

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

(Mark One)

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

For the quarterly period ended February 28, 1995

OR

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

For the transition period from _____ to _____

For Quarter Ended February 28, 1995 Commission file number 0-11330

PAYCHEX, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

16-1124166

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

911 PANORAMA TRAIL SOUTH, ROCHESTER, NEW YORK 14625-0397

(Address of principal executive offices) (Zip Code)

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

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

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

CLASS

OUTSTANDING AT FEBRUARY 28, 1995

(Common Stock, \$.01 Par Value)

(29,990,871 Shares)

PAYCHEX, INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

PAYCHEX, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	FEBRUARY 28, 1995	MAY 31, 1994
	-----	-----
ASSETS		
	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 27,961	\$ 14,605
INVESTMENTS	51,617	40,991
INTEREST RECEIVABLE	4,474	4,867
TRADE ACCOUNTS RECEIVABLE	26,658	22,812
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	1,663	2,291
DEFERRED INCOME TAXES	2,348	1,435
	-----	-----
TOTAL CURRENT ASSETS	114,721	87,001
PROPERTY AND EQUIPMENT		
LAND AND IMPROVEMENTS	2,765	2,718
BUILDINGS	21,276	21,183
DATA PROCESSING EQUIPMENT	33,177	42,818
FURNITURE, FIXTURES AND EQUIPMENT	28,585	25,199
LEASEHOLD IMPROVEMENTS	1,346	1,070
	-----	-----
	87,149	92,988
LESS ALLOWANCE FOR DEPRECIATION AND AMORTIZATION	43,526	50,572
	-----	-----
NET PROPERTY AND EQUIPMENT	43,623	42,416
OTHER ASSETS	421	372
	-----	-----
TOTAL ASSETS	\$ 158,765	\$ 129,789
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAYCHEX, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS, CONT'D.

<TABLE>
<CAPTION>

	FEBRUARY 28, 1995	MAY 31, 1994
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
CURRENT LIABILITIES		
TRADE ACCOUNTS PAYABLE	\$ 2,635	\$ 3,487
ACCRUED COMPENSATION AND RELATED ITEMS	12,348	9,585
ACCRUED INCOME TAXES	2,351	-
OTHER ACCRUED EXPENSES	4,709	2,906
DEFERRED REVENUE	3,422	2,772
CURRENT PORTION OF LONG-TERM DEBT	220	220
	-----	-----
TOTAL CURRENT LIABILITIES	25,685	18,970
OTHER LIABILITIES		
LONG-TERM DEBT	728	728
UNAMORTIZED LEASE INCENTIVES	625	885
DEFERRED INCOME TAXES	661	698
	-----	-----

TOTAL LIABILITIES	27,699	21,281
STOCKHOLDERS' EQUITY		
COMMON STOCK, \$.01 PAR VALUE, AUTHORIZED 50,000,000 SHARES: ISSUED 29,990,871 AT FEBRUARY 28, 1995 AND 29,907,406 AT MAY 31, 1994	300	299
ADDITIONAL CAPITAL	17,422	15,778
RETAINED EARNINGS	113,344	92,431
	-----	-----
	131,066	108,508
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 158,765	\$ 129,789
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PAYCHEX, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED FEBRUARY 28,		NINE MONTHS ENDED FEBRUARY 28,	
	1995	1994	1995	1994
	----	----	----	----
	(in thousands, except per share amounts)			
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REVENUE	\$68,638	\$57,572	\$195,327	\$165,212
OPERATING COSTS	21,309	17,958	57,358	50,633
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	35,350	30,980	100,164	87,248
	-----	-----	-----	-----
OPERATING INCOME	11,979	8,634	37,805	27,331
OTHER INCOME (EXPENSE)				
INVESTMENT INCOME	1,006	733	2,500	1,734
INTEREST EXPENSE	(105)	(34)	(168)	(92)
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	12,880	9,333	40,137	28,973
INCOME TAXES	3,532	2,684	11,600	8,302
	-----	-----	-----	-----
NET INCOME	\$ 9,348	\$ 6,649	\$ 28,537	\$20,671
	=====	=====	=====	=====
NET INCOME PER SHARE	\$.31	\$.22	\$.95	\$.69
	=====	=====	=====	=====
CASH DIVIDENDS PER SHARE	\$.09	\$.06	\$.24	\$.16
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	29,960	29,882	29,933	29,846
	=====	=====	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAYCHEX, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>

<CAPTION>

	NINE MONTHS ENDED FEBRUARY 28,	
	1995	1994
	----	----
	(in thousands)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
NET INCOME	\$ 28,537	\$ 20,671
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION AND AMORTIZATION	8,041	8,486
PROVISION FOR DEFERRED INCOME TAXES	(652)	126

PROVISION FOR BAD DEBTS	818	687
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
TRADE ACCOUNTS RECEIVABLE	(4,664)	(3,879)
INTEREST RECEIVABLE	393	(37)
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	628	1,448
TRADE ACCOUNTS PAYABLE AND OTHER		
CURRENT LIABILITIES	6,139	3,930
DEFERRED REVENUE	650	836
CHANGE IN UNAMORTIZED LEASE INCENTIVES	(334)	(444)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,556	31,824
INVESTING ACTIVITIES		
INVESTMENT PURCHASES	(25,731)	(22,612)
PROCEEDS FROM INVESTMENT SALES AND MATURITIES	14,370	19,355
ADDITIONS TO PROPERTY AND EQUIPMENT		
NET OF NORMAL DISPOSALS	(9,199)	(8,965)
ADDITIONS TO OTHER ASSETS	(98)	(218)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(20,658)	(12,440)
FINANCING ACTIVITIES		
PAYMENTS ON LONG-TERM DEBT	-0-	(374)
PROCEEDS AND TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS	1,645	1,744
DIVIDENDS PAID	(7,187)	(4,777)
PAYMENT IN LIEU OF ISSUANCE OF FRACTIONAL SHARES	-0-	(12)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(5,542)	(3,419)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	13,356	15,965
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,605	5,023
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 27,961	\$ 20,988
	=====	=====

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS
PAYCHEX, INC. AND SUBSIDIARY

FEBRUARY 28, 1995

- A) THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC. AND ITS WHOLLY-OWNED SUBSIDIARY HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL INFORMATION AND WITH THE INSTRUCTIONS TO FORM 10-Q AND ARTICLE 10 OF REGULATION S-X. ACCORDINGLY, THE CONSOLIDATED FINANCIAL STATEMENTS DO NOT INCLUDE ALL OF THE INFORMATION AND FOOTNOTES REQUIRED BY GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR COMPLETE FINANCIAL STATEMENTS. IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS CONSIDERED NECESSARY FOR A FAIR PRESENTATION HAVE BEEN INCLUDED. THE ACCOMPANYING FINANCIAL STATEMENTS SHOULD BE READ IN CONJUNCTION WITH THE NOTES TO FINANCIAL STATEMENTS PRESENTED IN THE COMPANY'S FORM 10-K AND ANNUAL REPORT FOR THE YEAR ENDED MAY 31, 1994.
- B) DURING THE NINE-MONTH PERIOD ENDING FEBRUARY 28, 1995, 83,465 SHARES OF STOCK WERE ISSUED UPON EXERCISE OF STOCK OPTIONS.
- C) EFFECTIVE JUNE 1, 1994, THE COMPANY ADOPTED STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 115, "ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES." THE COMPANY CLASSIFIES ALL INVESTMENTS AS AVAILABLE FOR SALE. INVESTMENTS ARE STATED AT FAIR VALUE WITH UNREALIZED GAINS AND LOSSES REPORTED IN RETAINED EARNINGS, NET OF TAX. THE IMPACT OF THE ADOPTION AT JUNE 1, 1994, WAS A DECREASE TO SHAREHOLDERS' EQUITY OF \$206,000 (NET OF \$140,000 IN DEFERRED INCOME TAXES). THE ADJUSTMENT FOR THE NINE MONTH PERIOD ENDING FEBRUARY 28, 1995, WHICH INCLUDES THE JUNE 1, 1994 ADJUSTMENT, WAS A DECREASE TO SHAREHOLDERS' EQUITY OF \$437,000 (NET OF \$298,000 IN DEFERRED INCOME TAXES).
- D) ON MARCH 20, 1995, PAYCHEX, INC. ANNOUNCED IT HAD SIGNED AN AGREEMENT TO MERGE WITH PAY-FONE SYSTEMS, INC. THE MERGER WILL BE ACCOUNTED FOR AS A POOLING OF INTERESTS WHEREBY PAY-FONE SHAREHOLDERS WILL EXCHANGE ALL THEIR STOCK FOR APPROXIMATELY \$10,475,000 OF NEWLY ISSUED PAYCHEX STOCK. THE MERGER IS SUBJECT TO APPROVAL BY PAY-FONE SHAREHOLDERS AND IS NOT EXPECTED TO HAVE A SIGNIFICANT IMPACT ON PAYCHEX' FINANCIAL POSITION AND RESULTS OF OPERATIONS.
- PAYCHEX, INC. AND SUBSIDIARY

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

THE FOLLOWING IS MANAGEMENT'S DISCUSSION OF CERTAIN SIGNIFICANT CHANGES IN THE RESULTS OF OPERATIONS DURING THE PERIODS INCLUDED IN THE ACCOMPANYING FINANCIAL STATEMENTS.

RESULTS OF OPERATIONS

REVENUE FOR THE THIRD QUARTER AND NINE MONTHS ENDED FEBRUARY 28, 1995 ROSE BY 19% TO \$68,638,000 AND 18% TO \$195,327,000, RESPECTIVELY, WHEN COMPARED TO THE SAME PERIODS LAST YEAR. THE REVENUE INCREASE RESULTED FROM GREATER THAN EXPECTED GROWTH IN PAYROLL CLIENTS, THE CONTINUED GROWTH OF THOSE CLIENTS UTILIZING THE TAXPAY FEATURE AND A SALARY DEPOSIT OPTION, SOLID REVENUE GAINS IN THE HUMAN RESOURCE SERVICES DIVISION AND CONTINUED IMPROVED INTEREST RATES ON THE TAXPAY INVESTMENTS. THE COMPANY EXPECTS CONTINUED EXPANSION OF ITS CLIENT BASE FOR ALL PRODUCTS AND SERVICES FOR THE REMAINDER OF THE YEAR.

OPERATING COSTS FOR THE THREE-MONTH PERIOD WERE AT LAST YEAR'S LEVEL OF 31%. YEAR-TO-DATE OPERATING COSTS AMOUNTED TO 29% OF REVENUE, AS COMPARED TO 31% FOR THE SAME PERIOD LAST YEAR. AS A PERCENTAGE OF REVENUE, DEPRECIATION, PROCESSING WAGES AND MAINTENANCE CHARGES WERE LOWER IN THE CURRENT NINE-MONTH PERIOD WHEN COMPARED TO THE SAME NINE MONTHS LAST YEAR. IT IS EXPECTED THAT OPERATING COSTS FOR THE FISCAL YEAR, AS A PERCENTAGE OF REVENUE, WILL BE LOWER THAN LAST YEAR.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES WERE 52% AND 51% OF REVENUE FOR THE RESPECTIVE THREE AND NINE-MONTH PERIODS OF THE CURRENT YEAR WHICH WERE BELOW COMPARATIVE PRIOR YEAR PERIODS. A MODEST INCREASE IN SELLING EXPENSES, AS A PERCENTAGE OF REVENUE, WAS MORE THAN OFFSET WITH DECREASES IN GENERAL AND ADMINISTRATIVE PAYROLL AND OTHER COSTS. THE COMPANY EXPECTS TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES FOR THE CURRENT YEAR, AS A PERCENTAGE OF REVENUE, TO BE SLIGHTLY LOWER THAN LAST YEAR.

THE TAX RATE FOR THE CURRENT QUARTER WAS 27.4% COMPARED TO 28.8% FOR THE SAME QUARTER LAST YEAR. THE DECREASE IS PRIMARILY ATTRIBUTABLE TO AN INCREASE OF TAX-EXEMPT INTEREST INCOME AS A PERCENTAGE OF PRE-TAX INCOME. IT IS ANTICIPATED THAT THE EFFECTIVE TAX RATE FOR THE CURRENT FISCAL YEAR WILL BE SLIGHTLY HIGHER THAN LAST YEAR. THE PRIOR YEAR'S LOWER RATE IS DUE PRIMARILY TO THE IMPACT OF ADOPTING STATEMENT OF FINANCIAL ACCOUNTING STANDARDS #109 "ACCOUNTING FOR INCOME TAXES" IN THE FIRST FISCAL QUARTER.

ON MARCH 20, 1995, THE COMPANY ANNOUNCED IT HAD SIGNED AN AGREEMENT TO MERGE WITH PAY-FONE SYSTEMS, INC. THE MERGER WILL BE ACCOUNTED FOR AS A POOLING OF INTERESTS WHEREBY PAY-FONE SHAREHOLDERS WILL EXCHANGE ALL THEIR STOCK FOR APPROXIMATELY \$10,475,000 OF NEWLY ISSUED PAYCHEX STOCK. PAY-FONE PROVIDES PAYROLL AND TAX PREPARATION SERVICES TO APPROXIMATELY 3,500 CLIENTS THROUGH FIVE OFFICES IN CALIFORNIA. THE MERGER IS SUBJECT TO APPROVAL BY PAY-FONE SHAREHOLDERS AND IS NOT EXPECTED TO HAVE A SIGNIFICANT IMPACT ON PAYCHEX' FINANCIAL POSITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

NET CASH PROVIDED BY OPERATING ACTIVITIES TOTALED \$39,556,000 FOR THE NINE MONTHS ENDED FEBRUARY 28, 1995, AS COMPARED TO \$31,824,000 FOR THE SAME PERIOD LAST YEAR. THIS GAIN WAS PRIMARILY ATTRIBUTABLE TO RECORD YEAR-TO-DATE NET INCOME WHICH REACHED \$28,537,000. THIS REPRESENTS A 38% INCREASE IN NET INCOME OVER THE COMPARATIVE PRIOR YEAR PERIOD.

NET CASH USED IN INVESTING ACTIVITIES INCREASED IN THE CURRENT NINE-MONTH PERIOD WHEN COMPARED TO THE SAME PERIOD LAST YEAR AS A HIGHER LEVEL OF INVESTMENT PURCHASES RESULTED FROM THE GROWTH IN THE COMPANY'S CASH PROVIDED BY OPERATIONS. THIS YEAR'S SALE OF INVESTMENTS WERE LOWER THAN LAST YEAR WHEN THE COMPANY SOLD FIXED INCOME SECURITIES AS INTEREST RATES WERE DECLINING TO REALIZE FAVORABLE GAINS.

CAPITAL EXPENDITURES FOR THE NINE MONTH PERIOD WERE \$9,305,000 AND ARE EXPECTED TO RANGE BETWEEN \$12,000,000 AND \$13,000,000 FOR THE YEAR.

PROJECTED CASH FLOWS ARE EXPECTED TO BE ADEQUATE TO SUPPORT NORMAL BUSINESS OPERATIONS, PLANNED CAPITAL EXPENDITURES AND DIVIDEND PAYMENTS. FURTHERMORE, THE COMPANY HAS \$115,000,000 OF UNSECURED BANK LINES OF CREDIT AVAILABLE FOR ITS USE. AS OF FEBRUARY 28, 1995, THERE WERE NO OUTSTANDING BORROWINGS UNDER THESE LINES OF CREDIT.

PART II. OTHER INFORMATION

PAYCHEX, INC. AND SUBSIDIARY

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS:

THERE WERE NO EXHIBITS APPLICABLE FOR THE THREE MONTH PERIOD ENDED FEBRUARY 28, 1995.

(B) REPORTS ON FORM 8-K:

THERE WERE NO REPORTS ON FORM 8-K FILED DURING THE THREE MONTH PERIOD ENDED FEBRUARY 28, 1995.

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. AND SUBSIDIARY

DATE: MARCH 23, 1995

/s/ B. THOMAS GOLISANO

B. THOMAS GOLISANO CHAIRMAN,
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

DATE: MARCH 23, 1995

/s/ G. THOMAS CLARK

G. THOMAS CLARK
SECRETARY, TREASURER AND
VICE PRESIDENT OF FINANCE

<TABLE> <S> <C>

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FEBRUARY 28, 1995 FINANCIAL STATEMENTS OF PAYCHEX, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK> 0000723531

<NAME> PAYCHEX, INC.

<MULTIPLIER> 1000

<CURRENCY> US

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