 2025, the Company executed three Swaption Contracts with JPM. The Swaption Contracts qualify as cash flow hedges, have an aggregate notional amount of $3.0 billion, and are being utilized to manage exposure to fluctuations in benchmark interest rates associated with the anticipated issuance of long-term fixed rate debt to fund the planned acquisition of Paycor. At inception, we recorded Swaption Contract assets related to paid premiums of $19.2 million. The fair value of the Swaption Contract assets is classified as Prepaid expenses and other current assets on the Company’s Consolidated Balance Sheets. Refer to Note G of the Notes to Consolidated Financial Statements for additional information on the Swaption Contracts.

Other commitments: We had outstanding commitments under existing workers' compensation insurance agreements and legally binding contractual arrangements. We also entered into various purchase commitments with vendors in the ordinary course of business and had outstanding commitments to purchase approximately $6.1 million of capital assets as of February 28, 2025. In addition, we are involved in five limited partnership agreements to contribute a maximum of $37.0 million to venture capital funds. As of February 28, 2025, we have contributed approximately $28.1 million of the total funding commitment.

In the normal course of business, we make representations and warranties that guarantee the performance of services under service arrangements with clients. Historically, there have been no material losses related to such guarantees. We have also entered into indemnification agreements with our officers, directors, and fiduciaries of certain of our retirement plans, which require us to defend and, if necessary, indemnify these individuals for certain pending or future legal claims as they relate to their services provided to us.

We currently self-insure the deductible portion of various insured exposures under certain corporate and PEO employee health and medical benefit plans. Our estimated loss exposure under these insurance arrangements is recorded in other current liabilities on our Consolidated Balance Sheets. Historically, the amounts accrued have not been material and were not material as of February 28, 2025. We also maintain corporate insurance coverage in addition to our purchased primary insurance policies for gap coverage for employment practices liability, errors and omissions, warranty liability, theft and embezzlement, cyber threats, and acts of terrorism; and capacity for deductibles and self-insured retention through our captive insurance company.

On January 7, 2025, we entered into a definitive agreement to acquire Paycor in an all-cash transaction for $22.50 per eligible share, without interest (the "Acquisition"). The waiting period with respect to the consummation of the Acquisition under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, expired on February 21, 2025. The expiration of the waiting period satisfies one of the major conditions to the closing of the Acquisition, which remains subject to other customary closing conditions. We have the Bridge Loan Commitment in place and expect to secure long-term fixed financing prior to closing. The Acquisition is expected to close in April 2025, subject to customary closing conditions.

Operating, Investing, and Financing Cash Flow Activities

Primary sources of cash, restricted cash, and equivalents are through collections for services rendered to our customers and interest earned on funds held for clients and corporate investments. Primary uses of cash include employee compensation and contractual obligations related to business operations, cash dividends paid, share repurchases, purchases of property and equipment, and acquisitions.

Our investment portfolio incorporates both corporate cash and funds held for clients. Interest rates, market conditions, and our volatile cash flows are among several factors influencing our investment strategy directing the mix between long-term and VRDN AFS securities compared to short-term restricted cash and cash equivalents held in the investment portfolio. An investment portfolio strategy that favors larger balances held in restricted cash and cash equivalents may impact our investing activities due to the offsetting activity in the purchases and sales or maturities of AFS investments.

Our cash flows include certain activities that are short-term in nature and have an impact on short-term cash flows due to timing of collection and settlement of obligations as follows:

- ***PEO receivables and worksite-employee ("WSE") accrued compensation:*** PEO receivables and WSE accrued compensation fluctuate based on either/both: (1) the timing of the payroll cut-off date and our month-end close, and (2) the timing of when cash is collected from the customer, and it is remitted to either the WSE for wages earned or applicable tax or regulatory agencies for payroll taxes. PEO accounts receivable collections and compensation payments to WSEs and applicable tax or regulatory agencies are settled through our corporate cash and the fluctuations impact our operating activities.
- ***Client fund obligations:*** Client fund obligations liability will vary based on the timing of when cash is collected from the clients and when it is remitted to employees of the clients utilizing employee payment services or applicable tax or regulatory agencies for payroll tax administration services. Collections from clients are typically remitted from one to 30 days after receipt, with some items extending to 90 days. Fluctuations in client fund obligations impact financing activities.

Summarized operating, investing, and financing cash flow information for the nine months and the prior period:

In millions	For the nine months ended February 28, 2025	February 29, 2024	Change
Net cash provided by operating activities	$ 1,557.1	$ 1,676.0	$ (118.9)
Net cash used in investing activities	(281.7)	(117.8)	(163.9)
Net cash (used in)/provided by financing activities	(779.1)	839.8	(1,618.9)
Net change in cash, restricted cash, and equivalents	$ 496.3	$ 2,398.0	$ (1,901.7)
Cash dividends per common share	$ 2.94	$ 2.67	

The changes in our cash flow for the nine months compared to the prior year period were primarily the result of the following key drivers:

Operating Cash Flow Activities

Fiscal 2025

- Net income attributable to the reasons discussed in the “Results of Operations” section of this Item 2; and
- Net changes in PEO assets and liabilities as a result of the timing of cash collected and the settlement of payroll taxes; offset by
- A net decrease in refunds owed to our PEO clients related to tax benefits allowed under the Coronavirus Aid, Relief, and Economic Security Act.

Fiscal 2024

- Net income attributable to the reasons discussed in the “Results of Operations” section of this Item 2;
- Net changes in PEO assets and liabilities as a result of the timing of cash collected and the settlement of payroll taxes; and
- A net increase in refunds owed to our PEO clients related to tax benefits allowed under the Coronavirus Aid, Relief, and Economic Security Act.

Investing Cash Flow Activities

Fiscal 2025

- Net purchases of short-term accounts receivable due to an increase in our client base, the timing of cash collections on outstanding receivables and cash settlement of the related reserve; and
- Cash used to develop and enhance our client facing internal-use software and the acquisition of third-party customer lists; offset by
- Net sales of AFS securities related to investment in our long-term portfolio.

Fiscal 2024

- Cash used for the acquisition of Alterna Capital Solutions, LLC and settlement of its outstanding debt at closing. Refer to Note D of the Notes to Consolidated Financial Statements for additional discussion of this transaction;
- Cash used to develop and enhance our client facing internal-use software and the acquisition of third-party customer lists; and
- Net purchase of short-term accounts receivable due to an increase in our client base, and funding to existing client base, and the timing of net cash collections; offset by

•Net sales from AFS securities primarily due to a shift from investing in VRDNs to reinvesting in cash and cash equivalents due to more favorable interest rates. We had no VRDN holdings as of February 29, 2024 compared to $344.1 million as of May 31, 2023.

Financing Cash Flow Activities

Fiscal 2025

•Cumulative dividends paid at $2.94 per share. The payment of future dividends is dependent on our future earnings and cash flow and is subject to the discretion of our Board of Directors (the "Board"); and

•Cash used to repurchase 0.8 million shares of our common stock at a weighted average price of $125.50 per share during the nine months. All repurchased shares were retired upon acquisition; offset by

•Increase in client fund obligations related to the timing of collections and remittances of client funds.

Fiscal 2024

•Increase in client fund obligations related to the timing of collections and remittances of client funds. The accrual balance as of May 31, 2023 was impacted by the deferral of semi-weekly payroll tax payments due to the Memorial Day holiday; offset by

•Cumulative dividends paid at $2.67 per share. The payment of future dividends is dependent on our future earnings and cash flow and is subject to the discretion of our Board; and

•Cash used to repurchase 1.5 million shares of our common stock at a weighted average price of $115.37 per share during the nine months ended February 29, 2024. All repurchases were retired upon acquisition.

MARKET RISK FACTORS

Changes in interest rates and interest rate risk: Funds held for clients are primarily comprised of short-term funds and AFS securities. Corporate investments are primarily comprised of AFS securities. As a result of our investing activities, we are exposed to changes in interest rates that may materially affect our results of operations and financial position. Changes in interest rates will impact the earnings potential of future investments and will cause fluctuations in the fair value of our long-term AFS securities. We follow an investment strategy of protecting principal and optimizing liquidity. A substantial portion of our portfolios is invested in high credit quality securities with ratings of AA or higher, and A-1/P-1 ratings on short-term securities. We invest predominantly in corporate bonds; municipal bonds; U.S. government agency securities; and VRDNs when available in the market. We limit the amounts that can be invested in any single issuer and invest primarily in short- to intermediate-term instruments whose fair value is less sensitive to interest rate changes. We manage the AFS securities to a benchmark duration of two to three and one-quarter years.

During the nine months, our primary short-term investment vehicles were U.S. government agency discount notes and bank demand deposit accounts. We have no exposure to high-risk or non-liquid investments. We have insignificant exposure to European investments.

We periodically utilize derivative financial instruments to manage our interest rate risk. On January 31, 2025, we executed three Swaption Contracts with JPM. The Swaption Contracts qualify as cash flow hedges, have an aggregate notional amount of $3.0 billion, and are being utilized to manage exposure to fluctuations in benchmark interest rates associated with our anticipated issuance of long-term fixed rate debt to fund the planned acquisition of Paycor. The fair value of the Swaption Contracts was $3.4 million as of February 28, 2025.

During the nine months, the average interest rate earned on our combined funds held for clients and corporate cash equivalents and investment portfolios was 3.7% compared to 3.8% for the prior year period. When interest rates are falling, the full impact of lower interest rates will not immediately be reflected in net income due to the interaction of short- and long-term interest rate changes. During a falling interest rate environment, earnings will decrease from our short-term investments, and over time, decrease from our longer-term AFS securities. Earnings from AFS securities, which as of February 28, 2025 had an average duration of 2.2 years, would not reflect decreases in interest rates until the investments are sold or mature and the proceeds are reinvested at lower rates.

The amortized cost and fair value of AFS securities that had stated maturities as of February 28, 2025 are shown below by expected maturity.

In millions	February 28, 2025 Amortized cost	Fair value
Maturity date:		
Due in one year or less	$ 460.1	$ 455.4
Due after one year through three years	1,921.7	1,868.4
Due after three years through five years	879.5	867.9
Due after five years	211.7	213.4
Total	**$ 3,473.0**	**$ 3,405.1**

VRDNs, when held by us, are primarily categorized as due after five years in the table above as the contractual maturities on these securities are typically 20 to 30 years. Although these securities are issued as long-term securities, they are priced and traded as short-term instruments because of the liquidity provided through the tender feature.

As of February 28, 2025, the Federal Funds rate was in the range of 4.25% to 4.50%. There continues to be uncertainty in the changing market and economic conditions, including the possibility of additional measures that could be taken by the U.S. President, the Federal Reserve and other government agencies related to the overall macroeconomic environment. We will continue to monitor the market and economic conditions.

Calculating the future effects of changing interest rates involves many factors. These factors include, but are not limited to:

- governmental action to address inflation and/or intervene to support financial markets;
- daily interest rate changes;
- seasonal variations in investment balances;
- actual duration of short-term and AFS securities;
- the proportion of taxable and tax-exempt investments;
- changes in tax-exempt municipal rates versus taxable investment rates, which are not synchronized or simultaneous; and
- financial market volatility and the resulting effect on benchmark and other indexing interest rates.

Subject to these factors and under normal financial market conditions, a 25-basis-point change in taxable interest rates generally affects our tax-exempt interest rates by approximately 19 basis points. Under normal financial market conditions, the impact to earnings from a 25-basis-point change in short-term interest rates would be approximately $5.0 million to $5.5 million, after taxes, for a twelve-month period. Such a basis point change may or may not be tied to changes in the Federal Funds rate.

Our total investment portfolio (funds held for clients and corporate cash equivalents and investments) is expected to average approximately $6.2 billion for the year ending May 31, 2025. Our anticipated allocation is approximately 45% invested in short-term securities and VRDNs with an average duration of less than 30 days and 55% invested in AFS securities, with an average duration of two to three and one-quarter years.

The combined funds held for clients and corporate AFS securities reflected net unrealized losses of $67.9 million as of February 28, 2025 and $162.5 million as of May 31, 2024. During the nine months, the net unrealized loss on our investment portfolios ranged from a loss of $162.5 million to a loss of $46.7 million. These fluctuations were driven by changes in market rates of interest. The net unrealized loss on our investment portfolio was approximately $70.2 million as of March 24, 2025.

As of February 28, 2025 and May 31, 2024, we had $3.4 billion and $3.3 billion, respectively, invested in AFS securities at fair value. The weighted-average yield-to-maturity was 3.1% as of February 28, 2025 and 3.0% as of May 31, 2024. The weighted-average yield-to-maturity excludes AFS securities tied to short-term interest rates, such as VRDNs, when held. Assuming a hypothetical decrease in longer-term interest rates of 25 basis points, the resulting potential increase in fair value for our portfolio of AFS securities as of February 28, 2025, would be in a range of approximately $20.0 million to $25.0 million. Conversely, a corresponding increase in interest rates would result in a comparable decrease in fair value. This hypothetical increase or decrease in the fair value of the portfolio would be recorded as an adjustment to the portfolio's recorded value, with an offsetting amount recorded in stockholders' equity. These fluctuations in fair value would have no related or immediate impact on our results of operations unless any declines in fair value are due to credit related concerns and an impairment loss is recognized.

We are also exposed to interest rate risk through the use of our recurring credit facilities as outlined in the Liquidity and Capital Resources section of this Form 10-Q. If interest rates were to increase, or we increase the frequency or amounts borrowed under these credit facilities, we could experience additional interest expense and a corresponding decrease in earnings.

Credit risk: We are exposed to credit risk in connection with our investments in AFS securities through the possible inability of the borrowers to meet the terms of their bonds. We regularly review our investment portfolios to determine if any investment is impaired due to increased credit risk or other valuation concerns and we believe that the investments we held as of February 28, 2025 were not impaired as a result of the previously discussed reasons. While $2.1 billion of our AFS securities had fair values that were below amortized cost, we believe that it is probable that the principal and interest will be collected in accordance with the contractual terms, and that the gross unrealized losses of $79.1 million were due to changes in interest rates and were not due to increased credit risk or other valuation concerns. A substantial portion of the AFS securities in an unrealized loss position as of February 28, 2025 and May 31, 2024 had an AA rating or better. We do not intend to sell these investments until the recovery of their amortized cost basis or maturity, and further believe that it is not more-likely-than-not that we will be required to sell these investments prior to that time. Our assessment that an investment is not impaired due to increased credit risk or other valuation concerns could change in the future due to new developments, including changes in our strategies or assumptions related to any particular investment.

We have some credit risk exposure relating to our purchase of client accounts receivable under non-recourse arrangements. There is also credit risk exposure relating to our trade accounts receivable. This credit risk exposure is diversified amongst multiple client arrangements and all such arrangements are regularly reviewed for potential write-off. No single client was material in respect to total accounts receivable, service revenue, or results of operations as of February 28, 2025.

Market risk: We have an ongoing monitoring system for financial institutions we conduct business with and maintain cash balances at large well-capitalized (as defined by their regulators) financial institutions. We closely monitor market conditions and take appropriate measures, when necessary, to minimize potential risk exposure to our clients' and our cash and investment balances.

CRITICAL ACCOUNTING ESTIMATES

Our critical accounting policies are described in Item 7 of our Form 10-K for fiscal 2024, filed with the SEC on July 11, 2024. On an ongoing basis, we evaluate the critical accounting policies and estimates used to prepare our consolidated financial statements, including, but not limited to, those related to:

- revenue recognition;
- assets recognized from the costs to obtain and fulfill contracts;
- PEO insurance reserves;
- goodwill and other intangible assets;
- impairment of long-lived assets;
- stock-based compensation costs; and
- income taxes.

There have been no material changes in these aforementioned critical accounting policies and estimates.

NEW ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements: Refer to Note A of the Notes to Consolidated Financial Statements (Unaudited) contained in Item 1 of this Form 10-Q for a discussion of recently adopted accounting pronouncements.

Recently issued accounting pronouncements: Refer to Note A of the Notes to Consolidated Financial Statements (Unaudited) contained in Item 1 of this Form 10-Q for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information called for by this item is provided under the caption “Market Risk Factors” under Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures: As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that as of February 28, 2025, the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting: The Company also carried out an evaluation of the internal control over financial reporting to determine whether any changes occurred during the fiscal quarter ended February 28, 2025. Based on such evaluation, there have been no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter ended February 28, 2025, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company maintains a program to repurchase up to $400.0 million of the Company's common stock with authorization that expires on May 31, 2027. The purpose of this program is to manage common stock dilution. There were no shares repurchased during the third quarter and $296.0 million remains available for share repurchases in total under this program.

Item 5. Other Information

During the third quarter, none of our directors or officers (as defined by Rule 16a-1 under the Exchange Act), adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any "non-Rule 10b5-1 trading arrangement" (as defined by Item 408(c) of Regulation S-K).

Item 6. Exhibits

INDEX TO EXHIBITS

	Exhibit number	Description
+	2.1	Agreement and Plan of Merger, dated as of January 7, 2025, by and among Paychex, Inc., Skyline Merger Sub, Inc. and Paycor HCM, Inc., incorporated herein by reference from Exhibit 2.1 to the Company's Form 8-K filed with the Commission on January 7, 2025.
*	31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	101.INS	Inline XBRL Instance Document– the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
*	101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
*	104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Exhibit filed or furnished with this report

+ Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and similar attachments have been omitted. The registrant hereby agrees to furnish supplementally a copy of any omitted schedule or similar attachment to the SEC upon request.

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 26, 2025	/s/ John B. Gibson John B. Gibson President, Chief Executive Officer and Director (Principal Executive Officer)
Date:	March 26, 2025	/s/ Robert L. Schrader Robert L. Schrader Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	March 26, 2025	/s/ Christopher Simmons Christopher Simmons Vice President, Controller and Treasurer (Principal Accounting Officer)