

FORM 10-Q

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 29, 1996  
-----

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 29, 1996 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 29, 1996

-----  
(Common Stock, \$.01 Par Value)

-----  
(45,686,814 Shares)

PAYCHEX, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## PAYCHEX, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

&lt;TABLE&gt;

&lt;CAPTION&gt;

	FEBRUARY 29, 1996	MAY 31, 1995
	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 21,497	\$ 12,942
INVESTMENTS	96,400	70,753
INTEREST RECEIVABLE	6,419	6,699
TRADE ACCOUNTS RECEIVABLE	31,733	30,772
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	2,703	1,743
DEFERRED INCOME TAXES	2,232	1,310
	-----	-----
TOTAL CURRENT ASSETS	160,984	124,219
PROPERTY AND EQUIPMENT		
LAND AND IMPROVEMENTS	2,787	2,779
BUILDINGS	23,988	21,304
DATA PROCESSING EQUIPMENT	42,115	33,980
FURNITURE, FIXTURES AND EQUIPMENT	36,715	29,135
LEASEHOLD IMPROVEMENTS	2,437	1,528
	-----	-----
	108,042	88,726
LESS ALLOWANCE FOR DEPRECIATION AND AMORTIZATION	57,857	45,019
	-----	-----
NET PROPERTY AND EQUIPMENT	50,185	43,707
OTHER ASSETS	4,897	511
	-----	-----
TOTAL ASSETS	\$ 216,066	\$ 168,437
	=====	=====

&lt;/TABLE&gt;

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## PAYCHEX, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS, CONT'D.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	FEBRUARY 29, 1996	MAY 31, 1995
	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
TRADE ACCOUNTS PAYABLE	\$ 4,871	\$ 3,519
ACCRUED COMPENSATION AND RELATED ITEMS	16,580	13,162
ACCRUED INCOME TAXES	4,160	682
OTHER ACCRUED EXPENSES	6,565	6,116
DEFERRED REVENUE	5,346	2,977
CURRENT PORTION OF LONG-TERM DEBT	-0-	205
	-----	-----
TOTAL CURRENT LIABILITIES	37,522	26,661
OTHER LIABILITIES		
LONG-TERM DEBT	-0-	523
UNAMORTIZED LEASE INCENTIVES	595	557
DEFERRED INCOME TAXES	217	764
	-----	-----
TOTAL LIABILITIES	38,334	28,505

## STOCKHOLDERS' EQUITY

COMMON STOCK, \$.01 PAR VALUE,  
 AUTHORIZED 150,000,000 SHARES:  
 ISSUED 45,686,814 AT FEBRUARY  
 29, 1996 AND 45,031,716 AT  
 MAY 31, 1995

	457	450
ADDITIONAL CAPITAL	26,497	17,727
RETAINED EARNINGS	150,778	121,755
	-----	-----
	177,732	139,932
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 216,066	\$ 168,437
	=====	=====

&lt;/TABLE&gt;

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

CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	FEB 29, 1996	FEB 28, 1995	FEB 29, 1996	FEB 28, 1995
	-----	-----	-----	-----
	(in thousands, except per share amounts)			
<S>	<C>	<C>	<C>	<C>
REVENUE	\$84,941	\$68,638	\$239,346	\$195,327
OPERATING COSTS	25,756	21,309	71,933	57,358
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	42,937	35,350	118,929	100,164
	-----	-----	-----	-----
OPERATING INCOME	16,248	11,979	48,484	37,805
OTHER INCOME (EXPENSE)				
INVESTMENT INCOME	1,421	1,006	4,168	2,500
INTEREST EXPENSE	(27)	(105)	(68)	(168)
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	17,642	12,880	52,584	40,137
INCOME TAXES	4,766	3,532	14,724	11,600
	-----	-----	-----	-----
NET INCOME	\$12,876	\$ 9,348	\$ 37,860	\$ 28,537
	=====	=====	=====	=====
NET INCOME PER SHARE	\$ .28	\$ .21	\$ .83	\$ .64
	=====	=====	=====	=====
CASH DIVIDENDS PER SHARE	\$ .09	\$ .06	\$ .24	\$ .16
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	45,640	44,940	45,514	44,899
	=====	=====	=====	=====

NOTE: PER SHARE AMOUNTS AND AVERAGE SHARES OUTSTANDING HAVE BEEN ADJUSTED FOR A  
 THREE-FOR-TWO STOCK SPLIT EFFECTIVE MAY, 1995.

&lt;/TABLE&gt;

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAYCHEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	NINE MONTHS ENDED	
	FEB 29, 1996	FEB 28, 1995
	-----	-----
	(in thousands)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
NET INCOME	\$ 37,860	\$ 28,537
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION AND AMORTIZATION	10,469	8,041

PROVISION FOR DEFERRED INCOME TAXES	(1,438)	(652)
PROVISION FOR BAD DEBTS	657	818
NET REALIZED GAIN ON SALES OF AVAILABLE-FOR-SALE SECURITIES	(616)	(45)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
TRADE ACCOUNTS RECEIVABLE	(872)	(4,664)
INTEREST RECEIVABLE	280	393
PREPAID EXPENSES AND OTHER CURRENT ASSETS	(681)	628
TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES	7,845	6,139
DEFERRED REVENUE	2,369	650
CHANGE IN UNAMORTIZED LEASE INCENTIVES	(74)	(334)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	55,799	39,511
INVESTING ACTIVITIES		
INVESTMENT PURCHASES OF AVAILABLE- FOR-SALE SECURITIES	(99,371)	(26,351)
PROCEEDS FROM SALES OF AVAILABLE- FOR-SALE SECURITIES	71,711	14,035
PROCEEDS FROM MATURITIES OF AVAILABLE- FOR-SALE SECURITIES	3,787	1,000
ADDITIONS TO PROPERTY AND EQUIPMENT, NET OF NORMAL DISPOSALS	(13,907)	(9,199)
NET CHANGE IN OTHER ASSETS	(591)	(98)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(38,371)	(20,613)
FINANCING ACTIVITIES		
PAYMENTS ON LONG-TERM DEBT	(728)	-0-
PROCEEDS AND TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS	1,973	1,645
DIVIDENDS PAID	(10,930)	(7,187)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(9,685)	(5,542)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	7,743	13,356
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,942	14,605
CASH OBTAINED FROM PAY-FONE AND THE PAYROLL COMPANY MERGERS	812	-0-
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 21,497	\$ 27,961
	=====	=====

</TABLE>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FEBRUARY 29, 1996

- A) THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC. AND ITS WHOLLY-OWNED SUBSIDIARIES HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL INFORMATION AND WITH THE INSTRUCTIONS TO FORM 10-Q AND ARTICLE 10 OF REGULATION S-X. ACCORDINGLY, THE CONSOLIDATED FINANCIAL STATEMENTS DO NOT INCLUDE ALL OF THE INFORMATION AND FOOTNOTES REQUIRED BY GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR COMPLETE FINANCIAL STATEMENTS. IN THE OPINION OF MANAGEMENT, 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, 1995.
- B) DURING THE NINE-MONTH PERIOD ENDING FEBRUARY 29, 1996, 216,351 SHARES OF STOCK WERE ISSUED UPON EXERCISE OF STOCK OPTIONS.
- C) ON JUNE 15, 1995, PAYCHEX ACQUIRED PAY-FONE SYSTEMS, INC. FOR APPROXIMATELY 332,000 SHARES OF PAYCHEX STOCK IN A BUSINESS COMBINATION ACCOUNTED FOR AS A POOLING OF INTERESTS. RESULTS OF OPERATIONS PRIOR TO THE MERGER HAVE NOT BEEN RESTATED AS THE EFFECTS WOULD BE IMMATERIAL.
- D) ON SEPTEMBER 29, 1995, PAYCHEX ACQUIRED THE PAYROLL COMPANY, INC. FOR APPROXIMATELY 116,000 SHARES OF COMMON STOCK IN A BUSINESS COMBINATION ACCOUNTED FOR AS A PURCHASE. THE PURCHASE DID NOT HAVE A SIGNIFICANT IMPACT ON THE COMPANY'S SECOND QUARTER FINANCIAL POSITION AND RESULTS OF OPERATIONS.
- E) CERTAIN AMOUNTS FROM THE PRIOR YEAR ARE RECLASSIFIED TO CONFORM TO

PAYCHEX, INC. AND SUBSIDIARIES

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 29, 1996  
ROSE 24% TO \$84,941,000 AND 23% TO \$239,346,000, RESPECTIVELY, WHEN  
COMPARED TO THE SAME PERIODS LAST YEAR. THESE GAINS RESULTED FROM THE  
CONTINUED EXPANSION OF THE PAYROLL CLIENT BASE. GROWTH IN THE KEY  
ADD-ON SERVICES OF TAXPAY AND DIRECT DEPOSIT, AND THE RESULTANT  
INCREASE OF FEE AND INVESTMENT REVENUE, ALSO CONTRIBUTED TO REVENUE  
GROWTH. THE COMPANY EXPECTS CONTINUED REVENUE INCREASES THROUGHOUT THE  
REMAINDER OF THE YEAR.

OPERATING COSTS WERE 30% OF REVENUE FOR THE CURRENT THREE AND NINE  
MONTH PERIODS AS COMPARED TO 31% AND 29% FOR THE RESPECTIVE PRIOR YEAR  
PERIODS. THE COMPANY BENEFITED FROM MORE COST EFFECTIVE CALENDAR  
YEAR-END PROCESSING. FULL YEAR OPERATING COSTS, AS A PERCENTAGE OF  
REVENUE, ARE EXPECTED TO BE SLIGHTLY HIGHER THAN FISCAL 1995.

SELLING, GENERAL AND ADMINISTRATING EXPENSES WERE 51% AND 50% OF  
REVENUE FOR THE RESPECTIVE THREE AND NINE-MONTH PERIODS OF THE CURRENT  
YEAR, WHICH WERE SLIGHTLY BELOW COMPARATIVE PRIOR YEAR PERIODS.

THE EFFECTIVE TAX RATES FOR THE CURRENT QUARTER AND NINE MONTHS ENDED  
FEBRUARY 29, 1996 WERE 27.0% AND 28.0%, RESPECTIVELY, AS COMPARED TO  
27.4% AND 28.9% FOR THE SAME PERIODS LAST YEAR. THE LOWER CURRENT YEAR  
RATES WERE GENERALLY DUE TO THE 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 LOWER  
THAN LAST YEAR'S RATE.

ON JUNE 15, 1995, THE STOCKHOLDERS OF PAY-FONE SYSTEMS, INC. RECEIVED  
APPROXIMATELY 332,000 SHARES OF PAYCHEX COMMON STOCK IN A BUSINESS  
COMBINATION ACCOUNTED FOR AS A POOLING OF INTERESTS. RESULTS OF  
OPERATIONS PRIOR TO THE MERGER HAVE NOT BEEN RESTATED AS THE EFFECTS  
WOULD BE IMMATERIAL.

ON SEPTEMBER 29, 1995, THE COMPANY ACQUIRED THE PAYROLL COMPANY, INC.  
FOR APPROXIMATELY 116,000 SHARES OF COMMON STOCK IN A BUSINESS  
COMBINATION ACCOUNTED FOR AS A PURCHASE. THE ACQUISITION DID NOT HAVE  
A SIGNIFICANT IMPACT ON PAYCHEX' FINANCIAL POSITION AND RESULTS OF  
OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

NET CASH PROVIDED BY OPERATING ACTIVITIES TOTALED \$55,799,000 FOR THE  
NINE MONTHS ENDED FEBRUARY 29, 1996, UP FROM \$39,511,000 FOR THE SAME  
PERIOD LAST YEAR. THIS GAIN WAS PRIMARILY ATTRIBUTED TO RECORD  
YEAR-TO-DATE NET INCOME WHICH REACHED \$37,860,000, A 33% INCREASE OVER  
NET INCOME OF \$28,537,000 FOR THE SAME PERIOD LAST YEAR

THE COMPANY'S INVESTMENT PURCHASES AND SALES TRANSACTIONS INCREASED  
DURING THE NINE MONTHS OF THE CURRENT YEAR WHEN COMPARED TO THE SAME  
PERIOD LAST YEAR. THIS RESULTED FROM THE COMPANY'S DECISION TO  
REPOSITION ITS INVESTMENT PORTFOLIO TO MAXIMIZE RETURNS AND MINIMIZE  
RISK ASSOCIATED WITH INTEREST RATE VOLATILITY.

CAPITAL EXPENDITURES FOR THE NINE-MONTH PERIOD WERE \$14,032,000 AND ARE  
EXPECTED TO APPROXIMATE \$21,000,000 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 \$210,000,000 OF UNSECURED BANK  
LINES OF CREDIT AVAILABLE FOR ITS USE. AS OF FEBRUARY 29, 1996, THERE  
WERE NO OUTSTANDING BORROWINGS UNDER THESE LINES OF CREDIT.

PART II. OTHER INFORMATION

PAYCHEX, INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS

THERE WERE NO EXHIBITS APPLICABLE FOR THE THREE MONTH PERIOD ENDED  
FEBRUARY 29, 1996.

B. REPORTS ON FORM 8-K

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THERE WERE NO REPORTS ON FORM 8-K FILED DURING THE THREE MONTH PERIOD  
ENDED FEBRUARY 29, 1996.

SIGNATURES

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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 SUBSIDIARIES

DATE: APRIL 11, 1996

/s/ B. THOMAS GOLISANO

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B. THOMAS GOLISANO  
CHAIRMAN, PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

DATE: APRIL 11, 1996

/s/ G. THOMAS CLARK

-----

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

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FEBRUARY 29, 1996 FINANCIAL STATEMENTS OF PAYCHEX, INC. AND SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK> 0000723531

<NAME> PAYCHEX, INC.

<MULTIPLIER> 1,000

<CURRENCY> US

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