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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MAY 31, 1998

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: 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. [ ].

AS OF JULY 31, 1998, SHARES HELD BY NON-AFFILIATES OF THE REGISTRANT HAD AN AGGREGATE MARKET VALUE OF $5,552,593,511.

AS OF JULY 31, 1998, 163,330,862 SHARES OF THE REGISTRANT'S COMMON STOCK, $.01 PAR VALUE, WERE OUTSTANDING.

DOCUMENTS INCORPORATED BY REFERENCE

CERTAIN SPECIFIED PORTIONS OF THE REGISTRANT'S ANNUAL REPORT TO STOCKHOLDERS FOR THE FISCAL YEAR ENDED MAY 31, 1998 (THE "ANNUAL REPORT") IN RESPONSE TO PART II, ITEMS 6 THROUGH 8, INCLUSIVE. CERTAIN SPECIFIED PORTIONS OF THE REGISTRANT'S DEFINITIVE PROXY STATEMENT DATED AUGUST 7, 1998, IN RESPONSE TO PART III, ITEMS 10 THROUGH 12, INCLUSIVE.

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 (fiscal 1997), the Company acquired all of the common stock of National Business Solutions, Inc., now Paychex Business Solutions, Inc. (PBS), a professional employer organization (PEO). 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. During fiscal 1998, the Company completed its consolidation of PBS's administrative functions from St. Petersburg, Florida to its HRS headquarters, located near the Corporate headquarters.

The Company acquired the common stock of Olsen Computer Systems, Inc., and The Payroll Service, Inc., in fiscal 1997 and Pay-Fone Systems, Inc., and The Payroll Company, Inc. (d/b/a Payday) in fiscal 1996. The acquired entities provided the Company with a client base and a new product offering that is ideal for clients with fifty or more employees.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

Financial information about the Company's business segments is contained in Note K - Segment Financial Information in the Notes to the Consolidated Financial Statements contained in Exhibit 13, Portions of the Annual Report to Stockholders for the fiscal year ended May 31, 1998 (the "Annual Report"), which are incorporated herein by reference.

NARRATIVE DESCRIPTION OF BUSINESS

Payroll Segment

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 75% 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.

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.

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 are processed at a facility in Rochester, New York.

Paychex' Payroll segment is a national payroll processing and payroll tax preparation service provided to over 293,600 small- to medium-sized businesses within the United States. There are over 5 million full-time employers in the markets this segment serves. Of those employers, 98% have less than 100 employees and are the Company's primary customers and target market.

The Payroll segment direct markets its services principally through its sales force located at its 79 branch operating centers and 25 sales offices in major metropolitan areas. Market share in branch processing center territories ranges from 1 to 20%, and no single client accounts for more than 1% of segment revenue. In addition to its direct marketing efforts, the Company utilizes relationships with many banks and accountants for client referrals.

Clients may discontinue Paychex payroll service at will. For the past three fiscal years, approximately 80% of the businesses which were clients in one fiscal year, continued to be clients in the succeeding fiscal year. Management believes ownership changes or business failures common to small businesses are the primary causes of client loss.

During fiscal 1997, the Company acquired Olsen Computer Systems, Inc. (Olsen), now Rapid Payroll, Inc. Olsen had licensed its payroll and human resource software to approximately 100 service bureaus who had over approximately 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) plan recordkeeping and section 125 calculations and union-related calculations. The software is ideal for companies with fifty or more employees. Since the purchase of Olsen, the Company has not sold any new software licenses, but continues to provide support for existing licensees of approximately 100, with over 20,000 clients at May 31, 1998. The version of the RAPID PAYROLL software used for Paychex' clients is called PREVIEW.

Prior to the acquisition of Olsen, the Company acquired The Payroll Service, Inc., Pay-Fone Systems, Inc., and The Payroll Company, Inc. (d/b/a Payday). Each of these entities provided payroll processing services using the RAPID PAYROLL software. Currently, the PREVIEW version of this product is used at five Paychex Major Market Service locations, and is offered through a sales force separate from that of the Company's core Payroll product, without direct competition to that product.

Payroll Competition

The Payroll segment competition, listed by size, include (i) manual payroll systems sold by numerous vendors, (ii) traditional in-house computerized payroll departments, and (iii) other computerized payroll service providers. Management believes that the primary elements of competition are price and service, and believes it has one major competitor that provides computerized payroll accounting services nationwide.

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 or through a co-employer relationship with PBS, the Company's PEO division.

Among the HRS products is a 401(k) recordkeeping service, used by 6,000 clients. This service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services. The HRS division also offers Cafeteria Plan products 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 employee handbooks, management manuals and personnel forms. These have been designed to simplify clients' office processes and enhance their employee benefits programs. Group benefits and workers' compensation insurance services are offered in selected geographical areas. State unemployment insurance services provide clients with a prompt reply for all claims, appeals, determinations, change statements and requests for separation documents.

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. 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. As of May 31, 1998, PBS provided professional employer services to 19,200 employees, primarily in Florida, Georgia and southern California.

HRS-PEO Sales Process

HRS-PEO products and services are sold through a sales organization separate from that which sells Payroll services, and in fields related to one or more the segment's core services. 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.

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 management believes that name recognition, including its ownership by Paychex, Inc., regulatory expertise, financial resources, risk management and data processing capability distinguish Paychex and PBS from the rest of the industry.

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 utilized by its Payroll and HRS-PEO business segments. The Company is also engaged in developing ongoing enhancements to this software to meet the changing requirements of its clients and the marketplace. However, the Company is not engaged, to any significant extent, in basic or technological software research and development.

EMPLOYEES

As of May 31, 1998, the Company and its subsidiaries employed approximately 5,100 persons, of which 4,850 are full-time and 250 are part-time.

TRADEMARKS

As of May 31, 1998, the Company and its subsidiaries have a number of trademarks registered with 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 and over 40% of new PEO worksite employees added in each of the last three fiscal years have been added during the third fiscal quarter. Consequently, greater revenue and sales commission expenses are reported in that quarter.

ITEM 2. PROPERTIES

The Company's headquarters for its Payroll segment and Corporate functions are housed in a 140,000 square foot building complex owned by the Company in a Rochester, New York suburb. In addition, approximately 80,000 square feet is leased in several office complexes within the Rochester area. These leased facilities house various 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, concentrating on major metropolitan areas. The average size of a branch office and a sales office is approximately 13,000 square feet and approximately 1,000 square feet, respectively. The Major Market Services operations and sales force utilize leased facilities in Orange County and Pleasanton, California, Chicago, Illinois, central New Jersey, and Rochester, New York with an average of approximately 8,000 square feet.

HRS operations are performed at the HRS-PEO headquarters, a 62,000 square foot office facility owned by the Company within 10 miles of the Corporate headquarters. The PEO segment operates mainly in leased facilities in Florida and Georgia, and utilizes some leased office space at various Payroll branches. The HRS-PEO sales force utilizes office space at the segment's headquarters, PEO operating locations, and Payroll branches and sales offices.

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

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Company or any of its subsidiaries is a party, that are material in relation the consolidated financial statements.

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, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on The Nasdaq Stock Market under the symbol PAYX, and the quarterly high and low sales price information and related dividend information 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 effected in the form of 50% stock dividends distributed in May 1998 and May 1997.

Years Ended May 31,	1998 Market Price per Share		1998 Dividends Paid per Share	1997 Market Price per Share		1997 Dividends Paid per Share
	High	Low		High	Low	
1st Quarter	$27.50	$21.67	$.04	$24.89	$17.89	$.03
2nd Quarter	30.25	22.33	.06	28.28	22.11	.04
3rd Quarter	35.13	26.71	.06	25.22	18.89	.04
4th Quarter	39.83	33.13	.06	24.92	17.00	.04

On July 31, 1998, there were 5,893 holders of record of the Company's common stock. Dividends are normally paid in February, May, August, and November. The level and continuation of future dividends are necessarily dependent on the Company's future earnings and cash flows.

During the fiscal years ended May 31, 1997 and 1996, the Company completed four business combinations 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 884,084 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 124,172 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 6,602,616 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 391,143 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 effected in the form of 50% stock dividends payable in each May of 1998, 1997 and 1996.

ITEM 6. SELECTED FINANCIAL DATA

The information required is set forth in the Company's Annual Report under the heading "Eleven-Year Summary of 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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" under subheading "Investments and ENS investments: Interest Rate Risk and Quantitative and Qualitative Disclosures of Market Risks" 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

None.

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", the section entitled "OTHER EXECUTIVE OFFICERS OF THE COMPANY", and the section entitled "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" 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 consolidated financial statements of the Company are incorporated herein by reference to the Company's Annual Report:

Report of Independent Auditors

Consolidated Statements of Income - For the Years ended May 31, 1998, 1997 and 1996

Consolidated Balance Sheets - May 31, 1998 and 1997

Consolidated Statements of Stockholders' Equity - For the Years ended May 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows - For the Years ended May 31, 1998, 1997 and 1996

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 and Form 10-Q filed with the Commission on October 14, 1997.

(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, 1998. 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.

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Auditors.

(24) Power of Attorney.

(27) Financial Data Schedule (filed electronically).

(99) "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

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, 1998.

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 27, 1998 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 27, 1998 By: /s/ B. Thomas Golisano

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

Dated: August 27, 1998 By: /s/ Donald W. Brinckman*

Donald W. Brinckman, Director

Dated: August 27, 1998 By: /s/ Steven D. Brooks*

Steven D. Brooks, Director

Dated: August 27, 1998 By: /s/ G. Thomas Clark*

G. Thomas Clark, Director

Dated: August 27, 1998 By: /s/ Phillip Horsley*

Phillip Horsley, Director

Dated: August 27, 1998 By: /s/ Grant M. Inman*

Grant M. Inman, Director

Dated: August 27, 1998 By: /s/ Harry P. Messina, Jr.*

Harry P. Messina, Jr., Director

Dated: August 27, 1998 By: /s/ J. Robert Sebo*

J. Robert Sebo, Director

Dated: August 27, 1998 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, 1998 (PAGES 16 THROUGH 39).

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 fiscal years in the period ended May 31, 1998, and its financial condition at May 31, 1998. 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 beginning of this Annual Report.

Results of Operations

For the years ended May 31, (In thousands, except per share amounts)	1998	Change	1997	Change	1996
Service revenues	$ 493,704	+23.5%	$ 399,733	+19.9%	$ 333,308
Operating income	$ 134,700	+39.4%	$ 96,625	+38.2%	$ 69,922
Income before income taxes	$ 144,173	+39.1%	$ 103,656	+37.5%	$ 75,389
Net income	$ 102,219	+36.0%	$ 75,150	+36.5%	$ 55,035
Basic earnings per share	$ .63	+37.0%	$ .46	+35.3%	$ .34
Diluted earnings per share	$ .62	+34.8%	$ .46	+35.3%	$ .34

The financial results for Paychex, Inc., in 1998 reflected the eighth consecutive year of record revenues and net income, and the seventh consecutive year of net income growth of 36% or more. The Company's ability to continually grow its client base, increase the utilization of ancillary services and decrease operating expenses as a percent of service revenues resulted in eight years of average compounded annual growth in service revenues of 19% and net income of 36%.

Business and reportable segments: In May 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Company has two business segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). The Statement requires the Company to report segment financial information consistent with the presentation made to the Company's management for decision-making purposes. Prior year segment disclosures have been restated to be consistent with the year ended May 31, 1998.
Payroll segment:

For the years ended May 31, (In thousands)	1998	Change	1997	Change	1996
Payroll service revenue	$455,227	+23.4%	$368,855	+19.2%	$309,517
Payroll operating income	$180,265	+33.2%	$135,364	+25.4%	$107,957
Investment revenue included in Payroll service revenue	$ 43,429	+27.3%	$ 34,105	+26.2%	$ 27,025
Client statistics at May 31,					
Payroll clients	293.6	+11.8%	262.7	+12.1%	234.3
Taxpay clients	220.7	+22.0%	180.9	+38.0%	131.1
Direct Deposit clients	104.4	+36.5%	76.5	+49.1%	51.3
Check Signing clients	33.5	+23.2%	27.2	+21.4%	22.4

Revenues: Payroll, Taxpay and Direct Deposit revenues include service fees and investment revenue. Investment revenue is earned during the period between collecting client funds and remitting the funds to the applicable tax authorities for Taxpay clients and client employees for Direct Deposit clients. The increase in service revenue for 1998 and 1997 is primarily related to the continued growth of the Payroll client base and increased utilization of ancillary services such as Taxpay, Direct Deposit and Check Signing by both new and existing clients. During 1998 and 1997, the growth of the Taxpay client base was accelerated by the Internal Revenue Service's Electronic Federal Tax Payment System (EFTPS) mandate, which required many small businesses to remit payroll tax payments electronically as of July 1, 1997. Remitting payroll tax payments electronically resulted in the payments becoming "good funds" one day earlier, which reduced tax-exempt investment revenue in 1998. The revenue loss was offset by a modest price increase for

Taxpay services. As of May 31, 1998, approximately 75% of Payroll clients utilize the Taxpay service. Client utilization of this product is expected to mature within the next several years within a range of 82% to 87%. Client utilization of Direct Deposit at the end of fiscal 1998 was approximately 36%, and will provide additional growth opportunities in fiscal 1999 and beyond. During the second quarter of fiscal 1998, the Payroll segment also began to earn new revenues from the reporting of clients' newly hired employees to meet federal and state requirements. Fiscal 1999's percentage growth in revenue is expected to approximate 1997's rate, as the growth benefits from EFTPS diminish.

Operating income: Operating income for 1998 and 1997 increased as a result of continued growth of the client base, record levels of client retention, increased utilization of ancillary services and leveraging of the segment's operating expense base.

HRS-PEO segment:

For the years ended May 31, (In thousands)	1998	Change	1997	Change	1996
HRS-PEO service revenue	$ 38,477	+ 24.6%	$ 30,878	+ 29.8%	$ 23,791
PEO direct costs billed	499,741	+ 49.2%	334,966	+ 43.7%	233,135
Total HRS-PEO revenue	538,218	+ 47.1%	365,844	+ 42.4%	256,926
PEO direct costs	499,741	+ 49.2%	334,966	+ 43.7%	233,135
HRS-PEO operating income	$ 6,642	+ 18.7%	$ 5,596	+109.4%	$ 2,672
Client statistics at May 31,					
401(k) clients	6.0	+100.0%	3.0	+130.8%	1.3
401(k) client funds managed externally (in millions)	$ 383.3	+177.2%	$ 138.3	+295.1%	$ 35.0
Section 125 clients	16.4	+ 24.2%	13.2	+ 15.8%	11.4
PEO worksite employees	19.2	+ 39.1%	13.8	+ 50.0%	9.2

Revenues: The growth in service revenue for 1998 and 1997 was due to gains in the number of 401(k) recordkeeping clients, section 125 cafeteria plan clients and Professional Employer Organization (PEO) worksite employees. Fiscal 1999 revenues are expected to grow at a rate higher than Payroll segment revenues.

Operating income: Improvements in HRS-PEO operating income for 1998 and 1997 resulted primarily from revenue growth. Operating income for 1998 and 1997 was also impacted by start-up costs for continued HRS-PEO expansion and costs to centralize PEO administrative functions in Rochester, New York, which were completed in February 1998. During the first half of fiscal 1999, the Company will increase its 401(k) sales force by approximately 40 individuals to facilitate the goal of attaining 10,000 clients by the end of that fiscal year. Operating income for the full year of fiscal 1999 is expected to increase due to continued client base growth and from efficiencies gained from centralized operations.

PEO direct costs billed and direct costs: Consistent with industry practices and generally accepted accounting principles, total PEO revenues reported in the Consolidated Statements of Income include the service fee, plus the PEO 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 increases in PEO direct costs billed and direct costs are reflective of the increases in the number of PEO worksite employees.

Corporate expenses:

For the years ended May 31, (In thousands)	1998	Change	1997	Change	1996
Corporate expenses	$ 52,207	+17.8%	$ 44,335	+8.9%	$ 40,707

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance and Senior Management functions of the Company. For fiscal 1998 and 1997, the increases in expenses are primarily related to additional employees and other expenditures necessary to support the continued growth of the Company's business. In addition, fiscal 1998 expenses reflect increased national marketing efforts which began during the third quarter. Fiscal 1999's expenses are expected to increase at a rate similar to fiscal 1998's.

Investment income:

For the years ended May 31, (In thousands)	1998	Change	1997	Change	1996
Investment income	$ 9,473	+34.7%	$ 7,031	+28.6%	$ 5,467

Investment income earned from the Company's Investments, which does not include the investment revenue earned from ENS investments, has grown mainly as a result of increases in investment balances generated from continual gains in operating cash flows. Investment income for 1999, subject to changes in market rates of interest, is expected to grow at a rate slightly lower than net income growth.

Income taxes: The Company's effective tax rate for fiscal 1998, 1997 and 1996 was 29.1%, 27.5% and 27.0%, respectively. The increase in the 1998 effective tax rate is due to the implementation of EFTPS in July 1997, which reduced tax-exempt investment revenue. Fiscal 1999's effective tax rate is expected to range from 29.5% to 30.0%, as taxable income before income taxes is expected to grow at a faster rate than tax-exempt income.

Liquidity and Capital Resources

Operating cash flows:

For the years ended May 31, (In thousands)	1998	Change	1997	Change	1996
Operating cash flows	$ 136,761	+27.8%	$ 107,027	+51.9%	$ 70,444

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 adequately support normal business operations and forecasted growth, planned purchases of property and equipment and planned dividend payments. Furthermore, at May 31, 1998, the Company had $250.5 million in available cash and investments and $262.5 million of available, uncommitted, 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 securities and other short-term cash equivalents. The Company's Investments increased from year-over-year gains in operating cash flows. ENS investment balances increased from greater client utilization of the Company's Taxpay and Direct Deposit services.

Credit Risk: 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-1 rated short-term securities and limiting amounts that can be invested in any single instrument. At May 31, 1998, approximately 97% of the available-for-sale securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 rating or an equivalent rating.

Interest Rate Risk and Quantitative and Qualitative Disclosures of Market Risks: The Company's available-for-sale securities (See Note C of the Notes to the Consolidated Financial Statements for a breakdown of the available-for-sale securities) are exposed to market risk from changes in interest rates, as rate volatility will cause fluctuations in the market value of held investments and the earnings potential of future investments. The Company's objective in managing interest rate risk is to mitigate the risk that earnings from the portfolio could be adversely impacted by changes in interest rates in the near term. The Company invests in short- to intermediate-term fixed-rate municipal and government securities, as they are less sensitive to interest rate fluctuations, and manages the portfolio to a benchmark duration of 2.5 to 3.0 years.

The Company has classified the debt securities portions of Investments and ENS investments as available-for-sale. Accordingly, these securities are reported on the Company's Consolidated Balance Sheets at fair value. Changes in market interest rates result in an unrealized gain or loss, which is included in the reported fair value of the recorded securities, with an offsetting amount recorded in stockholders' equity, and no related or immediate impact to the results of operations. During 1998, the balance of unrealized gains fluctuated from a low of $1.9 million to a high of $7.2 million. While this balance during 1998 was an unrealized gain, the fair value of the securities could potentially decrease to an unrealized loss position, depending upon changes in market rates. As of May 31, 1998, the Company had $654.5 million invested in available-for-sale securities at fair value, with a weighted-average yield to maturity of 4.5%. Assuming a hypothetical increase in interest rates of 75 basis points given the May 31, 1998 portfolio of securities, the resulting potential decrease in fair value would be approximately $13.4 million, or approximately 2.0% of the portfolio. Conversely, a corresponding decrease in interest rates would result in a comparable increase in fair value. This hypothetical increase or decrease in the fair value of the portfolio would be recorded as an adjustment to the portfolio's recorded value, with an offsetting amount recorded in stockholders' equity, and no related or immediate impact to the results of operations.

Purchases of property and equipment:

For the years ended May 31, (In thousands)	1998	Change	1997	Change	1996
Purchases of P&E	$ 28,386	+53.1%	$ 18,536	+4.1%	$ 17,806

Due to the Company's continued client growth in 1998, significant purchases were made for upgrades to data processing equipment, including personal computers, and expansion and relocation of various facilities. During 1997, the Company implemented an upgrade of its laser printing equipment in branch offices through a five-year operating lease with future minimum lease payments of approximately $10 million. Purchases of property and equipment in fiscal 1999 are expected to be in the range of $30 million.

Cash dividends and stock splits:

For the years ended May 31, (In thousands, except per share amounts)	1998	Change	1997	Change	1996
Cash dividends	$ 35,871	+48.7%	$ 24,117	+36.4%	$ 17,685
Cash dividends per share	$ .22	+46.7%	$ .15	+36.4%	$ .11

The Company has increased the quarterly cash dividend rate per share each October by 50% for the past three fiscal years. Fiscal 1996's cash dividends include the effect of $2.6 million in distributions to stockholders of National Business Solutions, Inc. (NBS), prior to its merger with the Company in August 1996. The Company has distributed three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares each May for the past three fiscal years. All financial information within this Annual Report has been adjusted for these stock splits.

Other

Business combinations: During 1997, Paychex merged with NBS, which now operates as Paychex Business Solutions, Inc., in a pooling of interests transaction with results of operations restated prior to completion of the transaction.

The Company merged with 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., 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.

Recently issued accounting standards: Effective June 1, 1997, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is comprised of two components: net income and other comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from transactions with owners of the Company. The unrealized gains and losses, net of applicable income taxes, related to available-for-sale securities, is the only component reported in other comprehensive income in the Consolidated Statements of Stockholders' Equity for the Company. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130. The adoption of SFAS No. 130 did not have an effect on the Company's results of operations or financial position.

The Company expenses as incurred certain costs to develop and enhance its computer programs. Expenditures for vendor-provided software are capitalized and amortized by the straight-line method over their estimated useful lives, ranging from 3 to 5 years. In March 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting for Computer Software Developed for or Obtained for Internal Use," which is effective for fiscal years beginning after December 15, 1998. The SOP requires preliminary stage project costs to be expensed as incurred. Once a project is in the application development stage, the SOP requires all external direct costs for materials and services and payroll and related fringe benefit costs to be capitalized, and subsequently amortized over the estimated useful life of the project. The Company's management has not completed its assessment of what impact the SOP will have on future results of operations or financial position.

Year 2000 date conversion: The Company is actively pursuing resolution of year 2000 issues. The year 2000 problem originated with the advent of computers, when dates were stored without century indicators, in an effort to reduce the need for expensive storage space used for input, output and storage media. In order to process and calculate dates correctly, internal computer systems must be changed to handle the year 2000 and beyond. Year 2000 efforts extend past the Company's internal computer systems and require coordination with clients, vendors, government entities, financial institutions and other third parties to understand their plans for making systems and related interfaces compliant.

In response to year 2000 issues, the Company initiated a program to manage progress in year 2000 compliance efforts. The managers of the Company's year 2000 compliance program report directly to the Vice President of Information Technology and provide regular reports to the Company's Senior Management.

The Company plans to have all internal mission-critical systems year 2000 compliant by the end of calendar year 1998. Processes and procedures are in place to ensure the following: all future internal development and testing follows year 2000 development and testing standards; all projects undertaken in the interim deliver year 2000 compliant solutions; all future third-party hardware and software acquisitions are year 2000 compliant; and all commercial third-party service providers are being queried regarding their year 2000 compliance plans. In addition, the Company is actively working with all government agency partners to determine their year 2000 compliance plans, and has begun making year 2000 changes based on their mandates.
Calendar year 1999 will be used to react to yet unknown changes dictated by third parties, such as government agencies, hardware and software vendors, and financial institutions. Third-party interface testing with external agencies and partners is dependent upon those third parties completing their own year 2000 remediation efforts.

The Company currently anticipates expenditures for year 2000 efforts to approximate $5 million. The cost of the project and the date on which the Company plans to complete the year 2000 modifications are based on management's best estimates. These estimates were derived from internal assessments and assumptions of future events. The estimates may be adversely affected by the continued availability of personnel and system resources, as well as the failure of third-party vendors, service providers, and agencies to properly address year 2000 issues. There is no guarantee that these estimates will be achieved, and actual results could differ significantly from those anticipated.

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, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1998. 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, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 1998, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Syracuse, New York
June 25, 1998

CONSOLIDATED STATEMENTS OF INCOME
In thousands, except per share amounts

For the years ended May 31,	1998	1997	1996
Service revenues:			
Payroll	$ 455,227	$ 368,855	$ 309,517
HRS-PEO	38,477	30,878	23,791
Total service revenues	493,704	399,733	333,308
PEO direct costs billed (A)	499,741	334,966	233,135
Total revenue	993,445	734,699	566,443

PEO direct costs (A)	499,741	334,966	233,135
Operating costs	131,731	115,034	101,235
Selling, general and administrative expenses	227,273	188,074	162,151
Operating income	134,700	96,625	69,922
Investment income	9,473	7,031	5,467
Income before income taxes	144,173	103,656	75,389
Income taxes	41,954	28,506	20,354
Net income	$ 102,219	$ 75,150	$ 55,035
Basic earnings per share	$ .63	$ .46	$ .34
Diluted earnings per share	$ .62	$ .46	$ .34
Weighted-average common shares outstanding	163,009	162,002	160,394
Weighted-average shares assuming dilution	164,813	163,757	162,190
Cash dividends per common share	$ .22	$ .15	$ .11

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS

In thousands

May 31,	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 35,571	$ 50,213
Investments	214,967	132,780
Interest receivable	13,227	10,462
Accounts receivable	54,596	45,527
Deferred income taxes	1,525	2,560
Prepaid expenses and other current assets	4,391	2,486
Current assets before ENS investments	324,277	244,028
Electronic Network Services investments	1,154,501	896,633
Total current assets	1,478,778	1,140,661
Property and equipment--net	64,698	54,178
Deferred income taxes	517	72
Other assets	5,794	6,412
Total assets	$1,549,787	$1,201,323
Liabilities		
Current liabilities:		
Accounts payable	$ 10,496	$ 5,649
Accrued compensation and related items	33,649	26,969
Deferred revenue	4,443	4,335
Accrued income taxes	2,628	1,774
Other current liabilities	13,960	11,240
Current liabilities before ENS client deposits	65,176	49,967
Electronic Network Services client deposits	1,150,484	896,080
Total current liabilities	1,215,660	946,047
Other long-term liabilities	4,520	3,734
Total liabilities	1,220,180	949,781
Stockholders' Equity		
Common stock, $.01 par value, authorized 300,000 shares Issued: 163,188/1998 and 108,519/1997	1,632	1,085
Additional paid-in capital	46,463	37,531
Retained earnings	278,107	212,387
Accumulated other comprehensive income	3,405	539
Total stockholders' equity	329,607	251,542
Total liabilities and stockholders' equity	$1,549,787	$1,201,323

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Accumulated Other Compre-hensive income	Total
Balance at May 31, 1995	46,988	$ 470	$ 17,843	$122,601	$ 1,062	$ 141,976
Exercise of stock options	320	3	2,810			2,813
Tax benefit from exercise of stock options			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
Comprehensive income:						
Net income				55,035		
Other comprehensive income, net of tax: Unrealized losses on securities, net of reclassification adjustments					(2,354)	
Total comprehensive income						52,681
Cash dividends declared				(17,685)		(17,685)
Other			11			11
Balance at May 31, 1996	71,632	716	30,112	161,536	(1,292)	191,072
Exercise of stock options	267	3	2,177			2,180
Tax benefit from exercise of stock options			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
Comprehensive income:						
Net income				75,150		
Other comprehensive income, net of tax: Unrealized gains on securities, net of reclassification adjustments					1,831	
Total comprehensive income						76,981
Cash dividends declared				(24,117)		(24,117)
Balance at May 31, 1997	108,519	1,085	37,531	212,387	539	251,542
Exercise of stock options	277	3	1,987			1,990
Tax benefit from exercise of stock options			6,945			6,945
Shares issued in connection with three-for-two stock split	54,392	544		(628)		(84)
Comprehensive income:						
Net income				102,219		
Other comprehensive income, net of tax: Unrealized gains on securities, net of reclassification adjustments					2,866	
Total comprehensive income						105,085
Cash dividends declared				(35,871)		(35,871)
Balance at May 31, 1998	163,188	$1,632	$46,463	$278,107	$3,405	$329,607

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands For the years ended May 31,	1998	1997	1996
Operating Activities			
Net income	$102,219	$ 75,150	$ 55,035
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization on depreciable and intangible assets	18,764	15,329	13,940
Amortization of premiums and discounts on available-for-sale securities	8,497	6,115	3,225

Provision for deferred income taxes	(1,030)	(2,053)	2
Provision for bad debts	1,648	1,328	1,034
Net realized gains on sales of available-for-sale securities	(934)	(164)	(2,696)
Changes in operating assets and liabilities:			
Interest receivable	(2,765)	(3,077)	(686)
Accounts receivable	(10,717)	(4,779)	(7,455)
Prepaid expenses and other current assets	(1,905)	(583)	228
Accounts payable and other current liabilities	22,154	19,189	7,553
Net change in other assets and liabilities	830	572	264
Net cash provided by operating activities	136,761	107,027	70,444
Investing Activities			
Purchases of available-for-sale securities	(529,413)	(306,488)	(565,557)
Proceeds from sales of available-for-sale securities	338,818	185,161	479,087
Proceeds from maturities of available-for-sale securities	7,232	2,125	12,882
Net change in Electronic Network Services money market securities and other cash equivalents	(159,769)	(210,669)	(88,676)
Net change in Electronic Network Services client deposits	254,404	294,720	129,836
Purchases of property and equipment, net of disposals	(28,197)	(18,008)	(17,511)
Purchases of other assets	(513)	(1,935)	(793)
Net cash used in investing activities	(117,438)	(55,094)	(50,732)
Financing Activities			
Dividends paid	(35,871)	(24,117)	(17,685)
Proceeds from exercise of stock options	1,990	2,180	2,813
Other	(84)	218	(465)
Net cash used in financing activities	(33,965)	(21,719)	(15,337)
Increase (decrease) in Cash and cash equivalents	(14,642)	30,214	4,375
Cash and cash equivalents, beginning of fiscal year	50,213	19,999	14,812
Cash obtained from merger and acquisition	-	-	812
Cash and cash equivalents, end of fiscal year	$ 35,571	$ 50,213	$ 19,999
Supplemental cash flow information			
Income taxes paid	$ 35,191	$ 24,256	$ 17,672
Non-cash financing transaction			
Tax benefit from exercise of stock options	$ 6,945	$ 5,208	$ 2,671

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation: The Consolidated Financial Statements include the accounts of Paychex, Inc., and its wholly-owned subsidiaries (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

Business activities and reportable segments: The Company has two business and reportable segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). Effective May 31, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Statement requires the Company to report segment financial information consistent with the presentation made to the Company's management for decision-making purposes. Prior year segment disclosures have been restated to be consistent with the year ended May 31, 1998.

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 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 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 Payroll service revenue. The amount of ENS funds held will vary significantly during the year.

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. (NBS), before its merger with the Company in August 1996, and is engaged primarily in providing human resource management and personnel administration services to a diverse client base of small- to medium-sized businesses. 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, PEO 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.

Cash and cash equivalents: Cash and cash equivalents consist of available cash, money market and municipal securities and other investments with a maturity of three months or less when purchased. The Company deposits available cash with creditworthy financial institutions. Amounts reported in the Consolidated Balance Sheets are approximate fair values.

Investments and ENS Investments: Debt securities included in Investments and ENS investments are classified as available-for-sale and are recorded at fair value based on market prices obtained from an independent pricing service. Unrealized gains and losses are reported as a component of other comprehensive income in stockholders' equity, net of applicable income taxes. Realized gains and losses on sales of securities are determined by specific identification of the security's cost basis.

Property and equipment--net: Property and equipment--net is stated at cost, less accumulated depreciation and amortization. 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 expenses as incurred certain costs to develop and enhance its computer programs. Expenditures for vendor-provided software are capitalized and amortized by the straight-line method over their estimated useful lives, ranging from 3 to 5 years. In March 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) 98- 1, "Accounting for Computer Software Developed for or Obtained for Internal Use," which is effective for fiscal years beginning after December 15, 1998. The SOP requires preliminary stage project costs to be expensed as incurred. Once a project is in the application development stage, the SOP requires all external direct costs for materials and services and payroll and related fringe benefit costs to be capitalized, and subsequently amortized over the estimated useful life of the project. The Company's management has not completed its assessment of what impact the SOP will have on future results of operations or financial position.

Revenue recognition: Revenues from Payroll activities include those amounts billed for services rendered, as well as investment revenue earned from ENS investments. 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.

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. The Company accounts for the tax benefit from the exercise of stock options by reducing its accrued income tax liability and increasing additional paid-in capital.

Stock-based compensation costs: SFAS No. 123, "Accounting for Stock-Based Compensation," establishes accounting and reporting standards for stock-based employee compensation plans. As permitted by that Statement, the Company continues to account for such arrangements under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense is recognized for stock-option grants because the exercise price of the stock options equals the market price of the underlying stock on the date of grant.

Stock splits effected in the form of stock dividends: The Company declared three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares payable to shareholders of record as of May 8, 1998, May 8, 1997, and May 2, 1996, with respective distribution dates of May 22, 1998, May 29, 1997, and May 23, 1996. Basic and diluted earnings per share, cash dividends per share, weighted-average shares outstanding and all applicable footnotes have been adjusted to reflect the aforementioned stock splits.

Comprehensive income: Effective June 1, 1997, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is comprised of two components: net income and other comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from transactions with owners of the Company. The unrealized gains and losses, net of applicable income taxes, related to available-for-sale securities is the only component reported in other comprehensive income in the Consolidated Statements of Stockholders' Equity for the Company. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130. The adoption of SFAS No. 130 did not have an effect on the Company's results of operations or financial position.

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.

Reclassifications: Certain amounts from prior years are reclassified to conform to fiscal year 1998 presentations.

NOTE B - BASIC AND DILUTED EARNINGS PER SHARE

The Company adopted SFAS No. 128, "Earnings Per Share," effective for periods ending after December 15, 1997. All earnings per share amounts have been restated to present basic and diluted earnings per share. The following table sets forth the computation of basic earnings per share and diluted earnings per share:

For the years ended May 31, In thousands, except per share amounts	1998	1997	1996
Basic earnings per share:			
Net income	$102,219	$ 75,150	$ 55,035
Weighted-average common shares outstanding	163,009	162,002	160,394
Basic earnings per share	$ .63	$ .46	$ .34
Diluted earnings per share:			
Net income	$102,219	$ 75,150	$ 55,035
Weighted-average common shares outstanding	163,009	162,002	160,394
Effect of dilutive stock options at average market price	1,804	1,755	1,796
Weighted-average shares assuming dilution	164,813	163,757	162,190
Diluted earnings per share	$ .62	$ .46	$ .34

For the years ended May 31, 1998, 1997 and 1996, weighted-average options to purchase shares of common stock in the amount of 960,000, 1,019,000 and 142,000, respectively, were not included in the computation of diluted earnings per share. These options had an exercise price that was greater than the average market price of the common shares for the period and, therefore, the effect would have been antidilutive.

NOTE C - INVESTMENTS AND ENS INVESTMENTS

Investments and ENS investments consist of various governmental securities, investment grade municipal securities, money market securities and other cash equivalents. Investments and ENS investments are as follows:

May 31, In thousands	1998		1997	
Type of issue	Cost	Fair value	Cost	Fair value
Money market securities and other cash equivalents	$ 714,941	$ 714,941	$ 555,172	$ 555,172
Available-for-sale securities:				
General obligation municipal bonds	212,222	213,940	178,571	178,797
Pre-Refunded municipal bonds	236,151	238,462	193,135	193,635
Revenue municipal bonds	199,545	200,850	97,931	98,182
Other securities	1,231	1,275	3,712	3,627
Total available-for-sale securities	649,149	654,527	473,349	474,241
Total Investments and ENS investments	$1,364,090	$1,369,468	$1,028,521	$1,029,413

Classification of investments on

Consolidated Balance Sheets:				
Investments	$ 213,606	$ 214,967	$ 132,441	$ 132,780
ENS investments	1,150,484	1,154,501	896,080	896,633
	$1,364,090	$1,369,468	$1,028,521	$1,029,413

The Company is exposed to credit risk 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 rate volatility will cause fluctuations in the market value of held investments and the earnings potential of future investments. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities, A-1 rated short-term securities, 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. At May 31, 1998, no individual issue comprises greater than 1% of total assets, approximately 97% of the available-for-sale securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 rating or an equivalent rating.

Cost, gross unrealized gains and losses, and the fair value of the available-for-sale securities are as follows:

May 31, In thousands	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
1998	$649,149	$ 5,524	$ 146	$654,527
1997	$473,349	$ 1,642	$ 750	$474,241

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, In thousands	1998	1997	1996
Gross realized gains	$1,481	$ 602	$3,770
Gross realized losses	$ 547	$ 438	$1,074

The cost and fair value of available-for-sale securities at May 31, 1998, 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, 1998 In thousands	Cost	Fair value
Maturity date:		
Due in one year or less	$ 33,968	$ 34,123
Due after one year through three years	276,378	279,065
Due after three years through five years	207,813	209,455
Due after five years	130,990	131,884
Total available-for-sale securities	$649,149	$654,527

NOTE D - PROPERTY AND EQUIPMENT--NET

May 31, In thousands	1998	1997
Land and improvements	$ 2,815	$ 2,789
Buildings and improvements	24,914	24,672
Data processing equipment and software	64,247	50,973
Furniture, fixtures and equipment	52,752	44,251
Leasehold improvements	7,323	3,582
	152,051	126,267
Less accumulated depreciation and amortization	87,353	72,089
	$ 64,698	$ 54,178

NOTE E - STOCK OPTION PLANS

The Company reserved 4,218,750 shares to be granted to employees in the form of non-qualified and incentive stock options under the 1995 Stock Incentive Plan, with 773,000 shares available for future grants at May 31, 1998. The 1992 and 1987 Stock Incentive Plans expired in August 1995 and 1992, respectively; however, options to purchase 2,346,000 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. Stock option grants have a contractual life of ten years, and generally 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. The following table summarizes stock option activity for the three years ended May 31, 1998:

In thousands, except per share amounts	Shares subject to options	Weighted-average exercise price
Outstanding at May 31, 1995	4,507	$ 4.15
Granted	1,117	$ 11.89
Exercised	(1,080)	$ 2.61
Forfeited	(134)	$ 5.71
Outstanding at May 31, 1996	4,410	$ 6.44
Granted	1,974	$ 25.64
Exercised	(600)	$ 3.64
Forfeited	(479)	$ 16.48
Outstanding at May 31, 1997	5,305	$ 12.99
Granted	1,192	$ 27.61
Exercised	(433)	$ 5.91
Forfeited	(311)	$ 24.59
Outstanding at May 31, 1998	5,753	$ 15.93
Exercisable at May 31, 1996	1,887	$ 3.11
Exercisable at May 31, 1997	1,967	$ 4.07
Exercisable at May 31, 1998	2,379	$ 5.28

The following table summarizes information about stock options outstanding at May 31, 1998:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Shares subject to options (In thousands)	Weighted-average exercise price per share	Weighted-average remaining contractual life in years	Shares subject to options (In thousands)	Weighted-average exercise price per share
$ 1.33 - 4.80	1,237	$ 2.63	3.0	1,232	$ 2.62
$ 6.57 - 8.10	1,109	$ 6.85	5.9	919	$ 6.80
$13.44 - 19.61	879	$14.38	7.6	228	$13.52
$25.94 - 39.17	2,528	$26.95	8.9	-	-
$ 1.33 - 39.17	5,753	$15.93	6.8	2,379	$ 5.28

Pro forma information regarding net income, basic and diluted 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, basic and diluted earnings per share for future years, because stock options generally 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, basic and diluted earnings per share are as follows:

For the years ended May 31, In thousands, except per share amounts	1998	1997	1996
Pro forma net income	$97,448	$72,060	$54,523
Pro forma basic earnings per share	$.60	$.44	$.34
Pro forma diluted earnings per share	$.59	$.44	$.34

For purposes of pro forma disclosures, the estimated fair value of the stock option is amortized to expense over the option's vesting period. The fair value of these 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,	1998	1997	1996
Risk-free interest rate	5.8%	6.2%	5.9%
Dividend yield	.9%	.9%	1.6%
Volatility factor	.29	.28	.29
Expected option term life in years	4.5	4.9	4.5

The weighted-average grant-date estimated fair value of stock options granted for the years ended May 31, 1998, 1997 and 1996 were $8.81, $8.39 and $3.92 per share, respectively.

NOTE F - INCOME TAXES

The net deferred tax asset components are as follows:

May 31,	1998	1997

In thousands		
Deferred tax assets:		
Accrued vacation pay	$1,170	$1,330
Reserve for workers' compensation claims	1,186	1,105
Allowance for bad debts	1,355	987
Accrual for future medical claims	1,169	809
Other	1,940	1,338
Gross deferred tax assets	6,820	5,569
Deferred tax liabilities:		
Revenue not subject to current taxes	2,388	1,931
Depreciation	357	629
Unrealized gains on available-for-sale securities	1,973	353
Other	60	24
Gross deferred tax liabilities	4,778	2,937
Net deferred tax asset	$2,042	$2,632

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

For the years ended May 31, In thousands	1998	1997	1996
Current:			
Federal	$34,888	$24,699	$15,400
State	8,096	5,860	4,952
Total current	42,984	30,559	20,352
Deferred:			
Federal	(857)	(1,719)	(18)
State	(173)	(334)	20
Total deferred	(1,030)	(2,053)	2
Provision for income taxes	$41,954	$28,506	$20,354

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,	1998	1997	1996
Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	3.6	3.5	4.3
Tax-exempt municipal bond interest	(10.4)	(10.9)	(11.3)
Benefit from NBS income not subject to income taxes	-	-	(1.3)
Other items	.9	(.1)	.3
Effective tax rate	29.1%	27.5%	27.0%

Prior to its merger with the Company, NBS elected to be taxed as a subchapter S corporation under federal and state provisions for the year ended May 31, 1996. Accordingly, no tax provision was recorded for that corporation in the restated Consolidated Financial Statements, resulting in a reduction of the Company's overall effective tax rate.

NOTE G - OTHER COMPREHENSIVE INCOME

The following table sets forth the related tax effects allocated to unrealized gains and losses on available-for-sale securities, the only component of other comprehensive income:

For the years ended May 31, In thousands	1998	1997	1996
Unrealized holding gains/(losses)	$ 5,420	$ 3,215	$(1,289)
Less: Income tax expense/(benefit) related to unrealized holding gains/(losses)	1,955	1,279	(661)
Gain on sale of securities realized in net income	934	164	2,696
Plus: Income tax expense on gain on sale of securities realized in net income	335	59	970
Other comprehensive income	$ 2,866	$ 1,831	$(2,354)

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, 1998, 1997 and 1996 were $3,239,000, $2,712,000 and $2,264,000, respectively.

The Company's PEO sponsors and administers a 401(k) plan and a profit-sharing 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 AND CONTINGENCIES

At May 31, 1998, the Company has available, uncommitted, unsecured lines of credit from various banks totaling $262,500,000 at market rates of interest. No amounts were outstanding against the lines of credit at May 31, 1998.

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, with most data processing equipment leases containing a purchase option at prices representing the fair value of the equipment at expiration of the lease term. Rent expense for the year ended May 31, 1998, 1997 and 1996 was $20,336,000, $17,314,000 and $15,343,000, respectively. At May 31, 1998, future minimum lease payments under various noncancelable operating leases are $17,925,000 in fiscal 1999, $16,018,000 in fiscal 2000, $13,608,000 in fiscal 2001, $8,471,000 in fiscal 2002, $4,411,000 in fiscal 2003, and $2,685,000 thereafter.

NOTE J - BUSINESS COMBINATIONS

The following table summarizes business combinations completed in the years ended May 31, 1997 and 1996:

Entity Name	Business	Date	Common Shares Issued (In thousands)	Method of Accounting
Olsen Computer Systems, Inc.	Payroll software	November 1996	884	Pooling
The Payroll Service, Inc.	Payroll services	August 1996	124	Pooling
National Business Solutions, Inc.	PEO	August 1996	6,603	Pooling
The Payroll Company, Inc.	Payroll services	September 1995	391	Purchase
Pay-Fone Systems, Inc.	Payroll services	June 1995	1,120	Pooling

Results of operations prior to completion of the pooling of interests transaction with NBS were restated. For the year ended May 31, 1996, previously reported total revenue and net income for the Company was $325,285,000 and $52,333,000, respectively. For the year ended May 31, 1996, total revenue and net income reported by NBS was $241,158,000 and $2,702,000, respectively. Results of operations prior to completion of the other pooling of interests transactions were not restated as the effects were not material.

The Payroll Company, Inc., acquisition was recorded at a fair value of $5,000,000, with goodwill of approximately $4,000,000, which is amortized on a straight-line basis over 10 years. The purchase agreement included a guarantee that stock issued and not sold prior to September 29, 2000, would appreciate to $15.26 per share, at a minimum.

NOTE K - SEGMENT FINANCIAL INFORMATION

See Note A for a description of the Company's Payroll and HRS-PEO business and reporting segments. The Company's reportable segments are business units that offer different services and products. The reportable segments are each managed separately because they offer and provide services and products through different means. The Company's Information Technology, Organizational Development, Finance and Senior Management functions are combined into the Corporate expenses.

The Company evaluates segment performance and allocates resources based on profit and loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note A. There are no intersegment sales.

OPERATING RESULTS

For the years ended May 31, In thousands	1998	1997	1996
Total revenue:			
Payroll	$455,227	$368,855	$309,517
HRS-PEO revenue:			
Service revenue	38,477	30,878	23,791
PEO direct costs billed (A)	499,741	334,966	233,135

Total HRS-PEO revenue	538,218	365,844	256,926
Total revenue	993,445	734,699	566,443
PEO direct costs (A)	499,741	334,966	233,135
Total revenue less PEO direct costs	$493,704	$399,733	$333,308
Operating income:			
Payroll	$180,265	$135,364	$107,957
HRS-PEO	6,642	5,596	2,672
Total operating income	186,907	140,960	110,629
Corporate expenses	52,207	44,335	40,707
Investment income	9,473	7,031	5,467
Income before income taxes	$144,173	$103,656	$ 75,389
Investment revenue included in Payroll revenue	$ 43,429	$ 34,105	$ 27,025

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

OTHER FINANCIAL INFORMATION	1998	1997	1996
Purchases of long-lived assets			
Payroll	$17,146	$12,984	$13,055
HRS-PEO	2,015	1,747	644
Corporate	9,591	5,716	5,052
Total purchases of long-lived assets	$28,752	$20,447	$18,751
Depreciation and amortization expense:			
Payroll	$17,187	$13,128	$11,081
HRS-PEO	1,078	585	453
Corporate	8,996	7,731	5,631
Total depreciation and amortization expense	$27,261	$21,444	$17,165
Identifiable assets at May 31,			
Payroll	$1,244,272	$ 967,688	$ 663,081
HRS-PEO	30,726	24,477	17,784
Corporate	274,789	209,158	150,720
Total identifiable assets	$1,549,787	$1,201,323	$ 831,585

QUARTERLY FINANCIAL DATA (UNAUDITED)
In thousands, except per share amounts

1998	August 31,	November 30,	February 28,	May 31,	Year
Service revenues	$112,947	$117,173	$131,873	$131,711	$493,704
Total revenue	218,583	235,221	271,355	268,286	993,445
Operating income	30,357	32,572	34,852	36,919	134,700
Income before income taxes	32,545	34,863	37,201	39,564	144,173
Net income	23,074	24,718	26,376	28,051	102,219
Basic earnings per share	.14	.15	.16	.17	.63
Diluted earnings per share	.14	.15	.16	.17	.62
Cash dividends per share	.04	.06	.06	.06	.22
Market value per share:					
High	27.50	30.25	35.13	39.83	39.83
Low	21.67	22.33	26.71	33.13	21.67

1997	August 31,	November 30,	February 28,	May 31,	Year
Service revenues	$ 91,273	$ 95,266	$106,354	$106,840	$399,733
Total revenue	166,042	169,499	195,562	203,596	734,699
Operating income	22,097	23,349	25,022	26,157	96,625
Income before income taxes	23,582	25,094	26,786	28,194	103,656
Net income	17,073	18,068	19,286	20,723	75,150
Basic earnings per share	.11	.11	.12	.13	.46
Diluted earnings per share	.10	.11	.12	.13	.46
Cash dividends per share	.03	.04	.04	.04	.15
Market value per share:					
High	24.89	28.28	25.22	24.92	28.28
Low	17.89	22.11	18.89	17.00	17.00

Note: Each quarter is a discrete period and the sum of the four quarters' basic and diluted earnings per share amounts may not equal the full year amount. Per share amounts have been adjusted for three-for-two stock splits in May 1998 and May 1997.

ELEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA

In thousands, except per share amounts and other statistics

<TABLE>
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For the years ended or at May 31,	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
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Results of Operations											
Service revenues:											
Payroll	$455,227	$368,855	$309,517	$254,093	$215,663	$184,004	$156,652	$133,886	$118,157	$100,488	$ 79,168
HRS-PEO	38,477	30,878	23,791	18,020	11,290	7,700	5,253	3,289	2,043	666	265
Total service revenues	493,704	399,733	333,308	272,113	226,953	191,704	161,905	137,175	120,200	101,154	79,433
PEO direct costs billed (A)	499,741	334,966	233,135	139,953	96,952	60,434	21,775	2,617	-	-	-
Total revenue	993,445	734,699	566,443	412,066	323,905	252,138	183,680	139,792	120,200	101,154	79,433
PEO direct costs (A)	499,741	334,966	233,135	139,953	96,952	60,434	21,775	2,617	-	-	-
Operating costs	131,731	115,034	101,235	81,663	70,034	61,877	53,700	50,054	45,031	35,557	27,860
Selling, general & administrative expenses	227,273	188,074	162,151	138,186	119,477	102,893	89,393	73,854	63,042	51,480	40,820
Operating income	134,700	96,625	69,922	52,264	37,442	26,934	18,812	13,267	12,127	14,117	10,753
% of total service revenues	27.3%	24.2%	21.0%	19.2%	16.5%	14.0%	11.6%	9.7%	10.1%	14.0%	13.5%
Investment income	9,473	7,031	5,467	3,458	2,220	1,379	821	764	1,081	857	477
Income before income taxes	144,173	103,656	75,389	55,722	39,662	28,313	19,633	14,031	13,208	14,974	11,230
% of total service revenues	29.2%	25.9%	22.6%	20.5%	17.5%	14.8%	12.1%	10.2%	11.0%	14.8%	14.1%
Net income	102,219	75,150	55,035	40,389	28,746	20,241	13,788	9,606	8,566	9,446	6,935
% of total service revenues	20.7%	18.8%	16.5%	14.8%	12.7%	10.6%	8.5%	7.0%	7.1%	9.3%	8.7%
Basic earnings per share	$ .63	$ .46	$ .34	$ .26	$ .18	$ .13	$ .09	$ .06	$ .06	$ .06	$ .05
Diluted earnings per share	.62	.46	.34	.26	.18	.13	.09	.06	.06	.06	.05
Weighted-average common shares outstanding	163,009	162,002	160,394	158,229	157,766	157,113	156,026	155,318	148,532	148,170	147,392
Weighted-average shares assuming dilution	164,813	163,757	162,190	159,584	159,149	158,355	156,917	155,550	148,832	148,598	148,379
Cash dividends per share	$ .22	$ .15	$ .11	$ .07	$ .05	$ .03	$ .02	$ .02	$ .01	$ .01	$ -
Financial Position											
Working capital	$263,118	$194,614	$138,639	$100,009	$ 68,888	$ 46,776	$ 28,245	$ 19,230	$ 21,257	$ 22,951	$ 17,311
Purchases of property & equipment	28,386	18,536	17,806	12,535	11,667	8,822	13,580	18,420	15,447	9,132	8,050
Total assets	1,549,787	1,201,323	831,585	647,366	474,786	322,214	221,771	133,342	74,501	55,638	42,485
Total debt	-	-	-	728	948	1,634	2,024	2,431	2,137	2,770	3,322
Stockholders' equity	329,607	251,542	191,072	141,976	109,124	85,365	67,623	54,512	47,160	40,245	31,506
Return on stockholders' equity	36.0%	33.9%	32.3%	32.2%	29.6%	26.5%	22.6%	18.9%	19.6%	26.3%	25.0%
Other Statistics											
Payroll segment:											
Payroll clients	293,600	262,700	234,300	207,900	185,900	167,500	150,400	135,200	120,600	105,600	87,300
Branch service centers	79	79	75	71	70	70	70	70	74	68	64
Sales offices	25	23	23	23	24	20	17	16	15	16	15
HRS-PEO segment:											

401(k) clients	6,000	3,000	1,300	200	-	-	-	-	-	-	-
401(k) client funds managed externally (in millions)	$ 383.3	$ 138.3	$ 35.0	-	-	-	-	-	-	-	-
Section 125 clients	16,400	13,200	11,400	8,800	7,400	5,000	2,800	500	-	-	-
PEO worksite employees	19,200	13,800	9,200	5,300	3,400	1,800	500	-	-	-	-

</TABLE>

Note: Per share and weighted-average share amounts have been adjusted for three-for-two stock splits in May 1998, May 1997, May 1996, May 1995, August 1993, May 1992 and November 1987.

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

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES OF PAYCHEX, INC. AS OF MAY 31, 1998

Name of Subsidiaries	Jurisdiction of Incorporation
Paychex Management Corporation	New York
Paychex Securities Corporation	New York
Rapid Payroll, Inc.	California
Paychex Business Solutions, Inc.	Florida
Paychex Agency, Inc.	New York

The names of certain 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 on Form 10-K of Paychex, Inc. of our report dated June 25, 1998, included in the fiscal 1998 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, 1998, with respect to the consolidated financial statements of Paychex, Inc. incorporated by reference in this Annual Report on Form 10-K for the year ended May 31, 1998.

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 26, 1998

EXHIBIT 24: POWER OF ATTORNEY

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, 1998, 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: July 9, 1998

/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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MAY 31, 1998 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. THIS SCHEDULE INCLUDES RESTATED AMOUNTS FOR THE YEARS ENDED MAY 31, 1997 AND 1996 FOR EARNINGS PER SHARE, RELATED TO THE ADOPTION OF STATEMENT OF FINANCIAL ACCOUNITNG STANDARDS NO. 128, "EARNINGS PER SHARE", EFFECTIVE FOR PERIODS ENDING AFTER DECEMBER 15, 1997. IN ADDITION, ON MAY 22, 1998, PAYCHEX, INC., DISTRIBUTED A THREE-FOR-TWO STOCK SPLIT EFFECTED IN THE FORM OF A 50% STOCK DIVIDEND TO STOCKHOLDERS OF RECORD AS OF MAY 8, 1998. THEREFORE, ALL APPLICABLE AMOUNTS INCLUDED IN THIS SCHEDULE AFFECTED BY THE STOCK SPLIT HAVE BEEN ADJUSTED.
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<TOTAL-REVENUES>	993,445	734,699	566,443
<CGS>	0	0	0
<TOTAL-COSTS>	631,472	450,000	334,370
<OTHER-EXPENSES>	0	0	0
<LOSS-PROVISION>	0	0	0
<INTEREST-EXPENSE>	0	0	0
<INCOME-PRETAX>	144,173	103,656	75,389
<INCOME-TAX>	41,954	28,506	20,354
<INCOME-CONTINUING>	102,219	75,150	55,035
<DISCONTINUED>	0	0	0
<EXTRAORDINARY>	0	0	0
<CHANGES>	0	0	0
<NET-INCOME>	102,219	75,150	55,035
<EPS-PRIMARY>	.63	.46	.34
<EPS-DILUTED>	.62	.46	.34

<FN>
<F1>SECURITIES - Includes amounts related to Electronic Network Servics investments with a balance at May 31, 1998, 1997, and 1996 of $1,154,501, $896,633, and $599,475, respectively.

</FN>

</TABLE>

EXHIBIT 99: "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain written and oral statements made by the Company's management may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by such words and phrases as "expects" and "could be." Because they are forward-looking, they should be evaluated in light of important risk factors. These risk factors include 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, including year 2000 issues; and changes in short- and long-term interest rates and the credit rating of securities held in the Company's investment portfolios.