

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, 1997  
-----  
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, 1997 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, 1997

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

(72,312,009 Shares)

PAYCHEX, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

PAGE

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED BALANCE SHEETS - FEBRUARY 28, 1997 AND  
MAY 31, 1996

3

CONSOLIDATED STATEMENTS OF INCOME - THREE AND NINE MONTHS  
ENDED FEBRUARY 28, 1997 AND FEBRUARY 29, 1996

5

CONSOLIDATED STATEMENTS OF CASH FLOWS - NINE MONTHS  
ENDED FEBRUARY 28, 1997 AND FEBRUARY 29, 1996

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -  
FEBRUARY 28, 1997

8

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

11

PART II. OTHER INFORMATION

14

PART I. FINANCIAL INFORMATION  
PAYCHEX, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	FEBRUARY 28, 1997	MAY 31, 1996
	-----	-----
ASSETS	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 47,097	\$ 19,999
INVESTMENTS	128,888	102,967
INTEREST RECEIVABLE	8,532	7,385
TRADE ACCOUNTS RECEIVABLE	42,076	42,076
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	3,052	1,903
DEFERRED INCOME TAXES	4,041	1,419
	-----	-----
TOTAL CURRENT ASSETS	233,686	175,749
PROPERTY AND EQUIPMENT		
LAND AND IMPROVEMENTS	2,787	2,787
BUILDINGS	24,645	24,145
DATA PROCESSING EQUIPMENT	48,315	43,439
FURNITURE, FIXTURES AND EQUIPMENT	42,774	37,921
LEASEHOLD IMPROVEMENTS	3,429	2,718
	-----	-----
	121,950	111,010
LESS ALLOWANCE FOR DEPRECIATION AND AMORTIZATION	68,468	60,355
	-----	-----
NET PROPERTY AND EQUIPMENT	53,482	50,655
OTHER ASSETS	6,844	4,945
	-----	-----
TOTAL ASSETS	\$ 294,012	\$ 231,349
	=====	=====

</TABLE>

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

CONSOLIDATED BALANCE SHEETS, CONT'D.

<TABLE>  
<CAPTION>

	FEBRUARY 28, 1997	MAY 31, 1996
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
CURRENT LIABILITIES		
TRADE ACCOUNTS PAYABLE	\$ 3,821	\$ 4,183
ACCRUED COMPENSATION AND RELATED ITEMS	27,669	19,120
RESERVE FOR WORKERS' COMPENSATION	2,014	1,235
ACCRUED INCOME TAXES	4,854	573
OTHER ACCRUED EXPENSES	9,929	5,941
DEFERRED REVENUE	4,836	4,934
	-----	-----
TOTAL CURRENT LIABILITIES	53,123	35,986
OTHER LIABILITIES		
DEFERRED INCOME TAXES	141	416
RESERVE FOR WORKERS' COMPENSATION	865	865
CUSTOMER DEPOSITS	1,519	1,038
OTHER LONG-TERM LIABILITIES	1,253	848
	-----	-----
TOTAL LIABILITIES	56,901	39,153
STOCKHOLDERS' EQUITY		
COMMON STOCK, \$.01 PAR VALUE, AUTHORIZED 150,000,000 SHARES:		

ISSUED 72,312,009 AT FEBRUARY 28, 1997 AND 71,632,456 AT MAY 31, 1996	723	716
ADDITIONAL CAPITAL	37,313	30,112
RETAINED EARNINGS	199,075	161,368
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	237,111	192,196
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 294,012	\$ 231,349
	=====	=====

</TABLE>

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

CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	FEBRUARY 28, 1997	RESTATED FEBRUARY 29, 1996	FEBRUARY 28, 1997	RESTATED FEBRUARY 29, 1996
	----	----	----	----
	(in thousands, except per share amounts)			
<S>	<C>	<C>	<C>	<C>
PAYROLL REVENUE	\$ 97,934	\$ 80,715	\$269,945	\$228,339
PEO/HRS REVENUE	97,628	72,760	261,158	178,534
	-----	-----	-----	-----
TOTAL REVENUE	\$195,562	\$153,475	\$531,103	\$406,873
	-----	-----	-----	-----
PEO/HRS DIRECT COSTS	89,208	66,310	238,210	161,770
OPERATING COSTS	30,233	26,835	84,856	75,010
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	51,099	43,222	137,569	119,622
	-----	-----	-----	-----
OPERATING INCOME	25,022	17,108	70,468	50,471
OTHER INCOME	1,764	1,447	4,994	4,298
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	26,786	18,555	75,462	54,769
INCOME TAXES	7,500	4,766	21,035	14,724
	-----	-----	-----	-----
NET INCOME	\$ 19,286	\$ 13,789	\$ 54,427	\$ 40,045
	=====	=====	=====	=====
EARNINGS PER SHARE	\$ .27	\$ .19 *	\$ .76	\$ .56 *
	=====	=====	=====	=====
CASH DIVIDENDS PER SHARE	\$ .09	\$ .06 *	\$ .24	\$ .16 *
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	72,230	71,394 *	71,902	71,206 *
	=====	=====	=====	=====

</TABLE>

\* ADJUSTED FOR THREE-FOR-TWO STOCK SPLIT IN MAY, 1996.  
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
PAYCHEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>

<CAPTION>

	NINE MONTHS ENDED	
	FEBRUARY 28, 1997	FEBRUARY 29, 1996
	----	----
	(in thousands)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
NET INCOME	\$ 54,427	\$ 40,045
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION AND AMORTIZATION	10,660	10,552
NET CHANGE IN DEFERRED INCOME TAXES	(3,372)	(1,438)
PROVISION FOR BAD DEBTS	1,186	657
NET REALIZED (GAIN) ON SALES OF		

AVAILABLE-FOR-SALE SECURITIES	(135)	(588)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
TRADE ACCOUNTS RECEIVABLE	(1,187)	(232)
ACCRUED INTEREST RECEIVABLE	(1,147)	280
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	(1,148)	(737)
TRADE ACCOUNTS PAYABLE AND OTHER		
CURRENT LIABILITIES	16,455	9,007
DEFERRED REVENUE	(98)	2,397
RESERVE FOR WORKERS' COMPENSATION	778	2,022
CUSTOMER DEPOSITS	481	254
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	76,900	62,219
INVESTING ACTIVITIES		
INVESTMENT PURCHASES OF AVAILABLE-FOR-SALE SECURITIES	(75,460)	(100,255)
PROCEEDS FROM SALES OF AVAILABLE-FOR-SALE SECURITIES	50,205	71,711
PROCEEDS FROM MATURITIES OF AVAILABLE-FOR-SALE SECURITIES	625	3,787
ADDITIONS TO PROPERTY AND EQUIPMENT, NET OF DISPOSALS	(13,219)	(14,183)
NET CHANGE IN OTHER ASSETS	(2,167)	(618)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(40,016)	(39,558)
FINANCING ACTIVITIES		
PAYMENTS ON LONG-TERM DEBT	-0-	(728)
PROCEEDS AND TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS	7,415	1,973
DIVIDENDS PAID	(17,607)	(11,418)
OTHER	406	1
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(9,786)	(10,172)
	-----	-----
(DECREASE) IN CASH AND CASH EQUIVALENTS	27,098	12,489
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,999	14,812
CASH OBTAINED THROUGH ACQUISITIONS	-0-	812
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 47,097	\$ 28,113
	=====	=====

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS  
PAYCHEX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FEBRUARY 28, 1997

A) THE ACCOMPANYING UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC. AND ITS WHOLLY-OWNED SUBSIDIARIES HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL INFORMATION AND WITH THE INSTRUCTIONS TO FORM 10-Q AND ARTICLE 10 OF REGULATION S-X. ACCORDINGLY, THE CONSOLIDATED FINANCIAL STATEMENTS DO NOT INCLUDE ALL OF THE INFORMATION AND FOOTNOTES REQUIRED BY GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR COMPLETE FINANCIAL STATEMENTS. IN THE OPINION OF MANAGEMENT, THE INFORMATION FURNISHED HEREIN REFLECTS ALL ADJUSTMENTS (CONSISTING OF NORMAL, RECURRING ACCRUALS) WHICH ARE NECESSARY FOR A FAIR PRESENTATION OF THE RESULTS FOR THE INTERIM PERIOD. OPERATING RESULTS FOR THE THREE AND NINE-MONTH PERIODS ENDED FEBRUARY 28, 1997 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS THAT MAY BE EXPECTED FOR THE YEAR ENDED MAY 31, 1997. THE ACCOMPANYING FINANCIAL STATEMENTS SHOULD BE READ IN CONJUNCTION WITH FINANCIAL STATEMENTS AND FOOTNOTES PRESENTED IN THE COMPANY'S FORM 10-K AND ANNUAL REPORT FOR THE YEAR ENDED MAY 31, 1996.

B) ALL OF THE FINANCIAL INFORMATION CONTAINED HEREIN HAS BEEN RESTATED TO REFLECT THE AUGUST 1996 MERGER OF PAYCHEX AND NATIONAL BUSINESS SOLUTIONS, INC. AS WELL AS THE FORMATION OF THE PEO/HUMAN RESOURCE SERVICES BUSINESS SEGMENT IN THE THIRD QUARTER OF FISCAL 1997.

C) DURING THE NINE-MONTH PERIOD ENDING FEBRUARY 28, 1997, 231,508 SHARES OF STOCK WERE ISSUED UPON EXERCISE OF STOCK OPTIONS.

IN ADDITION, THE COMPANY GRANTED STOCK OPTIONS FOR APPROXIMATELY 793,000 SHARES, INCLUDING APPROXIMATELY 614,000 SHARES RELATED TO A BROAD BASED STOCK OPTION PLAN FOR IT'S EMPLOYEES.

D) ON AUGUST 26, 1996, THE COMPANY COMPLETED ITS MERGER WITH NATIONAL BUSINESS SOLUTIONS, INC. (NBS), NOW PAYCHEX BUSINESS SOLUTIONS, INC.

(PBS) A PROFESSIONAL EMPLOYER ORGANIZATION, HEADQUARTERED IN ST. PETERSBURG, FLORIDA. THE OUTSTANDING COMMON STOCK OF NBS WAS EXCHANGED FOR 2,934,496 SHARES OF PAYCHEX COMMON STOCK, VALUED AT \$140,000,000. THE TRANSACTION WAS ACCOUNTED FOR AS A POOLING OF INTERESTS; THEREFORE, PRIOR PERIOD FINANCIAL STATEMENTS HAVE BEEN RESTATED TO REFLECT THIS MERGER.

PBS IS A LEADING PROFESSIONAL EMPLOYER ORGANIZATION ("PEO"), WHICH PROVIDES SMALL AND MEDIUM-SIZED BUSINESSES WITH AN OUTSOURCING SOLUTION TO THE COMPLEXITIES AND COSTS RELATED TO EMPLOYMENT AND HUMAN RESOURCES.

E) ON AUGUST 29, 1996, THE COMPANY ACQUIRED ALL OF THE OUTSTANDING STOCK OF THE PAYROLL SERVICE, INC., IN EXCHANGE FOR APPROXIMATELY 55,000 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONT'D.

F) ON NOVEMBER 21, 1996, THE COMPANY ACQUIRED ALL OF THE OUTSTANDING STOCK OF OLSEN COMPUTER SYSTEMS, INC., NOW PAYCHEX COMPUTER SYSTEMS, INC., IN EXCHANGE FOR APPROXIMATELY 393,000 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.

G) CERTAIN AMOUNTS FROM THE PRIOR YEAR ARE RECLASSIFIED TO CONFORM TO FISCAL 1997 PRESENTATIONS.

H) SEGMENT INFORMATION

THE COMPANY OPERATES IN TWO MAJOR SEGMENTS, PAYROLL AND PEO/HUMAN RESOURCE SERVICES (PEO/HRS). THE PAYROLL SEGMENT IS ENGAGED IN THE PREPARATION OF PAYROLL CHECKS, INTERNAL ACCOUNTING RECORDS AND ALL FEDERAL, STATE AND LOCAL PAYROLL TAX RETURNS FOR SMALL TO MEDIUM-SIZED BUSINESSES. THE PEO/HRS SEGMENT SPECIALIZES IN PROVIDING SMALL AND MEDIUM-SIZED BUSINESSES WITH COST-EFFECTIVE OUTSOURCING OF HUMAN RESOURCE ADMINISTRATION, EMPLOYMENT REGULATORY COMPLIANCE, WORKERS' COMPENSATION COVERAGE, HEALTH CARE AND OTHER EMPLOYEE RELATED RESPONSIBILITIES. CONSISTENT WITH PEO INDUSTRY PRACTICE, REVENUE INCLUDES ALL AMOUNTS BILLED TO CLIENTS FOR THE SERVICES PROVIDED BY THE PEO/HRS SEGMENT. PEO/HRS ALSO PROVIDES BUSINESS OWNERS WHO DO NOT CHOOSE TO BE CO-EMPLOYERS WITH EMPLOYEE HANDBOOKS, SECTION 125 PLANS AND 401(K) PLAN RECORDKEEPING SERVICES.

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	FEBRUARY 28, 1997 ----	RESTATED FEBRUARY 29, 1996 ----	FEBRUARY 28, 1997 ----	RESTATED FEBRUARY 29, 1996 ----
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
REVENUE				
PAYROLL	\$ 97,934	\$ 80,715	\$269,945	\$228,339
PEO/HRS	97,628	72,760	261,158	178,534
TOTAL REVENUE	195,562	153,475	531,103	406,873
PEO/HRS DIRECT COSTS	89,208	66,310	238,210	161,770
REVENUE, LESS PEO/HRS DIRECT COSTS	106,354	87,165	292,893	245,103
OPERATING COSTS				
PAYROLL	27,228	24,851	77,353	69,467
PEO/HRS	3,005	1,984	7,503	5,543
TOTAL OPERATING COSTS	30,233	26,835	84,856	75,010
SELLING, GENERAL AND ADMIN				
PAYROLL	44,821	38,577	121,449	105,541
PEO/HRS	4,488	3,679	11,137	10,439
TOTAL SELLING, GENERAL AND ADMIN	49,309	42,256	132,586	115,980
OPERATING INCOME				
PAYROLL	25,885	17,287	71,143	53,331
PEO/HRS	927	787	4,308	782
TOTAL OPERATING INCOME	26,812	18,074	75,451	54,113
GENERAL CORPORATE EXPENSES	1,790	966	4,983	3,642
OTHER INCOME - NET	1,764	1,447	4,994	4,298
INCOME BEFORE TAXES	\$ 26,786	\$ 18,555	\$ 75,462	\$ 54,769

</TABLE>

PAYCHEX, INC. AND SUBSIDIARIES

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

Management's discussion and analysis reviews the Company's operating results for the quarters ended February 28, 1997 and February 29, 1996, and its financial condition at February 28, 1997. 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 May 31, 1996 Consolidated Financial Statements, and the related Notes to Consolidated Financial Statements, as well as Form 8-K filed on July 9, 1996 which contained audited financial statements of National Business Solutions, Inc., discussed below. Forward-looking statements in this management's discussion and analysis are qualified by the cautionary statement at the end of this discussion. (See Footnote "Other".)

Results of operations for 1997 and 1996 have been restated to reflect Paychex' August 26, 1996 merger with National Business Solutions, Inc. (NBS) now Paychex Business Solutions, Inc. (PBS), a Professional Employer Organization (PEO) headquartered in St. Petersburg, Florida. The transaction was accounted for as a pooling of interests. Financial information was also restated to reflect the formation of the PEO/Human Resource Services (PEO/HRS) business segment during the third quarter of fiscal 1997.

On August 29, 1996 and November 21, 1996, the company acquired all of the outstanding stock of the Payroll Service, Inc. and Olsen Computer Systems, Inc., respectively, in exchange for approximately 448,000 total shares. The business combinations were accounted for as pooling of interests. Results of operations prior to the mergers have not been restated as the effects would be immaterial.

Results of Operations

Paychex earned a record consolidated net income of \$19.3 million or \$.27 per share for the third quarter ended February 28, 1997, up 40% over consolidated net income of \$13.8 million or \$.19 per share for the same quarter last year. Consolidated revenue for the quarter reached \$195.6 million, an increase of 27% over \$153.5 million for the same period last year.

For the nine months ended February 28, 1997, net income increased 36% to \$54.4 million or \$.76 per share, compared to net income of \$40.0 million or \$.56 per share for the same period last year. Total revenue for the nine month period reached \$531.1 million, an increase of 31% over \$406.9 million reported for the first nine months of the previous fiscal year.

Payroll Segment

For the quarter ended February 28, 1997, operating income from payroll services increased 50% to \$25.9 million from \$17.3 million for the same quarter last year. Payroll Service revenue was \$97.9 million, an increase of 21% over last year's revenue of \$80.7 million.

For the nine months ended February 28, 1997, operating income from payroll services increased 33% to \$71.1 million from \$53.3 million for the same nine months last year. Payroll Service revenue was \$270.0 million, an increase of 18% over last year's revenue of \$228.3 million. Strong growth in our payroll client base and improved penetration of Taxpay, Direct Deposit and Check Signing were major contributors to continued record performance in the third quarter.

Paychex currently serves 256,000 payroll clients, with 169,000 utilizing Taxpay; 70,000 taking advantage of Direct Deposit for their employees; and 26,000 using our Check Signing option.

Operating costs were 28% and 29% of revenue for the current three and nine month periods, down from 31% and 30% for the respective periods last year. Most of the decrease resulted from lower costs, as a percentage of revenue, associated with delivery, wages and facilities. Full year operating costs, as a percentage of revenue, are expected to be slightly lower than last year. (See Footnote "Other".)

Selling, general and administrative expenses were 46% and 45% of revenue for the three and nine month periods ended February 28, 1997, down from 48% and 46% for the respective periods last year. As a percentage of revenue, wages were lower in the current quarter and nine month periods, versus the same periods last year. Selling, general and administrative expenses, as a percentage of revenue, have been decreasing over the past few years. The Company expects this trend to continue for the remainder of fiscal 1997. (See Footnote "Other".)

PEO/Human Resource Services Segment

During the third quarter of fiscal 1997, Paychex Business Solutions, Inc. (PBS) our PEO and the Human Resource Services Division, formerly included in the Payroll segment, were combined into one business unit PEO/Human Resource Services (PEO/HRS). The combination will enhance opportunities to grow the PEO business as we take full advantage of our more than 100 person Human Resources Services sales force and the Division's experience in providing many clients with 401-K recordkeeping, Section 125 healthcare plans, workers' compensation, employee handbooks and other human resource services.

For the quarter ended February 28, 1997, operating income from PEO/Human Resource Services increased 18% to \$0.9 million from \$0.8 million for the same quarter last year. Third quarter operations include approximately \$0.4 million of start up costs related to the March opening of six PEO offices in Southern California. PEO/HRS revenue was \$97.6 million, an increase of 34% over last year's revenue of \$72.8 million.

Operating income for the nine months ended February 28, 1997 from the PEO/HRS segment increased 451% to \$4.3 million from \$0.8 million for the same period in 1996. Revenues rose to a record \$261.2 million, an increase of 46% over last year's revenue of \$178.5 million.

Expansion of the PEO/HRS client base continues to be strong as we now have 12,000 worksite employees representing an increase of 35% over the same time last year. The HRS 401(k) product services over 2,500 plans an increase of 142% over last year.

PBS now offers PEO/HRS services to Paychex payroll clients in Florida and Southern California and plans to expand to other select locations. Worksite employees are expected to continue to increase as PBS expands into new geographic areas. It is the intention of management to continue to fund the PEO/HRS expansion program from its operating profits. (See Footnote "Other".) Liquidity and Capital Resources

Net cash provided by consolidated operating activities totaled \$76.9 million for the nine months ended February 28, 1997 as compared to \$62.2 million in 1996. Net income for the period contributed a record \$54.4 million, representing a 36% gain over net income of \$40 million achieved for the same period last year.

Company owned investments and investments of client funds held for Taxpay and Direct Deposit consist primarily of tax-exempt municipal securities issued by various governmental agencies and short-term money market securities. At February 28, 1997, the total client Taxpay and Direct Deposit funds held by the Company were \$936.8 million. The Company continues to control credit and market risks by investing primarily in AAA and AA rated municipal securities, by limiting amounts that can be invested in any single instrument, and by investing in short-to intermediate-term instruments where market value is less sensitive to interest rate changes.

Capital expenditures for the third quarter and year to date periods totalled \$4.5 million and \$14.6 million, respectively. In addition, the Company completed its planned upgrade of laser printing equipment in branch offices through a five year operating lease commitment of approximately \$10.5 million. The Company also invested in planned furniture and fixtures expenditures related to continued growth and expansion of both the Payroll and PEO/HRS business segments. Capital expenditures for the remainder of the year are estimated to range between \$3 million to \$7 million. (See Footnote "Other".)

Projected cash flows are expected to be adequate to support normal business operations, planned capital expenditures and dividend payments. Furthermore, the Company has \$225 million of unsecured bank lines of credit available for its use. As of February 28, 1997, 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 Form 10-Q 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 rating of municipal securities held in the Company's investment portfolios.

#### PART II. OTHER INFORMATION

All items are either inapplicable or would result in negative responses and, therefore, have been omitted.

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: MARCH 26, 1997

/s/ B. THOMAS GOLISANO

-----  
B. THOMAS GOLISANO  
CHAIRMAN, PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

DATE: March 26, 1997

/s/ JOHN M. MORPHY

-----  
JOHN M. MORPHY  
VICE PRESIDENT, CHIEF  
FINANCIAL OFFICER AND  
SECRETARY

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FEBRUARY 28, 1997 FINANCIAL STATEMENTS OF PAYCHEX, INC. AND SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<EPS-PRIMARY>	.76
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