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 [no fee required]

For the fiscal year ended May 31, 1997

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. [ ].

The aggregate market value of the voting stock held by non-affiliates of the registrant as of 7/31/97 was $3,664,859,233. The number of shares of Registrant's Common Stock, $.01 par value, outstanding as of 7/31/97 was 108,582,592.

DOCUMENTS INCORPORATED BY REFERENCE

Certain specified portions of the registrant's annual report to security holders for the fiscal year ended May 31, 1997 (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, 1997 (the "Proxy Statement") are incorporated herein by reference in response to Part III, Items 10 through 12, inclusive.

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

PART I

Item 1. Business

GENERAL DEVELOPMENT OF BUSINESS

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. The Company's corporate headquarters is located in a suburb of Rochester, New York. The Company's fiscal year is from June 1 through May 31.

On August 26, 1996, the Company acquired all of the common stock of National Business Solutions, Inc., now Paychex Business Solutions, Inc., a professional employer organization (PEO) headquartered in St. Petersburg, Florida, in exchange for 4,401,744 shares of Paychex common stock in a business combination accounted for as a pooling of interests. All financial information has been restated to reflect this merger. In the third quarter of fiscal 1997, PBS was combined with the Company's Human Resources Services (HRS) division to form the HRS-PEO business segment.

The Company acquired the common stock of Olsen Computer Systems, Inc., and The Payroll Service, Inc., in fiscal 1997 and Pay-Fone Systems, Inc., in fiscal 1996 in business combinations accounted for as pooling of interests. During fiscal 1996, the Company acquired the common stock of The Payroll Company, Inc. (d/b/a Payday) in a business combination accounted for as a purchase transaction. Each of these business combinations involved the issuance of Paychex common stock and did not have a significant impact on the Company's financial position and results of operations.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

Financial information about business segments is contained in Note J - Segment Financial Information in the Notes to the Consolidated Financial Statements contained in Exhibit 13, Portions of the Annual Report to Stockholders for 1997, which is incorporated herein by reference.

NARRATIVE DESCRIPTION OF BUSINESS

Overview

The Company operates in two major business segments: (1) Payroll and (2) Human Resource Services-Professional Employer Organization (HRS-PEO).

The Payroll segment is engaged in the preparation of payroll checks, internal accounting records, all Federal, state and local payroll tax returns, and collection and remittance of payroll obligations for small- to medium-sized businesses. The Payroll segment collects and remits funds as part of its

Electronic Network Services (ENS) products. In connection with Taxpay, the automated tax payment and filing service, the segment collects payroll taxes, files the applicable tax returns and pays taxes to the appropriate taxing authorities. The Direct Deposit product collects net payroll from client accounts and provides automatic salary deposit for employees.

The HRS portion of the HRS-PEO segment provides businesses with 401(k) plan recordkeeping services, group benefits and workers' compensation insurance services, section 125 plans, employee handbooks and management services. The 401(k) recordkeeping service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services.

The PEO portion of the HRS-PEO segment operates as Paychex Business Solutions, Inc. (PBS), previously National Business Solutions, Inc., and is engaged primarily in providing human resource management and personnel administration services to a diverse client base of small- to medium-sized businesses through a network of branch offices located in Florida, Georgia and California. The PEO provides certain managed care services, including managed health care, employee assistance programs, drug-free workplace programs, comprehensive workers' compensation management, risk management and loss containment services. Consistent with PEO industry practice, direct costs billed include the wages and payroll taxes of worksite employees, their related benefit premiums and claims, including workers' compensation, and other direct costs.

Payroll Segment
- ---------------

Paychex' Payroll segment is a national payroll processing and payroll tax preparation service provided to over 262,000 small- to medium-sized businesses within the United States. The Company believes that in number of clients it is the second largest payroll accounting service company in the country. The Payroll segment prepares and furnishes paychecks, earnings statements and internal accounting records such as journals, summaries and earnings histories. The segment also prepares for its clients all required monthly, quarterly and annual payroll tax returns for Federal, state and local governments. Over 68% of its clients nationwide utilize TAXPAY, a service which provides automatic payment of payroll taxes and filing of quarterly and annual payroll tax returns. The segment also provides enhanced payroll services, including a digital check signing and inserting service and an automatic salary deposit service, DIRECT DEPOSIT. The DIRECT DEPOSIT service electronically transmits the net payroll for a client's employees to banks throughout the Federal Reserve System.

The Payroll segment markets its services principally to small- and medium-sized businesses through its 79 branch operating centers and 23 sales offices located in major metropolitan areas. Its market share in branch processing center territories ranges from 1% to approximately 20%. No client accounts for as much as 1% of its revenue.

Clients may discontinue Paychex payroll service at will. Approximately 80% of the businesses which were clients in fiscal year 1995 or 1996 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.

Paychex 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, upon receiving the information from the client over the telephone, to enter it simultaneously. Payroll processing is decentralized and performed in most Paychex branches while TAXPAY and DIRECT DEPOSIT processing are centralized at a leased facility in Rochester, New York. Sales offices utilize a nearby branch for processing.

During fiscal 1997, the Company acquired Olsen Computer Systems, Inc., now Paychex Computer Systems, Inc.(PCS). PCS has licensed its payroll and human resource software to over 100 service bureaus who have over 20,000 clients throughout the United States. The software is named RAPID PAYROLL and is capable of generating complex wage- and job-based reports, including labor distributions, general ledger reports, vacation accruals, job costing, tip allocations, 401(k) and section 125 calculations and union-related calculations. The software is ideal for companies ranging from fifty to two hundred employees. Since the purchase of PCS, the Company has not sold any licenses of the software and continues to provide support for prior existing licensees. The Company's RAPID PAYROLL service bureaus compete with existing RAPID PAYROLL licensees in offering the same or similar payroll services in those markets where the Company and the licensees have offices.

Payroll 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. 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.

HRS-PEO Segment
- ----------------

Human Resource Services

The HRS-PEO segment provides human resource products and services through its HRS division, on an a la carte basis to clients who choose to provide these benefits directly rather than through a co-employer relationship with PBS, the Company's PEO division. Among the HRS products is a 401(k) recordkeeping service. This service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services. The HRS division of this segment also offers Cafeteria Plan products approved under section 125 of the Internal Revenue Code. The Premium Only Plan allows employees to pay for certain health insurance benefits with pre-tax dollars, with a resultant reduction in payroll taxes to employers and employees. The Flexible Spending Account Plan allows a client's employees to pay, with pre-tax dollars, health and dependent care expenses not covered by insurance. All required administration, compliance and coverage tests are provided with these services.

Other HRS 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 is a measurement and evaluation tool to assist clients in the process of hiring, training and developing employees. Group insurance products are offered in selected geographical areas.

Professional Employer Organization Services

PBS, a subsidiary of Paychex, Inc., is a leading professional employer organization, which provides small- and medium-sized businesses with an outsourcing solution to the complexities and costs related to employment and human resources. As of May 31, 1997, PBS provided professional employer services to over 400 client worksite employer organizations with over 13,800 employees, primarily in Florida, Georgia and California.

Five Core Activities

PBS provides professional employer services through five core activities: (i) human resource administration, (ii) employer regulatory compliance management, (iii) worker compensation cost containment and safety management, (iv) employee benefits and related administration and (v) payroll processing and tax compliance. By engaging PBS to provide these services, clients are freed to concentrate their resources on their core businesses.

(i) Human Resource Administration. PBS' comprehensive human resource services reduce the employment-related administrative burdens faced by its clients, and provide worksite employees with a wide array of benefits typically offered by large employers. As a professional employer, PBS is responsible for payroll, payroll tax deposits, payroll tax reporting, employee file maintenance, unemployment claims, and monitoring and responding to changing regulatory requirements. PBS develops and administers customized personnel policies and procedures for each of its clients, relating to, among other things, recruiting, performance appraisals, discipline and terminations. PBS also provides recruiting, orientation, training, counseling, substance abuse awareness and outplacement services for worksite employees.

(ii) Employer Regulatory Compliance Management. PBS' Client Services Agreement establishes the contractual division of responsibility between PBS and its clients for various payroll, personnel, and benefits matters including compliance with and liability under employment related regulatory requirements. Laws and regulations applicable to employers include state and federal tax laws, and discrimination, sexual harassment and other civil rights laws.

Although the Client Services Agreement requires the client to indemnify PBS for any liability attributable to client conduct, PBS may not be able to collect under the indemnification clause of its contract with clients.

(iii) Workers Compensation Cost Containment and Safety Management. Workers compensation is a state-mandated, comprehensive insurance program that requires employers to fund medical expenses, lost wages and other costs that result from work-related injuries and illnesses, regardless of fault and without any copayment by the employee. PBS seeks to control its workers compensation costs through comprehensive risk evaluation of prospective clients, the prevention of workplace injuries, early intervention in each

employee injury, intensive management of the medical costs related to such injuries and the prompt return of employees to work.
PBS seeks to prevent workplace injuries by implementing a wide variety of training, safety and mandatory drug-free workplace programs (including pre-employment, random and post accident drug testing). Specific components of the PBS proprietary managed care system include the prompt identification and reporting of injuries, the use of PBS's carrier for designated health care providers, utilization and fee review, telephonic claims and case management, auditing of bills and other techniques designed to reduce medical costs. PBS's efforts to return employees to work quickly involve both rehabilitation services and the placement of employees in transitional, modified-duty positions until they are able to resume their former positions.

(iv) Employee Benefits and Related Administration. PBS currently offers to worksite employees an employee benefits package which includes several health care options, such as Preferred Provider Organizations ("PPOs"), Health Maintenance Organizations ("HMOs"), and Exclusive Provider Organizations ("EPOs"). Supplemental benefit programs offer dental care, vision care, prescription drugs, an employee assistance plan, mental health benefits and several life and disability insurance options. PBS also offers 401(K) retirement savings and cafeteria plans to its eligible employees. In its role as administrator, PBS delivers participant benefits to worksite employees and monitors and reviews claims for loss control purposes, as well as reconciliation of health premium billings and COBRA compliance. PBS believes that its ability to provide and administer a wide variety of employee benefits on behalf of its clients tends to mitigate the competitive disadvantage small and medium-sized businesses normally face in the areas of employee benefit cost control and employee recruiting and retention.

(v) Payroll Processing and Tax Compliance. PBS offers complete payroll processing, preparation of payroll checks and direct deposits, federal and state tax deposits, monthly and quarterly federal and state tax reporting, and year end W-2 processing and distribution. The Company provides each of its clients with a payroll reporting package which includes payroll and human resource reports. At present, each of these reports and the payroll process used by PBS are different from those used by its parent, Paychex, Inc.

PBS's standard PEO services agreement provides for an initial one year term, subject to termination by PBS or the client at any time during the first year upon 60 days' prior written notice, and thereafter annually. Revenues from professional employer services are based on a pricing model that takes into account the gross pay of each employee and a mark-up which includes the estimated costs of federal and state employment taxes, workers compensation, employee benefits and the human resource administrative services, as well as a provision for profit. The specific mark-up varies by client based on the workers compensation classification of the worksite employees and their eligibility for health care benefits. Accordingly, the Company's average mark-up percentage will fluctuate based on client mix.

HRS-PEO Sales Process

HRS-PEO products and services are sold through a sales organization separate from that which sells Payroll services. This segment markets its products and services through a direct sales force experienced in fields related to one or more of its core services. Since PBS's acquisition by Paychex in August 1996, its sales force and the HRS sales force have been undergoing cross training.

The HRS division sells the majority of its products and services to existing Payroll segment clients since the processed payroll information provides the data integration necessary to provide the service.

PBS generates sales leads from two primary sources: direct sales efforts and referrals, including referrals of existing Payroll segment clients. These leads result in initial presentations to prospective clients. PBS sales executives then gather information about the prospective client and its employees, including job classification, workers compensation claims history, health insurance claims history, salary and the desired level of employee benefits. These various factors are reviewed in the context of PBS's pricing model and client selection guidelines. A client proposal is prepared and submitted to acceptable clients.

This prospective client screening process plays a vital role in controlling PBS's cost and limiting exposure to liability. Once a prospective client accepts PBS's proposal and has passed the PBS due diligence process, PBS schedules the client conversion process. The PBS Client Services Manager then assumes the responsibility as team leader for administering the client's human resources and benefits as well as coordinating the Company's response to the client's needs for administrative support and responding to any questions or problems encountered by clients.

HRS-PEO Competition

HRS-PEO segment competitors include (i) traditional in-house human resource departments, (ii) other PEOs, and (iii) providers of unbundled employment-related services such as payroll processing firms, temporary employment firms, commercial insurance brokers, human resource consultants, workers compensation insurers, HMOs and other specialty managed care providers.

Competition in the highly fragmented PEO industry is generally on a local or regional basis. Management believes that the primary elements of competition are quality of service, choice and quality of benefits, and price. PBS believes that name recognition, regulatory expertise, financial resources, risk management and data processing capability distinguish leading PEOs from the rest of the industry.

PBS believes that barriers to entry into the PEO industry are increasing and include the following: (i) the complexity of the PEO business and the need for expertise in the multiple human resources disciplines; (ii) the three to five years of experience required to establish experience ratings in key cost areas of workers compensation, health insurance and unemployment; and (iii) the need for sophisticated management information systems to track all aspects of business in a high-growth environment.

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.

WARRANTY PAYMENTS

Paychex warrants its services, agreeing to reimburse any client for penalties and interest incurred as a result of a Paychex error. Payroll segment warranty claims paid in fiscal years 1997, 1996 and 1995 were approximately $969,000, $783,000 and $410,000, respectively. HRS-PEO segment warranty claims paid in fiscal 1997, 1996 and 1995 were approximately $30,000, $11,000 and $0, respectively.

INVESTMENT RISKS

Investments consist of various government securities, investment grade municipal securities, money market funds and other cash equivalents. The Company is exposed to credit risk in connection with these investments through the possible inability of the borrowers to meet the terms of the bonds. The Company attempts to limit credit risk by investing primarily in AAA- and AA-rated securities, A-rated or better money market funds and by limiting amounts that can be invested in any single instrument. The Company invests in short- to intermediate-term securities as they are less sensitive to interest rate fluctuations. At May 31, 1997, the portfolio of securities had an average duration of 2.6 years.

EMPLOYEES

Paychex currently employs approximately 4,440 persons, of which 4,200 are full time and 240 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, PAYLINK and RAPID PAYROLL. 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 Payroll segment clients added in each of the last three 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 Company's headquarters for both business segments and corporate functions are housed in a 139,000 square foot building complex owned by the Company in a Rochester, New York suburb. In addition, approximately 44,000 square feet is leased in several office complexes within the Rochester area. These leased facilities house other Corporate functions, other Payroll operations and a telemarketing unit.

The Payroll segment leases space for its branch and sales offices at various locations throughout the United States. The average size of a branch office and a sales office is 10,000 square feet and 850 square feet, respectively.

RAPID PAYROLL service bureaus operate in leased facilities with an average of 5,700 square feet in Orange County, Cerritos and Pleasanton, California and Chicago, Illinois.

The HRS division occupies a 62,000 square foot office and distribution facility owned by the Company and located within 10 miles of the Corporate headquarters. HRS sales forces share space in some of the Payroll branches and sales offices.

PBS is headquartered in St. Petersburg, Florida, in a leased building shared with its Tampa Bay PEO unit. Three other PEO units are located in leased facilities in Hollywood and Orlando, Florida, and in Atlanta, Georgia. These leased facilities average 7,700 square feet of office space. Nine additional PEO units are located in southern California and Florida and share space with the Payroll branches in that area.

The Company believes that adequate, suitable lease space will continue to be available for its needs.

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, 1997.

Part II

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

The Company's common stock is traded in the over-the-counter market and quoted on the NASDAQ National Market System under the symbol PAYX. Quarterly high and low bid information reported by NASDAQ National Markets System and related dividend information of the Company for the past two years is set forth below. The high and low prices and dividends per share have been adjusted to reflect the three-for-two stock splits declared in May 1997 and May 1996.

<TABLE>
<CAPTION>

Year Ended May 31	1997 Market Price per Share		1997 Dividends Paid per Share	1996 Market Price per Share		1996 Dividends Paid per Share
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	High	Low		High	Low	
1st Quarter	$37.38	$26.88	$.04	$18.58	$13.08	$.03
2nd Quarter	42.38	33.13	.06	20.92	18.00	.04
3rd Quarter	37.88	28.38	.06	26.08	17.67	.04
4th Quarter	37.38	25.50	.06	31.33	22.92	.06

</TABLE>

On July 31, 1997, there were 6,198 holders of record of the Company's common stock. The level of future dividends is necessarily dependent on the Company's future earnings and cash flows.

During the past three fiscal years, the Company made four acquisitions in which it issued shares of $.01 par value common stock ("Common Stock") which were not registered under the Securities Act of 1933, as amended (the "Act"), in reliance on the exemption from registration created by Section 4(2) of the Act.

1. November 21, 1996 - The Company acquired all of the issued and outstanding stock of Olsen Computer Systems, Inc., in a merger in which 589,389 shares of Common Stock were issued to the two Olsen Shareholders. The basis for the Section 4(2) reliance was the financial and business sophistication of the shareholders, their non-distributive intent and the legending of their stock certificates.

2. August 29, 1996 - The Company acquired all of issued and outstanding stock of The Payroll Service, Inc., in a merger in which 82,781 shares of Common Stock were issued to the sole shareholder of The Payroll Service, Inc. The basis for the Section 4(2) reliance was the financial and business sophistication of the shareholder, his non-distributive intent and the legending of his stock certificates.

3. August 26, 1996 - The Company acquired all of the issued and outstanding stock of National Business Solutions, Inc., in a merger in which 4,401,744 shares of Common Stock were issued to the four shareholders of National Business Solutions, Inc. The basis for the Section 4(2) reliance was the financial and business sophistication of the shareholders, their non-distributive intent and the legending of their stock certificates.

4. September 29, 1995 - The Company acquired all of the issued and outstanding stock of The Payroll Company, Inc. (d/b/a Payday), in a merger in which 260,762 shares of Common Stock were issued to the two shareholders of The Payroll Company, Inc. The basis for the Section 4(2) reliance was the

financial and business sophistication of the shareholders, their non-distributive intent and the legending of their stock certificates.

The number of shares of Common Stock issued in each of the above-transactions has been restated to reflect subsequent three-for-two stock splits in May 1997 and May 1996.

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 (Unaudited)" 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 the section entitled "Other Executive Officers" 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 Officer 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, 1997, 1996 and 1995

Consolidated Balance Sheets - May 31, 1997 and 1996 Restated

Consolidated Statements of Stockholders' Equity - Years ended May 31, 1997, 1996 Restated and 1995 Restated

Consolidated Statements of Cash Flows - Years ended May 31, 1997, 1996 Restated and 1995 Restated

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. 33-52838.

(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 Stockholders for the Fiscal Year ended May 31, 1997. 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 fiscal year ended May 31, 1997.

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 15, 1997 By: /s/ B. Thomas Golisano

B. Thomas Golisano, Chairman, President, 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 15, 1997 By: /s/ B. Thomas Golisano

B. Thomas Golisano, Chairman, President, and Chief Executive Officer and Director

Dated: August 15, 1997 By: /s/ Donald W. Brinckman*

Donald W. Brinckman, Director

Dated: August 15, 1997 By: /s/ Steven D. Brooks*

Steven D. Brooks, Director

Dated: August 15, 1997 By: /s/ G. Thomas Clark*

G. Thomas Clark, Director

Dated: August 15, 1997 By: /s/ Phillip Horsley*

Phillip Horsley, Director

Dated: August 15, 1997 By: /s/ Grant M. Inman*

Grant M. Inman, Director

Dated: August 15, 1997 By: /s/ Harry P. Messina, Jr.*

Harry P. Messina, Jr., Director

Dated: August 15, 1997 By: /s/ J. Robert Sebo*

J. Robert Sebo, Director

Dated: August 15, 1997 By: /s/ John M. Morphy

John M. Morphy, Vice President, Chief
Financial Officer and Secretary
(Principal Accounting Officer)

*By: /s/ B. Thomas Golisano

B. Thomas Golisano, as Attorney-in-Fact

EXHIBIT 13: PORTIONS OF THE ANNUAL REPORT TO STOCKHOLDERS FOR THE FISCAL YEAR ENDED MAY 31, 1997

SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

SUMMARY OF SELECTED FINANCIAL DATA
(In thousands except per share amounts and other statistics)

For the years ended or at May 31,	1997	1996	1995	1994	1993
<S>	<C>	<C>	<C>	<C>	<C>
OPERATIONS					
Service revenues:					
Payroll	$ 368,855	$ 309,517	$ 254,093	$ 215,663	$ 184,004
HRS-PEO	30,878	23,791	18,020	11,290	7,700
Total service revenues	399,733	333,308	272,113	226,953	191,704
PEO direct costs billed (1)	334,966	233,135	139,953	96,952	60,434
Total revenue	734,699	566,443	412,066	323,905	252,138
PEO direct costs (1)	334,966	233,135	139,953	96,952	60,434
Operating costs	115,034	101,235	81,663	70,034	61,877
Selling, general and administrative expenses	188,074	162,151	138,186	119,477	102,893
Operating income	96,625	69,922	52,264	37,442	26,934
% of total service revenues	24.2%	21.0%	19.2%	16.5%	14.0%
Investment income, net of interest expense	7,031	5,467	3,458	2,220	1,379
Income before income taxes	103,656	75,389	55,722	39,662	28,313
% of total service revenues	25.9%	22.6%	20.5%	17.5%	14.8%
Net income	75,150	55,035	40,389	28,746	20,241
% of total service revenues	18.8%	16.5%	14.8%	12.7%	10.6%
FINANCIAL POSITION					
Working capital	$ 194,614	$ 138,639	$ 100,009	$ 68,888	$ 46,776
Purchases of property and equipment	18,536	17,806	12,535	11,667	8,822
Total assets	1,201,323	831,585	647,366	474,786	322,214
Total debt (including current portion)	-	-	728	948	1,634
Stockholders' equity	251,542	191,072	141,976	109,124	85,365
Return on stockholders' equity	33.9%	32.3%	32.2%	29.6%	26.5%
COMMON STOCK					
Earnings per share	$ .70	$ .51	$ .38	$ .27	$ .19
Cash dividends per share	.22	.17	.10	.07	.04
Weighted-average number of shares outstanding	108,001	106,929	105,486	105,177	104,742
OTHER STATISTICS					
Payroll segment:					
Payroll clients	262,700	234,300	207,900	185,900	167,500
Branch service centers	79	75	71	70	70
Sales offices	23	23	23	24	20
HRS-PEO segment:					
PEO worksite employees	13,800	9,200	5,300	3,400	1,800
401(k) clients	3,000	1,300	200	-	-

</TABLE>

Note: Per share and weighted-average share amounts have been adjusted for three-for-two stock splits in May 1997, May 1996, May 1995 and August 1993. All financial information has been restated to reflect the August 1996 merger of Paychex, Inc. and National Business Solutions, Inc. as well as the formation of the HRS-PEO business segment in the third quarter of fiscal 1997. Prior to 1997, all financial information has been restated to report the Electronic Network Services investments and related client deposits as current assets and current liabilities on the consolidated balance sheets, with no effect on previously reported net income or earnings per share. (1) Wages and payroll taxes of PEO worksite employees and their related benefit premiums and claims.

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, 1997, and its financial condition at May 31, 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 accompanying consolidated financial statements, the related Notes to consolidated financial statements, and the Eleven-Year Summary of Selected Financial Data. Forward-looking statements in this management's discussion and analysis are qualified by the cautionary statement at the end of this discussion.

NOTABLE EVENTS

Business Combinations

During 1997, Paychex identified certain strategic products that should support the strong growth and exceptional returns that Paychex shareholders have enjoyed for many years. The acquisition of National Business Solutions, Inc. (NBS), now Paychex Business Solutions, Inc. (PBS), recognized the opportunity to provide ongoing benefits management to small- to medium-sized businesses. PBS, a professional employer organization (PEO), was combined with the Company's Human Resources Services (HRS) to form the HRS-PEO business segment, which will develop and market its combined portfolio of products -- 401(k) recordkeeping, insurance services, section 125 plans, employee handbooks and PEO services. All financial information has been restated to reflect the results of the NBS merger, accounted for as a pooling of interests.

The Company acquired the common stock of Olsen Computer Systems, Inc., and the Payroll Service, Inc., in 1997 and Pay-Fone Systems, Inc., in 1996 in business combinations accounted for as pooling of interests. During 1996, the Company acquired the common stock of The Payroll Company, Inc. (d/b/a Payday), in a business combination accounted for as a purchase transaction. Each of these business combinations involved the issuance of Paychex common stock and did not have a significant impact on the Company's financial position and results of operations.

Balance Sheet Presentation

Prior to May 1997, the Company did not report the Electronic Network Services (ENS) funds generated from Taxpay and Direct Deposit products as assets and liabilities based on its understanding of the nature of the funds and industry practices. The amount of funds held and related investments were disclosed in the Notes to previously issued consolidated financial statements. Due to recent changes in case law, the Company restated the previously reported consolidated financial statements to reflect the ENS funds and related client deposit liabilities as current assets and current liabilities on the consolidated balance sheets. This restatement had no effect on previously reported net income or earnings per share.

RESULTS OF CONSOLIDATED OPERATIONS

For the years ended May 31, (In thousands except per share amounts)	1997	Change	1996	Change	1995
Total revenue	$ 734,699	+29.7%	$ 566,443	+37.5%	$ 412,066
Operating income	$ 96,625	+38.2%	$ 69,922	+33.8%	$ 52,264
Net income	$ 75,150	+36.5%	$ 55,035	+36.3%	$ 40,389
Earnings per share	$ .70	+37.3%	$ .51	+34.2%	$ .38

The financial results for Paychex, Inc., in 1997 reflected the seventh consecutive year of record revenues and net income. The Company's ability to continually grow its client base, increase the utilization of ancillary services and decrease selling, general and administrative expenses as a percent of revenue, resulted in seven years of average compounded annual growth in revenue of 29.5% and net income of 36.4%. Fiscal 1998 is expected to show continued growth in revenue, client base and resulting net income.

<TABLE>
<CAPTION>
PAYROLL SEGMENT:

For the years ended May 31, (In thousands)	1997	Change	1996	Change	1995
<S>	<C>	<C>	<C>	<C>	<C>
Payroll services revenue	$368,855	+19.2%	$309,517	+21.8%	$254,093
Payroll operating income	$ 99,422	+36.6%	$ 72,763	+30.1%	$ 55,931
Client statistics at May 31,					
Payroll clients	262.7	+12.1%	234.3	+12.7%	207.9
Taxpay clients	180.9	+38.0%	131.1	+24.5%	105.3
Direct Deposit clients	76.5	+49.1%	51.3	+39.8%	36.7
Check Signing clients	27.2	+21.4%	22.4	+24.4%	18.0

</TABLE>

Revenues: Payroll, Taxpay and Direct Deposit revenues include service fees and investment income. Investment income is earned during the period between collecting client funds and remitting the funds to the applicable tax authorities or client employees from Taxpay and Direct Deposit products. Client base gains increased service revenues and investment income over the past two years. During 1997, the Taxpay client base benefited from the Federal mandate requiring small businesses to file payroll taxes electronically as of July 1, 1997. This benefit is expected to increase the Taxpay client base in 1998 as more Payroll clients will take advantage of this service to meet the Federal mandate.

Operating income: Operating income for 1997 and 1996 increased as a result of continued growth of the client base and utilization of ancillary services, plus continued leveraging of the segment's operating expense base. Effective July 1, 1997, the Company will comply with the Internal Revenue Service's Electronic Funds Transfer Payment Service by making client tax payments "good funds" one business day earlier. Therefore, revenue and income for 1998 will be reduced by approximately $3 million because of lower levels of tax-exempt municipal security investments. The Company has implemented a modest price increase for its Taxpay services which is expected to offset these reductions.

Payroll revenues and operating income for 1998 are expected to increase from the growth of the number of clients, plus continued leveraging of the operating expense base and selling, general and administrative expenses as a percent of revenue.

<TABLE>
<CAPTION>
HRS-PEO SEGMENT:

For the years ended May 31, (In thousands)	1997	Change	1996	Change	1995
<S>	<C>	<C>	<C>	<C>	<C>
HRS-PEO service revenue	$ 30,878	+ 29.8%	$ 23,791	+ 32.0%	$ 18,020
PEO direct costs billed	334,966	+ 43.7%	233,135	+ 66.6%	139,953
Total HRS-PEO revenue	365,844	+ 42.4%	256,926	+ 62.6%	157,973
PEO direct costs	334,966	+ 43.7%	233,135	+ 66.6%	139,953
HRS-PEO operating income	$ 4,474	+164.6%	$ 1,691	+7,952.4%	$ 21
Client statistics at May 31,					
401(k) clients	3.0	+130.8%	1.3	+ 550.0%	.2
PEO worksite employees	13.8	+ 50.0%	9.2	+ 73.6%	5.3

</TABLE>

Revenues: The growth in revenue is largely attributable to the increases in the number of 401(k) clients and PEO worksite employees. Fiscal 1998 revenues are expected to grow as the Company continues to increase 401(k) clients, PEO worksite employees and other HRS-PEO ancillary product sales.

Operating income: Improvements in HRS-PEO operating income for 1997 and 1996 resulted from significant increases in sales of 401(k) recordkeeping services, growth in PEO worksite employees and processing efficiencies. Operating income for 1997 has been reduced by start-up costs for a PEO branch in Southern California, costs of continued HRS-PEO expansion and costs to centralize administrative functions in Rochester, New York. Operating income for 1998 is expected to increase, but will continue to be impacted by costs of expansion and centralization of administrative functions.

PEO direct costs billed and direct costs: Consistent with industry practices and generally accepted accounting principles, PEO revenues reported in the consolidated statements of income include the service fee, plus the direct costs billed to clients for the wages and payroll taxes of worksite employees, their related benefit premiums and claims and other direct costs. The Company continually manages the costs related to employee benefits, including workers' compensation liabilities. The Company recorded reserves for workers' compensation claims costs at the expected liability amount based on the estimated loss exposure considering the maximum potential exposure under the workers' compensation deductible insurance policies. At May 31, 1997 and 1996, the recorded reserve is at the maximum exposure under these insurance policies. The increases in PEO direct costs billed and direct costs are reflective of the increases in the number of PEO worksite employees.

Investment income:

For the years ended May 31, (In thousands)	1997	Change	1996	Change	1995
Investment income	$7,031	+28.6%	$5,467	+58.1%	$3,458

Investment income earned from the Company's Investments, which does not include the income earned from ENS investments, has grown mainly as a result of increases in investment balances generated from successive gains in operating cash flows. Investment income for 1998 is expected to grow as a result of increased net income and investment of subsequent operating cash flows, but will be impacted by typical changes in market rates of interest.

Income taxes: In each of the past three years, the Company's effective tax rate ranged from 27.0% to 27.5%. Fiscal years 1996 and 1995 have been impacted by the restatement for the merger with NBS, taxed as a subchapter S corporation, which resulted in a benefit of 1.3% and 0.9%, respectively. Fiscal 1998's effective tax rate is expected to range from 28.5% to 29.5%.

Liquidity and Capital Resources

Consolidated operating cash flows:

For the years ended May 31, (In thousands)	1997	Change	1996	Change	1995
Operating cash flows	$101,819	+50.2%	$67,773	+27.7%	$53,082

The continued increases in operating cash flows resulted primarily from the consistent achievement of record net income in each of the three years presented. Projected operating cash flows are expected to be adequate to support normal business operations and continued growth, planned purchases of property and equipment and dividend payments. Furthermore, at May 31, 1997, the Company had $183.0 million in available cash and investments and $262.5 million of available, unsecured and unused lines of credit.

Investments and ENS investments: Investments and ENS investments consist of various government securities, investment grade municipal securities, money market funds and other cash equivalents. The Company is exposed to credit risk in connection with these investments through the possible inability of the borrowers to meet the terms of the bonds. The Company attempts to limit credit risk by investing primarily in AAA- and AA-rated securities, A-rated or better money market funds and by limiting amounts that can be invested in any single instrument. The Company invests in short- to intermediate-term securities as they are less sensitive to interest rate fluctuations. At May 31, 1997, the portfolio of securities had an average duration of 2.6 years. During 1996, greater investment purchases and sales activity occurred as the Company managed its investment portfolio to minimize risks associated with declining market interest rates experienced during that year.

Purchases of property and equipment:

For the years ended May 31, (In thousands)	1997	Change	1996	Change	1995
Purchases of P&E	$18,536	+4.1%	$17,806	+42.1%	$12,535

A major portion of the increase in 1996 purchases over 1995 included upgrades to terminals and telecommunications equipment in branch offices which enhanced operating efficiency and customer service. Purchases for 1997 were comprised of additional upgrades to data processing equipment and workstations. During 1997, the Company implemented a major upgrade of its laser printing equipment in branch offices through a five-year operating lease with future minimum lease payments of approximately $10.0 million. Purchases of property and equipment in 1998 are expected to range from $19 to $23 million.

Cash dividends and stock splits:

For the years ended May 31, (In thousands except per share amounts)	1997	Change	1996	Change	1995
Cash dividends	$24,117	+36.4%	$17,685	+67.9%	$10,531
Cash dividends per share	$ .22	+29.4%	$ .17	+70.0%	$ .10

- ---

Cash dividends per share have been restated for the year ended May 31, 1996, to include the effects of $2.6 million in distributions made to stockholders of NBS. Cash dividends per share as previously reported by the Company for the year ended May 31, 1996, were $.15 per share. The Company has distributed three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares each month of May for the years of 1997, 1996 and 1995. All financial information within this Annual Report has been adjusted for these stock splits.

Other
- -----

Recently issued accounting standards: In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share," which will be adopted by the Company for interim and annual periods after December 15, 1997. This Statement will not impact the Company's currently reported earnings per share. The Company will be required to change the method currently used to compute fully diluted earnings per share, but the impact is not expected to be material.

Year 2000 date conversion: During 1997, the Company established a team to coordinate the identification, evaluation and implementation of changes to computer systems and software necessary to achieve a year 2000 date conversion. The team's efforts are necessary to ensure that systems and software will recognize and process the year 2000 and beyond with no effect on clients or disruptions to business operations. The total cost of the team's efforts and its effect on the Company's future results of operations is not expected to be material.

Forward-looking cautionary statement
- ------------------------------------

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, professional employer organizations, and employee benefits, including 401(k) plans, workers' compensation, 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.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
- ---

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Paychex, Inc.

We have audited the accompanying consolidated balance sheets of Paychex, Inc. and subsidiaries as of May 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1997. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 1997, 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 investments in fiscal year 1995.

Syracuse, New York /s/ERNST & YOUNG LLP

June 25, 1997

CONSOLIDATED STATEMENTS OF INCOME

For the years ended May 31,	1997	1996	1995
(In thousands except per share amounts)			
Service revenues:			
Payroll	$368,855	$309,517	$254,093
HRS-PEO	30,878	23,791	18,020
Total service revenues	399,733	333,308	272,113
PEO direct costs billed (1)	334,966	233,135	139,953
Total revenue	734,699	566,443	412,066
PEO direct costs (1)	334,966	233,135	139,953
Operating costs	115,034	101,235	81,663
Selling, general and administrative expenses	188,074	162,151	138,186
Operating income	96,625	69,922	52,264
Investment income	7,031	5,467	3,458
Income before income taxes	103,656	75,389	55,722
Income taxes	28,506	20,354	15,333
Net income	$ 75,150	$ 55,035	$ 40,389
Earnings per share	$ .70	$ .51	$ .38
Cash dividends per share	$ .22	$ .17	$ .10
Weighted-average shares outstanding	108,001	106,929	105,486

See notes to consolidated financial statements.

(1) Wages and payroll taxes of PEO worksite employees and their related benefit premiums and claims.

CONSOLIDATED BALANCE SHEETS

May 31,	1997	1996 (Restated)
(In thousands except share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,213	$ 19,999
Investments	132,780	102,967
Interest receivable	10,462	7,385
Accounts receivable	45,527	42,076
Deferred income taxes	2,560	2,180
Prepaid expenses and other current assets	2,486	1,903
Current assets before ENS investments	244,028	176,510
Electronic Network Services investments (1)	896,633	599,475
Total current assets	1,140,661	775,985
Property and equipment - net	54,178	50,655
Deferred income taxes	72	-
Other assets	6,412	4,945
Total assets	$1,201,323	$831,585
LIABILITIES		
Current liabilities:		
Accounts payable	$ 5,649	$ 4,183
Accrued compensation and related items	26,969	19,120
Deferred revenue	4,335	4,934
Reserve for workers' compensation	1,813	1,235
Accrued income taxes	1,774	573
Other current liabilities	9,427	5,941
Current liabilities before ENS client deposits	49,967	35,986
Electronic Network Services client deposits (1)	896,080	601,360
Total current liabilities	946,047	637,346
Other liabilities:		
Reserve for workers' compensation	928	865
Deferred income taxes	-	416
Other long-term liabilities	2,806	1,886
Total liabilities	949,781	640,513

STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, authorized 150,000,000 shares Issued: 108,518,831 in 1997 and 71,632,456 in 1996	1,085	716
Additional paid-in capital	37,531	30,112
Retained earnings	212,926	160,244
Total stockholders' equity	251,542	191,072
Total liabilities and stockholders' equity	$1,201,323	$831,585

See notes to consolidated financial statements.

(1) Electronic Network Services (ENS) investments and related client deposits result from the collection of funds for Taxpay and Direct Deposit products.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Common stock				
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>
(In thousands)					
Balance at May 31, 1994	31,212	$ 312	$15,894	$ 92,918	$109,124
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	15,660	157		(175)	(18)
Adjustment to the beginning balance of investments and ENS investments to recognize the net unrealized holding loss on available-for-sale securities upon adoption of SFAS No. 115, net of income taxes of $606				(892)	(892)
Change in unrealized gains and losses on investments and ENS investments, net of income taxes of $1,370				1,954	1,954
Dividends paid				(10,531)	(10,531)
Net income				40,389	40,389
Balance at May 31, 1995 (Restated)	46,988	470	17,843	123,663	141,976
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	23,652	236		(281)	(45)
Shares issued in connection with merger and acquisition	672	7	6,777	1,866	8,650
Change in unrealized gains and losses on investments and ENS investments, net of income taxes of $1,631				(2,354)	(2,354)
Dividends paid				(17,685)	(17,685)
Net income				55,035	55,035
Other			11		11
Balance at May 31, 1996 (Restated)	71,632	716	30,112	160,244	191,072
Exercise of stock options	267	3	2,177		2,180
Tax benefit from stock option transactions			5,208		5,208
Shares issued in connection with three-for-two stock split	36,172	362		(389)	(27)
Shares issued in connection with mergers	448	4	34	207	245
Change in unrealized gains and losses on investments and ENS investments, net of income taxes of $1,220				1,831	1,831
Dividends paid				(24,117)	(24,117)
Net income				75,150	75,150
Balance at May 31, 1997	108,519	$1,085	$37,531	$212,926	$251,542

</TABLE>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

For the years ended May 31,	1997	1996 (Restated)	1995 (Restated)
<S>	<C>	<C>	<C>
(In thousands)			
OPERATING ACTIVITIES:			
Net income	$ 75,150	$ 55,035	$ 40,389
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization on depreciable and intangible assets	15,329	13,940	11,040
Amortization of premiums and discounts on securities	6,115	3,225	2,422
Net change in provision for deferred income taxes	(2,053)	2	(41)
Provision for bad debts	1,328	1,034	847
Net realized (gains)/losses on sales of available-for-sale securities	(164)	(2,696)	298
Changes in operating assets and liabilities:			
Accounts receivable	(4,779)	(7,455)	(10,062)
Interest receivable	(3,077)	(686)	(1,832)
Prepaid expenses and other current assets	(583)	228	631
Accounts payable and other current liabilities	13,981	4,882	9,111
Net change in other assets and liabilities	572	264	279
Net cash provided by operating activities	101,819	67,773	53,082
INVESTING ACTIVITIES:			
Investment purchases of available-for-sale securities	(306,488)	(565,557)	(196,756)
Proceeds from sales of available-for-sale securities	185,161	479,087	110,427
Proceeds from maturities of available-for-sale securities	2,125	12,882	10,775
Net change in Electronic Network Services money market funds and other cash equivalents	(210,669)	(88,676)	(86,903)
Net change in Electronic Network Services client deposits	294,720	129,836	130,597
Additions to property and equipment, net of disposals	(18,008)	(17,511)	(12,448)
Purchases of other assets	(1,935)	(793)	(202)
Net cash used in investing activities	(55,094)	(50,732)	(44,510)
FINANCING ACTIVITIES:			
Payments on long-term debt	-	(431)	(220)
Proceeds and tax benefit from exercise of stock options	7,388	5,484	1,950
Dividends paid	(24,117)	(17,685)	(10,531)
Payment in lieu of issuance of fractional shares	(27)	(45)	(18)
Other	245	11	-
Net cash used in financing activities	(16,511)	(12,666)	(8,819)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,214	4,375	(247)
Cash and cash equivalents, beginning of fiscal year	19,999	14,812	15,059
Cash obtained from merger and acquisition	-	812	-
Cash and cash equivalents, end of fiscal year	$ 50,213	$ 19,999	$ 14,812
Supplemental cash flow information:			
Income taxes paid	$ 24,256	$ 17,672	$ 13,831

</TABLE>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Business activities and segments: The Company operates in two major business segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO).

Payroll segment: The Payroll segment is engaged in the preparation of payroll checks, internal accounting records, all Federal, state and local payroll tax returns, and collection and remittance of payroll obligations for small- to medium-sized businesses. The Payroll segment collects and remits funds as part of its Electronic Network Services (ENS) products. In connection with Taypay, the automated tax payment and filing service, the segment collects payroll taxes, files the applicable tax returns and pays taxes to the appropriate taxing authorities. The Direct Deposit product collects net payroll from client accounts and provides automatic salary deposit for employees. The ENS funds are invested in various financial instruments, without significant concentration in any one issuer. The ENS funds and related client deposit liabilities are included in the consolidated balance sheets as current assets and current liabilities. Related income earned from these investments is included in service revenue. The amount of ENS funds held may vary significantly during the year.

Prior to May 1997, the Company did not report the ENS funds as assets and liabilities based on its understanding of the nature of the funds and industry practices. The amount of funds held and related investments were disclosed in the notes to previously issued consolidated financial statements. Due to recent changes in case law, the Company restated the previously reported consolidated financial statements to reflect the ENS funds and related client deposit liabilities as current assets and current liabilities on the consolidated balance sheets. This restatement had no effect on previously reported net income or earnings per share.

HRS-PEO segment: The HRS portion of the HRS-PEO segment provides businesses with 401(k) plan recordkeeping services, group benefits and workers' compensation insurance services, section 125 plans, employee handbooks and management services. The 401(k) recordkeeping service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services.

The PEO portion of the HRS-PEO segment operates as Paychex Business Solutions, Inc. (PBS), previously National Business Solutions, Inc., and is engaged primarily in providing human resource management and personnel administration services to a diverse client base of small- to medium-sized businesses through a network of branch offices located in Florida, Georgia and California. The PEO provides certain managed care services, including managed health care, employee assistance programs, drug-free workplace programs, comprehensive workers' compensation management, risk management and loss containment services. Consistent with PEO industry practice, direct costs billed include the wages and payroll taxes of worksite employees, their related benefit premiums and claims, including workers' compensation, and other direct costs.

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

Investments: Investments and ENS investments are classified as available-for-sale and are recorded at estimated fair values with unrealized gains and losses reported as a component of retained earnings in stockholders' equity, net of applicable income taxes. Realized gains and losses on sales of investments are determined by specific identification of the investment's cost basis.

Effective June 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 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. The adoption had no effect on net income. The impact of adopting SFAS No. 115 was to decrease stockholders' equity by $892,000 (net of $606,000 of deferred income taxes) at June 1, 1994 to reflect the unrealized loss on securities at the beginning of the fiscal year.

Accounts receivable: Accounts receivable consists primarily of amounts billed to clients for services rendered. In addition, PEO accounts receivable includes certain unbilled receivables representing fees and direct costs for worksite employees from the last pay period ending date through the financial statement date. At May 31, 1997 and 1996, the PEO unbilled receivables were $6,516,000 and $4,040,000, respectively.

Property and equipment - net: Property and equipment - net is stated at cost, less accumulated depreciation and amortization. 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. The typical estimated useful lives of depreciable assets are 35 years for buildings and improvements and 3 to 5 years for all others.

Software development and enhancement: The Company incurs certain costs to enhance its computer programs. 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.

Reserve for workers' compensation: Workers' compensation for PEO worksite employees is provided under a deductible insured plan whereby the maximum individual claims exposure is $350,000 and the aggregate claims exposure is limited to a percentage of workers' compensation payroll. The Company recorded reserves for workers' compensation claims cost at the expected liability amount based on the estimated loss exposure considering the maximum potential exposure under the insurance policies. At May 31, 1997 and 1996, the recorded reserve is at the maximum exposure under the insurance policies.

The portion of the reserve not expected to be paid within one year has been classified as a non-current liability.

Revenue recognition: Revenues from Payroll activities include those amounts billed for services rendered, as well as investment income earned from ENS products. Revenues and the related costs of wages, salaries and employment taxes from PEO activities of worksite employees are recognized in the period in which the employee performs the service.
Deferred revenue: The Company defers revenue on certain services billed in advance. The revenue is recognized upon completion of these services.

Income taxes: The Company accounts for deferred taxes by recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Stock-based compensation costs: The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," effective June 1, 1996. As permitted by that Statement, the Company elected to continue to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for employee stock-based compensation costs. Under APB No. 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

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

Cash dividends per share: Cash dividends per share have been restated for the year ended May 31, 1996, to include the effects of distributions made to the stockholders of National Business Solutions, Inc. Cash dividends per share as restated for the year ended May 31, 1996, were $.17 as compared to $.15 as originally reported. The restatement had no effect for the years ended May 31, 1997 and 1995.

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 amounts and results could differ from those estimated.

Recently issued accounting standards: In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share," which will be adopted for interim and annual periods ending after December 15, 1997. This Statement will not impact the Company's currently reported earnings per share. The Company will be required to change the method currently used to compute fully diluted earnings per share, but the impact is not expected to be material.

Reclassifications: Certain amounts from prior years are reclassified to conform to 1997 presentations.

NOTE B - BUSINESS COMBINATIONS
- ---------------------------------

On November 21, 1996, the Company acquired all of the common stock of Olsen Computer Systems, Inc., now Paychex Computer Systems, Inc., in exchange for 589,389 shares of Paychex common stock in a business combination accounted for as a pooling of interests. Results of operations prior to the completion of the merger have not been restated as the effects are not material. Olsen Computer Systems, Inc., is a leading developer and provider of PC-based software to payroll service bureaus offering automated payroll and human resource records management.
On August 29, 1996, the Company acquired all of the common stock of The Payroll Service, Inc., a payroll services company, in exchange for approximately 82,781 shares of Paychex common stock in a business combination accounted for as a pooling of interests. Results of operations prior to the completion of the merger have not been restated as the effects are not material.

On August 26, 1996, the Company acquired all of the common stock of National Business Solutions, Inc. (NBS), now Paychex Business Solutions, Inc. (PBS), a professional employer organization headquartered in St. Petersburg, Florida, in exchange for 4,401,744 shares of Paychex common stock in a business combination accounted for as a pooling of interests. Information included in these consolidated financial statements and footnotes has been restated to reflect this merger.

The following is a reconciliation of the amounts of revenue and net income previously reported with restated amounts:

For the years ended May 31,	1996	1995
(In thousands except per share amounts)		
Revenue		
Consolidated Paychex, as previously reported	$325,285	$267,176
National Business Solutions, Inc.	241,158	144,890
Consolidated Paychex, as restated	$566,443	$412,066
Net income		
Consolidated Paychex, as previously reported	$ 52,333	$ 39,040
National Business Solutions, Inc.	2,702	1,349
Consolidated Paychex, as restated	$ 55,035	$ 40,389
Earnings per share	$ .51	$ .38

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 260,700 shares of Paychex common stock with a fair value of $5,000,000 at the date of acquisition. The agreement included a guarantee that stock issued at $19.07 and not sold prior to September 29, 2000, will appreciate by a minimum of 20% to $22.87 or by approximately $1,000,000 over the five-year period ending on September 29, 2000. The per share market value of Paychex common stock at May 31, 1997 was $36.75.

The Payday 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 consolidated financial statements.

On June 15, 1995, the Company acquired all of the common stock of Pay-Fone Systems, Inc., a payroll services company, in exchange for approximately 746,850 shares of Paychex common stock in a business combination accounted for as a pooling of interests. Results of operations prior to the completion of the merger have not been restated as the effects are not material.

NOTE C - INVESTMENTS

Investments consist of various governmental securities, investment grade municipal securities, money market funds and other cash equivalents. No individual issue comprises greater than 1% of total assets. The estimated fair value of these investments is determined based on information received from an independent pricing service. Investments are as follows:

<TABLE>
<CAPTION>

May 31,	1997		1996	
	Cost	Fair value	Cost	Fair value
<S>	<C>	<C>	<C>	<C>
(In thousands)				
Type of issue				
Money market funds and other cash equivalents	$ 555,172	$ 555,172	$344,503	$344,503
Securities:				
General obligation municipal bonds	178,571	178,797	145,830	145,076
Pre-Refunded municipal bonds	193,135	193,635	130,192	129,639
Revenue municipal bonds	97,931	98,182	72,953	72,611
U.S. Treasury bonds and other	3,712	3,627	11,123	10,613
Total securities	473,349	474,241	360,098	357,939
Total investments	$1,028,521	$1,029,413	$704,601	$702,442

Classification of investments on consolidated balance sheets:		
Investments	$ 132,780	$102,967
Electronic Network Services investments	896,633	599,475
	$1,029,413	$702,442

</TABLE>

The Company is exposed to credit risks from the possible inability of the borrowers to meet the terms of their bonds. In addition, the Company is exposed to interest rate risk as interest rate volatility may cause fluctuations in the market value and earnings potential of investments. The Company attempts to limit these risks by investing primarily in AAA- and AA-rated securities, A-rated or better money market funds, limiting amounts that can be invested in any single instrument, and by investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes.

Cost, unrealized gains and losses, and the estimated fair value of securities are as follows:

May 31,	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
(In thousands)				
1997	$473,349	$1,642	$ 750	$474,241
1996	$360,098	$ 691	$2,850	$357,939

Net realized gains and losses on sales of available-for-sale securities are included in Payroll revenue and Investment income on the consolidated statements of income. Gross realized gains and losses were as follows:

For the years ended May 31,	1997	1996	1995
(In thousands)			
Gross realized gains	$602	$3,770	$299
Gross realized losses	$438	$1,074	$597

The amortized cost and estimated fair value of securities at May 31, 1997, 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.

May 31, 1997	Cost	Fair value
(In thousands)		
Maturity date:		
Due in one year or less	$ 17,723	$ 17,778
Due after one year through three years	240,467	240,954
Due after three years through five years	186,977	187,246
Due after five years	28,182	28,263
Total securities	$473,349	$474,241

NOTE D - PROPERTY AND EQUIPMENT - NET

May 31,	1997	1996
(In thousands)		
Land and improvements	$ 2,789	$ 2,787
Buildings and improvements	24,672	24,145
Data processing equipment and software	50,973	43,439
Furniture, fixtures and equipment	44,251	37,921
Leasehold improvements	3,582	2,718
	126,267	111,010
Less accumulated depreciation and amortization	72,089	60,355
	$ 54,178	$ 50,655

NOTE E - STOCKHOLDERS' EQUITY

The Company declared three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares on various dates as follows:

Fiscal year	Stock dividend declaration date	Payable to holders of record	Stock dividend distribution dates
1997	April 10, 1997	May 8, 1997	May 29, 1997
1996	April 11, 1996	May 2, 1996	May 23, 1996
1995	April 13, 1995	May 2, 1995	May 25, 1995

Earnings per share, cash dividends per share, weighted-average shares outstanding and all applicable footnotes have been adjusted to reflect the stock splits noted above.

NOTE F - STOCK OPTION PLANS

The Company reserved 2,812,500 shares authorized to be granted to employees in the form of non-qualified and incentive stock options under the 1995 Stock Incentive Plan, with 1,097,496 shares available for future grants at May 31, 1997. In addition to grants awarded to the Company's management, a broad-based grant of 1,047,242 incentive stock options was made to more than 4,000 employees in 1997. The 1992 and 1987 Stock Incentive Plans expired on August 13, 1995 and 1992, respectively; however, options to purchase 1,821,978 shares under these plans remain outstanding. The exercise price for the shares subject to options of the Company's common stock may not be less than 100% of the fair market value on the date of grant. If a grantee owns more than 10% of the Company's outstanding common stock, the exercise price for the shares subject to incentive stock options must not be less than 110% of the fair market value on the date of grant. Stock option grants have a contractual life of ten years, and vest after a minimum two years of service from the date of grant, with annual vesting ranging from 33.3% to 50% of the original award granted. No employee stock-based compensation costs have been recognized for the years ended May 31, 1997, 1996 and 1995.

The following table summarizes stock option activity for the three years ended May 31, 1997:

	Shares subject to options	Weighted-average exercise price
Outstanding at May 31, 1994	2,977,992	$ 5.18
Granted	512,332	$10.65
Exercised	(385,191)	$ 3.28
Forfeited	(100,650)	$ 9.42
Outstanding at May 31, 1995	3,004,483	$ 6.22
Granted	744,866	$17.83
Exercised	(720,061)	$ 3.92
Forfeited	(89,567)	$ 8.57
Outstanding at May 31, 1996	2,939,721	$ 9.65
Granted	1,316,042	$38.46
Exercised	(399,652)	$ 5.45
Forfeited	(319,129)	$24.71
Outstanding at May 31, 1997	3,536,982	$19.49
Exercisable at May 31, 1995	1,562,627	$ 3.27
Exercisable at May 31, 1996	1,257,948	$ 4.66
Exercisable at May 31, 1997	1,311,371	$ 6.10

The following table summarizes information about stock options outstanding at May 31, 1997:

<TABLE>
<CAPTION>

	Options outstanding			Options exercisable	
Range of exercise prices	Shares subject to options	Weighted-average exercise price	Weighted-average remaining contractual life	Shares subject to options	Weighted-average exercise price
<S>	<C>	<C>	<C>	<C>	<C>
$ 1.99 - 5.68	914,528	$ 3.94	4.0 years	841,419	$ 3.78
$ 7.23 - 12.15	907,450	$10.19	6.8 years	466,202	$10.14
$20.17 - 22.61	537,975	$20.27	8.4 years	3,750	$22.60
$29.42 - 40.67	1,177,029	$38.38	9.5 years	-	$ -

$ 1.99 - 40.67	3,536,982	$19.49	7.2 years	1,311,371	$ 6.10
	=========			=========	

</TABLE>

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. This disclosure is not likely to be representative of the effects on reported pro forma net income and earnings per share for future years, because stock options vest over a range of 33.3% to 50% per year and additional awards generally are made each year. The Company's pro forma net income and earnings per share are as follows:

For the years ended May 31,	1997	1996
(In thousands except per share amounts)		
Pro forma net income	$72,060	$54,523
Pro forma earnings per share	$ .67	$ .51

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's vesting period. The fair value of those stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

For the years ended May 31,	1997	1996
Risk-free interest rate	6.2%	5.9%
Dividend yields	.9%	1.6%
Volatility factors	.28	.29
Expected option term life in years	4.9	4.5

The weighted-average grant-date estimated fair value of stock options granted for the years ended May 31, 1997 and 1996 were $12.58 and $5.89 per share, respectively.

NOTE G - INCOME TAXES

The net deferred tax asset components are as follows:

May 31,	1997	1996
(In thousands)		
Deferred tax assets:		
Accrued vacation pay	$1,330	$1,391
Reserve for workers' compensation claims	1,105	-
Allowance for bad debts	987	817
Accrual for future medical claims	809	293
Unrealized losses on available-for-sale securities	-	867
Other	1,338	903
Gross deferred tax assets	5,569	4,271
Deferred tax liabilities:		
Revenue not subject to current taxes	1,931	1,877
Depreciation	629	554
Unrealized gains on available-for-sale securities	353	-
Other	24	76
Gross deferred tax liabilities	2,937	2,507
Net deferred tax asset	$2,632	$1,764

The components of the provision for income taxes are as follows:

For the years ended May 31,	1997	1996	1995
(In thousands)			
Current:			
Federal	$24,699	$15,400	$11,404
State	5,860	4,952	3,970
Total current	30,559	20,352	15,374
Deferred:			
Federal	(1,719)	(18)	(31)
State	(334)	20	(10)
Total deferred	(2,053)	2	(41)
Provision for income taxes	$28,506	$20,354	$15,333

NBS elected to be taxed as a subchapter S corporation under Federal and state provisions for the years ended May 31, 1996 and 1995. Accordingly, no tax provision was recorded for that corporation in these restated consolidated financial statements, resulting in a reduction of the Company's overall effective tax rate. Reconciliations of the U.S. Federal statutory tax rate with effective tax rates reported for income before income taxes were as follows:

For the years ended May 31,	1997	1996	1995
Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State income taxes, net of Federal benefit	3.5	4.3	4.6
Tax-exempt municipal bond interest	(10.9)	(11.3)	(11.9)
Benefit from NBS income not subject to income taxes	-	(1.3)	(.9)
Other items	(.1)	.3	.7
Effective tax rate	27.5%	27.0%	27.5%

NOTE H - EMPLOYEE BENEFITS

The Company's 401(k) Incentive Retirement Plans allow 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 for the years ended May 31, 1997, 1996 and 1995 were $2,712,000, $2,264,000 and $1,913,000, respectively.

The Company's PEO sponsors and administers a 401(k) plan and a money purchase plan on behalf of its worksite employees. PEO clients, at their discretion, may contribute a matching contribution on behalf of each participant for whom an elective contribution was made during the plan year.

NOTE I - COMMITMENTS & CONTINGENCIES

At May 31, 1997, the Company has available unsecured lines of credit from various banks totaling $262,500,000. No amounts were outstanding against the lines of credit at May 31, 1997.

In January 1997, the Company issued an uncollaterallized fixed letter of credit for $3,692,000 as required by workers' compensation insurance policies.

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 leases office space and data processing equipment under terms of various operating leases. All data processing equipment leases contain purchase options at prices representing the fair value of the equipment at expiration of the lease term. Rent expense is as follows:

For the years ended May 31,	1997	1996	1995
(In thousands)			
Office space	$14,135	$12,888	$10,707
Data processing equipment	3,179	2,455	1,640
Total rent expense	$17,314	$15,343	$12,347

The future minimum lease payments under various noncancelable operating leases consist of the following:

(In thousands)	
1998	$15,694
1999	13,561
2000	10,865
2001	7,641
2002	2,967
Thereafter	1,199
Total future minimum lease payments	$51,927

NOTE J - SEGMENT FINANCIAL INFORMATION

See Note A for a description of the Company's business segments.

<TABLE>
<CAPTION>

For the years ended May 31,	1997	1996	1995
(In thousands)			
OPERATING RESULTS			
Total revenue:			
Payroll	$ 368,855	$309,517	$254,093
HRS-PEO revenue:			
Service revenue	30,878	23,791	18,020
PEO direct costs billed (1)	334,966	233,135	139,953
Total HRS-PEO revenue	365,844	256,926	157,973
Total revenue	734,699	566,443	412,066
PEO direct costs (1)	334,966	233,135	139,953
Total revenue less PEO direct costs	399,733	333,308	272,113
Operating costs:			
Payroll	104,118	93,333	75,837
HRS-PEO	10,916	7,902	5,826
Total operating costs	115,034	101,235	81,663
Selling, general and administrative expenses:			
Payroll	165,315	143,421	122,325
HRS-PEO	15,488	14,198	12,173
Total selling, general and administrative expenses	180,803	157,619	134,498
Operating income:			
Payroll	99,422	72,763	55,931
HRS-PEO	4,474	1,691	21
Total operating income	103,896	74,454	55,952
General corporate expenses	7,271	4,532	3,688
Investment income	7,031	5,467	3,458
Income before income taxes	$ 103,656	$ 75,389	$ 55,722

(1) Wages and payroll taxes of PEO worksite employees and their related benefit premiums and claims.

	1997	1996	1995
OTHER FINANCIAL INFORMATION			
Purchases of property and equipment:			
Payroll	$ 16,438	$ 16,790	$ 11,334
HRS-PEO	1,736	661	626
Corporate	362	355	575
Total purchases of property and equipment	$ 18,536	$ 17,806	$ 12,535
Depreciation and amortization expense:			
Payroll	$ 13,980	$ 11,827	$ 9,460
HRS-PEO	585	453	281
Corporate	6,879	4,885	3,721
Total depreciation and amortization expense	$ 21,444	$ 17,165	$ 13,462
Identifiable assets at May 31,			
Payroll	$ 971,814	$666,943	$529,680
HRS-PEO	25,197	17,050	9,683
Corporate	204,312	147,592	108,003
Total identifiable assets	$1,201,323	$831,585	$647,366

</TABLE>
QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
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1997	August 31,	November 30,	February 28,	May 31,	Year
(In thousands except per share amounts)					
Total revenue	$166,042	$169,499	$195,562	$203,596	$734,699
Operating income	22,097	23,349	25,022	26,157	96,625
Net income	17,073	18,068	19,286	20,723	75,150
Earnings per share	.16	.17	.18	.19	.70

Dividends per share	.04	.06	.06	.06	.22
Market value per share:					
High	37.38	42.38	37.88	37.38	42.38
Low	26.88	33.13	28.38	25.50	25.50

1996	August 31,	November 30,	February 29,	May 31,	Year
Total revenue	$123,487	$129,911	$153,475	$159,570	$566,443
Operating income	16,283	17,080	17,108	19,451	69,922
Net income	12,781	13,475	13,789	14,990	55,035
Earnings per share	.12	.12	.13	.14	.51
Dividends per share	.03	.04	.04	.06	.17
Market value per share:					
High	18.58	20.92	26.08	31.33	31.33
Low	13.08	18.00	17.67	22.92	13.08

</TABLE>

Note: Per share amounts have been adjusted for three-for-two stock splits in May 1997 and May 1996.

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiaries	Jurisdiction of Incorporation
Paychex Management Corporation	New York
Paychex Securities Corporation	New York
Paychex Computer Systems, Inc.	California
Paychex Business Solutions, Inc.	Florida
The Payroll Service, Inc.	Illinois
Paychex Agency, Inc.	New York

The names of particular subsidiaries have been omitted in accordance with SEC reg. S-K 601(21)(ii) because they do not, in the aggregate, constitute a "significant subsidiary" of Paychex, Inc.

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 25, 1997, included in the fiscal 1997 Annual Report to Stockholders of Paychex, Inc.

We also consent to the incorporation by reference, in the registration statements of Paychex, Inc. outlined below, of our report dated June 25, 1997, with respect to the consolidated financial statements of Paychex, Inc. incorporated by reference in this Annual Report (Form 10-K) for the year ended May 31, 1997.

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

c. 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).

d. 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).

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

f. Form S-3 - Paychex, Inc. Registration Statement under the Securities Act of 1933 - as filed with the Securities and Exchange Commission on October 30, 1996 (No. 333-15105), together with Post-Effective Amendment #1 filed on May 22, 1997.

g. Form S-3 - Paychex, Inc. Registration Statement under the Securities Act of 1933 - as filed with the Securities and Exchange Commission on January 31, 1997 (No. 333-20797), together with Amendment #1 filed on March 27, 1997 and Amendment #2 filed on May 22, 1997.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Syracuse, New York
August 13, 1997

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, 1997, 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 15, 1997

/s/ Donald W. Brinckman

Donald W. Brinckman

/s/ Steven D. Brooks

Steven D. Brooks

/s/ G. Thomas Clark

G. Thomas Clark

/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

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MAY 31, 1997 CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC., AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<LOSS-PROVISION>	0	0	0
<INTEREST-EXPENSE>	0	0	0
<INCOME-PRETAX>	103,656	75,389	55,722
<INCOME-TAX>	28,506	20,354	15,333
<INCOME-CONTINUING>	75,150	55,035	40,389
<DISCONTINUED>	0	0	0
<EXTRAORDINARY>	0	0	0
<CHANGES>	0	0	0
<NET-INCOME>	75,150	55,035	40,389
<EPS-PRIMARY>	.70	.51	.38
<EPS-DILUTED>	.70	.51	.38

<FN>
<F1>SECURITIES - Includes amounts related to Electronic Network Servics investments with a balance at May 31, 1997, 1996 and 1995 of $896,633, $599,475 and $472,837, respectively.
<F2>On August 26, 1997, Paychex, Inc., acquired all of the outstanding common stock of National Business Solutions, Inc. in exchange for 4,401,744 shares of Paychex common stock in a business combination accounted for as a pooling of interests. Fiscal years 1996 and 1995 have been restated to reflect this merger. Furthermore, prior to May 1997, the Company did not report the Electronic Network Services (ENS) funds as assets and liabilities based on its understanding of the nature of the funds and industry practices. The amount of funds held and related investments were disclosed in the notes to previously issued consolidated financial statements. Due to recent changes in case law, the Company restated previously reported consolidated financial statements to reflect the ENS funds and related client deposits as current asssets and current liabilities on the consolidated balance sheets. This restatement had no effect on previously reported net income or earnings per share.
<F3>Includes $205 classified as current portion of long-term debt and $523 classified as long-term debt at May 31, 1995.
</FN>

</TABLE>