FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED November 30, 2000

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, ROCHESTER, NEW YORK	14625-0397
(Address of principal executive offices)	(Zip Code)

(716)385-6666
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 X No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 Par Value	372,910,268 Shares
CLASS	OUTSTANDING AT November 30, 2000

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	For the three months ended November 30, 2000	For the three months ended November 30, 1999	For the six months ended November 30, 2000	For the six months ended November 30, 1999
<S>	<C>	<C>	<C>	<C>
Service revenues:				
Payroll	$167,133	$142,866	$331,654	$281,578
ENS investment revenue	17,353	12,033	34,766	24,240
Total payroll service revenues	184,486	154,899	366,420	305,818
HRS-PEO	23,612	17,459	45,561	32,932
Total service revenues	208,098	172,358	411,981	338,750
Operating costs	47,095	41,356	93,022	80,722
Selling, general and administrative expenses	77,578	68,494	156,708	136,836

Operating income	83,425	62,508	162,251	121,192
Investment income	5,965	3,854	11,499	7,542
Income before income taxes	89,390	66,362	173,750	128,734
Income taxes	27,264	20,572	52,994	39,907
Net income	$ 62,126	$ 45,790	$120,756	$ 88,827
Basic earnings per share	$ .17	$ .12	$ .32	$ .24
Diluted earnings per share	$ .16	$ .12	$ .32	$ .24
Weighted-average common shares outstanding	372,618	370,258	372,326	369,951
Weighted-average shares assuming dilution	377,839	374,717	377,511	374,113
Cash dividends per common share	$ .09	$ .06	$ .15	$ .10

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See Notes to Consolidated Financial Statements.

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PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	November 30, 2000 (UNAUDITED)	May 31, 2000 (AUDITED)
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	$ 32,561	$ 47,136
Corporate investments	491,212	412,357
Interest receivable	23,297	22,436
Accounts receivable	108,251	87,608
Deferred income taxes	-	9,539
Prepaid expenses and other current assets	6,222	6,531
Current assets before ENS investments	661,543	585,607
ENS investments	1,843,526	1,776,968
Total current assets	2,505,069	2,362,575
Property and equipment - net	80,272	75,375
Goodwill and intangible assets - net	6,442	5,584
Deferred income taxes	2,915	2,494
Other assets	9,131	9,549
Total assets	$2,603,829	$2,455,577
LIABILITIES		
Accounts payable	$ 14,346	$ 17,086
Accrued compensation and related items	45,022	52,631
Deferred revenue	4,521	4,719
Accrued income taxes	827	2,969
Deferred income taxes	4,314	-
Other current liabilities	22,200	24,400
Current liabilities before ENS client deposits	91,230	101,805
ENS client deposits	1,842,179	1,785,140
Total current liabilities	1,933,409	1,886,945
Long-term liabilities	5,157	5,200
Total liabilities	1,938,566	1,892,145
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 600,000 authorized shares Issued: 372,910/November 30, 2000 and 371,769/May 31, 2000	3,729	3,718
Additional paid-in capital	125,127	98,904
Retained earnings	534,215	469,385
Accumulated other comprehensive income/(loss)	2,192	(8,575)
Total stockholders' equity	665,263	563,432
Total liabilities and stockholders' equity	$2,603,829	$2,455,577

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>
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PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

<S>	For the six months ended November 30, 2000 <C>	November 30, 1999 <C>
OPERATING ACTIVITIES		
Net income	$ 120,756	$ 88,827
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization on depreciable and intangible assets	12,574	11,629
Amortization of premiums and discounts on available-for-sale securities	6,150	6,123
Provision for deferred income taxes	7,315	3,462
Provision for bad debts	880	889
Net realized losses on sales of available-for-sale securities	431	1,052
Changes in operating assets and liabilities:		
Interest receivable	(861)	(1,928)
Accounts receivable	(21,523)	(22,208)
Prepaid expenses and other current assets	309	(1,211)
Accounts payable and other current liabilities	4,360	9,100
Net change in other assets and liabilities	549	1,523
Net cash provided by operating activities	130,940	97,258
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(368,215)	(402,085)
Proceeds from sales of available-for-sale securities	189,267	275,014
Proceeds from maturities of available-for-sale securities	12,590	9,820
Net change in ENS money market securities and other cash equivalents	31,035	(53,410)
Net change in ENS client deposits	57,039	93,128
Purchases of property and equipment	(16,714)	(13,670)
Proceeds from sale of property and equipment	3	1,202
Purchases of other assets	(3,489)	(4,656)
Net cash used in investing activities	(98,484)	(94,657)
FINANCING ACTIVITIES		
Dividends paid	(55,883)	(37,016)
Proceeds from exercise of stock options	8,852	5,568
Net cash used in financing activities	(47,031)	(31,448)
Decrease in Cash and cash equivalents	(14,575)	(28,847)
Cash and cash equivalents, beginning of period	47,136	52,692
Cash and cash equivalents, end of period	$ 32,561	$ 23,845

</TABLE>

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
November 30, 2000

A) The accompanying unaudited Consolidated Financial Statements of Paychex, Inc., and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information furnished herein reflects all adjustments (consisting of items of a normal recurring nature) which are necessary for a fair presentation of the results for the interim period. Operating results for the three and six months ended November 30, 2000, are not necessarily indicative of the results that may be expected for the full year ended May 31, 2001.

Service revenues are recognized in the period services are rendered. Total payroll service revenues include service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay (Registered Trademark), Employee Pay Services and other ancillary services. Employee Pay Services includes the Direct Deposit, Readychex and Access Card products. In addition to fees paid by clients for these services, the Company earns investment revenue on Taxpay and Employee Pay Services funds that are collected by the Company's Electronic Network Services division (ENS) before due dates and invested (ENS investments) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. These collections from clients are typically remitted between one and thirty days after receipt, with some items extending to ninety days. Investment revenue from these funds is included in Total payroll service revenues on the Consolidated Statements of Income as the collection, holding and remittance of these funds is a critical component of providing these product services. ENS investment revenue also includes net realized gains and losses from the sale of available-for-sale securities.

PEO revenues are reported net of direct costs billed and incurred, which include wages, taxes, benefit premiums and claims of worksite employees. Direct costs billed and incurred were $208,134 and $161,056 for the three months ended November 30, 2000 and 1999, respectively, and $401,946 and $322,043 for the six months ended November 30, 2000 and 1999, respectively.

There is no significant seasonality to the Company's business. However, in the third fiscal quarter, the number of new payroll segment clients, 401(k) recordkeeping clients and new PEO worksite employees tends to be higher than in the rest of the fiscal year. Consequently, greater sales commission expenses are incurred in the third quarter.

The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related Notes presented in the Company's Annual Report on Form 10-K for the year ended May 31, 2000. Certain amounts from the prior year are reclassified to conform to current year presentations.

B) Segment Financial Information: The Company has two business segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). The Payroll segment is engaged in the preparation of payroll checks, internal accounting records, federal, state and local payroll tax returns, and collection and remittance of payroll obligations for small- to medium-sized businesses. The HRS-PEO segment specializes in providing small- to medium-sized businesses with cost-effective outsourcing solutions for their employee benefits. HRS-PEO products include 401(k) plan recordkeeping, workers' compensation, section 125 plan administration, group benefits, state unemployment insurance, employee handbooks and management services, Paychex Administrative Services (PAS) and Professional Employer Organization (PEO) services. Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company.

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	For the three months ended November 30, 2000	For the three months ended November 30, 1999	For the six months ended November 30, 2000	For the six months ended November 30, 1999
<S>	<C>	<C>	<C>	<C>
Service revenues:				
Payroll	$167,133	$142,866	$331,654	$281,578
ENS investment revenue	17,353	12,033	34,766	24,240
Total payroll service revenues	184,486	154,899	366,420	305,818
HRS-PEO	23,612	17,459	45,561	32,932
Total service revenues	$208,098	$172,358	$411,981	$338,750
Operating income:				
Payroll	$ 90,328	$ 72,567	$177,862	$144,751
HRS-PEO	9,199	5,729	17,593	10,233
Segment operating income	99,527	78,296	195,455	154,984
Corporate expenses	16,102	15,788	33,204	33,792
Total operating income	83,425	62,508	162,251	121,192
Investment income	5,965	3,854	11,499	7,542
Income before income taxes	$ 89,390	$ 66,362	$173,750	$128,734

</TABLE>

C) Basic and diluted earnings per share and stock split information: Basic earnings per share, diluted earnings per share, cash dividends per common share, weighted-average common shares outstanding, weighted-average shares assuming dilution and all other applicable information for the three and six months ended November 30, 1999, have been adjusted to reflect a three-for-two stock split effected in the form of 50% stock dividends on outstanding shares payable to shareholders of record as of May 12, 2000, and distributed on May 22, 2000.

(In thousands, except per share amounts)	For the three months ended November 30, 2000	November 30, 1999	For the six months ended November 30, 2000	November 30, 1999
Basic earnings per share:				
Net Income	$ 62,126	$ 45,790	$ 120,756	$ 88,827
Weighted-average common share outstanding	372,618	370,258	372,326	369,951
Basic earnings per share	$ .17	$ .12	$ .32	$ .24
Diluted earnings per share:				
Net income	$ 62,126	$ 45,790	$ 120,756	$ 88,827
Weighted-average common shares outstanding	372,618	370,258	372,326	369,951
Net effect of dilutive stock options at average market price	5,221	4,459	5,185	4,162
Weighted-average shares assuming dilution	377,839	374,717	377,511	374,113
Diluted earnings per share	$ .16	$ .12	$ .32	$ .24
Weighted-average anti-dilutive stock options	-	-	201	858

Weighted-average anti-dilutive stock options to purchase shares of common stock were excluded from the computation of diluted earnings per share. These options had an exercise price that was greater than the average market price of the common shares for the period; therefore, the effect would have been anti-dilutive.

For the three and six months ended November 30, 2000, stock options were exercised for 655,000 and 1,141,000 shares of the Company's common stock, respectively.

D) Corporate investments and ENS investments:

(In thousands)	November 30, 2000 (UNAUDITED)		May 31, 2000 (AUDITED)	
	COST	FAIR VALUE	COST	FAIR VALUE
Type of issue:				
Money market securities and other cash equivalents	$1,171,628	$1,171,628	$1,202,664	$1,202,664
Available-for-sale securities:				
General obligation municipal bonds	483,613	484,743	405,214	399,190
Pre-refunded municipal bonds	312,798	314,324	301,271	298,706
Revenue municipal bonds	361,008	361,754	291,157	286,294
Other securities	20	80	20	92
Total available-for-sale securities	1,157,439	1,160,901	997,662	984,282
Other	1,802	2,209	1,802	2,379
Total Corporate investments and ENS investments	$2,330,869	$2,334,738	$2,202,128	$2,189,325
Classification of investments on Consolidated Balance Sheets:				
Corporate investments	$ 488,690	$ 491,212	$ 416,988	$ 412,357

ENS investments	1,842,179	1,843,526	1,785,140	1,776,968
Total Corporate investments and ENS investments	$2,330,869	$2,334,738	$2,202,128	$2,189,325

</TABLE>

The Company is exposed to credit risk from the possible inability of the borrowers to meet the terms of their bonds. In addition, the Company is exposed to interest rate risk from rate volatility causing fluctuations in the market value of held investments and the earnings potential of future investments. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities and A-1 rated short-term securities, limiting amounts that can be invested in any single instrument, and investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes. At November 30, 2000, approximately 98% of the available-for-sale bond securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 or equivalent rating. The Company does not utilize derivative financial instruments to manage interest rate risk.

E) Property and equipment - net:
<TABLE>
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(In thousands)	November 30, 2000 (UNAUDITED)	May 31, 2000 (AUDITED)
<S>	<C>	<C>
Land and improvements	$ 2,919	$ 2,919
Buildings and improvements	30,632	30,195
Data processing equipment and software	95,079	84,490
Furniture, fixtures and equipment	69,883	64,729
Leasehold improvements	10,558	10,536
	209,071	192,869
Less accumulated depreciation and amortization	128,799	117,494
Property and equipment - net	$ 80,272	$ 75,375

</TABLE>

F) Comprehensive income: Comprehensive income is comprised of two components: net income and other comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from transactions with owners of the Company. The unrealized gains and losses, net of applicable taxes, related to available-for-sale securities is the only component reported in accumulated other comprehensive income in the Consolidated Balance Sheets for the Company. Comprehensive income, net of related tax effects, is as follows:

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(In thousands)	For the three months ended November 30, 2000	November 30, 1999	For the six months ended November 30, 2000	November 30, 1999
<S>	<C>	<C>	<C>	<C>
Net income	$ 62,126	$ 45,790	$ 120,756	$ 88,827
Unrealized gains/ (losses) on securities, net of reclassification adjustments	(574)	(832)	10,767	(6,069)
Total comprehensive income	$ 61,552	$ 44,958	$ 131,523	$ 82,758

</TABLE>

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

Management's Discussion and Analysis reviews the operating results for the three months and six months ended November 30, 2000 (fiscal 2001) and 1999 (fiscal 2000), and its financial condition at November 30, 2000 for Paychex, Inc. and its subsidiaries (the "Company"). The focus of this review is on the underlying business reasons for significant changes and trends affecting revenues, net income and financial condition. This review should be read in conjunction with the accompanying November 30, 2000 Consolidated Financial Statements, and the related Notes to Consolidated Financial Statements contained in this Form 10-Q. Forward-looking statements in this Management's Discussion and Analysis are qualified by the cautionary statement included in the "Other" section of this review under the sub-heading "Safe-Harbor Statement under the Private Securities Litigation Reform Act of 1995."

RESULTS OF OPERATIONS

(In thousands, except per share amounts)

For the three months ended November 30,	2000	Change	1999
Service revenues	$208,098	20.7%	$172,358
Operating income	$ 83,425	33.5%	$ 62,508
Operating margin	40.1%		36.3%
Income before income taxes	$ 89,390	34.7%	$ 66,362
Net income	$ 62,126	35.7%	$ 45,790
% of service revenues	29.9%		26.6%
Basic earnings per share	$ .17	41.7%	$ .12
Diluted earnings per share	$ .16	33.3%	$ .12

For the six months ended November 30,	2000	Change	1999
Service revenues	$411,981	21.6%	$338,750
Operating income	$162,251	33.9%	$121,192
Operating margin	39.4%		35.8%
Income before income taxes	$173,750	35.0%	$128,734
Net income	$120,756	35.9%	$ 88,827
% of service revenues	29.3%		26.2%
Basic earnings per share	$ .32	33.3%	$ .24
Diluted earnings per share	$ .32	33.3%	$ .24

The Company's continued ability to grow its client base, increase client utilization of ancillary services, develop new services, implement price increases and decrease operating expenses as a percent of service revenues has resulted in record service revenues and net income for the three months and six months ended November 30, 2000.

Payroll segment

(In thousands)

For the three months ended November 30,	2000	Change	1999
Payroll service revenue	$167,133	17.0%	$142,866
ENS investment revenue	17,353	44.2%	12,033
Total payroll service revenues	$184,486	19.1%	$154,899
Payroll operating income	$ 90,328	24.5%	$ 72,567
Payroll operating margin	49.0%		46.8%

For the six months ended November 30,	2000	Change	1999
Payroll service revenue	$331,654	17.8%	$281,578
ENS investment revenue	34,766	43.4%	24,240
Total payroll service revenues	$366,420	19.8%	$305,818
Payroll operating income	$177,862	22.9%	$144,751
Payroll operating margin	48.5%		47.3%

Revenues: Total payroll service revenue includes service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay, Employee Pay Services and other ancillary services. Employee Pay Services includes the Direct Deposit, Readychex and Access Card products. In addition to fees paid by clients for these services, the Company earns investment revenue on Taxpay and Employee Pay Services funds that are collected by the Company's Electronic Network Services division (ENS) before due dates and invested (ENS investments) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. Investment revenue from these funds is included in Total payroll service revenues on the Consolidated Statements of Income as the collection, holding and remittance of these funds is a critical component of providing these product services. ENS investment revenue also includes net realized gains and losses from the sale of available-for-sale securities.

The increases in Payroll service revenue are primarily related to the addition of new clients, price increases and increased utilization of ancillary services by both new and existing clients. As of November 30, 2000, 82% of Paychex clients utilized Taxpay, the Company's tax filing and payment feature. Client utilization of the Taxpay product is expected to mature within the next several years within a range of 82% to 87%. The Company's Employee Pay Services was utilized by 50% of its clients at November 30, 2000. During the first six months of fiscal 2001, the Company continued expansion efforts of its Major Market Services (MMS) payroll product offering. MMS revenue increased 56% and 55% for the second quarter and six-month periods to $10.6 million and $20.2 million, respectively. Employee Pay Services and MMS are expected to provide growth opportunities for the remainder of fiscal 2001 and beyond. In the first half of fiscal 2001 the Company also introduced new payroll product enhancements including employee garnishments and After-The-Fact payroll.

ENS investment revenue increased due to the growth in Taxpay and Employee Pay

Services utilization and higher comparative rates of return. In the second half of fiscal 2001, this revenue growth will be affected by the fact that the last increase in the federal funds rate was during the fourth quarter of fiscal 2000. Realized losses included in ENS investment revenue were $.1 million and $.2 million for the second quarter and six-month periods of fiscal 2001 compared with $.5 million and $.8 million for the respective prior year periods. Additional discussion on interest rates and related risk is included in the "Market Risk Factors" section of this review.

Subject to future changes in interest rates, the Company expects full year fiscal 2001's percentage growth in Total payroll service revenues to be in the range of 18% to 20%.

Operating income: Operating income increased as a result of the increases in revenue and continued leveraging of the segment's operating expense base as evidenced by the improvement in operating margins. The Payroll operating margin for the first six-months of fiscal 2001 demonstrated strong growth.

Effective September 1, 1999, the Company increased its sales force compensation package by approximately $6.0 million on an annualized basis to increase the retention and quality of its payroll sales representatives. This compensation increase resulted in an additional expense of approximately $1.5 million in the first quarter of fiscal 2001 compared to the prior year period.

HRS-PEO segment

(In thousands)

For the three months ended November 30,	2000	Change	1999
HRS-PEO service revenue	$ 23,612	35.2%	$17,459
HRS-PEO operating income	$ 9,199	60.6%	$ 5,729
HRS-PEO operating margin	39.0%		32.8%
For the six months ended November 30,	**2000**	**Change**	**1999**
HRS-PEO service revenue	$ 45,561	38.3%	$32,932
HRS-PEO operating income	$ 17,593	71.9%	$10,233
HRS-PEO operating margin	38.6%		31.1%

Revenues: The increase in service revenue is primarily related to increasing 401(k) recordkeeping, workers' compensation insurance and Section 125 clients, and PEO worksite employees. The increase in 401(k) clients reflects the continuing interest of small- to medium-sized businesses to offer retirement savings benefits to their employees. 401(k) recordkeeping revenues increased 41% and 45% in the second quarter and six-month periods to $10.4 million and $20.1 million, respectively.

The Company continued its expansion of its workers' compensation insurance product, which provides insurance for qualified clients through leading insurance providers and a method to stabilize their cash flows throughout the year. The Company also continued expansion efforts related to its Paychex Administrative Services (PAS) product, a combined payroll and human resource outsourcing solution designed to make it easier for small businesses to manage their payroll and benefit costs.

Operating income: The increases in operating income are primarily related to the service revenue gains, and the leveraging of operating expenses.

Full year fiscal 2001's HRS-PEO service revenue is expected to be a little under $100 million. Segment operating income is expected to continue to grow at a rate lower than in fiscal 2000, but at a rate that is much higher than the Payroll segment's growth rate. Quarter-over-quarter percentage comparisons in HRS-PEO service revenue and operating income may vary significantly throughout the year, and any one quarter's results may not be indicative of expected full-year results.

Corporate expenses

(In thousands)

For the three months ended November 30,	2000	Change	1999
Corporate expenses	$16,102	2.0%	$15,788
For the six months ended November 30,	**2000**	**Change**	**1999**
Corporate expenses	$33,204	-1.7%	$33,792

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company. Corporate expenses remained relatively flat through the first half of fiscal 2001 with additional expenditures to support the continued growth of the Company being offset by lower spending on national marketing efforts.

The relatively flat year-over-year increase in Corporate expenses is expected to continue throughout fiscal 2001, as increases in expenditures to support the Company's growth are offset by lower spending in other areas.

Investment income

(In thousands)

For the three months ended November 30,	2000	Change	1999
Investment income	$ 5,965	54.8%	$3,854
For the six months ended November 30,	**2000**	**Change**	**1999**
Investment income	$11,499	52.5%	$7,542

Investment income represents earnings from the Company's Cash and cash equivalents and Corporate investments in available-for-sale securities. Investment income does not include earnings from the ENS investments which are recorded as ENS investment revenue within the Payroll segment. The increase in Investment income is primarily due to the increase in average daily invested balances and higher comparable rates of return. Net realized losses included in Investment income were $.1 million and $.2 million for the second quarter and six-month periods of fiscal 2001 compared with $.2 million and $.3 million in the respective prior year periods. Investment income for the full year fiscal 2001 is expected to continue grow at a rate higher than in fiscal 2000. Refer to the "Market Risk Factors" section of this review for additional discussion on interest rates and related risks.

Income taxes

(In thousands)

For the three months ended November 30,	2000	Change	1999
Income taxes	$27,264	32.5%	$20,572
Effective income tax rate	30.5%		31.0%
For the six months ended November 30,	**2000**	**Change**	**1999**
Income taxes	$52,994	32.8%	$39,907
Effective income tax rate	30.5%		31.0%

The decrease in the effective income tax rate is due to the growth in tax-exempt income exceeding the growth in taxable income. Tax-exempt income is derived primarily from income earned on municipal debt securities. Full-year fiscal 2001's effective income tax rate is expected to approximate 30.5%.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

(In thousands)

For the six months ended November 30,	2000	Change	1999
Operating cash flows	$130,940	34.6%	$97,258

The increase in operating cash flows resulted primarily from the consistent achievement of higher net income. Projected operating cash flows are expected to adequately support normal business operations, forecasted growth, purchases of property and equipment and dividend payments. At November 30, 2000, the Company had $524 million in available cash and Corporate investments. The Company also has $140 million of available, uncommitted, unsecured lines of credit and $350 million available under an uncommitted, secured line of credit.

Investing activities

(In thousands)

For the six months ended November 30,	2000	Change	1999
Net Corporate investments and ENS activities	$(78,284)	1.0%	$(77,533)
Purchases of P&E	(16,714)	22.3%	(13,670)
Proceeds on the sale of P&E	3	-99.8%	1,202
Purchases of other assets	(3,489)	-25.1%	(4,656)
Net cash used in investing activities	$(98,484)	4.0%	$(94,657)

Corporate investments and ENS investments: Investments are primarily comprised of available-for-sale debt securities, and ENS investments are primarily comprised of short-term funds and available-for-sale debt securities. The portfolio of Corporate investments and ENS investments is detailed in Note D of the Notes to the Consolidated Financial Statements.

Corporate investments have increased due to the investment of increasing cash balances provided by operating activities less purchases of property and equipment and dividend payments. The reported amount of ENS investments will vary significantly based upon the timing of collecting client funds, and remitting the funds to the applicable tax authorities for Taxpay clients and employees of clients utilizing Employee Pay Services. At November 30, 2000, the total available-for-sale portfolio, including Corporate investments and ENS investments, had a market value exceeding the cost basis by $3.5 million. Additional discussion of interest rates and related risks is included in the "Market Risk Factors" section of this review.

Purchases of property and equipment: To support the Company's continued client and ancillary product growth, purchases of property and equipment were made for data processing equipment and software, and for the expansion and upgrade of various operating facilities. Purchases of property and equipment in fiscal 2001 are expected to range from $30 to $35 million. The Company expects to proceed with the construction of an additional facility at Corporate headquarters at an estimated cost ranging from $35 to $40 million. The new building will allow for a significant reduction in leased space in the Rochester, New York area. Occupancy is expected in the summer of 2002.

Financing activities

(In thousands, except per share amounts) For the six months ended November 30,	2000	Change	1999
Dividends paid	$(55,883)	51.0%	$(37,016)
Proceeds from exercise of stock options	8,852	59.0%	5,568
Net cash used in financing activities	$(47,031)	49.6%	$(31,448)
Cash dividends per common share	$ .15	50.0%	$ .10

Dividends paid: On October 10, 2000, the Company's Board of Directors increased the quarterly cash dividend rate from $.06 per share to $.09 per share, and declared a dividend payable November 15, 2000, for shareholders of record as of November 1, 2000.

Proceeds from exercise of stock options: The increase in proceeds from the exercise of stock options is primarily due to higher comparable exercise prices per share, plus an increase in the number of shares exercised. The Company has recognized a tax benefit from the exercise of stock options of $17.4 million and $8.7 million for the six months ended November 30, 2000 and 1999, respectively. This tax benefit reduces the accrued income tax liability and increases additional paid-in capital, with no impact on the expense amount for income taxes.

MARKET RISK FACTORS

Interest rate risk - The Company's available-for-sale debt securities are exposed to "market" risk from changes in interest rates, as rate volatility will cause fluctuations in the market value of held investments. Increases in interest rates normally decrease the market value of the available-for-sale securities, while decreases in interest rates increase the market value of the available-for-sale securities.

In addition, the Company's available-for-sale securities and short-term funds are exposed to "earnings" risk from changes in interest rates, as rate volatility will cause fluctuations in the earnings potential of future investments. Increases in interest rates quickly increase earnings from short-term funds, and over time increase earnings from the available-for-sale securities portfolio. Earnings from the available-for-sale securities do not reflect changes in rates until the investments are sold or mature, and the proceeds are reinvested at current rates. Decreases in interest rates have the opposite earnings effect on the available-for-sale securities and short-term funds.

The Company directs investments towards high credit-quality, tax-exempt securities to mitigate the risk that earnings from the portfolio could be adversely impacted by changes in interest rates in the near term. The Company invests in short- to intermediate-term, fixed-rate municipal and government securities, which typically have lower interest rate volatility, and manages the securities portfolio to a benchmark duration of 2.5 to 3.0 years. The Company does not utilize derivative financial instruments to manage interest rate risk.

During the first half of fiscal 2001, the federal funds rate has remained unchanged at 6.50%. During fiscal 2000, the federal funds rate was increased 175 basis points from 4.75% to 6.5%, the timing of which is shown in the following table:

	2000
Federal funds rate - beginning of fiscal year	4.75%
Rate increase:	
First quarter	.50
Second quarter	.25
Third quarter	.25
Fourth quarter	.75
Federal funds rate - end of fiscal year	6.50%

Calculating the future effect of changing interest rates involves many factors. These factors include, but are not limited to, daily interest rate changes, seasonal variations in investment balances, actual duration of short and long-term investments, the proportional mix of taxable and tax-exempt investments, and changes in tax-exempt municipal rates versus taxable investment rates, which are not synchronized, nor do they change simultaneously. Subject to the aforementioned factors, a 25 basis point change normally affects the Company's tax-exempt interest rates by approximately 17 basis points. Realized gains are more prevalent in a decreasing rate environment and realized losses are more prevalent in an increasing rate environment. During fiscal 2001, the Company's total investment portfolio is expected to average approximately $2.2 billion, of which 50% is invested in intermediate-term municipal securities with an average duration of three years. The duration of short-term investments is less than thirty days.

At November 30, 2000, the available-for-sale securities portfolio had a market value greater than its cost basis by $3.5 million, compared with the portfolio at May 31, 2000, which had a market value less than its cost basis by $13.4 million. In fiscal 2000, the available-for-sale portfolio had a market value less than its cost basis as a result of the upward trend in interest rates throughout the year. In the first half of fiscal 2001, short-term rates have remained stable and certain intermediate-term rates have decreased when compared to rates as of May 31, 2000, driving the improvement in the market value of the available-for-sale portfolio.

As of November 30, 2000 and May 31, 2000, the Company had $1.2 billion and $1.0 billion invested in available-for-sale securities at fair value, with weighted average yields to maturity of 4.6% and 4.5%, repectively. Assuming a hypothetical increase in interest rates of 25 basis points given the November 30, 2000 portfolio of securities, the resulting potential decrease in fair value would be approximately $6.9 million. Conversely, a corresponding decrease in interest rates would result in a comparable increase 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, and with no related or immediate impact to the results of operations. The Company's interest rate risk exposure has not changed materially since May 31, 2000.

Credit risk - The Company is exposed to credit risk in connection with these investments through the possible inability of the borrowers to meet the terms of the bonds. The Company attempts to limit credit risk by investing primarily in AAA and AA rated securities and A-1 rated short-term securities, and by limiting amounts that can be invested in any single instrument. At August 31, 2000, approximately 98% of the available-for-sale securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 or equivalent rating.

OTHER

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain written and oral statements made by Paychex, Inc., (the "Company") management may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by such words and phrases as "we expect", "expects", "expected to", "we look forward to", "we believe", "could be" and other similar phrases. Because they are forward-looking, they should be evaluated in light of important risk factors. These risk factors include, but are not limited to, general market conditions, including demand for the Company's products and services, availability of internal and external resources, executing expansion plans, competition, and price levels; changes in the laws regulating collection and payment of payroll taxes, professional employer organizations, and employee benefits, including 401(k) plans, workers' compensation, state unemployment, and section 125 plans; delays in the development, timing of the introduction, and marketing of new products and services; changes in technology including the use of the Internet; the possibility of catastrophic events that could impact the Company's operating facilities, computer technology and communication systems; and changes in short- and long-term interest rates and the credit rating of cash, cash equivalents, and securities held in the Company's investment portfolios, all of which may cause actual results to differ materially from anticipated results. The information provided in this document is based upon the facts and circumstances known at this time. The Company assumes no obligation to update this document for new information subsequent to its issuance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF 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.

PART II. OTHER INFORMATION

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders was held on October 10, 2000. There were present at the meeting, either in person or by proxy, holders of 317,902,798 Common Shares. Stockholders elected nine Directors nominated in the August 28, 2000 Proxy Statement, incorporated here by reference, to hold office until the next Annual Meeting of Stockholders.

Results of stockholder voting are as follows:

Election of Directors	Votes For	Votes Withheld
B. Thomas Golisano	311,611,520	2,303,714
Steven D. Brooks	311,365,745	2,550,289
G. Thomas Clark	306,066,848	7,262,357
David J.S. Flaschen	311,397,240	2,522,639
Phillip Horsley	311,384,979	2,534,900
Grant M. Inman	311,383,199	2,536,680
Harry P. Messina, Jr.	310,103,852	2,592,663
J. Robert Sebo	311,557,168	2,362,711
Joseph M. Tucci	305,924,168	6,772,247

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit 27 - "Financial Data Schedule" is filed electronically.

(b) Reports on Form 8-K:

(1) The Company filed a report on Form 8-K on October 10, 2000, that included the Company's press release dated October 10, 2000, announcing that the Board of Directors had declared an increase in the quarterly dividend from $.06 per share to $.09 per share payable on November 15, 2000 to shareholders of record on November 1, 2000.

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: December 20, 2000

/s/ B. Thomas Golisano

B. Thomas Golisano
Chairman, President and
Chief Executive Officer

Date: December 20, 2000

/s/ John M. Morphy

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE NOVEMBER 30, 2000 CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC., AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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