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 November 30, 2012

Commission file number 0-11330

PAYCHEX, INC.

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911 Panorama Trail South
Rochester, New York 14625-2396
(585) 385-6666
A Delaware Corporation

IRS Employer Identification Number: 16-1124166

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

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

Common Stock, $0.01 Par Value	**363,716,410 Shares**
CLASS	OUTSTANDING AS OF November 30, 2012

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 November 30, 2012	For the three months ended November 30, 2011	For the six months ended November 30, 2012	For the six months ended November 30, 2011
Revenue:				
Service revenue	$ 559.4	$ 535.0	$ 1,127.5	$ 1,087.0
Interest on funds held for clients	10.0	10.7	20.1	21.8
Total revenue	**569.4**	**545.7**	**1,147.6**	**1,108.8**
Expenses:				
Operating expenses	164.3	162.7	328.5	326.8
Selling, general and administrative expenses	175.1	165.1	351.1	334.4
Total expenses	**339.4**	**327.8**	**679.6**	**661.2**
Operating income	**230.0**	**217.9**	**468.0**	**447.6**
Investment income, net	1.9	1.5	3.8	3.0
Income before income taxes	**231.9**	**219.4**	**471.8**	**450.6**
Income taxes	84.0	79.0	170.8	161.3
Net income	**147.9**	**140.4**	**301.0**	**289.3**
Other comprehensive income/(loss), net of tax:				
Unrealized gains/(losses) on securities, net of tax	2.4	(10.2)	2.0	(3.6)
Total other comprehensive income/(loss), net of tax	**2.4**	**(10.2)**	**2.0**	**(3.6)**
Comprehensive income	**$ 150.3**	**$ 130.2**	**$ 303.0**	**$ 285.7**
Basic earnings per share	**$ 0.41**	**$ 0.39**	**$ 0.83**	**$ 0.80**
Diluted earnings per share	**$ 0.41**	**$ 0.39**	**$ 0.83**	**$ 0.80**
Weighted-average common shares outstanding	**363.6**	**362.4**	**363.3**	**362.3**
Weighted-average common shares outstanding, assuming dilution	**364.4**	**362.8**	**364.1**	**362.8**
Cash dividends per common share	**$ 0.33**	**$ 0.32**	**$ 0.65**	**$ 0.63**

See Notes to Consolidated Financial Statements.

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

	November 30, 2012	May 31, 2012
ASSETS		
Cash and cash equivalents	$ 122.6	$ 108.8
Corporate investments	178.6	207.5
Interest receivable	31.0	30.6
Accounts receivable, net of allowance for doubtful accounts	169.3	142.4
Deferred income taxes	—	1.6
Prepaid income taxes	11.9	5.6
Prepaid expenses and other current assets	39.9	35.2
Current assets before funds held for clients	**553.3**	**531.7**
Funds held for clients	3,715.5	4,544.2
Total current assets	**4,268.8**	**5,075.9**
Long-term corporate investments	504.3	473.7
Property and equipment, net of accumulated depreciation	351.8	324.3
Intangible assets, net of accumulated amortization	47.0	55.8
Goodwill	517.4	517.4
Deferred income taxes	31.3	29.2
Other long-term assets	3.6	3.3
Total assets	**$ 5,724.2**	**$ 6,479.6**
LIABILITIES		
Accounts payable	$ 43.6	$ 69.7
Accrued compensation and related items	116.8	130.9
Deferred revenue	2.5	3.0
Deferred income taxes	28.5	13.9
Other current liabilities	32.6	33.8
Current liabilities before client fund obligations	**224.0**	**251.3**
Client fund obligations	3,664.6	4,494.4
Total current liabilities	**3,888.6**	**4,745.7**
Accrued income taxes	42.8	35.9
Deferred income taxes	46.5	40.6
Other long-term liabilities	48.1	52.9
Total liabilities	**4,026.0**	**4,875.1**
COMMITMENTS AND CONTINGENCIES – NOTE H		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value; Authorized: 600.0 shares; Issued and outstanding: 363.7 shares as of November 30, 2012 and 362.6 shares as of May 31, 2012, respectively.	3.6	3.6
Additional paid-in capital	594.1	561.1
Retained earnings	1,060.8	1,002.1
Accumulated other comprehensive income	39.7	37.7
Total stockholders' equity	**1,698.2**	**1,604.5**
Total liabilities and stockholders' equity	**$ 5,724.2**	**$ 6,479.6**

See Notes to Consolidated Financial Statements.

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

	For the six months ended November 30, 2012	2011
OPERATING ACTIVITIES		
Net income	$ 301.0	$ 289.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on property and equipment and intangible assets	48.3	48.3
Amortization of premiums and discounts on available-for-sale securities, net	27.1	20.8
Stock-based compensation costs	11.5	11.9
Provision for deferred income taxes	17.5	22.9
Provision for allowance for doubtful accounts	0.7	0.3
Net realized gains on sales of available-for-sale securities	(0.3)	(0.2)
Changes in operating assets and liabilities:		
Interest receivable	(0.4)	1.5
Accounts receivable	(27.5)	(60.7)
Prepaid expenses and other current assets	(11.0)	(15.8)
Accounts payable and other current liabilities	(41.5)	(22.6)
Net change in other assets and liabilities	0.6	1.5
Net cash provided by operating activities	**326.0**	**297.2**
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(12,222.3)	(4,730.6)
Proceeds from sales and maturities of available-for-sale securities	12,249.8	4,690.6
Net change in funds held for clients' money market securities and other cash equivalents	777.1	519.9
Purchases of property and equipment	(54.5)	(44.1)
Acquisition of businesses, net of cash acquired	(12.0)	(1.0)
Purchases of other assets	(0.5)	—
Net cash provided by investing activities	**737.6**	**434.8**
FINANCING ACTIVITIES		
Net change in client fund obligations	(829.8)	(528.3)
Dividends paid	(236.4)	(228.4)
Equity activity related to stock-based awards	16.4	1.8
Net cash used in financing activities	**(1,049.8)**	**(754.9)**
Increase/(decrease) in cash and cash equivalents	**13.8**	**(22.9)**
Cash and cash equivalents, beginning of period	108.8	119.0
Cash and cash equivalents, end of period	**$ 122.6**	**$ 96.1**

See Notes to Consolidated Financial Statements.

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 a leading provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses in the United States ("U.S."). The Company also has a subsidiary in Germany.

Paychex, a Delaware corporation formed in 1979, reports as one segment. Substantially all of the Company's revenue is generated within the U.S. The Company also generates revenue within Germany, which was less than one percent of the Company's total revenue for the six months ended November 30, 2012 and 2011. Long-lived assets in Germany are insignificant in relation to total long-lived assets of the Company as of November 30, 2012 and May 31, 2012.

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 of 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 significant intercompany transactions eliminated. 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. These 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") as of and for the year ended May 31, 2012 ("fiscal 2012"). Operating results and cash flows for the six months ended November 30, 2012 are not necessarily indicative of the results that may be expected for other interim periods or the full fiscal year ending May 31, 2013 ("fiscal 2013"). The Company has evaluated subsequent events for potential recognition and/or disclosure through the date of issuance of these financial statements. Refer to Note I of the Notes to Consolidated Financial Statements for information on subsequent events.

PEO workers' compensation insurance: Workers' compensation insurance for professional employer organization ("PEO") worksite employees is provided under a deductible workers' compensation policy with a national insurance company. Reserves are established to provide for the estimated costs of paying claims underwritten by the Company. The Company's maximum individual claims liability is $1.0 million under both its fiscal 2013 and fiscal 2012 policies. As of November 30, 2012 and May 31, 2012, the Company had recorded current liabilities of $5.7 million and $6.2 million, respectively, and long-term liabilities of $14.2 million and $19.0 million, respectively, on its Consolidated Balance Sheets for workers' compensation costs.

Estimating the ultimate cost of future claims is an uncertain and complex process based upon historical loss experience and actuarial loss projections, and is 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. 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 directors consisting of stock options, restricted stock awards, restricted stock units, performance shares, and performance stock options. The Company accounts for all stock-based awards to employees and directors as compensation costs in the consolidated financial statements based on the fair value measured as of the date of grant. These costs are recognized as an expense in the Consolidated Statements of Income and Comprehensive Income over the requisite service period and increase additional paid-in capital. Stock-based compensation costs recognized were $5.1 million and $11.5 million, respectively, for the three and six months ended November 30, 2012, as compared with $5.3 million and $11.9 million, respectively, for the three and six months ended November 30, 2011. The methods and assumptions used in the determination of the fair value of stock-based awards are consistent with those described in the Company's fiscal 2012 Form 10-K.

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

Recently adopted accounting pronouncements: Effective June 1, 2012, the Company adopted the Financial Accounting Standards Board ("FASB") authoritative guidance on the presentation of comprehensive income. This guidance requires the Company to present components of net income and comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income. The Company elected to present net income and comprehensive income in one continuous statement, as presented in this Form 10-Q.

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

Recently issued accounting pronouncements: In July 2012, the FASB issued updated guidance on the periodic testing of indefinite-lived intangible assets, other than goodwill, for impairment. This updated guidance will allow companies the option to first assess qualitative factors to determine if it is more-likely-than-not that an indefinite-lived intangible asset might be impaired and whether it is necessary to perform the quantitative impairment test required under current accounting standards. This guidance is applicable for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company currently does not have any indefinite-lived intangible assets other than goodwill and does not expect the adoption of this guidance will have a material effect on its consolidated financial statements.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Codification), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not, or are not expected to have a material effect on the Company's consolidated financial statements.

Note B: 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 November 30, 2012	For the three months ended November 30, 2011	For the six months ended November 30, 2012	For the six months ended November 30, 2011
Basic earnings per share:				
Net income	$ 147.9	$ 140.4	$ 301.0	$ 289.3
Weighted-average common shares outstanding	363.6	362.4	363.3	362.3
Basic earnings per share	$ 0.41	$ 0.39	$ 0.83	$ 0.80
Diluted earnings per share:				
Net income	$ 147.9	$ 140.4	$ 301.0	$ 289.3
Weighted-average common shares outstanding	363.6	362.4	363.3	362.3
Dilutive effect of common share equivalents at average market price	0.8	0.4	0.8	0.5
Weighted-average common shares outstanding, assuming dilution	364.4	362.8	364.1	362.8
Diluted earnings per share	$ 0.41	$ 0.39	$ 0.83	$ 0.80
Weighted-average anti-dilutive common share equivalents	7.5	10.7	7.5	11.0

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

For the three months ended November 30, 2012 and 2011, 0.3 million and minimal shares, respectively, of the Company's common stock were issued related to exercises or vesting of stock-based awards. For the six months ended November 30, 2012 and 2011, 1.1 million shares and 0.3 million shares, respectively, of the Company's common stock were issued related to exercises or vesting of stock-based awards.

Note C: Funds Held for Clients and Corporate Investments

Funds held for clients and corporate investments consisted of the following:

	November 30, 2012			
In millions	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Type of issue:				
Funds held for clients money market securities and other cash equivalents	$ 1,380.1	$ —	$ —	$ 1,380.1
Available-for-sale securities:				
General obligation municipal bonds	1,370.0	40.9	(0.1)	1,410.8
Pre-refunded municipal bonds(1)	229.2	5.3	—	234.5
Revenue municipal bonds	622.0	16.8	—	638.8
Variable rate demand notes	723.8	—	—	723.8
Total available-for-sale securities	2,945.0	63.0	(0.1)	3,007.9
Other	9.6	0.8	—	10.4
Total funds held for clients and corporate investments	$ 4,334.7	$ 63.8	$ (0.1)	$ 4,398.4

	May 31, 2012			
In millions	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Type of issue:				
Funds held for clients money market securities and other cash equivalents	$ 2,157.2	$ —	$ —	$ 2,157.2
Available-for-sale securities:				
General obligation municipal bonds	1,295.0	39.1	(0.2)	1,333.9
Pre-refunded municipal bonds(1)	326.8	7.5	—	334.3
Revenue municipal bonds	487.9	13.2	(0.1)	501.0
Variable rate demand notes	889.8	—	—	889.8
Total available-for-sale securities	2,999.5	59.8	(0.3)	3,059.0
Other	8.8	0.5	(0.1)	9.2
Total funds held for clients and corporate investments	$ 5,165.5	$ 60.3	$ (0.4)	$ 5,225.4

(1) Pre-refunded municipal bonds are secured by an escrow fund of U.S. government obligations.

Included in money market securities and other cash equivalents as ofNovember 30, 2012 and May 31, 2012 are short-term municipal bonds, commercial paper, money market funds, Federal Deposit Insurance Corporation ("FDIC") insured deposit accounts, and other bank demand deposit accounts. Within bank demand deposit accounts for funds held for clients, the Company maintained 19.6 million as of November 30, 2012 and 13.7 million as of May 31, 2012 in a separately designated account for tax obligations of a partner's clients.

Classification of investments on the Consolidated Balance Sheets is as follows:

In millions	November 30, 2012	May 31, 2012
Funds held for clients	$ 3,715.5	$ 4,544.2
Corporate investments	178.6	207.5
Long-term corporate investments	504.3	473.7
Total funds held for clients and corporate investments	$ 4,398.4	$ 5,225.4

The Company's available-for-sale securities reflected a net unrealized gain of $62.9 million as of November 30, 2012 compared with a net unrealized gain of $59.5 million as of May 31, 2012. Included in the net unrealized gain as of November 30, 2012 and May 31, 2012, respectively, there were 20 and 35 available-for-sale securities in an unrealized loss position. The securities in an unrealized loss position, all of which were in a loss position for less than twelve consecutive months, were as follows:

In millions	November 30, 2012 Gross unrealized losses	November 30, 2012 Fair value	May 31, 2012 Gross unrealized losses	May 31, 2012 Fair Value
Type of issue:				
General obligation municipal bonds	$ (0.1)	$ 30.6	$ (0.2)	$ 124.4
Pre-refunded municipal bonds	—	3.2	—	—
Revenue municipal bonds	—	23.9	(0.1)	55.6
Total	$ (0.1)	$ 57.7	$ (0.3)	$ 180.0

The Company regularly reviews its investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. The Company believes that the investments it held as of November 30, 2012, that had unrealized losses of $0.1 million, were not other-than-temporarily impaired. The Company believes that it is probable that the principal and interest will be collected in accordance with the 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 November 30, 2012 and May 31, 2012 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 other-than-temporarily impaired 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 sales of securities are determined by specific identification of the amortized cost basis of each security. On the Consolidated Statements of Income and Comprehensive Income, realized gains and losses from funds held for clients are included in interest on funds held for clients and realized gains and losses from corporate investments are included in investment income, net. For the three and six months ended November 30, 2012, realized gains were $0.1 million and $0.3 million, respectively. For the three and six months ended November 30, 2011, realized gains were $0.1 million and $0.2 million, respectively. There were no realized losses recognized in any of the respective periods.

The amortized cost and fair value of available-for-sale securities that had stated maturities as of November 30, 2012 are shown below by contractual maturity. Expected maturities can differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.

In millions	November 30, 2012 Amortized cost	November 30, 2012 Fair value
Maturity date:		
Due in one year or less	$ 299.2	$ 302.8
Due after one year through three years	705.1	724.9
Due after three years through five years	643.5	666.5
Due after five years	1,297.2	1,313.7
Total	$ 2,945.0	$ 3,007.9

Variable rate demand notes 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 D: 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, including money market securities, accounts receivable, net of allowance for doubtful accounts, and accounts payable 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 available-for-sale and are recorded at fair value on a recurring basis. Money market securities are classified as level 1 in the fair value hierarchy.

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

	November 30, 2012			
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:				
Available-for-sale securities:				
General obligation municipal bonds	$ 1,410.8	$ —	$ 1,410.8	$ —
Pre-refunded municipal bonds	234.5	—	234.5	—
Revenue municipal bonds	638.8	—	638.8	—
Variable rate demand notes	723.8	—	723.8	—
Total available-for-sale securities	$ 3,007.9	$ —	$ 3,007.9	$ —
Other securities	$ 10.4	$ 10.4	$ —	$ —
Liabilities:				
Other long-term liabilities	$ 10.4	$ 10.4	$ —	$ —

Note D: Fair Value Measurements — *continued*

In millions	May 31, 2012 Carrying value (Fair value)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Available-for-sale securities:				
General obligation municipal bonds	$ 1,333.9	$ —	$ 1,333.9	$ —
Pre-refunded municipal bonds	334.3	—	334.3	—
Revenue municipal bonds	501.0	—	501.0	—
Variable rate demand notes	889.8	—	889.8	—
Total available-for-sale securities	$ 3,059.0	$ —	$ 3,059.0	$ —
Other securities	$ 9.2	$ 9.2	$ —	$ —
Liabilities:				
Other long-term liabilities	$ 9.2	$ 9.2	$ —	$ —

In determining the fair value of its assets and liabilities, the Company predominately uses the market approach. Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service. To determine the fair value of the Company's Level 2 investments, a variety of inputs are utilized, 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 reviews the values generated by the independent pricing service for reasonableness by comparing the valuations received from the independent pricing service to valuations from at least one other observable source for a sample of securities. The Company has not adjusted the prices obtained from the independent pricing service.

Other securities 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 valued based on quoted market prices in active markets.

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 E: Property and Equipment, Net of Accumulated Depreciation

The components of property and equipment, at cost, consisted of the following:

In millions	November 30, 2012	May 31, 2012
Land and improvements	$ 7.3	$ 7.0
Buildings and improvements	98.1	96.8
Data processing equipment	171.5	212.3
Software	272.5	263.5
Furniture, fixtures, and equipment	152.6	154.2
Leasehold improvements	96.1	96.0
Construction in progress	41.5	28.2
Total property and equipment, gross	839.6	858.0
Less: Accumulated depreciation and amortization	487.8	533.7
Property and equipment, net of accumulated depreciation	$ 351.8	$ 324.3

Depreciation expense was $19.5 million and $38.9 million for the three and six months ended November 30, 2012, respectively, compared to $18.4 million and $36.9 million, respectively, for the three and six months ended November 30, 2011.

Note F: Goodwill and Intangible Assets, Net of Accumulated Amortization

The Company had goodwill balances on its Consolidated Balance Sheets of $517.4 million as of November 30, 2012 and May 31, 2012.

The Company has certain intangible assets with finite lives. The components of intangible assets, at cost, consisted of the following:

In millions	November 30, 2012	May 31, 2012
Client lists	$ 223.8	$ 223.6
Other intangible assets	2.0	2.0
Total intangible assets, gross	225.8	225.6
Less: Accumulated amortization	178.8	169.8
Intangible assets, net of accumulated amortization	$ 47.0	$ 55.8

Amortization expense relating to intangible assets was $4.7 million and $9.4 million for the three and six months ended November 30, 2012, respectively, as compared with $5.7 million and $11.4 million for the three and six months ended November 30, 2011, respectively.

As of November 30, 2012, the estimated amortization expense relating to intangible asset balances for the full year fiscal 2013 and the following four fiscal years is as follows:

In millions Fiscal year ending May 31,	Estimated amortization expense
2013	$ 18.1
2014	$ 13.1
2015	$ 9.3
2016	$ 6.5
2017	$ 4.5

Note G: Other Comprehensive Income/(Loss)

Other comprehensive income/(loss) results from items deferred on the Consolidated Balance Sheets in stockholders' equity. The change in unrealized gains and losses, net of applicable taxes, related to available-for-sale securities is the primary component reported in accumulated other comprehensive income in the Consolidated Balance Sheets.

Other comprehensive income/(loss), is as follows:

	For the three months ended November 30,		For the six months ended November 30,	
In millions	2012	2011	2012	2011
Other comprehensive income/(loss):				
Unrealized gains/(losses) on available-for-sale securities, net of tax	$ 2.5	$ (10.1)	$ 2.2	$ (3.4)
Reclassification adjustment for the net gain on sale of available-for-sale securities realized in net income, net of tax	(0.1)	(0.1)	(0.2)	(0.2)
Total other comprehensive income/(loss), net of tax	$ 2.4	$ (10.2)	$ 2.0	$ (3.6)

As of November 30, 2012, accumulated other comprehensive income was $39.7 million, which was net of taxes of $23.1 million. As of May 31, 2012, accumulated other comprehensive income was $37.7 million, which was net of taxes of $21.8 million. Accumulated other comprehensive income is comprised of unrealized gains/losses, net of tax.

Note H: Commitments and Contingencies

Lines of credit: As of November 30, 2012, the Company had unused borrowing capacity available under four uncommitted, secured, short-term lines of credit at market rates of interest with financial institutions as follows:

Financial institution	Amount available	Expiration date
JP Morgan Chase Bank, N.A.	$350 million	February 2013
Bank of America, N.A.	$250 million	February 2013
PNC Bank, National Association	$150 million	February 2013
Wells Fargo Bank, National Association	$150 million	February 2013

The primary uses of the lines of credit would be to meet short-term funding requirements related to deposit account overdrafts and client fund obligations arising from electronic payment transactions on behalf of clients in the ordinary course of business, if necessary. No amounts were outstanding against these lines of credit as of, or during the six months ended, November 30, 2012.

JP Morgan Chase Bank, N.A. and Bank of America, N.A. are also parties to the Company's irrevocable standby letters of credit, which are discussed next.

Letters of credit: As of November 30, 2012 and May 31, 2012, the Company had irrevocable standby letters of credit available totaling $38.8 million and $46.8 million, respectively, required to secure commitments for certain insurance policies. The letters of credit expire at various dates between July 2013 and December 2013. Upon draw down of funds, the letters of credit are collateralized by securities held in the Company's investment portfolios. No amounts were outstanding on these letters of credit as of, or during the six months ended, November 30, 2012.

Other commitments: The Company enters into various purchase commitments with vendors in the ordinary course of business. The Company had outstanding commitments to purchase approximately $5.2 million and $7.6 million of capital assets as of November 30, 2012 and May 31, 2012, respectively.

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. In addition, the Company has entered into indemnification agreements with its officers and directors, which require it to defend and, if necessary, indemnify these individuals for certain pending or future claims as they relate to their services provided to the Company.

Paychex currently self-insures the deductible portion of various insured exposures under certain employee 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. The Company also maintains insurance coverage in addition to its purchased primary insurance policies for gap coverage for employment practices liability, errors and omissions, warranty liability, theft and embezzlement, and acts of terrorism; and 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, breach of fiduciary duty, employment-related claims, tax claims, 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 effect is recorded.

Note I: Subsequent Event

On December 10, 2012, the Board declared an accelerated dividend of $0.66 per share of common stock. The accelerated dividend is intended by the Board to be in lieu of quarterly dividends Paychex would otherwise have declared in the third and fourth quarters of fiscal 2013, and paid in February and May 2013.The accelerated dividend is payable December 28, 2012 to shareholders of record December 20, 2012.

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 ("we," "our," or "us") for the three and six months ended November 30, 2012 and November 30, 2011, and our financial condition as of November 30, 2012. The focus of this review is on the underlying business reasons for significant changes and trends affecting our revenue, expenses, net income, and financial condition. This review should be read in conjunction with the November 30, 2012 consolidated financial statements and the related Notes to Consolidated Financial Statements 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, 2012 ("fiscal 2012"). Forward-looking statements in this review are qualified by the cautionary statement included in this review under the next sub-heading, "Cautionary Note Regarding Forward-Looking Statements Pursuant to the United States Private Securities Litigation Reform Act of 1995."

Cautionary Note Regarding Forward-Looking Statements Pursuant To The United States Private Securities Litigation Reform Act Of 1995

Certain written and oral statements made by us may 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 (the "Reform Act"). Forward-looking statements can be identified by such words and phrases as "we expect," "expected to," "estimates," "estimated," "current outlook," "we look forward to," "would equate to," "projects," "projections," "projected to be," "anticipates," "anticipated," "we believe," "could be," and other similar phrases. 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 revenue growth, earnings, earnings-per-share growth, or similar projections.

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 inherent uncertainties, risks, and changes in circumstances that are difficult to predict, many of which are outside our control. Our actual results and financial conditions may differ materially from those indicated in the forward-looking statements. Therefore, you should not place undue reliance upon 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:

- general market and economic conditions including, among others, changes in U.S. employment and wage levels, changes to new hiring trends, legislative changes to stimulate the economy, changes in short- and long-term interest rates, changes in the fair value and the credit rating of securities held by us, and accessibility of financing;
- changes in demand for our services and products, ability to develop and market new services and products effectively, pricing changes and the impact of competition;
- changes in the availability of skilled workers;
- changes in the laws regulating collection and payment of payroll taxes, professional employer organizations, and employee benefits, including retirement plans, workers' compensation, health insurance, state unemployment, and section 125 plans;
- changes in health insurance and workers' compensation rates and underlying claims trends;
- changes in technology that adversely affect our products and services and impact our ability to provide timely enhancements to services and products;
- the possibility of a security breach that disrupts operations or exposes client confidential data;
- the possibility of failure of our operating facilities, computer systems, and communication systems during a catastrophic event;
- the possibility of third-party service providers failing to perform their functions;
- the possibility of a failure of internal controls or our inability to implement business processing improvements;

- the possibility that we may be subject to liability for violations of employment or discrimination laws by our clients and acts or omissions of client employees who may be deemed to be our agents, even if we do not participate in any such acts or violations; and
- potentially unfavorable outcomes related to pending legal matters.

Any of these factors, as well as such other factors as discussed in our 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 document is based upon the facts and circumstances known at this time, and any forward-looking statement made by us in this document speaks only as of the date on which it is made. We undertake no obligation to update these forward-looking statements after the date of filing of this Form 10-Q to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

Business

We are a leading provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses. Our business strategy is focused on achieving strong long-term financial performance by providing high quality, timely, accurate, and affordable services; growing our client base; continually improving client service to maximize client retention; increasing utilization of our ancillary services; leveraging our technology and operating infrastructure; and expanding our service and product offerings to continually add value for our clients. We also supplement our growth through strategic acquisitions when appropriate opportunities arise.

We offer a comprehensive portfolio of services and products that allow our clients to meet their diverse payroll and human resource needs. Our payroll services are the foundation of our service portfolio. They are provided through either our core payroll or Major Market Services (“MMS”), which are utilized by clients that have more sophisticated payroll and benefit needs. In addition to the services described below, our software-as-a-service solution (“SaaS”) through the MMS platform provides human resource management, employee benefits management, time and attendance systems, online expense reporting, and applicant tracking.

Our services and products are as follows:

Service	Description
Payroll processing	Includes the calculation, preparation, and delivery of employee payroll checks; production of internal accounting records and management reports; preparation of federal, state, and local payroll tax returns; and collection and remittance of clients’ payroll obligations.
Payroll tax administration services	Provides accurate preparation and timely filing of quarterly and year-end tax returns, as well as the electronic transfer of funds to the applicable federal, state, and local tax or regulatory agencies.
Employee payment services	Provides the employer the option of paying their employees by direct deposit, payroll debit card, a check drawn on a Paychex, Inc. account (Readychex®), or a check drawn on the employer’s account and electronically signed by us.
Regulatory compliance services	Includes new-hire reporting and garnishment processing, which allow employers to comply with legal requirements and reduce the risk of penalties.

Service	Description
Human Resource Services:	
Paychex HR Solutions	Available through an administrative services organization (“ASO”) and a professional employer organization (“PEO”). Both options offer businesses a combined package that includes payroll, employer compliance, human resource and employee benefits administration, risk management outsourcing, and on-site availability of a professionally trained human resource representative, among other services. Our PEO differs from the ASO in that we serve as a co-employer of the clients’ employees, assume the risks and rewards of workers’ compensation insurance, and offer health care coverage to PEO client employees. Paychex HR Essentials is an ASO product that provides support to our clients over the phone or online to help manage employee-related topics.
Retirement services administration	Offers a variety of retirement plan options to clients, as well as recordkeeping services, which include plan implementation, ongoing compliance with government regulations, employee and employer reporting, participant and employer online access, electronic funds transfer, and other administrative services.
Insurance services	Our licensed insurance agency, Paychex Insurance Agency, Inc., provides insurance through a variety of carriers. Insurance offerings include property and casualty coverage, such as workers’ compensation; business-owner policies; commercial auto; and health and benefits coverage, including health, dental, vision, and life.
eServices	Offers online human resource administration software products for employee benefits management and administration and time and attendance solutions.
Other human resource services and products	Includes section 125 plans, state unemployment insurance services, employee handbooks, management manuals, and personnel and required regulatory forms.

Overview

Our financial results for the three months ended November 30, 2012 (the "second quarter") of the fiscal year ending May 31, 2013 ("fiscal 2013") continued to show growth. Payroll service revenue grew modestly at 1.4%, impacted by client disruptions from Hurricane Sandy. Human Resource Services ("HRS") revenue grew at a double-digit rate as we continue to experience success in selling value-added solutions to clients. Our key business indicators of checks per payroll and revenue per check continued to show modest improvement and client retention levels remain near historic highs. Growth in checks per payroll was 1.2% for the second quarter, compared to 1.8% for the prior year second quarter. This has moderated somewhat from growth of 2.0% for the first quarter of fiscal 2013, and this moderation is anticipated to continue for the remainder of fiscal 2013. We are seeing good results from our selling efforts in the small-business market.

Our financial results continue to be adversely impacted by the interest rate environment, as interest rates available on high-quality instruments remain low. The Federal Funds rate has been at a range of zero to 0.25% since December 2008. Our combined funds held for clients and corporate investment portfolios earned an average rate of return of 1.2% for the second quarter of fiscal 2013 compared to 1.3% for the same period last year. The decline in average interest rates earned was partially due to a change in the mix within our short-term portfolio to a higher percentage of tax-exempt securities. While tax-exempt securities typically earn a lower rate of return, they are expected to lower income tax on interest earned.

We continue to focus on driving growth in clients, revenue, and profits, while providing industry-leading service and technology solutions to our clients and their employees. We are managing our personnel costs and expenses while continuing to invest in our business, particularly in areas related to product development and supporting technology. During the second quarter, we continued to deliver on our commitment to innovation as we introduced the following enhancements to our services to provide added value for our clients:

- Launched a new industry-leading Report Center, a one-stop shop for standard, on-demand, and ad-hoc reporting; data extract templates; and more.
- Launched a newly redesigned Paychex Accountant Knowledge Center, a free online resource available through www.paychex.com that brings valuable information and time-saving online tools to accounting professionals.
- Launched a new and improved BuildMyBiz.com, that includes a number of new features that provide enhanced resources for entrepreneurs and small business owners.

We also recently acquired ExpenseWire, a leading expense management solution for small- to medium-sized businesses. Prior to this acquisition, we utilized ExpenseWire, through a partnership arrangement, to power our Paychex Expense Management, a web-based solution that provides clients with tools to manage and control the expense reporting process. The acquisition of ExpenseWire gives us the ability to further enhance our Paychex One-Source solutions for major markets, and provide even greater value to our clients.

We continue to invest in our Paychex Next Generation innovative suite of products and services. We believe these investments in the next generation of technology and products are key building blocks to our future success. This new platform allows us to leverage efficiencies in our processes and to continue to provide world-class customer service to our clients.

Highlights of the financial results for the second quarter as compared to the same period last year are as follows:

- Payroll service revenue increased 1% to $377.0 million.
- HRS revenue increased 12% to $182.4 million.
- Interest on funds held for clients decreased 8% to $10.0 million.
- Total revenue increased 4% to $569.4 million.
- Operating income increased 6% to $230.0 million and operating income, net of certain items, increased 6% to $220.0 million. Refer to the “Non-GAAP Financial Measure” section, which follows, for further information on this non-GAAP measure.
- Net income and diluted earnings per share both increased 5% to $147.9 million and $0.41 per share, respectively.

Non-GAAP Financial Measure

In addition to reporting operating income, a U.S. generally accepted accounting principle (“GAAP”) measure, we present operating income, net of certain items, which is a non-GAAP measure. We believe operating income, net of certain items, is an appropriate additional measure, as it is an indicator of our core business operations performance period over period. It is also the basis of the measure used internally for establishing the following year’s targets and measuring management’s performance in connection with certain performance-based compensation payments and awards. Operating income, net of certain items, excludes interest on funds held for clients. Interest on funds held for clients is an adjustment to operating income due to the volatility of interest rates which are not within the control of management. Operating income, net of certain items, is not calculated through the application of GAAP and is not the required form of disclosure by the SEC. As such, it should not be considered as a substitute for the GAAP measure of operating income and, therefore, should not be used in isolation, but in conjunction with the GAAP measure. The use of any non-GAAP measure may produce results that vary from the GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies. Refer to the reconciliation of operating income to operating income, net of certain items, in the “Results of Operations” section of this Form 10-Q.

Financial Position and Liquidity

The supply of high credit quality securities has been limited with the continued volatility in the global financial markets, thereby limiting our investment choices. Despite this challenging macroeconomic environment, as of November 30, 2012, our financial position remained strong with cash and total corporate investments of $805.5 million and no debt.

Our investment strategy focuses on protecting principal and optimizing liquidity. Yields on high credit quality financial instruments remain low, negatively impacting our income earned on funds held for clients and corporate investments. We invest predominately in municipal bonds – general obligation bonds; pre-refunded bonds, which are secured by a U.S. government escrow; and essential services revenue bonds. During the six months ended November 30, 2012 ("six months"), our primary short-term investment vehicles were high quality variable rate demand notes (“VRDN”s) and Federal Deposit Insurance Corporation ("FDIC")-insured deposit accounts.

A substantial portion of our portfolio is invested in high credit quality securities with AAA and AA ratings and A-1/P-1 ratings on short-term securities. We limit the amounts that can be invested in any single issuer and invest in short- to intermediate-term instruments whose fair values are less sensitive to interest rate changes. We believe that our investments as of November 30, 2012 were not other-than-temporarily impaired, nor has any event occurred subsequent to that date that would indicate any other-than-temporary impairment.

Our primary source of cash is generated from our ongoing operations. Cash flow from operations was $326.0 million for the first six months of fiscal 2013. Historically, we have funded our operations, capital purchases, business acquisitions, and dividend payments from our operating activities. Our positive cash flows have allowed us to support our business and to pay substantial dividends to our stockholders. It is anticipated that cash and total corporate investments as of November 30, 2012, along with projected operating cash flows, will support our normal business operations, capital purchases, and dividend payments for the foreseeable future.

For further analysis of our results of operations for the second quarter and six months and our financial position as of November 30, 2012, refer to the analysis and discussion in the "Results of Operations" and "Liquidity and Capital Resources" sections of this Form 10-Q.

Outlook

Our outlook for fiscal 2013 is based upon current market, economic, and interest rate conditions continuing with no significant changes. Our expected full year fiscal 2013 payroll revenue growth rate is based upon anticipated client base growth, offset by an expected lower rate of growth in checks per payroll, and modest increases in revenue per check. HRS revenue growth is expected to remain in line with our historical organic experience. Prior acquisitions are expected to have minimal impact on projected revenue growth rates for fiscal 2013.

Our revised guidance is as follows:

	Low		High
Payroll service revenue	2 %	—	3 %
HRS revenue	9 %	—	11 %
Total service revenue	5 %	—	6 %
Interest on funds held for clients	(8)%	—	(6)%
Investment income, net	— %	—	5 %
Net income	5 %	—	7 %

Operating income, net of certain items, as a percentage of total service revenue is expected to be approximately 37% to for fiscal 2013. The effective income tax rate for fiscal 2013 is expected to approximate the tax rate for the first six months.

Interest on funds held for clients and investment income for fiscal 2013 are expected to continue to be impacted by the low interest rate environment. The average rate of return on our combined funds held for clients and corporate investment portfolios is expected to be approximately 1.1% for fiscal 2013. The average rate of return is anticipated to be impacted by a change in the mix within our short-term investment portfolio to a greater percentage invested in tax-exempt securities. While tax-exempt securities typically earn a lower rate of return, they are expected to lower income tax on interest earned. As of November 30, 2012, the long-term investment portfolio, which excludes VRDNs, had an average yield-to-maturity of 1.9% and an average duration of 3.1 years. In the next twelve months, approximately 15% of this portfolio will mature, and it is currently anticipated that these proceeds will be reinvested at a lower average interest rate of approximately 1.1%. Investment income growth reflects the impact of anticipated lower average investment balances during the second half of the fiscal year.

Purchases of property and equipment for fiscal 2013, are expected to be in the range of $95 million to $100 million. This will include costs for internally developed software, as we continue to invest in our product development. Fiscal 2013 depreciation expense is projected to be in the range of $80 million to $85 million, and we project amortization of intangible assets for fiscal 2013 to be slightly less than $20 million.

RESULTS OF OPERATIONS

Summary of Results of Operations:

$ in millions	For the three months ended November 30, 2012	2011	Change	For the six months ended November 30, 2012	2011	Change
Revenue:						
Payroll service revenue	$ 377.0	$ 371.7	1 %	$ 762.9	$ 754.0	1 %
Human Resource Services revenue	182.4	163.3	12 %	364.6	333.0	10 %
Total service revenue	559.4	535.0	5 %	1,127.5	1,087.0	4 %
Interest on funds held for clients	10.0	10.7	(8)%	20.1	21.8	(8)%
Total revenue	**569.4**	**545.7**	**4 %**	**1,147.6**	**1,108.8**	**3 %**
Combined operating and SG&A expenses	339.4	327.8	4 %	679.6	661.2	3 %
Operating income	**230.0**	**217.9**	**6 %**	**468.0**	**447.6**	**5 %**
Investment income, net	1.9	1.5	22 %	3.8	3.0	26 %
Income before income taxes	**231.9**	**219.4**	**6 %**	**471.8**	**450.6**	**5 %**
Income taxes	84.0	79.0	6 %	170.8	161.3	6 %
Effective income tax rate	36.2%	36.0%		36.2%	35.8%	
Net income	**147.9**	**$ 140.4**	**5 %**	**$ 301.0**	**$ 289.3**	**4 %**
Diluted earnings per share	**$ 0.41**	**$ 0.39**	**5 %**	**$ 0.83**	**$ 0.80**	**4 %**

We invest in highly liquid, investment-grade fixed income securities and do not utilize derivative instruments to manage interest rate risk. As ofNovember 30, 2012, we had no exposure to high-risk or illiquid investments. Details regarding our combined funds held for clients and corporate investment portfolios are as follows:

$ in millions	For the three months ended November 30, 2012	2011	Change	For the six months ended November 30, 2012	2011	Change
Average investment balances:						
Funds held for clients	$ 3,231.2	$ 3,107.1	4%	$ 3,266.6	$ 3,182.8	3%
Corporate investments	773.9	645.8	20%	770.1	646.3	19%
Total	$ 4,005.1	$ 3,752.9	7%	$ 4,036.7	$ 3,829.1	5%
Average interest rates earned (exclusive of net realized gains):						
Funds held for clients	1.2%	1.4%		1.2%	1.4%	
Corporate investments	1.0%	0.9%		1.0%	0.9%	
Combined funds held for clients and corporate investments	1.2%	1.3%		1.2%	1.3%	
Total net realized gains	$ 0.1	$ 0.1		$ 0.3	$ 0.2	

As of: $ in millions	November 30, 2012		May 31, 2012	
Net unrealized gain on available-for-sale securities(1)	$	62.9	$	59.5
Federal Funds rate (2)		0.25 %		0.25 %
Total fair value of available-for-sale securities	$	3,007.9	$	3,059.0
Weighted-average duration of available-for-sale securities in years(3)		3.1		3.0
Weighted-average yield-to-maturity of available-for-sale securities(3)		1.9 %		2.2 %

(1) The net unrealized gain of our investment portfolio was approximately $54.4 million as of December 14, 2012.

(2) The Federal Funds rate was a range of 0% to 0.25% as of November 30, 2012 and May 31, 2012.

(3) These items exclude the impact of VRDNs as they are tied to short-term interest rates.

Payroll service revenue: Payroll service revenue increased 1% for both the second quarter and six months to $377.0 million and $762.9 million, respectively, compared to the same periods last year. This growth was due to modest increases in both checks per payroll and revenue per check. Checks per payroll increased 1.2% for the second quarter and 1.6% for the six months compared to the same periods last year. This has moderated from growth of 2.0% for the first three months of fiscal 2013. Revenue per check grew modestly as a result of price increases, partially offset by discounting. Our payroll revenue growth was tempered by lost revenue from clients impacted by Hurricane Sandy, approximating 0.5% of payroll revenue, and by the impact of client mix in the mid-market. The growth for the six months was also tempered by the impact of greater payroll processing per day in the first three months of fiscal 2012.

Human Resource Services revenue: HRS revenue increased 12% and 10% for the second quarter and six months to $182.4 million and $364.6 million, respectively, compared to the same periods last year. The following factors contributed to this growth:

- Retirement services revenue was positively impacted by client growth and an increase in the average asset value of retirement services client employee’s funds, offset partially by the impact from a shift in the mix of assets within these funds to investments earning lower fees from external fund managers.
- Paychex HR Solutions revenue was positively impacted by price increases and growth in both clients and client employees. The rate of growth for Paychex HR Solutions revenue was tempered by fewer client employees within our PEO.
- Insurance services revenue has benefited from the growth in health and benefits services applicants and increases in both clients and premiums in workers’ compensation insurance services.

Total service revenue: Total service revenue increased 5% and 4% for the second quarter and six months to $559.4 million and $1.1 billion, respectively, compared to the same periods last year, attributable to the items previously discussed.

Interest on funds held for clients: Interest on funds held for clients decreased 8% for both the second quarter and six months, compared to the same periods last year, to $10.0 million and $20.1 million, respectively. These declines were the result of lower average interest rates earned, offset by an increase in average investment balances. The decrease in average interest rates earned resulted from declines in average yields on high credit quality financial securities. The average rate of return was also impacted by the mix within our short-term portfolio, with a greater percentage of the portfolio invested in tax-exempt securities. Average investment balances increased 4% for the second quarter and 3% for the six months. These increases were related to increases in checks per payroll and payroll tax administration services clients, wage inflation, and calendar impacts.

Combined operating and SG&A expenses: The following table summarizes total combined operating and selling, general and administrative (“SG&A”) expenses:

	For the three months ended November 30,					For the six months ended November 30,				
$ in millions	2012		2011		Change	2012		2011		Change
Compensation-related expenses	$	227.8	$	221.0	3 %	$	458.7	$	443.5	3 %
Facilities expense		13.2		14.4	(9)%		27.0		28.8	(6)%
Depreciation and amortization		24.2		24.1	—		48.3		48.3	—
Other expenses		74.2		68.3	9 %		145.6		140.6	4 %
Total operating and SG&A expenses	$	339.4	$	327.8	4 %	$	679.6	$	661.2	3 %

Total expenses increased 4% and 3% for the second quarter and six months to $339.4 million and $679.6 million, respectively, compared to the same periods last year. This was largely due to investments in product development and supporting technology.

These expenses increased at a greater rate than total expenses. Expenses were positively impacted by increased productivity in our operations. As of November 30, 2012 and 2011, we had approximately 12,500 and 12,400 employees, respectively.

Depreciation expense is primarily related to buildings, furniture and fixtures, data processing equipment, and software. Amortization of intangible assets is primarily related to client list acquisitions, which are amortized using either straight-line or accelerated methods. Other expenses include items such as non-capital equipment, delivery, forms and supplies, communications, travel and entertainment, professional services, and other costs incurred to support our business.

Operating income: Operating income increased 6% and 5% to $230.0 million and $468.0 million, respectively, for the second quarter and six months, as compared with the same periods last year. The change in operating income is attributable to the factors previously discussed.

Operating income, net of certain items, is summarized as follows:

	For the three months ended November 30,			For the six months ended November 30,		
$ in millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Operating income	$ 230.0	$ 217.9	6 %	$ 468.0	$ 447.6	5 %
Excluding interest on funds held for clients	(10.0)	(10.7)	(8)%	(20.1)	(21.8)	(8)%
Operating income, net of certain items	$ 220.0	$ 207.2	6 %	$ 447.9	$ 425.8	5 %
Operating income, net of certain items, as a percent of total service revenue	39.3%	38.7%		39.7%	39.2%	

We anticipate that operating income, net of certain items, as a percent of total service revenue will be approximately 37% for the full year fiscal 2013. Refer to the previous discussion of operating income, net of certain items, in the "Non-GAAP Financial Measure" section of this Form 10-Q.

Investment income, net: Investment income, net, primarily represents earnings from our cash and cash equivalents and investments in available-for-sale securities. Investment income does not include interest on funds held for clients, which is included in total revenue. Investment income increased 22% and 26% for the second quarter and six months to $1.9 million and $3.8 million, respectively, primarily as a result of higher average invested balances from investment of cash generated from operations.

Income taxes: Our effective income tax rate was 36.2% for both the second quarter and six months, compared with 36.0% and 35.8% for the respective prior year periods. The increase in the effective income tax rate was primarily the result of changes in state apportionment and lower levels of tax-exempt income derived from the longer-term municipal debt securities in the funds held for clients and corporate investment portfolios.

Net income and earnings per share: Net income increased 5% and 4% for the second quarter and six months to $147.9 million and $301.0 million, respectively, as compared with the same periods last year. Diluted earnings per share increased 5% and 4% to $0.41 and $0.83, respectively, for the second quarter and six months as compared with the same periods last year. These fluctuations were attributable to the factors previously discussed.

LIQUIDITY AND CAPITAL RESOURCES

The supply of high credit quality securities has been limited with the continued volatility in the global financial markets, thereby limiting our investment choices. Despite this challenging macroeconomic environment, our financial position as of November 30, 2012 remained strong with cash and total corporate investments of $805.5 million and no debt. We also believe that our investments as of November 30, 2012 were not other-than-temporarily impaired, nor has any event occurred subsequent to that date to indicate any other-than-temporary impairment. It is anticipated that cash and total corporate investments as of November 30, 2012 along with projected operating cash flows, will support our normal business operations, capital purchases, and dividend payments for the foreseeable future.

Lines of credit: As of November 30, 2012, we had unused borrowing capacity available under four uncommitted, secured, short-term lines of credit at market rates of interest with financial institutions as follows:

Financial institution	Amount available	Expiration date
JP Morgan Chase Bank, N.A.	$350 million	February 2013
Bank of America, N.A.	$250 million	February 2013
PNC Bank, National Association	$150 million	February 2013
Wells Fargo Bank, National Association	$150 million	February 2013

The primary uses of the lines of credit would be to meet short-term funding requirements related to deposit account overdrafts and client fund obligations arising from electronic payment transactions on behalf of our clients in the ordinary course of business, if necessary. No amounts were outstanding against these lines of credit as of, or during the six months ended, November 30, 2012.

JP Morgan Chase Bank, N.A. and Bank of America, N.A. are also parties to our irrevocable standby letters of credit, which are discussed next.

Letters of credit: As of November 30, 2012, we had irrevocable standby letters of credit available totaling $38.8 million, required to secure commitments for certain insurance policies. The letters of credit expire at various dates between July 2013 and December 2013. Upon draw down of funds, the letters of credit become collateralized by securities held in our investment portfolios. No amounts were outstanding on these letters of credit as of, or during the six months ended, November 30, 2012.

Other commitments: We enter into various purchase commitments with vendors in the ordinary course of business. We had outstanding commitments to purchase approximately $5.2 million of capital assets as of November 30, 2012.

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. In addition, we have entered into indemnification agreements with our officers and directors, 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 employee 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. We also maintain 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, and acts of terrorism; and capacity for deductibles and self-insured retentions through our captive insurance company.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions with unconsolidated entities such as special purpose entities or structured finance entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. We do maintain investments as a limited partner in low-income housing projects that are not considered part of our ongoing operations. These investments are accounted for under the equity method of accounting and are less than 1% of our total assets as of November 30, 2012.

Operating Cash Flow Activities

	For the six months ended November 30,	
In millions	2012	2011
Net income	$ 301.0	$ 289.3
Non-cash adjustments to net income	104.8	104.0
Cash used in changes in operating assets and liabilities	(79.8)	(96.1)
Net cash provided by operating activities	$ 326.0	$ 297.2

The increase in our operating cash flows for the six months compared to the same period last year was a result of fluctuations in operating assets and liabilities and higher net income. The fluctuations in our operating assets and liabilities were primarily related to the timing of collections from clients and payments for compensation, PEO payroll, income tax, and other liabilities.

Investing Cash Flow Activities

In millions	For the six months ended November 30, 2012	2011
Net change in funds held for clients and corporate investment activities	$ 804.6	$ 479.9
Purchases of property and equipment	(54.5)	(44.1)
Acquisition of businesses, net of cash acquired	(12.0)	(1.0)
Purchases of other assets	(0.5)	—
Net cash provided by investing activities	$ 737.6	$ 434.8

***Funds held for clients and corporate investments*:** Funds held for clients consist of short-term funds and available-for-sale securities. Corporate investments are primarily comprised of available-for-sale securities. The portfolio of funds held for clients and corporate investments is detailed in Note C of the Notes to Consolidated Financial Statements.

The fluctuation in the net change in funds held for clients and corporate investment activities is attributable to a change in the mix of assets within our short-term portfolio and timing of client fund cash activity. During the first six months of fiscal 2013, our primary short-term investment vehicle was VRDNs. VRDNs are utilized as short-term investments, but are classified as available-for-sale securities. In the prior year period, our primary short-term investment vehicle was FDIC-insured deposit accounts, which are cash equivalents. This resulted in a higher level of purchases and sales of available-for-sale securities and a higher amount of cash inflows from divesting of cash equivalents during the first six months of fiscal 2013 compared to the same period last year. In addition, the fluctuation in the net change in funds held for clients and corporate investments also relates to the timing within the client fund obligations, as discussed under financing cash flows.

In general, fluctuations in net funds held for clients and corporate investment activities primarily relate to timing of purchases, sales, or maturities of investments. The amount of funds held for clients will also vary based upon the timing of collecting client funds, and the related remittance of funds to applicable tax or regulatory agencies for payroll tax administration services and to employees of clients utilizing employee payment services. Additional discussion of interest rates and related risks is included in the "Market Risk Factors" section of this Form 10-Q.

Purchases of long-lived assets: To support our continued client and ancillary product growth, we made purchases of data processing equipment and software, and we expanded and upgraded various operating facilities.

Financing Cash Flow Activities

In millions, except per share amounts	For the six months ended November 30, 2012	2011
Net change in client fund obligations	$ (829.8)	$ (528.3)
Dividends paid	(236.4)	(228.4)
Equity activity related to stock-based awards	16.4	1.8
Net cash used in financing activities	$ (1,049.8)	$ (754.9)
Cash dividends per common share	$ 0.65	$ 0.63

Net change in client fund obligations: The client fund obligations liability will vary based on the timing of collecting client funds and the related required remittance of funds to applicable tax or regulatory agencies for payroll tax administration services and to employees of clients utilizing employee payment services. Collections from clients are typically remitted from one to 30 days after receipt, with some items extending to 90 days. The increase in the outflow of funds for client fund obligations is the result of the timing of collections and remittances. November 30, 2012 fell on a Friday, which is a direct deposit payment date, the impact of which was partially offset by Friday payroll tax administration services collections. For the prior period, there was also a net cash outflow as a result of timing around the Federal Holiday at May 30, 2011, where tax payments were made in June 2011. Both periods reflected net cash outflows, but the direct deposit impact at November 30, 2012 involved larger dollars.

Dividends paid: In October 2012, the quarterly shareholder dividend was increased 3% to $0.33 per share from $0.32 per share. A quarterly dividend of $0.33 per share was paid November 15, 2012 to stockholders of record as of November 2, 2012. The payment of future dividends is dependent on our future earnings and cash flow and is subject to the discretion of our Board.

Equity activity related to stock-based awards: Equity activity related to stock-based awards increased as a result of stock option exercises of 0.7 million shares for the six months compared to minimal option exercises for the same period last year.

MARKET RISK FACTORS

Changes in interest rates and interest rate risk: Funds held for clients are primarily comprised of short-term funds and available-for-sale securities. Corporate investments are primarily comprised of available-for-sale securities. As a result of our operating and 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 longer-term available-for-sale securities. We follow an investment strategy of protecting principal and optimizing liquidity. A substantial portion of our portfolio is invested in high credit quality securities with AAA and AA ratings, and A-1/P-1 ratings on short-term securities. We invest predominantly in municipal bonds – general obligation bonds; pre-refunded bonds, which are secured by a U.S. government escrow; and essential services revenue bonds. 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 available-for-sale securities to a benchmark duration of two and one-half to three and one-half years.

During the first six months of fiscal 2013, our primary short-term investment vehicle was VRDNs. We have no exposure to high-risk or illiquid investments such as auction rate securities, sub-prime mortgage securities, asset-backed securities or asset-backed commercial paper, collateralized debt obligations, enhanced cash or cash plus mutual funds, or structured investment vehicles (SIVs). We have insignificant exposure to European investments. We have not and do not utilize derivative financial instruments to manage our interest rate risk.

During the first six months of fiscal 2013, the average interest rate earned on our combined funds held for clients and corporate investment portfolios was 1.2% compared with 1.3% for the same period last year. 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, the decreases in interest rates decrease earnings from our short-term investments, and over time decrease earnings from our longer-term available-for-sale securities. Earnings from the available-for-sale-securities, which as of November 30, 2012 had an average duration of 3.1 years, would not reflect decreases in interest rates until the investments are sold or mature and the proceeds are reinvested at lower rates. In the next twelve months, approximately 15% of our long-term investment portfolio, which excludes VRDNs, will mature, and it is currently anticipated that these proceeds will be reinvested at a lower average interest rate of approximately 1.1%.

The amortized cost and fair value of available-for-sale securities that had stated maturities as of November 30, 2012 are shown below by contractual maturity. Expected maturities can differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.

	November 30, 2012	
In millions	**Amortized cost**	**Fair value**
Maturity date:		
Due in one year or less	$ 299.2	$ 302.8
Due after one year through three years	705.1	724.9
Due after three years through five years	643.5	666.5
Due after five years	1,297.2	1,313.7
Total	$ 2,945.0	$ 3,007.9

VRDNs 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.

The Federal Funds rate has remained at a range of 0% to 0.25% since December 2008.

Calculating the future effects 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-term and available-for-sale securities;
- the proportional mix of taxable and tax-exempt investments;
- changes in tax-exempt municipal rates as compared to 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 in a normal financial market environment, a 25-basis-point change generally affects our tax-exempt interest rates by approximately 17 basis points. In a normal financial market environment, the impact to earnings from a 25-basis-point change in short-term interest rates would be approximately $4.0 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 investments) is expected to average approximately $4.3 billion for fiscal 2013. Our anticipated allocation is approximately 50% invested in short-term and VRDNs with an average duration of less than 30 days and 50% invested in available-for-sale securities with an average duration of two and one-half to three and one-half years.

The combined funds held for clients and corporate available-for-sale securities reflected a net unrealized gain of $62.9 million million as of November 30, 2012, compared with a net unrealized gain of $59.5 million as of May 31, 2012. During the first six months of fiscal 2013, the net unrealized gain on our investment portfolios ranged from $53.8 million to $64.1 million. Our investment portfolios reflected a net unrealized gain of approximately $54.4 million as of December 14, 2012.

As of November 30, 2012 and May 31, 2012, we had $3.0 billion and $3.1 billion, respectively, invested in available-for-sale securities at fair value. The weighted-average yield-to-maturity was 1.9% and 2.2% as of November 30, 2012 and May 31, 2012, respectively. The weighted-average yield-to-maturity excludes available-for-sale securities tied to short-term interest rates, such as VRDNs. Assuming a hypothetical decrease in both short-term and longer-term interest rates of 25 basis points, the resulting potential increase in fair value for our portfolio of available-for-sale securities held as of November 30, 2012 would be in the range of $17.5 million to $18.0 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 the results of operations, unless any declines in fair value were considered to be other-than-temporary and an impairment loss recognized.

Credit Risk: We are exposed to credit risk in connection with these investments 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 other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments we held as of November 30, 2012 were not other-than-temporarily impaired. While $57.7 million of our available-for-sale 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 unrealized loss of $0.1 million was due to changes in interest rates and was not due to increased credit risk or other valuation concerns. A substantial portion of the securities in an unrealized loss position as of November 30, 2012 and May 31, 2012 held 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 other-than-temporarily impaired could change in the future due to new developments or changes in our strategies or assumptions related to any particular investment.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are described in Item 7 of our Form 10-K for fiscal 2012, filed with the SEC on July 20, 2012. On an ongoing basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, those related to:

- revenue recognition;
- PEO workers' compensation insurance;
- goodwill and other intangible assets;
- stock-based compensation costs; and

- income taxes.

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

NEW ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements: Refer to Note A of the Notes to Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements.

Recently issued accounting pronouncements: At this time, we do not anticipate that recently issued accounting guidance that has not yet been adopted will have a material impact on our consolidated financial statements. Refer to Note A of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

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 and is incorporated herein by reference.

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Control Over Financial Reporting: Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our 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 our management, including our Chief Executive Officer and Chief 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, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief 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 Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting: In connection with the evaluation described above, we also carried out an evaluation of the internal control over financial reporting to determine whether any changes occurred during the period covered by this report. Based on such evaluation, there has been no change in our internal control over financial reporting that occurred during the most recently completed fiscal quarter ended November 30, 2012, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit number	Description
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	XBRL instance document.
101.SCH	XBRL taxonomy extension schema document.
101.CAL	XBRL taxonomy extension calculation linkbase document.
101.LAB	XBRL taxonomy label linkbase document.
101.PRE	XBRL taxonomy extension presentation linkbase document.
101.DEF	XBRL taxonomy extension definition linkbase document.

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 19, 2012	/s/ Martin Mucci
	Martin Mucci President and Chief Executive Officer (Principal Executive Officer)
Date: December 19, 2012	/s/ Efrain Rivera
	Efrain Rivera Senior Vice President, Chief Financial Officer, and Treasurer (Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, MARTIN MUCCI, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paychex, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 19, 2012

/s/ Martin Mucci

President and Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, EFRAIN RIVERA, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paychex, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 19, 2012

/s/ Efrain Rivera

Senior Vice President, Chief Financial Officer, and Treasurer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Paychex, Inc. (the “Company”) on Form 10-Q for the period ended November 30, 2012 as filed with the Securities and Exchange Commission (“SEC”) on the date hereof (the “Report”), I, MARTIN MUCCI, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC upon request.

Date: December 19, 2012

/s/ Martin Mucci

Martin Mucci
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Paychex, Inc. (the “Company”) on Form 10-Q for the period ended November 30, 2012 as filed with the Securities and Exchange Commission (“SEC”) on the date hereof (the “Report”), I, EFRAIN RIVERA, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC upon request.

Date: December 19, 2012

/s/ Efrain Rivera

Efrain Rivera
Senior Vice President, Chief Financial Officer, and Treasurer