SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[x] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [fee required]

For the fiscal year ended May 31, 1996

OR

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [no fee required]

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)	(IRS Employer Identification Number)

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

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

Title of each class	Name of each exchange on which registered
NONE	

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

Common Stock, $.01 par value
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].
The aggregate market value of the voting stock held by nonaffiliates of the registrant as of 7/31/96 was $2,600,496,887.
The number of shares of Registrant's Common Stock, $.01 par value, outstanding as of 7/31/96 was 68,720,244.

Documents Incorporated by Reference

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended May 31, 1996 (the "Annual Report") are incorporated herein by reference in response to Part II, Items 5 through 8, inclusive. Certain specified portions of the registrant's definitive proxy statement to be filed within 120 days after May 31, 1996 (the "Proxy Statement") are incorporated herein by reference in response to Part III, Items 10 through 12, inclusive. The Form 8-K filed on July 9, 1996 is incorporated herein by reference in response to Part IV, Item 14(b).

PAYCHEX, INC.
INDEX TO ANNUAL REPORT
ON FORM 10-K

PART I

Item 1. Business.

General

Paychex, Inc. (the "Company" or "Paychex"), a Delaware corporation, was formed in 1979 through the consolidation of 17 corporations engaged in providing computerized payroll accounting services.

Principal Products, Services and Markets.

Paychex is primarily engaged in providing computerized payroll accounting services to over 234,000 small to medium sized businesses nationwide. Paychex believes that in number of clients it is the second largest payroll accounting service company in the country. The Company prepares and furnishes paychecks, earnings statements and internal accounting records such as journals, summaries and earnings histories. Paychex prepares for its clients all required monthly, quarterly and annual payroll tax returns for federal, state and local governments. The TAXPAY feature is utilized by over 55% of its' clients nationwide. This service provides automatic payment of payroll taxes and electronic filing of quarterly and annual tax returns. Paychex also provides enhanced payroll services, including an automatic salary deposit service (Direct Deposit) which electronically transmits the net payroll for client's employees to banks throughout the Federal Reserve System. In addition, a digital check signing and inserting service is offered.

Paylink, a proprietary software package, enables clients to use their personal computers and modems to transmit their own payroll data into the local Paychex processing center at any time without assistance of a payroll specialist. Currently over 13,800 clients use this feature.

Paychex markets its services principally to small and medium sized businesses through its 75 branch operating centers and 23 sales offices located in major metropolitan areas. The Company's market share in branch processing center territories ranges from 1% to approximately 20%. No client accounts for as much as 1% of the Company's revenue.

Clients may discontinue Paychex service at will. Approximately 80% of the businesses which were clients in fiscal year 1994 or 1995 continued to be clients in the succeeding fiscal year. Ownership changes or business failures common to small businesses are the primary causes of client loss.

The Company warrants its services, agreeing to reimburse any client for penalties and interest incurred as a result of a Paychex error. Warranty

expense paid in fiscal years 1996 and 1995 was approximately $800,000 and $410,000, respectively.
The Company employs payroll specialists who communicate primarily by telephone with their assigned clients each payroll period to record the hours worked by each employee and any personnel or compensation changes. These specialists are trained by Paychex in all facets of payroll preparation and applicable tax regulations. All information furnished by a client is handled by someone who is "payroll intelligent" and familiar with that client's payroll.

The Paychex payroll system is an on-line, direct entry computer system which enables the payroll specialist to simultaneously enter information from the client while receiving it over the telephone. Payroll processing is decentralized in the Company's branch operating centers while Taxpay and Direct Deposit processing are centralized at the Company's headquarters. Sales offices utilize a nearby Company branch operating center for processing.

While payroll is its core business, Paychex also provides human resource products and services through its HRS division.

HRS markets Cafeteria Plan products approved under Section 125 of the Internal Revenue Code. The Premium Only Plan allows employees to pay for certain fringe benefits with pre-tax dollars, with a resultant reduction of payroll taxes to employers and employees. The Flexible Spending Account Plan allows client employees to pay for health and dependent care expenses with pre-tax dollars. All administration, compliance, coverage and discrimination tests are provided with these services.

The HRS Division's employee management services and products include customized employee handbooks, management manuals, job descriptions and personnel forms. These have been designed to simplify clients' office processes and enhance their employee benefits programs. Also available are group insurance products offered in selected geographical areas.

During 1995, the HRS Division introduced a 401(K) Recordkeeping Service to selected markets. This service provides plan design and implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services.

Products and services of the HRS Division are sold through a separate sales organization located in most branch offices. Some of the products and services are available on a nationwide basis through an inside sales group.

Software Maintenance and Product Development.

The ever-changing mandates of Federal, State and local taxing authorities compel the Company to continuously update its proprietary software. The Company is also engaged in developing ongoing enhancements to its software to meet the changing requirements of its clients and the marketplace. However, the Company is not engaged, to any significant extent, in basic software research and development.

Competition.

The payroll accounting services industry is characterized by intense competition. The principal competitive factors are price and service. Paychex believes it has one major competitor that provides computerized payroll accounting services nationwide. Although this competitor has historically concentrated on larger employers, it has for several years marketed directly to the small and medium sized businesses which constitute the Paychex market. In addition, the Company competes with other providers of computerized payroll services, including banks and smaller independent firms.

The Company's principal competition, used by a majority of the businesses in its market, is manual payroll systems sold by numerous vendors. Some companies have in-house computer capability to generate their own payroll documents and reports.

Executive Officers.

The information required is set forth in the Company's Proxy Statement and is incorporated herein by reference.

Employees.

Paychex currently employs approximately 3,950 persons, of which 3,760 are full time and 190 are part time.

Trademarks.

The Company has a number of trademarks registered in the U.S. Patent and Trademark Office including the names PAYCHEX, TAXPAY and PAYLINK. The Company believes these trademarks are of material importance to its business.

Seasonality.

There is no significant seasonality to the Company's business, except that over 30% of new clients added in each of the last two fiscal years have been added during the third fiscal quarter. Consequently, greater sales commissions are paid in that quarter, resulting in higher selling expenses for the third quarter.

Item 2. Properties.

The corporate headquarters, owned by the Company, occupy a 139,000 square foot office complex in a suburb of Rochester, New York. The Company owns and occupies a 62,000 square foot office and distribution facility located within 10 miles of corporate headquarters. The Company also owns a 20,000 square foot office facility in Syracuse, New York. Approximately one-half of this building is occupied by the Syracuse branch office and the remaining space is leased. In June, 1995, the Company acquired a 38,000 square foot building (on leased land) as part of the Company's acquisition of Pay-Fone Systems, Inc., a payroll company located in Van Nuys, California. Paychex occupies approximately one half of the building and the remaining space is leased. The Company leases office space for its branches and sales offices at various locations throughout the country. On average, branch offices contain approximately 10,000 square feet and sales offices approximately 850 square feet.

Item 3. Legal Proceedings.

There are no material pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended May 31, 1996.

Part II

Item 5. Market for Registrant's Common Equity and Related Security Holder Matters.

The information required is set forth in the Company's Annual Report under the heading "Common Stock Data" and is incorporated herein by reference.

Item 6. Selected Financial Data.

The information required is set forth in the Company's Annual Report under the heading "Selected Financial Data" and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required is set forth in the Company's Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The financial statements required are identified in Item 14 (a), and are set forth in the Company's Annual Report and incorporated herein by reference. Supplementary data required is set forth in the Company's Annual Report under the heading "Quarterly Financial Data" and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There has been no change in accountants or reported disagreements on accounting principles or practices or financial statement disclosures.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required is set forth in the Company's definitive Proxy Statement in the section entitled "Proposal 1 - Election of Directors" under the heading "Nominees for Election" and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required is set forth in the Company's definitive Proxy Statement in the section entitled "Executive Compensation" and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required is set forth in the Company's definitive Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

There were no relationships or related transactions required to be reported.

Part IV

Item 14. Exhibits, Financial Statements and Reports on Form 8-K.

(a) 1. Financial Statements and Supplementary Data

The following financial statements of the Company are incorporated herein by reference to the Company's Annual Report:

Report of Independent Auditors

Consolidated Statements of Income - Years ended May 31, 1996, 1995 and 1994

Consolidated Balance Sheets - May 31, 1996 and 1995

Consolidated Statements of Stockholders' Equity - Years ended May 31, 1996, 1995 and 1994
Consolidated Statements of Cash Flows - Years ended May 31, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. Schedules called for under Regulation S-X are not submitted because they are not applicable or not required or because the required information is not material or is included in the financial statements or notes thereto.

3. Exhibits

(3) (a) Articles of Incorporation, as amended, incorporated herein by reference to the Company's Registration Statement No. 2-85103, Exhibits 3.1 through 3.5 and Form 8-K filed with the Commission on October 22, 1986 and Form 10-Q filed with the Commission on January 12, 1989 and Form 10-Q filed with the Commission on January 13, 1993 and Form 10-Q filed with the Commission on January 10, 1996.

(3) (b) By-Laws, as amended, incorporated herein by reference to the Company's Registration Statement No. 2-85103, Exhibit 3.6.

(10)(a) Paychex, Inc. 1987 Stock Incentive Plan, incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-17780.

(10)(b) Paychex, Inc. 1992 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-52772.

(10)(c) Paychex, Inc. 1995 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-64389.

(10)(d) Paychex, Inc. Section 401(k) Incentive Retirement Plan, incorporated herein by reference to the Company's Registration Statements on Form S-8, No. 33-19153 and No. 33-52838.

(10)(e) Paychex, Inc. - Pay-Fone Systems, Inc. 1993, 1990, 1987, 1983, 1981 Incentive Stock Option Plans and Director Non-Qualified

Stock Option Agreements incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-60255.

(13) Portions of the Annual Report to Security Holders for the Fiscal Year ended May 31, 1996. Such report, except for the portions thereof which are expressly incorporated by reference in this filing, is furnished for the information of the Commission and is not to be deemed "filed" as part of this filing.

(19) Previously unfiled documents - none.

(21) Subsidiaries of the registrant.

(23) Consents of experts and counsel.

(24) Powers of Attorney for Directors.

Item 14.(b)

Reports on Form 8-K - The Company did not file any current reports on Form 8-K during the fourth quarter of the year ended May 31, 1996. On July 9, 1996, the Company filed a Form 8-K announcing that on June 25, 1996, the Company reached an agreement to merge with National Business Solutions, Inc. (NBS), headquartered in St. Petersburg, Florida. The outstanding common stock of NBS will be exchanged for approximately 3 million shares of Paychex common stock valued at $140,000,000. The transaction will be accounted for as a pooling of interests and is pending favorable judgment on filings made under the Hart-Scott-Rodino Act and approvals required under the Florida Business Corporations Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

Dated: August 14, 1996 By: /s/ B. Thomas Golisano
B. Thomas Golisano, Chairman, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: August 14, 1996 By: /s/ B. Thomas Golisano
B. Thomas Golisano, Chairman, Chief Executive Officer and Director

Dated: August 14, 1996 By: /s/ G. Thomas Clark
G. Thomas Clark, Senior Vice President Finance, Secretary, Treasurer and Director

Dated: August 14, 1996 By: /s/ Donald W. Brinckman*
Donald W. Brinckman, Director

Dated: August 14, 1996 By: /s/ Steven D. Brooks*
Steven D. Brooks, Director

Dated: August 14, 1996 By: /s/ Phillip Horsley*
Phillip Horsley, Director

Dated: August 14, 1996 By: /s/ Grant M. Inman*
Grant M. Inman, Director

Dated: August 14, 1996 By: /s/ Harry P. Messina, Jr.*
Harry P. Messina, Jr., Director

Dated: August 14, 1996 By: /s/ J. Robert Sebo*
J. Robert Sebo, Director

*By: /s/ B. Thomas Golisano
B. Thomas Golisano, as Attorney-in-Fact

EXHIBIT 13: PORTIONS OF THE ANNUAL REPORT TO SHAREHOLDERS FOR THE FISCAL YEAR ENDED MAY 31, 1996

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS.
- ---

The Company's common stock is traded in the over-the-counter market and quoted on the NASDAQ National Market System (symbol: PAYX). The high and low prices and dividends per share have been adjusted to reflect the three-for-two stock splits in May 1995 and May 1996.
<TABLE>
<CAPTION>

Year Ended May 31	1996 Market Price Per Share		1996 Dividends Per Share	1995 Market Price Per Share		1995 Dividends Per Share
<S>	<C> High	<C> Low	<C>	<C> High	<C> Low	<C>
1st Quarter	$27 7/8	$19 5/8	$.04	$15 3/8	$12 5/8	$.03
2nd Quarter	31 3/8	27	.06	17 3/8	14 3/8	.04
3rd Quarter	39 1/8	26 1/2	.06	18 5/8	15 3/8	.04
4th Quarter	47	34 3/8	.06	21 5/8	17 1/2	.04

</TABLE>
On June 27, 1996, there were 3,733 holders of record of the Company's common shares. The level of future dividends is necessarily dependent on the Company's future earnings and cash flow.

SELECTED FINANCIAL DATA.
- ------------------------
<TABLE>
<CAPTION>
May 31
(dollars in thousands, except per share amounts)

Operating Data	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Revenue	$325,285	$267,176	$224,052	$190,032	$161,272
Operating costs	96,758	78,611	68,082	60,715	53,243
Selling, general & administrative expenses	161,028	137,554	119,187	102,660	89,301
Operating income	67,499	51,011	36,783	26,657	18,728
Percent of revenue	20.8	19.1	16.4	14.0	11.6
Investment income net of interest expense	5,188	3,362	2,203	1,370	819
Income before income taxes	72,687	54,373	38,986	28,027	19,547
Percent of revenue	22.3	20.3	17.4	14.7	12.1
Net income	52,333	39,040	28,070	19,955	13,702
Percent of revenue	16.1	14.6	12.5	10.5	8.5
Financial Position - End of Year					
Working capital	$137,158	$ 97,558	$ 68,031	$ 46,389	$ 27,884
Total assets	220,208	168,437	129,789	106,920	86,242
Long-term debt (including current portion)	0	728	948	1,634	2,024
Stockholders' equity	190,810	139,932	108,508	85,189	67,405
Common Stock Data					
Net income per share	.77	.58	.42	.30	.21
Cash dividends per share	.22	.15	.10	.07	.05
Average shares outstanding (in thousands)	68,352	67,389	67,184	66,893	66,419
Other Statistics					
Number of clients	234,300	207,900	185,900	167,500	150,400
Branch service centers	75	71	70	70	70
Sales offices	23	23	24	20	17
Capital expenditures	$ 17,286	$ 12,355	$ 11,583	$ 8,710	$ 13,453

Note: Per share amounts and average shares have been adjusted for three-for-two stock splits in May 1992, August 1993, May 1995 and May 1996.

</TABLE>
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
- ---
AND RESULTS OF OPERATIONS

- -------------------------
Management's discussion and analysis reviews the Company's operating results for each of the three years in the period ended May 31, 1996, and its financial condition at May 31, 1996. The focus of this review is on the underlying business reasons for significant changes and trends affecting revenues, net income, and financial condition. This review should be read in conjunction with the accompanying Consolidated Financial Statements, the related Notes to Consolidated Financial Statements, and the Eleven-Year Summary of Financial Data. Forward-looking statements in this management's discussion and analysis are qualified by the cautionary statement at the end of this discussion.

Results of Operations
- ---------------------
The financial results for Paychex in fiscal 1996 reflected the sixth consecutive year of record revenues and net income. The Company's ability to continually grow its client base, increase the utilization of ancillary services by new and existing clients and decrease selling, general and administrative expenses, as a percent of revenue, has resulted in compounded revenue growth of 18.0% and compounded net income growth of 35.7% in these record setting years.

Revenues in 1996 rose 21.7% to a record $325.3 million. This compares to revenue growth of 19.2% in 1995 and 17.9% in 1994. The primary gains resulted from continued growth of clients utilizing the basic payroll service (12.7% in 1996, 11.8% in 1995 and 11.0% in 1994), and increased utilization of our Taxpay product by both new and existing clients. Approximately 2% of the 1996 increase was attributed to revenue from Pay-Fone Systems, Inc. and The Payroll Company, two acquisitions made during the year as discussed below. Increased revenues were also provided by our other ancillary payroll products including, among others, Direct Deposit and Check Signing and Inserting. The Human Resource Services Division continues to generate yearly revenue increases and anticipates future growth of its 401(k) recordkeeping services.

At the end of fiscal 1996, the Company provided payroll services to over 234,000 clients, of which 131,000 or 56% use Taxpay. This compares to 51% in 1995 and 43% in 1994. Taxpay and Direct Deposit revenues include fee income on a per payroll period basis and investment income earned during the short period between collecting client funds and remitting the funds to the applicable tax authorities or bank accounts. Investment income, which is less than 10% of total revenues, has grown substantially in recent years due to the significant increase in clients utilizing Taxpay and Direct Deposit services, inflationary increases in average daily balances and, for much of the time, favorable trends in investment returns for the Company's investments of client funds. During 1996, the Company was able to more than offset the effects of slightly lower investment rates by selling fixed income municipal bonds at realized gains.
Operating costs are incurred to provide services to clients and consist primarily of wages, forms and supplies, delivery expenses, and depreciation and maintenance charges on data processing equipment. Operating costs were 29.7% of revenue in 1996, as compared to 29.4% and 30.4% for 1995 and 1994, respectively. The Company anticipates fiscal 1997 operating costs, as a percentage of revenue, to be consistent with or slightly lower than 1996.

Selling, general and administrative expenses were 49.5% of revenue in 1996, down from 51.5% and 53.2% in 1995 and 1994, respectively. As a percentage of revenue, sales wages and commissions for 1996 were lower than 1995. The percent decrease in expenses in 1995 as compared to 1994 resulted from lower general and administrative payroll and other costs. For the next fiscal year, selling, general and administrative expenses are expected to continue the trend established over the past few years.

In each of the last three years, the effective tax rate was approximately 28%. The 1994 rate included a 1% increase in the Federal statutory rate. This 1994 increase was more than offset by lower State income taxes and a reduction in expenses due to the adoption of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

In October 1995, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123, "Accounting for Stock-Based Compensation", which will become effective for the Company in fiscal 1997. This Statement will require a fair value approach for accounting for stock-based compensation awards through footnote disclosure or by recognition within the financial statements. The Company has not yet determined which method it will elect, nor has it determined the effect of the new standard will have on net income and earnings per share. Adoption of FAS 123 will have no effect on the Company's cash flow.

On June 15, 1995, the stockholders of Pay-Fone Systems, Inc. received approximately 497,900 shares of Paychex common stock in a business combination accounted for as a pooling of interests. On September 29, 1995, the Company acquired The Payroll Company, Inc. for approximately 173,800 shares of common stock in a business combination accounted for as a purchase. These acquisitions did not have a significant impact on Paychex' financial position and results of operations.

On June 25, 1996, the Company reached an agreement to merge with National Business Solutions, Inc. (NBS) in a business combination accounted for as a pooling of interests. The stockholders of NBS will receive approximately 3 million shares of Paychex common stock. The transaction is pending favorable judgement on filings made under the Hart-Scott-Rodino Act and approvals required under the Florida Business Corporation Act.

NBS is a professional employer organization (PEO) and as a co-employer, specializes in providing small and medium-sized businesses with cost effective outsourcing solutions for their employee benefits. For the twelve months ended May 31, 1996, NBS was profitable and generated approximately $240 million in revenue. Because NBS is at risk for all of its direct costs and, consistent with PEO industry practice, revenue includes all amounts billed to clients for gross salaries and wages, related employment taxes, health care benefits, workers' compensation coverage and administrative fees. The potential effect of the merger on the Company's 1997 financial position and results of operations can not be accurately estimated at this time. However, the Company does not anticipate the merger will have a dilutive effect upon future earnings.

Liquidity and Capital Resources

Net cash provided from operating activities totaled $59.9 million in 1996 as compared to $48.1 million in 1995 and $34.0 million in 1994. These increases resulted primarily from the consistent achievement of record net income in each of the past three years. Net income in 1996 totaled $52.3 million, representing a 34.1% gain over 1995 net income of $39 million, which was 39.1% over 1994 net income of $28.1 million.

Company owned investments and investments of client funds held for Taxpay and Direct Deposit consist of municipal securities issued by various governmental agencies and short-term money market securities. The Company is exposed to risks in connection with these investments through the possible inability of the municipalities to meet the terms of the bond contracts and from movements in interest rates. The Company controls these risks by investing primarily in AAA and AA rated municipal securities, and by limiting amounts that can be invested in any single instrument. In addition, the investments are held in short to intermediate term instruments which limit sensitivity to interest rate changes.
The Company's own investment purchases have increased in each of the last three years resulting from growth in the Company's cash provided from operations. In addition, greater investment purchases and sales activity occurred in 1996 as the Company managed its investment portfolio to realize gains and minimize risk associated with the declining market interest rates experienced during the year.

Included in 1996 capital expenditures of $17.3 million were upgrades to terminals and telecommunication equipment in branch offices which promoted operating efficiency and enhanced customer service. These purchases comprised most of the increase in 1996 capital spending over 1995 and 1994 amounts that totaled $12.4 million and $11.6 million, respectively. Capital expenditures in 1997 are expected to range between $16 million and $22 million. In addition, the Company is planning a major upgrade of its laser printing equipment in branch offices through a five year operating lease with future minimum lease payments of approximately $10 million.

The quarterly cash dividend payment was increased during the second quarter of 1996 to $.06 per share. This resulted in an annual dividend payment of $.22 per share as compared to $.15 in 1995 and $.10 in 1994. On April 11, 1996, the Company declared a three-for-two stock split on outstanding shares distributed May 23, 1996.

Projected cash flows are expected to be adequate to support normal business operations, planned capital expenditures and dividend payments. Furthermore, the Company has $200 million of unsecured bank lines of credit available for its use. As of May 31, 1996, there were no outstanding borrowings under these lines of credit.

Other

In an effort to give investors a well-rounded view of the Company's current condition and future opportunities this Annual Report includes comments by the Company's management about future performance and results. Because they are forward-looking, these forecasts involve uncertainties. They include risks of general market conditions including demand for the Company's products and services, competition and price levels; changes in the laws regulating collection and payment of payroll taxes and employee benefits including 401(k) plans and Section 125 plans; delays in the development and marketing of new products and services; the possibility of catastrophic events that could impact the Company's operating facilities, computer technology and communication systems; changes in short and long-term interest rates and the credit ratings of municipal securities held in the Company's investment portfolios.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT AUDITORS, ERNST & YOUNG LLP

Board of Directors
Paychex, Inc.

We have audited the accompanying consolidated balance sheets of Paychex, Inc. and subsidiaries as of May 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paychex, Inc. and subsidiaries at May 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the Company changed its method of accounting for income taxes in fiscal year 1994 and for investments in fiscal year 1995.

Syracuse, New York /s/ERNST & YOUNG LLP
June 27, 1996

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Year Ended May 31		
	1996	1995	1994
	(in thousands, except per share amounts)		
<S>	<C>	<C>	<C>
Revenue	$325,285	$267,176	$224,052
Operating costs	96,758	78,611	68,082
Selling, general and administrative expenses	161,028	137,554	119,187
OPERATING INCOME	67,499	51,011	36,783
Other income	5,188	3,362	2,203
INCOME BEFORE INCOME TAXES	72,687	54,373	38,986
INCOME TAXES	20,354	15,333	10,916
NET INCOME	$ 52,333	$ 39,040	$ 28,070
EARNINGS PER SHARE	$ .77	$ .58	$ .42
CASH DIVIDENDS PER SHARE	$ .22	$ .15	$ .10
Weighted average shares outstanding	68,352	67,389	67,184

Note: Per share amounts have been adjusted for three-for-two stock splits in May 1995 and May 1996.
</TABLE>

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

<TABLE>
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<S>	May 31 1996 <C>	May 31 1995 <C>
	(in thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,399	$ 12,942
Investments	101,845	70,753
Interest receivable	7,385	6,699
Trade accounts receivable	37,527	30,772
Prepaid expenses and other current assets	1,717	1,743
Deferred income taxes	1,419	1,310
TOTAL CURRENT ASSETS	165,292	124,219
PROPERTY AND EQUIPMENT		
Land and improvements	2,787	2,779
Buildings	24,145	21,304
Data processing equipment	42,887	33,980
Furniture, fixtures and equipment	37,614	29,135
Leasehold improvements	2,685	1,528
	110,118	88,726
Less allowance for depreciation and amortization	60,120	45,019
NET PROPERTY AND EQUIPMENT	49,998	43,707
OTHER ASSETS	4,918	511
TOTAL ASSETS	$220,208	$168,437

</TABLE>
<TABLE>
<CAPTION>

<S>	May 31 1996 <C>	May 31 1995 <C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 3,837	$ 3,519
Accrued compensation and related items	13,335	13,162
Accrued income taxes	573	682
Other accrued expenses	5,729	6,116
Deferred revenue	4,660	2,977
Current portion of long-term debt	-	205
TOTAL CURRENT LIABILITIES	28,134	26,661
OTHER LIABILITIES		
Deferred income taxes	416	764
Long term debt	-	523
Other long-term liabilities	848	557
TOTAL LIABILITIES	29,398	28,505
STOCKHOLDERS' EQUITY		
Common Stock, $.01 par value, authorized 150,000,000 shares: Issued 68,698,154 in 1996 and 45,031,716 in 1995	687	450
Additional capital	29,985	17,727
Retained earnings	160,138	121,755
TOTAL STOCKHOLDERS' EQUITY	190,810	139,932
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$220,208	$168,437

======== ========

</TABLE>
See Notes to Consolidated Financial Statements.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
<TABLE>
<CAPTION>

(in thousands)	Common Stock Shares Issued	Common Stock Amount	Additional Capital	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at May 31, 1993	19,868	$ 199	$13,946	$71,044	$85,189
Exercise of stock options	100	1	758		759
Tax benefit from stock option transactions			1,074		1,074
Shares issued in connection with three-for-two stock split	9,939	99		(111)	(12)
Dividends paid				(6,572)	(6,572)
Net income				28,070	28,070
Balance at May 31, 1994	29,907	299	15,778	92,431	108,508
Exercise of stock options	116	1	1,261		1,262
Tax benefit from stock option transactions			688		688
Shares issued in connection with three-for-two stock split	15,009	150		(168)	(18)
Adjustment to the beginning balance of investments to recognize the net unrealized holding loss on available-for-sale securities (FAS 115), net of income taxes of $140				(206)	(206)
Change in unrealized gains and losses on investments, net of income taxes of $372				546	546
Dividends paid				(9,888)	(9,888)
Net income				39,040	39,040
Balance at May 31, 1995	45,032	450	17,727	121,755	139,932
Exercise of stock options	320	3	2,810		2,813
Tax benefit from stock option transactions			2,671		2,671
Shares issued in connection with three-for-two stock split	22,674	227		(272)	(45)
Shares issued in connection with the merger of Pay-Fone Systems, Inc.	498	5	2,926	1,866	4,797
Shares issued in connection with the acquisition of The Payroll Company, Inc. (d/b/a Payday)	174	2	3,851		3,853
Change in unrealized gains and losses on investments, net of income taxes of $338				(497)	(497)
Dividends paid				(15,047)	(15,047)
Net income				52,333	52,333
Balance at May 31, 1996	68,698	$687	$29,985	$160,138	$190,810

</TABLE>
See Notes to Consolidated Financial Statements.
CONSOLIDATED STATEMENTS OF CASH FLOWS
<TABLE>
<CAPTION>

	Year Ended May 31 1996	1995	1994
		(in thousands)	
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	$ 52,333	$39,040	$ 28,070
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	13,940	11,040	11,205
Net change in deferred income taxes	45	(41)	(745)
Provision for bad debts	1,034	847	762
Net realized gain on sales of available-for-sale securities	(737)	(26)	(266)
Changes in operating assets and liabilities:			
Trade accounts receivable	(7,044)	(8,807)	(4,685)
Accrued interest receivable	(686)	(1,832)	(1,574)

Prepaid expenses and other current assets	306	548	321
Trade accounts payable and other current liabilities	(975)	7,173	(511)
Deferred revenue	1,683	205	1,373
	------	------	------
NET CASH PROVIDED BY OPERATING ACTIVITIES	59,899	48,147	33,950
INVESTING ACTIVITIES			
Investment purchases of available-for-sale securities	(134,829)	(51,421)	(28,604)
Proceeds from sales of available-for-sale securities	99,630	20,757	20,381
Proceeds from maturities of available-for-sale securities	4,787	1,500	590
Additions to property and equipment, net of disposals	(17,025)	(12,268)	(11,321)
Net change in other assets	(778)	(202)	23
	--------	--------	--------
NET CASH USED IN INVESTING ACTIVITIES	(48,215)	(41,634)	(18,931)
FINANCING ACTIVITIES			
Payments on long-term debt	(431)	(220)	(686)
Proceeds and tax benefit from exercise of stock options	5,484	1,950	1,833
Dividends paid	(15,047)	(9,888)	(6,572)
Payment in lieu of issuance of fractional shares	(45)	(18)	(12)
	--------	-------	-------
NET CASH USED IN FINANCING ACTIVITIES	(10,039)	(8,176)	(5,437)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 1,645	$(1,663)	$ 9,582
	---------	-------	-------
CASH & CASH EQUIVALENTS,			
Beginning of Fiscal Year	12,942	14,605	5,023
Cash obtained through PayFone Acquisition	805	-	-
Cash obtained through Payday Acquisition	7	-	-
CASH & CASH EQUIVALENTS,			
End of Fiscal Year	$ 15,399	$12,942	$ 14,605
	=======	=======	========

</TABLE>
See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Business Activities: The Company is an integrated provider of automated payroll, payroll tax payment and filing and human resource services for small and medium-sized businesses nationwide.

In connection with Taxpay, its automated tax payment and filing service, the Company collects payroll taxes, files the applicable tax returns, and pays taxes due to the appropriate taxing authorities. The Company's Direct Deposit service collects net payroll from client accounts and provides automatic salary deposit for employees. During the short period between collection and payment, the Company invests these client funds in government securities, money market funds and investment grade municipal securities without significant concentration in any one issuer. The amount of client funds held by Paychex for the Taxpay and Direct Deposit services fluctuates significantly during the year. At May 31, 1996 and 1995, the total Taxpay and Direct Deposit funds held by Paychex were $590,929,000 and $470,847,000, respectively. These client funds and the related tax and payroll obligations are neither assets nor liabilities of the Company and, therefore, are not included in the accompanying financial statements. Related income earned from these investments is included in revenue.

Principles of Consolidation: The consolidated financial statements include the accounts of Paychex, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents: Cash equivalents consist of money market and municipal bond funds and other investments with a maturity of three months or less when purchased. Amounts reported in the balance sheet approximate fair value.

Investments: Investments consist of investment grade municipal securities issued by various governmental agencies. The fair value of investments is determined based on information received from an independent pricing service. Realized gains and losses on sales of investments are based on cost. No individual issue comprises greater than 1% of total assets.

Effective June 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (FAS 115), "Accounting for Certain Investments in Debt and Equity Securities". In accordance with the Statement, prior period financial statements have not been restated to reflect the change in accounting principle. Investments are classified as available-for-sale and are recorded at fair value with unrealized gains and losses reported as a component of stockholders' equity, net of applicable taxes. The adoption had no effect on net income. The impact of adopting FAS 115 was to decrease stockholders' equity by $206,000 (net of $140,000 of deferred income taxes) at June 1, 1994 to reflect the unrealized loss on securities at the beginning of the fiscal year.

Also effective June 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 107 (FAS 107), "Fair Value Disclosures About Financial Instruments". This standard requires disclosure of fair value information on financial instruments. (See Note B).

Property and Equipment: These assets are stated at cost. Major renewals and betterments are charged to the property accounts, while replacements and maintenance and repairs that do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed by the straight-line method over the estimated useful lives of related assets.

Software Development and Enhancement: The Company incurs certain costs to enhance its computer programs and to maintain them in compliance with changes in state and federal payroll tax requirements. All such costs are expensed as incurred. Expenditures for major software purchases are capitalized and amortized by the straight-line method over the estimated useful lives of the related assets.

Deferred Revenue: The Company defers revenue on certain services billed in advance. The revenue is recognized upon completion of these services.

Income Taxes: Effective June 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes". The cumulative effect of the accounting change was not material to net income for the year ended May 31, 1994.

Earnings Per Share: Earnings per share are based on the weighted average shares outstanding in each year. Common stock equivalents resulting from stock options have not been included as their impact is not material.

Stock Based Compensation: The Company accounts for its Stock Option Plans under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees", under which no compensation cost has been recognized. In October, 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" which defines a fair value method of accounting for stock based compensation plans, the effects of which can either be disclosed in the notes to the financial statements or recorded in the income statement. FAS No. 123 requires adoption no later than fiscal years beginning after December 15, 1995. Under this method, compensation is usually determined at the date of grant and amortized over the vesting period of the grant. The Company has not yet determined if it will elect to change to the new method, nor has it determined the effect the new standard will have on net income and earnings per share should the Company elect to make this change. Adoption of FAS No. 123 will have no effect on the Company's cash flows.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts from prior years are reclassified to conform with 1996 presentations.

NOTE B - INVESTMENTS

Cost, unrealized gains and losses, and estimated fair value of securities at May 31, 1996 and 1995, were as follows:

<TABLE>
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(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
May 31, 1996				
Municipal Securities	$102,108	$ 233	$ 496	$101,845
May 31, 1995				
Municipal Securities	$ 70,181	$ 681	$ 109	$ 70,753

</TABLE>

Net realized gains and losses on sales of available-for-sale securities are included in other income on the Consolidated Statements of Income. Gross realized gains and losses for 1996, 1995 and 1994, were as follows:
<TABLE>
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(in thousands)	1996	1995	1994
<S>	<C>	<C>	<C>
Gross realized gains	$902	$ 69	$277
Gross realized losses	$165	$ 43	$ 11

</TABLE>

The amortized cost and estimated fair value of debt securities at May 31, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.

(in thousands)	Cost	Estimated Fair Value
Maturity Date		
1 Year or Less	$ 2,657	$ 2,704
1 to 3 Years	44,662	44,627
3 Years and Over	54,789	54,514
Total	$102,108	$101,845

NOTE C -LONG-TERM DEBT
Long-term debt consists of the following:
<TABLE>
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	May 31 1996	May 31 1995
	(in thousands)	
<S>	<C>	<C>
Industrial Revenue Bonds	$ -	$ 728
Less current portion	-	205
	$ -	$ 523

</TABLE>

During the year ended May 31, 1996, operating cash was used to repay the remaining balance on the Internal Revenue Bonds.

At May 31, 1996, the Company has available unsecured lines of credit from various banks totaling $200,000,000. No amounts were outstanding against the lines of credit at May 31, 1996.
NOTE D - STOCKHOLDERS' EQUITY

The Company declared three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares on various dates during the fiscal years ended 1996, 1995 and 1994, as follows:

Fiscal Year	Stock Dividend Declaration Dates	Payable to Holders of Record	Stock Dividend Distribution Dates
1996	April 11, 1996	May 2, 1996	May 23, 1996
1995	April 13, 1995	May 2, 1995	May 25, 1995
1994	July 8, 1993	August 2, 1993	August 26, 1993

The Company reserved 1,875,000 shares of common stock for issuance under the 1995 Stock Incentive Plan. The 1992 and 1987 Stock Incentive Plans expired on August 31, 1995 and 1992, respectively; however, options to purchase 1,542,508 shares under these plans remain outstanding. Incentive or non-qualified options may be granted at prices not less than 100% of the fair market value of the common stock at the date of the grant, unless the employee owns more than 10% of the outstanding common stock, in which case the option price for incentive stock options only must not be less than 110% of the fair market value. Outstanding options are generally exercisable in cumulative annual installments ranging from 20% to 50% and expire up to ten years after the date of grant.

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the market value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to

Employees," and, accordingly, recognizes no compensation expense for the stock option grants.

A summary of stock option activity is as follows:

	Number of Equivalent Shares
Balance May 31, 1993	1,736,270
Issued	536,400
Exercised	(236,433)
Canceled	(50,994)
Balance May 31, 1994	1,985,243
Issued	341,550
Exercised	<256,779>
Canceled	<67,074>
Balance May 31, 1995	2,002,940
Issued	496,558
Exercised	(480,018)
Cancelled	(59,572)
Balance May 31, 1996	1,959,908
Exercisable May 31, 1996	838,641
Prices range from $2.99 to $18.22	

NOTE E - INCOME TAXES

Effective June 1, 1993, the Company adopted Statement of Accounting Standards No. 109, "Accounting for Income Taxes", which recognizes deferred tax assets and liabilities based on the future tax effects attributable to differences between the tax basis of an asset or liability and its reported amount in the financial statements. As allowed under the standard, prior years' financial statements have not been restated.

Significant components of the deferred tax assets and liabilities as of May 31, 1996 and 1995 are as follows:

(in thousands)

Deferred tax assets:	1996	1995
Allowance for bad debts	$ 817	$ 677
Accrued vacation pay	1,391	1,255
Reserve for future medical claims	293	310
Other expenses not currently deductible	903	655
Unrealized loss on available-for-sale securities	106	-
Total deferred tax assets	$3,510	$2,897
Deferred tax liabilities:		
Revenue not subject to current taxes	$1,877	$1,297
Depreciation	554	765
Other	76	57
Unrealized gain on available-for-sale securities	-	232
Total deferred tax liabilities	$2,507	$2,351
Net deferred tax assets	$1,003	$ 546
Classification of Net Deferred Tax Assets:		
Current Assets	$1,419	$1,310
Other Liabilities	$ (416)	$ (764)

Income tax expense consists of:

	1996	1995	1994
Current			
Federal	$15,400	$11,404	$ 8,593
State	4,952	3,970	3,068

Total Current	$20,352	$15,374	$11,661
Deferred:			
Federal	(18)	(31)	(662)
State	20	(10)	(83)
Total Deferred (credit)	2	(41)	(745)
	$20,354	$15,333	$10,916

</TABLE>

Below is an analysis reconciling the statutory federal income tax rate to the effective tax rates shown in the Consolidated Statements of Income:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	4.5	4.7	5.0
Tax exempt municipal bond interest	(11.8)	(12.2)	(11.5)
Other items	.3	.7	(.5)
Effective tax rate	28.0%	28.2%	28.0%

</TABLE>

NOTE F - COMMITMENTS & CONTINGENCIES

The Company leases office space under the terms of various operating leases. Certain of the underlying agreements contain incentives eliminating or modifying lease payments at the inception of the lease. These incentives are amortized on a straight-line basis over the entire lease term. Amounts expected to be amortized within the next fiscal year are included in other accrued expenses. These amounts were $314,000 and $424,000 at May 31, 1996 and 1995, respectively.

Rental expense for all leases on office facilities amounted to approximately $12,691,000 in 1996, $10,580,000 in 1995 and $9,410,000 in 1994.

The Company also leases data processing equipment under various operating leases. These obligations extend through 2001. Related equipment lease payments were $2,424,000, $1,631,000 and $1,103,000 in 1996, 1995 and 1994, respectively. All leases contain purchase options at prices representing the fair value of the equipment at the expiration of the lease term.

Future minimum lease payments under various facilities and equipment operating leases consist of the following (in thousands):

<TABLE>
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<S>	<C>
1997	$11,977
1998	9,523
1999	7,084
2000	5,044
2001	2,171
Thereafter	1,158
Total minimum lease payments	$36,957

</TABLE>

The Company is a defendant in various lawsuits as a result of normal operations and in the ordinary course of business. Management believes the outcome of these lawsuits will not have a material effect on the financial position or results of operations of the Company.

The Company is contingently liable for the guaranteed appreciation of unregistered common stock issued as consideration in the September 29, 1995 acquisition of The Payroll Company (d/b/a Payday). The Company guarantees stock issued at $28.61 and not sold prior to September 29, 2000, will appreciate by a minimum of 20% to $34.33, or by approximately $1,000,000, over the five year period ending on September 29, 2000. The per share market value of Paychex stock at May 31, 1996 was $44.00 (See Note I).

NOTE G - EMPLOYEE BENEFITS

The Company has a 401(k) Incentive Retirement Plan which allows all employees with one or more years of service to participate. The Company currently matches 50% of an employee's voluntary contribution up to a maximum of 3% of eligible compensation. Company contributions were $2,127,000, $1,815,000, and $1,516,000 for 1996, 1995, and 1994, respectively.

NOTE H - SUPPLEMENTAL CASH FLOW DISCLOSURES

Income tax payments totaled $17,672,000, $13,831,000, and $11,633,000 in 1996, 1995, and 1994, respectively.

NOTE I - MERGER AGREEMENTS

On March 20, 1995, the Company and Pay-Fone System, Inc., a payroll service provider, agreed in principle that all of the outstanding common stock of Pay-Fone System, Inc. would be acquired by the Company in a business combination accounted for as a pooling of interests. Upon consummation of the merger on June 15, 1995, the stockholders of Pay-Fone Systems, Inc. received approximately 497,900 shares of Paychex common stock. The merger did not have a significant impact on the Company's 1996 financial position and results of operations. As a result, prior year financial statements were not restated.

On September 29, 1995, the Company acquired all of the outstanding stock of The Payroll Company, Inc. (d/b/a Payday), a payroll services company, in exchange for approximately 173,800 unregistered shares of Company common stock with a fair value of $5,000,000 at the date of acquisition. The agreement included a guarantee that the stock issued in the acquisition, and not sold prior to September 29, 2000, will appreciate by a minimum of 20% over the five year period ending on September 29, 2000. (See Note F)

The acquisition was accounted for as a purchase and recorded at the net present value of the guaranteed $6,000,000 purchase price. Goodwill of approximately $4,000,000 was recorded in Other Assets and is amortized on a straight line basis over 10 years.

The results of operations of Payday are included in the accompanying financial statements from the date of acquisition and did not have a significant impact on the Company's 1996 financial position and results of operations.

NOTE J - SUBSEQUENT EVENT

On June 25, 1996, the Company reached an agreement to merge with National Business Solutions, Inc, (NBS), headquartered in St. Petersburg, Florida. The outstanding common stock of NBS will be exchanged for approximately 3 million shares of Paychex common stock valued at $140,000,000. The transaction will be accounted for as a pooling of interests and is pending favorable judgement on filings made under the Hart-Scott-Rodino Act and approvals required under the Florida Business Corporations Act.

NBS is a professional employer organization (PEO) and as a co-employer, specializes in providing small and medium-sized businesses with cost effective outsourcing solutions for their employee benefits. For the twelve months ended May 31, 1996, NBS was profitable and generated approximately $240 million in revenue. Because NBS is at risk for all of its direct costs and, consistent with PEO industry practice, revenue includes all amounts billed to clients for gross salaries and wages, related employment taxes, health care benefits, workers' compensation coverage and administrative fees. Paychex does not anticipate the merger will have a dilutive effect upon future earnings.

Pro forma unaudited Consolidated Results of Operations, assuming the merger had occurred prior to May 31, 1996 are as follows:

Restated Financial Information (in thousands, except per share amounts)	1996	1995	1994
Revenue	$ 566,443	$412,065	$323,905
Net Income	$ 53,956	$ 39,849	$ 28,476
Earnings Per Share	$ .76	$ .57	$ .42

Quarterly Financial Data (Unaudited)
<TABLE>
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(in thousands, except per share amounts)	Aug. 31	Nov. 30	Feb. 29	May 31	Year
<S>	<C>	<C>	<C>	<C>	<C>
1996					
Revenue	$76,173	$78,232	$84,941	$85,939	$325,285
Operating income	15,759	16,477	16,248	19,015	67,499
Net income	12,203	12,781	12,876	14,473	52,333
Net income per share	.18	.19	.19	.21	.77
	Aug. 31	Nov. 30	Feb. 28	May 31	Year
1995					
Revenue	$62,923	$63,766	$68,638	$71,849	$267,176

Operating income	12,902	12,924	11,979	13,206	51,011
Net income	9,551	9,638	9,348	10,503	39,040
Net income per share	.14	.15	.14	.15	.58

</TABLE>

Note: Per share amounts have been adjusted for three-for-two stock splits in May 1995 and May 1996.

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiaries	Jurisdiction of Incorporation
Paychex Management Corp.	New York
Paychex Securities Corporation	New York
Paychex Merger Corp.	Delaware

EXHIBIT 23: CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Paychex, Inc. of our report dated June 27, 1996, included in the fiscal 1996 Annual Report to Shareholders of Paychex, Inc.

We also consent to the incorporation by reference, in the registration statements outlined below, of our report dated June 27, 1996, with respect to the consolidated financial statements incorporated herein by reference of Paychex, Inc. included in the Annual Report (Form 10-K) for the year ended May 31, 1996.

a. Form S-8 - Paychex, Inc. 1987 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 9, 1987 (No. 33-17780) together with Post Effective Amendment No. 1 filed on November 13, 1992.

b. Form S-8 - Paychex 401(k) Incentive Retirement Plan - as filed with the Securities and Exchange Commission on December 18, 1987 (No. 33-19153) together with Post Effective Amendment No. 1 filed November 29, 1988.

c. Form S-8 - Paychex, Inc. 1992 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 2, 1992 (No. 33-52772).

d. Form S-8 - Paychex, Inc. 401(k) Incentive Retirement Plan - as filed with the Securities and Exchange Commission on October 2, 1992 (No. 33-52838).

e. Form S-8 - Pay-Fone Systems, Inc. 1993, 1990, 1987, 1983, 1981 Incentive Stock Option Plans and Director Non-Qualified Stock Option Agreements, as filed with the Securities and Exchange Commission on June 15, 1995 (No. 33-60255).

f. Form S-8 - Paychex, Inc. 1995 Stock Incentive Plan - as filed with the Securities and Exchange Commission on November 17, 1995 (No. 33-64389).

Syracuse, New York   ERNST & YOUNG LLP
August 13, 1996

EXHIBIT 24: POWERS OF ATTORNEY FOR DIRECTORS

The undersigned Directors of Paychex, Inc. do hereby constitute and appoint B. Thomas Golisano their true and lawful attorney and agent, to execute the Paychex, Inc. Annual Report on Form 10-K for the fiscal year ended May 31, 1996, for us and in our names as directors, to comply with the Securities Exchange Act of 1934, and the rules, regulations and requirements of the Securities and Exchange Commission, in connection therewith.

Dated: August 14, 1996

/s/ Donald W. Brinkman

Donald W. Brinkman

/s/ Steven D. Brooks

Steven D. Brooks

/s/ Phillip Horsley

Phillip Horsley

/s/ Grant M. Inman

Grant M. Inman

/s/ Harry P. Messina, Jr.

Harry P. Messina, Jr.

/s/ J. Robert Sebo

J. Robert Sebo

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MAY
31, 1996 FINANCIAL STATEMENTS OF PAYCHEX INC. AND IS QUALIFIED IN ITS ENTIRETY
BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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