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, 2000
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. [X].

AS OF JULY 31, 2000, SHARES HELD BY NON-AFFILIATES OF THE REGISTRANT HAD AN AGGREGATE MARKET VALUE OF $14,515,479,000.

AS OF JULY 31, 2000, 372,214,246 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, 2000 (THE "ANNUAL REPORT") IN RESPONSE TO PART II, ITEMS 5 THROUGH 8, INCLUSIVE.

CERTAIN SPECIFIED PORTIONS OF THE REGISTRANT'S DEFINITIVE PROXY STATEMENT DATED AUGUST 28,2000, 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"), is a national provider of payroll, human resource, and employee benefit outsourcing solutions for small- to medium-sized businesses. Paychex, a Delaware corporation, was formed in 1979 through the consolidation of 17 corporations engaged in providing computerized payroll accounting services. The Company has corporate headquarters in Rochester, New York and more than 100 offices nationwide. The Company's fiscal year is from June 1 through May 31.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company has two reportable business segments - Payroll and Human Resource Services - Professional Employer Organization (HRS-PEO). Financial information about the Company's business segments is contained in Note B - Segment Financial Information in the Notes to Consolidated Financial Statements contained in Exhibit 13, Portions of the Annual Report to Stockholders for the fiscal year ended May 31, 2000 (the "Annual Report"), which are incorporated herein by reference.

NARRATIVE DESCRIPTION OF BUSINESS

PAYROLL SEGMENT

Paychex's Payroll segment is a national payroll processing and payroll tax preparation service provided to 351,900 small- to medium-sized business within the United States. This segment is engaged in the preparation of payroll checks, internal accounting records, annual W-2 forms, federal, state, and local tax returns, new hire reporting, and the collection and remittance of payroll obligations for its clients.

81% of the Company's payroll clients utilize its TAXPAY service, which provides automatic payment of payroll taxes and filing of quarterly and annual payroll tax returns. In connection with TAXPAY, the Company's Electronic Network Services (ENS) division collects payroll taxes from clients on payday, files the applicable tax returns, and pays taxes to the appropriate taxing authorities on the due date. These collections from clients are typically paid between one and thirty days after receipt, with some items extending to ninety days.

47% of the Company's payroll clients utilize its Employee Pay Services, which provides the employer the option of paying its employees by Direct Deposit, Access Card, a check drawn on a Paychex account (READYCHEX), or a check drawn on the Employer's account. For the first three methods, ENS collects net payroll from the client's account one day before payroll and provides payment to the employee on payday.

TAXPAY and Employee Pay Services are integrated with the Company's Payroll processing service. In addition to fees paid by clients for these services, the Company earns investment revenue on TAXPAY and Employee Pay Services funds that are collected before due dates and invested (ENS investments) until remittance to the appropriate entity. Investment revenue from these ENS investments is included in Payroll service revenue on the Consolidated Statements of Income as the collection, holding and remittance of these funds is a critical component of providing these particular product services. Payroll processing is decentralized and performed in most Paychex branches while TAXPAY, Direct Deposit, READYCHEX and Access Card are processed at a facility in Rochester, New York.

Clients can communicate their payroll information to Paychex through telephone or fax, using the Paychex PAYLINK and PREVIEW software to transfer data from their personal computer, or via the Internet. 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.

The average Paychex core payroll client employs fourteen people. The Major Market Services (MMS) payroll product targets companies that have between fifty and two-hundred employees. In fiscal 2000, the Company expanded its MMS payroll product offering to include forty-four of the more than one hundred sales territories currently serviced by the core payroll product. MMS clients communicate their payroll information primarily using the PREVIEW software.

Paychex also offers services to its clients and their accountants via the Paychex Online Internet Site. Clients can communicate payroll information via Internet Timesheet, transfer payroll numbers computed by Paychex to the client's general ledger software using LEDGER REPORTING ONLINE, and access current and historical payroll information using Reports Online.

Payroll Service Marketing and Sales

There are about 5.8 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 markets its services principally through its sales force located at its 81 branch operation and processing centers and 29 sales offices in major metropolitan areas. The MMS product is sold through a separate sales force which is integrated into the branch locations. In addition to its direct selling and marketing efforts, the Company utilizes relationships with many banks and Certified Pulic Accountants for client referrals.

Payroll Competition

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

HRS-PEO SEGMENT

The HRS-PEO segment provides human resource products and services through its HRS division, either on an a-la-carte basis or bundled through the Paychex Adminstrative Services product. These products and services can also be provided through a co-employer relationship with Paychex Business Solutions, Inc. (PBS), a subsidiary of Paychex, which operates as a Professional Employer Organization (PEO).

Human Resource Services

Among the HRS products is a 401(k) plan recordkeeping service, used by 14,700 clients at May 31, 2000. This service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services. During fiscal 2000, the Company began offering Savings Incentive Match Plan for Employees (SIMPLE) Individual Retirement Account Plan services to its clients.

In fiscal 1999, Paychex rolled out its Workers' Compensation Insurance product nationwide. Paychex acts, via its licensed agency, as a general agent providing workers' compensation insurance through a variety of carriers who are underwriters. The PAY-AS-YOU-GO program uses rate and job classification information to enable clients to pay workers' compensation premiums in regular monthly amounts rather than with large upfront payments otherwise required. The result stablilizes their cash flow and minimizes year-end adjustments.

The HRS division also offers 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, which results in a 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.

The HRS Paychex Administrative Services Product, which was made available nationwide in May 2000, offers businesses a bundled package that includes payroll, human resource administration, fringe benefit administration, and risk management. Group health benefits are also offered in selected geographical areas, as are state unemployment insurance services, which provide clients with a prompt reply for all claims, appeals, determinations, change statements and requests for separation documents. 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.

Professional Employer Organization Services PBS 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) workers' 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, 2000, PBS provided professional employer services to 20,200 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, with expertise in fields related to one or more of the segment's core services. The sales efforts of the HRS division are primarily focused on selling 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, 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 and maintenance to this software to meet the changing requirements of its clients and the marketplace. The Company is continually in the processes of developing proprietary software for new product offerings. However, the Company is not engaged, to any significant extent, in basic or technological software research and development.

EMPLOYEES

As of May 31, 2000, the Company and its subsidiaries employed approximately 6,200 persons, of which 5,900 are full-time and 300 are part-time.

TRADEMARKS

As of May 31, 2000, the Company and its subsidiaries have a number of trademarks and service marks filed for registration or registered with the U.S. Patent and Trademark Office, including the names PAYCHEX, TAXPAY, PAYLINK, PREVIEW, BANKCHEX, READYCHEX, PAY-AS-YOU-GO, RAPID PAYROLL, and LEDGER REPORTING ONLINE. The Company believes these trademarks and service marks are of material importance to its business.

SEASONALITY

There is no significant seasonality to the Company's business. However, during the third fiscal quarter, the number of new payroll segment clients and new PEO worksite employees tends to be higher than the rest of the fiscal year. Consequently, greater sales commission expenses are reported in the third 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 Rochester, New York. In addition, approximately 139,000 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 approximately 1,200,000 square feet of space for its regional, branch, data processing centers and sales offices at various locations throughout the United States, concentrating on major metropolitan areas. The Company owns branch facilities located in Syracuse, New York and Philadelphia, Pennsylvania, which together account for approximately 56,300 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. PEO operations are performed mainly in leased facilities in Florida and Georgia, and utilize 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. The Company is in the process of evaluating the construction of an additional facility at Corporate headquarters. The proposed building would primarily be occupied by employees who are currently occupying leased facilities and would be completed in the summer of 2002.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business and operations, the Company is subject to various claims and litigation. Management believes the resolution of these matters will not have a material effect on the financial position or results of operations of the Company.

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, 2000.

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". The quarterly high and low sales price and dividend information for the past two years is set forth in the Company's Annual Report under the heading "Quarterly Financial Data (Unaudited)" and is incorporated herein by reference. 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.

On July 31, 2000, there were 11,633 holders of record of the Company's common stock which includes registered holders and participants in the Paychex, Inc. Dividend Reinvestment and Stock Purchase Plan. There were also 5,868 participants in the Paychex, Inc. Employee Stock Purchase Plan.

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 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" under subheading "Market Risk Factors: Interest Rate Risk" 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 headings "Quarterly Financial Data (Unaudited)" and "Quarterly Segment Financial Data (Unaudited) and is incorporated herein by reference. Also, see Financial Statement Schedule II - Valuation and Qualifying Accounts at Item 14(d).

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 MANAGERS" 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 Ernst & Young LLP Independent Auditors

Consolidated Statements of Income - For the Years ended May 31, 2000, 1999, and 1998

Consolidated Balance Sheets - May 31, 2000 and 1999

Consolidated Statements of Stockholders' Equity - For the Years ended May 31, 2000, 1999, and 1998

Consolidated Statements of Cash Flows - For the Years ended May 31, 2000, 1999, and 1998

Notes to Consolidated Financial Statements

2. Financial statement schedules required to be filed by Item 8 of this Form, include Schedule II - Valuation and Qualifying Accounts, and is included at Item 14(d). All other schedules are omitted as the required matter is not present, the amounts are not significant or the information is shown in the financial statements or the 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, Form 8-K filed with the Commission on October 22, 1986, Form 10-Q filed with the Commission on January 12, 1989, Form 10-Q filed with the Commission on January 13, 1993, Form 10-Q filed with the Commission on January 10, 1996, Form 10-Q filed with the Commission on October 14, 1997, and Form 10-Q filed with the Commission on December 16, 1999.

(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. 1998 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 333-65191.

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

(10)(f) Paychex, Inc. Section 401(k) Incentive Retirement Plan, incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 333-84055.

(10)(g) 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.

(10)(h) Paychex, Inc. Officer Performance Incentive Program for the year ended May 31, 2001 is filed herewith.

(13) Portions of the Annual Report to Stockholders for the Fiscal Year ended May 31, 2000. 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.

(b) Reports on Form 8-K

(1) The Company filed a Form 8-K on April 14, 2000 that included the press release dated April 13, 2000 announcing the 3-for-2 stock split

payable on May 22, 2000 to shareholders of record on May 12, 2000.

(2) The Company filed a Form 8-K on June 26, 2000, that included the Company's May 31, 2000 year-end earnings press release, and a preliminary Management's Discussion and Analysis of the Financial Condition and Results of Operations for the years ended May 31, 2000, 1999, and 1998.

(3) The Company filed a Form 8-K on June 27, 2000 that included quarterly data for fiscal 2000 and 1999 restated for the 3-for-2 stock split distributed on May 22, 2000, and quarterly segment financial data for fiscal 2000 and 1999 restated for an operating facilities cost reallocation from the Payroll Segment to the HRS-PEO Segment.

(d) Schedule II - Valuation and Qualifying Accounts

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Paychex, Inc.
Consolidated Financial Statement Schedule
For the year ended May 31,
(In thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
<S>	<C>	<C>	<C>	<C>
2000				
Allowance for bad debts	$2,395	$1,872	$1,014*	$3,253
1999				
Allowance for bad debts	$1,750	$1,886	$1,241*	$2,395
1998				
Allowance for bad debts	$1,308	$1,648	$1,206*	$1,750

</TABLE>

* - Uncollectible accounts written off, net of recoveries.

Note: The Allowance for bad debts is deducted from the balance of Accounts receivable on the Consolidated Balance Sheets.

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 28, 2000 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 28, 2000 By: /s/ B. Thomas Golisano

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

Dated: August 28, 2000 By: /s/ Steven D. Brooks*

Steven D. Brooks, Director

Dated: August 28, 2000 By: /s/ G. Thomas Clark*

G. Thomas Clark, Director

Dated: August 28, 2000 By: /s/ David J.S. Flaschen*

David J.S. Flaschen, Director

Dated: August 28, 2000 By: /s/ Phillip Horsley*

Phillip Horsley, Director

Dated: August 28, 2000 By: /s/ Grant M. Inman*

Grant M. Inman, Director

Dated: August 28, 2000 By: /s/ Harry P. Messina, Jr.*

Harry P. Messina, Jr., Director

Dated: August 28, 2000 By: /s/ J. Robert Sebo*

J. Robert Sebo, Director

Dated: August 28, 2000 By: /s/ Joseph M. Tucci*

Joseph M. Tucci, Director

Dated: August 28, 2000 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 10(h): PAYCHEX, INC. OFFICER PERFORMANCE INCENTIVE PROGRAM FOR THE YEAR ENDED MAY 31, 2001

On July 13, 2000, the Board of Directors (the "Board") approved the Compensation Committee's recommendation to adopt the Paychex, Inc. Officer Performance Incentive Program (the "Program") for the year ended May 31, 2001, as outlined below:

1. Participants: All Officers of Paychex, Inc.

2. Maximum Incentive: 40% of base salary for fiscal year 2001 as approved by the Board of Directors at the July 2000 Board meeting.

3. Performance Criteria: The payment of cash bonus awards to participants shall be determined by the Board on a discretionary basis based primarily on how actual net income for the fiscal year compares to the goals that are established annually by the Board of Directors.

4. Payment: Incentive payments to be paid in July 2001, after Board approval. Officer must be employed at the end of fiscal year 2001 to be eligible for any bonus.

5. Partial Year: New officers appointed to an executive officer position during the first three quarters of the year will participate in the Program, but their incentive payment will be prorated based upon their time in the position.

   Executive officers appointed during the fourth quarter of the fiscal year will begin participation with the start of the next fiscal year.

6. Changes and Terminations: Bonus awards, changes to and termination of the Program is at the sole discretion of the Board.

Financial Highlights

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In millions, except per share amounts

Year ended May 31,	2000	1999	Increase
<S>	<C>	<C>	<C>
Service revenues	$728.1	$597.3	22%
Operating income	$258.9	$187.6	38%
As a percent of service revenues	36%	31%	
Net income	$190.0	$139.1	37%
As a percent of service revenues	26%	23%	
Diluted earnings per share	$ .51	$ .37	38%
Cash dividends per common share	$ .22	$ .15	47%
Return on stockholders' equity	38%	36%	

</TABLE>

[Graphics on this page omitted]

The following table was depicted in bar graphs in the printer material.
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	1996	1997	1998	1999	2000
<S>	<C>	<C>	<C>	<C>	<C>
Service Revenues (millions $)	$333.3	$399.7	$493.7	$597.3	$728.1
Operating Income (millions $)	$ 69.9	$ 96.6	$134.7	$187.6	$258.9
Net Income (millions $)	$ 55.0	$ 75.2	$102.2	$139.1	$190.0
Payroll Clients (thousands)	234.3	262.7	293.6	322.6	351.9

</TABLE>

To Our Shareholders

The year 2000 was a very successful year for Paychex, and I am pleased to review the highlights.

For the tenth straight year our service revenues and net income set new records. It was the ninth consecutive year of net income growth of 36% or more. For the year ended May 31, 2000, Paychex earned net income of $190.0 million, a 37% increase over 1999. Total service revenue increased 22% over last year to $728.1 million and operating income grew 38% to $258.9 million during the same period. Our balance sheet remains strong, with $459.5 million of cash and investments. Return on equity was 38%. Cash flow from operations was $249.0 million. Paychex has no outstanding notes or mortgages.

Diluted earnings per share were $.51, compared to $.37 a year ago. During October 1999, we increased out dividend by 50% for the eighth consecutive year. In April 2000, the board of directors approved a three-for-two stock split. That was the tenth split of this type since our initial public offering in 1983, and the sixth in the last six years.

Successful application of our growth formula, which has generated consistent results for many years, was the primary force creating our strong year-over-year profits. Our business model focuses on increasing client counts, implementation of modest price increases, higher client utilization of ancillary products, and introducing new products that leverage off our fixed infrastructure and the capabilities Paychex brings to its clients.

During fiscal 2000, payroll service revenue grew 20% to $653.2 million, with operating income increasing 28% to $303.4 million. This growth was led by our new Flexible Pay Package, which significantly increased the use of ancillary services by clients.

We were especially pleased this year by the presentation of the George Mitchell Payment Systems Excellence Award to Paychex. This was conferred by the National Automated Clearing House Association, which oversees electronic money transfers between businesses and the nation's 13,000 depository financial institutions. The award was particularly appreciated because it represented the financial industry's recognition of Paychex as a leader in electronic payment services.

We have expanded our Major Market Services (MMS) payroll offering to include forty-four of the markets served by our core payroll service. MMS revenues were up 55% this fiscal year. Businesses served by MMS are larger, more likely to be interested in ancillary services, and deliver per-client revenues that are substantially more than those of our smaller clients. Therefore, we expect MMS to be a solid contributor and one that should show continued growth into the future.

For the year, HRS-PEO service revenue increased 44% to $74.9 million with operating income advancing 111% to $23.4 million. This segment now produces over 10% of our total revenue and has become an increasingly significant producer for Paychex. A 46% increase in the number of 401(k) recordkeeping clients reflected expansion of the sales force during fiscal 1999.

At the beginning of the new millennium two topics were foremost for American business; the Y2k computer problem and the impact of the Internet. For Paychex, the Y2k bug was a non-event, with zero systems problems encountered. However, it was not without effort and will return dividends in coming years.

The Internet has opened a dynamic communications channel that is without geographic or time boundaries. Our corporate Web site - www.paychex.com - has been operational since 1996. It, together with our other Internet initiatives, has continuously evolved as a resource for expanding our geographic reach, improving the efficiency of product delivery, providing another channel for communication of the Paychex brand, and delivery of products and services to both clients and the professional accounting community.

We believe the Internet will continue to enhance the way prospects, clients, and their accountants interact with us. This year, the rollout of Paychex Online, and several other Paychex Internet initiatives provided proof of this. An online payroll sales presentation placed on our site last March quickly began providing a stream of high-quality, low-cost sales leads with a high closing rate. Two new services - Internet Time Sheet and Ledger Reporting Online - were introduced this year, joining our enhanced Reports Online, which was introduced during fiscal 1999. Available twenty-four hours a day, seven days a week, these Internet capabilities bring added convenience and utility to the business owners and accountants who use our payroll services. Soon we will provide retirement account Internet access for the employees of our clients who have 401(k) plans.

Each of these capabilities establishes a new means by which our clients or their employees can exchange information with Paychex in a fast, convenient, and cost-effective manner. These services demonstrate that the technology of the Internet can be profitably integrated with an established business model without the need to radically transform the model.

We are poised to capitalize on the service and trust of the past and the technologies of the future, to compete as the premier employer and employee services company for small- and medium-size businesses in the new economy. The growth of revenue and profitability, the successful pursuit of our sales process, and the delivery of quality service continue to be our objectives. I thank our stockholders, our clients, and our employees for the achievement of those goals in 2000, and look forward to their continued support in the future.

/s/ B. Thomas Golisano
B. Thomas Golisano
Chairman, President, and Chief Executive Officer
July 13, 2000

Putting It All Together For Employers

Paychex helps companies focus on their core strengths by minimizing the effort to perform payroll and human resource tasks. By constructing a diverse portfolio of products of high value, Paychex has built a solid reputation of service to employers and their employees and a record of strong financial performance for shareholders.

A View of Our Company

Paychex serves businesses everywhere in the United States. They are in business districts, in malls, anywhere where commerce flows. Look down any busy street and you are likely to see a professional office complex, a popular family restaurant, an accountant's office, a rapidly growing manufacturing firm, or even an entrepreneur working out of his or her home. Each has similar, but individual, payroll and human resource requirements. Paychex serves them all, and over 350,000 companies like them, by putting together solutions tailored to the unique needs of each employer. This personal attention originates from over 100 Paychex offices across the United States and extends to our support staff of 6,200 employees.

Our service and financial achievements are frequently recognized by the press. Some of the honors received this year include the following:

* Business Week's Performance Rankings of the S&P 500. Paychex was ranked #68

in a comparison of financial success that weighed factors such as sales, profits, and return to shareholders.

* Forbes 500s. This measures the top companies in the United States. In the list of 500 companies ranked by market value, Paychex moved from last year's position of #271 to #212. The company entered the profits category at #458. In the 895-company "super rank" listing, which combines sales, profits, assets, and value, Paychex rose from #521 in 1999 to #470 this year.

* Forbes Global A-List. In this listing of the 400 best companies in the world, Forbes Global magazine divided the group into twenty-one sectors - "the companies to watch in each industry; the ones that create their own destinies." Paychex was awarded the #1 position in the business services category.

* Barron's 500. The best performing corporations for investors, reviewed on the basis of stock market performance, top-line revenue growth, and real cash returns on capital invested in a company, provides the basis for this ranking. Paychex was positioned #21.

* The Business Week Global 1000. This list ranks companies, worldwide, by market value. The Paychex position in the United States was #206, and internationally #405.

Paychex employs approximately 6,200 people, 13% more than last year. Organizational goals include internal promotion, employee recognition, and a rigorous schedule of headquarters and field instruction that emphasizes personal development, positive client relationships, and strong financial performance. This year, the corporate training and development center logged 815,000 employee-hours of field training, formal classroom instruction, and testing, including many courses certified for college credit.

Clients and Competitors

Paychex began as a payroll processor for smaller businesses. While we now serve clients of more diverse sizes and

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needs, small- to medium-sized companies remain our primary focus. Of the 5.8 million firms in the markets we serve, 98% have fewer than 100 employees. The average Paychex core payroll client employs fourteen people, and has thirty-one payrolls processed each year.

Comparing the Paychex client base to the number of American businesses shows that market penetration is still relatively small. In fact, research estimates that all payroll processors combined serve less than 15% of the potential market, presenting the opportunity for substantial continued growth by all competitors.

While many small businesses utilize personal computer programs or manual record books, our true competition is not specific brands of software or ledger books. Instead, our challenge is to show business owners that outsourcing is a better decision than a do-it-yourself approach . . . to demonstrate that their time is best spent concentrating on growing their businesses rather than being distracted by repetitive and time-consuming administrative tasks like payroll.

The Power of Outsourcing

From a $100 billion industry in 1996, outsourcing has grown to a projected $300 billion industry this year. Business owners cite the following as some of the top reasons for turning important tasks over to outside suppliers: it frees

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Sidebar caption:
Putting It All Together for Businesses
This main street restaurant has twenty-three servers, cooks, and bartenders. Turnover is frequent and no two employees work exactly the same schedule. The tips are good and the tip-sharing arrangement is complicated. The restaurant owner relies on Paychex to accurately cut checks, remit taxes, provide W-2s, and make reports of newly hired employees in what he calls "a payroll situation as complicated as a plate of spaghetti."

resources for other purposes, brings difficult to manage functions under control, improves company focus, provides capabilities not available internally, reduces risk, and provides access to world-class capabilities. As the acceptance of outsourcing as part of a dynamic business model continues to grow, Paychex stands well prepared to bring these benefits to a growing audience of businesses of all sizes.

Partnership for Success

Thousands of accounting professionals nationwide have formed a strategic alliance with Paychex to provide our services to their clients. We recognize the important role that these professionals play in the business world, and continually seek additional ways to bring value to this mutually beneficial relationship.

Our presence within the accounting community was strengthened this year with our participation in a comprehensive Web site called AccountantsWorld (Service Mark), which is accessible via the Paychex Web site. This site offers accountants and CPAs daily accounting and tax news via e-mail, Web site development for their practices, a convenient portal to tax agencies and forms, free online seminars, and a host of other links and resources that help them manage and grow their businesses. The introduction of Reports Online and Ledger Reporting Online (Service Mark) has provided accountants with a convenient new way to access client payroll records. These services, combined with our established programs and services such as seminar programs and informational publications, build on the long-standing relationship for mutual success that we have with the accounting community.

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Sidebar caption:
Putting It All Together for Accountants
Businesses depend on accountants, and many accountants depend on Paychex. In a mutually beneficial partnership, this CPA relies on Paychex to aid her clients with reliable payroll services. This gives her more freedom to provide the best one-on-one accounting and business consulting. "The knowledgeable personal service and expanding Internet services that Paychex has provided have helped me make the important transition from mundane compliance work to diversified financial consulting."

Services and Products

Paychex continuously spends considerable resources to expand its lineup of services and products. New payroll and human resource offerings, as well as expanded Internet capabilities, make the content of our product line significantly different than it was just two years ago.

Payroll

Comprehensive payroll services - including calculation and delivery of employee pay, management reports, and payroll tax returns for federal, state, and local jurisdictions - form the core Paychex business. In fiscal 2000, we produced over 162 million payments, with over 5.2 million workers a month receiving a payment generated by Paychex. At year's end, we delivered over 8.7 million W-2 forms. In short, it all begins with payroll.

Payroll information comes to Paychex offices in a variety of ways. Typically, our Payroll specialists telephone businesses on a scheduled basis and, in a few minutes, obtain employee hours and wages. Others prefer to fax us their information, while others use our Paylink(Registered Trademark) or Preview (Registered Trademark)(MMS) software to transfer their data from a personal computer. We also offer the ability to interface with time and attendance systems, facilitating information transfers from companies using time clocks.

This year, Paychex introduced Internet Time Sheet, which allows employee information to be submitted via a secure area of the Paychex Online Internet site, any time of day, any day of the week. Another Internet service - Ledger Reporting Online - facilitates the transfer of payroll numbers computed by Paychex to client general ledger software. This eliminates time-consuming manual entries and improves bookkeeping accuracy. These new Internet services interlock with Reports Online, which was introduced in fiscal 1999. Reports Online allows companies to access their current and historical payroll information, reducing the cost and increasing the delivery speed of their reports.

New-hire reporting, a payroll-related service, helps employers comply with federal and state requirements that aid enforcement of child support orders, and help reduce fraudulent workers' compensation and unemployment claims. Paychex currently processes over 339,000 new-hire reports each month.

Electronic invoice payment provides clients with an easy, scheduled means of paying their Paychex bill via an electronic account deduction. While adding convenience and predictability to clients' cash management, this cuts the cost of invoice processing for Paychex by reducing the number of unpaid or delinquent bills. Over 58% of our core payroll clients use this payment method.

Paychex delivers core payroll sales, processing, and service from over 100 locations nationwide. In 2000, staffing included 795 sales representatives, an increase of 10% from 1999.

In the past, Paychex focused primarily on services for smaller companies. Paychex Major Market Services (MMS) was introduced in 1997 to meet the needs of current clients who were outgrowing our core service, and for new clients, with more complex payroll and human resource

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needs, who were seeking access to Paychex expertise. According to the Small Business Administration, less than 2% of U.S. companies have more than one hundred employees. However, the sector pays more than 60% of the nation's non-farm paychecks, and takes in two thirds of its gross receipts (over $10 trillion). This market offers large numbers of employees to serve, is positioned to purchase extended payroll and human resource services, and understands the benefits of outsourcing. Most of these companies are located in metropolitan areas, and Paychex has been both aggressive and successful, acquiring more than half our new accounts from competitive providers.

During fiscal 2000, the number of metropolitan areas served by MMS was expanded from twenty-six to forty-four of the markets served by our core payroll service. Sales staff in these offices increased 32% to fifty. MMS offices delivered payroll and human resource administration for over 6,000 clients, an increase of 40% over the prior year.

Taxpay (Registered Trademark)

Businesses are required to remit payroll taxes and file returns with tax agencies on a regular schedule, and failure to do so results in penalties. Making the payments, maintaining the proper records, and filing the returns becomes a time-consuming routine for employers who would prefer to concentrate on running their business. The Paychex Taxpay service eliminates this burden by making sure that deposits and filing are done accurately and on time. Throughout the last decade, Taxpay was a very successful ancillary service, with client use growing from 25% in 1992 to 81% in 2000. We expect utilization to mature in the 82% to 87% range.

In the past, Paychex handled federal and state taxes, but early this year local taxes were added. Successfully tested in several cities during fiscal 1999, the local service is now available nationwide.

Paychex made $45.5 billion in payroll tax payments on behalf of clients during fiscal 2000. Compared to the year before, this was an increase of $8.4 billion.

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Employee Pay Services

To meet the various needs and preferences of employers and employees, Paychex provides a variety of ways for businesses to pay employees. These include the traditional paper check, direct bank deposit, a debit and purchase card option, and a special type of check called Readychex (Service Mark).

During the first quarter of this fiscal year, Paychex introduced a total payroll solution called the Flexible Pay Package, which combines all our employee payment options for one low price. Employers get the convenience and confidentiality of check signing and insertion, plus the simplified account reconciliation that comes from direct deposit and Readychex. Employees have the choice of any one or a combination of payment options, including a paper check, direct deposit, or Access Card.

Helping both employers and employees, direct deposit provides a safe, convenient, and productive benefit. The number of client companies using Paychex for direct deposit grew from 135,400 to 165,700, an increase of 22%. Transfers for the year rose from $39.4 billion to $50.7 billion. Working as a member of the National Automated Clearing House Association (NACHA), Paychex is connected to 13,000 depository financial institutions. This year, in recognition of our contribution to the financial services industry, NACHA presented Paychex with the George Mitchell Payment Systems Excellence Award for "using the automated clearing house to make the efficiencies of electronic commerce available to every business owner in the United States."

The Paychex Access Card - in association with MasterCard(Registered Trademark) - - provides an alternative way to electronically deposit wages. Many U.S. workers do not have any kind of bank account, which ordinarily disqualifies them from using direct deposit. They must rely on check cashing services

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Sidebar caption:

Putting It All Together for Employees
Four nurses and three medical administrators aid the two doctors at this medical practice. The staff includes a working mother with a child in nursery school, another with a disabled spouse, and one with recurring eye care expenses not covered by insurance. In addition to their paychecks, each depends on the section 125 plan administered by Paychex to provide favorable tax status while budgeting their out-of-pocket health and dependent care expenses during the year.

and carry cash. The Paychex Access Card offers an alternative, combining the convenience and safety of direct deposit with a purchase and ATM debit card. In addition, Access Card fees are modest compared to those normally charged for check cashing. The Access Card also provides a convenient method for employees who frequently travel in their jobs, by enabling them to access cash through ATMs or to use their card for purchases.

While an employer may be enthusiastic about the benefits of direct deposit, some employees may still wish to receive a paper check. Paychex Readychex resolves this by delivering an employee's net pay in a form that makes payday convenient for both. For employees, Readychex is just like any other payroll check. To an employer, a Readychex payment works as simply as direct deposit, with Paychex bundling all Readychex wages into a single debit from the business's payroll account. Reconciliation of Readychex payments becomes a one-line accounting item on payday, making bookkeeping easier and providing management with a reliable cash management tool. In addition, Readychex money transfers employ banking system safeguards that reduce the opportunities for check fraud.

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Sidebar caption:
Putting It All Together for Larger Companies
Five years ago this software company had ten employees. Today they have over one hundred and fifty. The owner and president gives substantial credit to the company's benefits package - particularly the 401(k) plan - for the ability to attract and retain talented programmers and computer professionals. "Paychex made it possible for a small start-up to have competitive benefits so we could hire good talent, and allowed me to concentrate on growing the business at a crucial time, particularly when we really took off and became a bigger business."

By having checks pre printed with authorizing signatures and then inserted and sealed in envelopes, our clients add confidentiality and save time on payday.

Human Resource and PEO Services

A paycheck does more than quantify gross wages, deductions, and net pay. For many workers, it shows their commitment to health care, insurance, retirement, or other elements of their total wages. Because these issues go hand in hand with payroll, Paychex is solidly positioned to leverage its core payroll capabilities into human resource services at very profitable levels. Organized under our Human Resource Services and Professional Employer Organization division (HRS-PEO), these services are offered by a specially trained staff of 199 sales representatives that deals solely with human resource issues.

Retirement Plan Recordkeeping

Participation in retirement plans - and in 401(k) plans in particular -has expanded at an enormous rate in recent years. The last decade of Department of Labor statistics show that 401(k) plan participation doubled, the number of plans more than quadrupled, and assets grew from $277 billion to $1.4 trillion. Because of its unique position as a payroll processor, Paychex has been able to make retirement plans economical for almost any employer, the most popular being the 401(k) plan. Currently, 14,700 companies depend on Paychex for their funds transfer and 401(k) plan recordkeeping, an increase of 46% over last year. This represents $1.3 billion under recordkeeping, for 174,000 plan participants.

In partnership with leading fund managers, Paychex offers affordable solutions for a wide variety of needs. During fiscal 2000, we began offering SIMPLE Individual Retirement Account plans to our clients. SIMPLE IRAs are particularly well suited for the self-employed, business owners seeking a successor to a SAR/SEP plan, or those for whom employee compensation does not coincide with the compliance requirements of a traditional 401(k) plan.

Workers' Compensation Services

Workers' compensation provides benefits for employees who are unable to work because of injuries incurred on the job, and, therefore, most employers carry workers' compensation insurance. Risk factors, claims history, wage rates, and the number of employees all affect workers' compensation rates. Typically, companies pay estimated premiums at the beginning of the coverage period. At the end of the period, an audit adjusts actual claims, wage rates, and job classifications. Businesses that have increased their employment or had changes in rates or risk can face significant period-end adjustments. This can create cash management problems, particularly for smaller companies.

[graphics on this page omitted]

The Paychex Pay-As-You-Go (Service Mark) program uses rate and job classification information to initiate regular premium payments throughout the year for clients, stabilizing their cash flow and minimizing period-end adjustments. The integrity of Paychex payroll data helps eliminate the expense of year-end audits, making Pay-As-You-Go attractive to major insurers (Paychex acts, via its licensed agency, as a general agent providing insurance through a variety of carriers who are the underwriters). Because of the number of firms requiring worker's compensation insurance, Pay-As-You-Go has significant potential for growth, with Paychex receiving revenue through fees and the administration of the stream of premium payments.

Section 125 Plans

To encourage individuals to plan and manage their health and dependent care costs, section 125 of the U.S. Internal Revenue Code was established. It designates favorable tax considerations for persons who contribute to flexible spending accounts and premium-only plans. Although these plans reduce employer payroll taxes, administration remains time-consuming. Paychex eliminates this burden and allows companies to add to their benefits package at very little cost. During fiscal 2000, we administered plans for 23,900 clients.

PAS and PEO

Paychex Administrative Services (PAS) offers businesses a bundled package that includes payroll, human resource administration, fringe benefit administration, and risk management. Smaller companies have found this bundled approach to human resource matters particularly attractive because it brings previously unaffordable benefits within reach. PAS does not engage in co-employment of workers. After successful testing in limited markets, Paychex Administrative Services has been available nationwide since May 2000.

Professional employer organizations (PEOs) offer a specific approach to payroll, human resource, and benefits administration. The PEO becomes co-employer of a client company's employees, which permits a pooling of workers from different client companies for the negotiation of advantageous rates of insurance and benefit services. This course is popular in Florida where Paychex Business Solutions (PBS) provides PEO services to companies with a total of 20,200 worksite employees.

Beginning a New Century

Paychex enters the twenty-first century having established a broad base of products, well-trained and motivated employees, and healthy markets for continued growth. These all provide an exciting outlook for the future. As a result, Paychex has never been better positioned to deliver added value to our clients, opportunities for our employees, and profits for our shareholders.

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MANAGEMENT'S DISCUSSION

Management's Discussion reviews the Company's operating results for each of the three fiscal years in the period ended May 31, 2000 (fiscal 2000, 1999, and 1998), and its financial condition at May 31, 2000. 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 review are qualified by the cautionary statement at the beginning of this Annual Report (Exhibit 99).

Results of Operations

<TABLE>
<CAPTION>
In thousands, except per share amounts

	2000	Change	1999	Change	1998
<S>	<C>	<C>	<C>	<C>	<C>
Service revenues	$728,119	21.9%	$597,296	21.0%	$493,704
Operating income	$258,893	38.0%	$187,562	39.2%	$134,700
Operating margin	35.6%		31.4%		27.3%
Income before income taxes	$275,372	37.6%	$200,143	38.8%	$144,173
Net income	$190,007	36.6%	$139,099	36.1%	$102,219
% of service revenues	26.1%		23.3%		20.7%
Basic earnings per share	$ .51	34.2%	$ .38	35.7%	$ .28
Diluted earnings per share	$ .51	37.8%	$ .37	32.1%	$ .28

</TABLE>

The financial results for Paychex, Inc., in 2000, reflect the tenth consecutive year of record service revenues and net income, and the ninth consecutive year of net income growth of 36% or more. The Company's ability to continually grow its client base, add new services, increase client utilization of ancillary services, implement price increases, and decrease operating expenses as a percent of service revenues has resulted in ten years of average compounded annual growth in service revenues of 20% and net income of 36%.

The Company has two reportable business segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). See Note A of the Notes to Consolidated Financial Statements for a detailed description of these reportable segments and related business activities.

Payroll segment

<TABLE>
<CAPTION>

In thousands

	2000	Change	1999	Change	1998
<S>	<C>	<C>	<C>	<C>	<C>
Payroll service revenue	$653,245	19.8%	$545,249	19.8%	$455,227
ENS investment revenue included in Payroll service revenue	$ 58,800	12.4%	$ 52,335	20.5%	$ 43,429
Payroll operating income	$303,360	27.9%	$237,236	30.6%	$181,585
Payroll operating margin	46.4%		43.5%		39.9%
Payroll clients	351.9	9.1%	322.6	9.9%	293.6
Taxpay clients	285.9	12.4%	254.3	15.2%	220.7
Employee Pay Services clients	165.7	22.4%	135.4	29.7%	104.4

</TABLE>

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Revenues: Payroll service revenue includes service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay, Employee Pay Services, and other ancillary services. Employee Pay Services include the Direct Deposit, Readychex, and Access Card products. ENS (Electronic Network Services) investment revenue is earned during the period between collecting client funds (ENS investments) and remitting the funds to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. ENS investment revenue also includes net realized gains and losses from the sale of available-for-sale securities.

The increases in Payroll service revenue for 2000 and 1999 are primarily related to the addition of new clients, new services, price increases, and increased utilization of ancillary services, such as Taxpay and Employee Pay Services, by both new and existing clients. At May 31, 2000, 81% of Payroll clients utilized the Taxpay service, compared with 79% at the end of 1999 and 75% at the end of 1998. Client utilization of this product is expected to mature within a range of 82% to 87%. Client utilization of Employee Pay Services was 47% at May 31, 2000, versus 42% and 36% at May 31, 1999 and 1998, respectively. At May 31, 2000, only 27% of the total employees paid by the Company's core payroll service utilized Employee Pay Services. These services are expected to provide growth opportunities for fiscal 2001 and beyond.

ENS investment revenue, which is included in Payroll service revenue, has increased due to more clients utilizing Taxpay and Employee Pay Services and higher daily client balances. The growth rate in ENS investment revenue is also affected by factors such as the maturing of the Taxpay product, volatile interest rate movements in both fiscal 2000 and 1999, and the level of realized gains and losses. Average daily ENS investment portfolio balances were approximately $1.4 billion, $1.1 billion, and $1.0 billion in fiscal 2000, 1999, and 1998, respectively. The first half of fiscal 2000 reflected lower comparable rates of return, while the second half of fiscal 2000, especially the fourth quarter, benefited from increasing interest rates. In fiscal 2000, ENS investments incurred realized losses of $2.9 million, compared with realized gains of $2.4 million and $0.8 million in fiscal 1999 and 1998, respectively.

Payroll revenue growth for the fourth quarter of fiscal 2000 was 23.7%, compared with 19.8% for the full year. The higher than normal growth was due to higher interest rates and the timing of billing days in the quarter. Fiscal 2001's percentage growth in Payroll revenue is expected to be toward the upper end of a range of 18% to 20%.

Operating income: Operating income for 2000 and 1999 increased as a result of increased revenue and leveraging of the segment's operating expense base, as evidenced by the increases in the segment's operating margins year-over-year.

Effective September 1, 1999, the Company increased its sales force compensation package to increase the retention and quality of its payroll sales representatives. This compensation increase resulted in additional annualized pre-tax expense of approximately $6.0 million, of which $4.5 million was reflected in fiscal 2000. Sales related expenses were also impacted in the fourth quarter of fiscal 2000 as the Company accelerated the hiring and training of Payroll sales representatives for fiscal 2001 selling efforts.

During fiscal 2000, the Company continued expansion of its Major Market Services payroll product offering to include forty-four of the slightly more than one hundred sales territories covered by its core Payroll product. The Major Market Services product now services over 6,000 clients and generated approximately $30 million in revenue for fiscal 2000. The Company will continue to expand into new cities for the next several years.

[graphics on this page omitted]

HRS-PEO segment

<TABLE>
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In thousands

	2000	Change	1999	Change	1998
<S>	<C>	<C>	<C>	<C>	<C>
HRS-PEO service revenue	$ 74,874	43.9%	$52,047	35.3%	$38,477
HRS-PEO operating income	$ 23,395	111.3%	$11,072	108.0%	$ 5,322
HRS-PEO operating margin	31.2%		21.3%		13.8%
401(k) Recordkeeping clients	14.7	45.5%	10.1	68.3%	6.0
401(k) client funds managed externally (in millions)	$1,337.5	76.5%	$ 757.6	97.7%	$ 383.3
Section 125 clients	23.9	18.3%	20.2	23.2%	16.4
Workers' Compensation Insurance clients	10.4	160.0%	4.0	100.0%	--
PEO worksite employees	20.2	10.4%	18.3	-4.7%	19.2

</TABLE>

Revenues: The significant increases in service revenue for 2000 and 1999 are primarily related to the benefits of growing a recurring revenue stream from 401(k) Recordkeeping clients, Workers' Compensation Insurance clients, Section 125 clients, and the number of Professional Employer Organization (PEO) worksite employees. The increase in 401(k) clients reflects the continuing interest of small- to medium-sized businesses to offer retirement savings benefits to their employees. During the first quarter of fiscal 1999, the Company began a national rollout of its Workers' Compensation Insurance product, which provides insurance for qualified clients through several leading insurance providers and a method to enhance their cash flows. The decline in PEO worksite employees in 1999 was caused by the loss of two large PEO clients, which offset the additions to worksite employees. The loss of these clients did not have a material impact on fiscal 2000 or 1999.

Operating income: For 2000 and 1999, the increases in operating income are primarily related to gains in recurring service revenue and leveraging of operating expenses.

In fiscal 2000, the Company began a nationwide expansion of Paychex Administrative Services (PAS), a combined payroll and human resource outsourcing solution designed to make it easier for small businesses to manage their payroll and benefit costs. The Company also added SIMPLE IRA Plans to its retirement services product line and continued to expand the Workers' Compensation Insurance product.

Full-year fiscal 2001's HRS-PEO service revenue and operating income are expected to grow at a rate lower than fiscal 2000's rate, but at a rate much higher than the Payroll segment's growth rate. Fiscal 2001's quarter-over-quarter percentage comparisons in HRS-PEO service revenue and operating income may vary significantly throughout the year, and any one particular quarter's results may not be indicative of expected full-year results.

Corporate expenses

<TABLE>
<CAPTION>

In thousands

<S>	2000 <C>	Change <C>	1999 <C>	Change <C>	1998 <C>
Corporate expenses	$67,862	11.7%	$60,746	16.4%	$52,207

</TABLE>

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing, and Senior Management functions of the Company. For 2000 and 1999, the increases in expenses are primarily due to additional employees and other expenditures required to support the continued growth of the Company's business segments. In fiscal 2000, the Company also continued to invest in numerous Internet-based product enhancements, which will be utilized by both CPAs and clients in fiscal 2001. In fiscal 2000, these increases were offset by lower spending on national marketing efforts during the last half of the year and by the internal payroll-related costs capitalized for the development of internal-use software. These capitalized costs are in accordance with the adoption of Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which became effective for the Company on June 1, 1999.

In fiscal 2001, Corporate expenses are expected to grow at a rate lower than in fiscal 2000.

Investment income

<TABLE>
<CAPTION>

In thousands

<S>	2000 <C>	Change <C>	1999 <C>	Change <C>	1998 <C>
Investment income	$16,479	31.0%	$12,581	32.8%	$9,473

</TABLE>

Investment income primarily represents earnings from the Company's cash and cash equivalents and investments in available-for-sale securities. Investment income does not include earnings from the ENS investments, which are recorded as ENS investment revenue within the Payroll segment. The increases in Investment income are primarily due to the increases in the average daily invested balances generated from increases in overall cash flows. In fiscal 2000, these increases were offset by realized losses of $0.8 million on available-for-sale securities compared with realized gains of $0.5 million and $0.1 million in fiscal 1999 and 1998, respectively. For fiscal 2000, the twelve-month average long-term rate of return was slightly higher than the average rate of return earned in fiscal 1999, reflecting lower comparable rates of return in the first half of fiscal 2000 and higher comparable rates in the second half of the fiscal year. Investment income for fiscal 2001, subject to changes in market rates of interest, is expected to grow at a rate higher than fiscal 2000, reflecting the expected benefit of higher comparable rates of return.

Income taxes

<TABLE>
<CAPTION>
In thousands

	2000	Change	1999	Change	1998

<S> <C> <C> <C> <C> <C>

Income taxes	$85,365	39.8%	$61,044	45.5%	$41,954
Effective income tax rate	31.0%		30.5%		29.1%

</TABLE>

For 2000 and 1999, the increases in the effective income tax rate are due to the growth in taxable income exceeding the growth in tax-exempt income. Tax-exempt income is derived primarily from income earned on municipal debt securities. Fiscal 2001's effective income tax rate is expected to be in the range of rates experienced in fiscal 2000 and 1999.

Liquidity and Capital Resources

Operating activities

<TABLE>
<CAPTION>

In thousands

<S> <C> <C> <C> <C> <C>

	2000	Change	1999	Change	1998
Operating cash flows	$249,028	43.0%	$174,120	27.3%	$136,761

</TABLE>

[graph omitted]

The increases in operating cash flows resulted primarily from the consistent achievement of record net income. Projected operating cash flows are expected to adequately support normal business operations, forecasted growth, purchases of property and equipment, and dividend payments. Furthermore, at year-end, the Company had $459 million in available cash and investments. The Company also had $140 million of available, uncommitted, unsecured lines of credit and $350 million available under an uncommitted, secured line of credit, which was entered into during the third quarter of fiscal 2000.

Investing activities

<TABLE>
<CAPTION>

In thousands

<S> <C> <C> <C> <C> <C>

	2000	Change	1999	Change	1998
Net investments and ENS activities	$(144,322)	74.5%	$ (82,724)	-6.8%	$ (88,728)
Purchases of P&E, net	(32,888)	48.8%	(22,104)	-21.6%	(28,197)
Purchases of other assets	(6,964)	94.0%	(3,590)	599.8%	(513)
Net cash used in investing activities	$(184,174)	69.9%	$(108,418)	-7.7%	$(117,438)

</TABLE>

Corporate investments and ENS investments: Corporate investments are primarily available-for-sale debt securities. ENS investments are primarily short-term funds and available-for-sale debt securities. The portfolio of Corporate investments and ENS investments is detailed in Note D of the Notes to Consolidated Financial Statements.

Corporate investments have increased due to the investment of increasing cash balances provided by operating activities less purchases of property and equipment and dividend payments. The reported amount of ENS investments will vary significantly based upon the timing of collecting client funds, and remitting the funds to the applicable tax authorities for Taxpay clients and employees of clients utilizing the Employee Pay Services.

At May 31, 2000, the Company had $1,202.7 million of cost and fair value invested in money market securities and other cash equivalents with an average maturity of less than 30 days, and $984.3 million of fair value invested in available-for-sale securities with an average duration of 2.4 years. At May 31, 2000, the market value of the available-for-sale securities was lower than their cost basis by $13.4 million, compared with a market value exceeding cost basis by $4.5 million at the end of May 1999.

Additional discussion of interest rates and related risks is included in the Market Risk Factors section of this review.

Purchases of property and equipment, net: In fiscal 2000, the Company made net purchases of property and equipment of $32.9 million. During the past year, the Company sold an office facility in California for approximately $1.2 million and purchased a branch office facility in Pennsylvania for $6.1 million. Purchases of property and equipment in fiscal 2001 are expected to range from $30 million to $35 million. In addition, the Company is in the process of evaluating the construction of an additional facility at Corporate headquarters with a cost ranging from $20 million to $30 million. The proposed building would primarily be occupied by employees who are currently occupying leased facilities and would be completed in the summer of 2002.

Effective June 1, 1999, the Company adopted SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires the capitalization of internal-use computer software costs if certain criteria

are met, including all external direct costs for materials and services and certain payroll and related fringe benefit costs. Prior to fiscal 2000, the Company expensed as incurred certain payroll and related fringe benefit costs to develop and enhance its internal computer programs and software. The effect of adopting the SOP increased net income by approximately $2.4 million for the year ended May 31, 2000.

Financing activities

<TABLE>
<CAPTION>

In thousands, except per share amounts

	2000	Change	1999	Change	1998
<S>	<C>	<C>	<C>	<C>	<C>
Dividends paid	$(81,583)	50.9%	$(54,055)	50.7%	$(35,871)
Proceeds from exercise of stock options	11,242	103.1%	5,535	178.1%	1,990
Other	(69)	13.1%	(61)	-27.4%	(84)
Net cash used in financing activities	$(70,410)	44.9%	$(48,581)	43.0%	$(33,965)
Cash dividends per common share	$ .22	46.7%	$ .15	50.0%	$ .10

</TABLE>

Dividends paid: The Company has increased its quarterly cash dividend rate per share by 50% in each of the last eight fiscal years. The Company has distributed three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares each May in the past six fiscal years.

[graph omitted]

Proceeds from exercise of stock options: The increase in proceeds from exercise of stock options reflects the issuance of 1,532,000 shares of common stock for stock option exercises in 2000, versus 1,032,000 shares in 1999 and 277,000 shares in 1998, on a pre-split-adjusted basis. In May 1999, 50% of the November 1996 broad-based incentive stock option grant vested, resulting in an increase in shares available for exercise. See Note G of the Notes to the Consolidated Financial Statements for additional disclosure on the Company's stock option plans.

Market Risk Factors

Interest rate risk: The Company's available-for-sale debt securities are exposed to market risk from changes in interest rates, as rate volatility will cause fluctuations in the market value of held investments. Increases in interest rates normally decrease the market value of the available-for-sale securities, while decreases in interest rates increase the market value of the available-for-sale securities.

In addition, the Company's available-for-sale securities and short-term funds are exposed to earnings risk from changes in interest rates, as rate volatility will cause fluctuations in the earnings potential of future investments. Increases in interest rates quickly increase earnings from short-term funds, and over time increase earnings from the available-for-sale securities portfolio. Earnings from the available-for-sale securities do not reflect changes in rates until the investments are sold or mature, and the proceeds are reinvested at current rates. Decreases in interest rates have the opposite earnings effect on the available-for-sale securities and short-term funds.

The Company directs investments toward high credit-quality, tax-exempt securities 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, which typically have lower interest rate volatility, and manages the securities portfolio to a benchmark duration of 2.5 to 3.0 years. The Company does not utilize derivative financial instruments to manage interest rate risk.

Over the twelve-month period of fiscal 2000, the federal funds rate increased a total of 175 basis points. The following table summarizes the federal funds rate activity over the last three years:

	2000	1999	1998
Federal funds rate - beginning of fiscal year	4.75%	5.50%	5.50%
Rate increase/(decrease):			
First quarter	.50	-	-
Second quarter	.25	(.75)	-
Third quarter	.25	-	-
Fourth quarter	.75	-	-
Federal funds rate - end of fiscal year	6.50%	4.75%	5.50%

The earnings impact of these rate changes is not precisely quantifiable because many factors influence the return on the Company's portfolio. These factors include, among others, daily interest rate changes, the proportional mix of taxable and tax-exempt investments, and changes in tax-exempt and taxable investment rates, which are not synchronized, nor do they change simultaneously. Subject to the aforementioned factors, a 25 basis point change normally affects the Company's tax-exempt interest rates by approximately 17 basis points.

As of May 31, 2000 and May 31, 1999, the Company had approximately $984.3 million and $879.6 million, respectively, invested in available-for-sale securities at fair value, with weighted-average yields to maturity of 4.5% and 4.1%, respectively. Assuming a hypothetical increase in interest rates of 25 basis points given the May 31, 2000 and May 31, 1999 portfolios of securities, the resulting potential decrease in fair value would be approximately $6.0 million and $5.4 million, respectively. 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 with no related or immediate impact to the results of operations. The Company's interest rate risk exposure has not changed materially since May 31, 1999.

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 and A-1 rated short-term securities, and by limiting amounts that can be invested in any single instrument. At May 31, 2000, approximately 99% 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 or equivalent rating.

Other

Recently issued accounting standards: In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." This SAB formalizes the SEC's position on application of revenue recognition rules. Adoption of this SAB is for the fourth quarter of fiscal years beginning after December 15, 1999. The Company believes that adoption of the provisions of this SAB will not have a material impact on the Company's results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which establishes accounting and reporting standards for derivative instruments and for hedging activities, is effective for fiscal years beginning after June 15, 2000. The Company will adopt the provisions of SFAS No. 133 in the first quarter of fiscal 2002. The Company currently does not utilize derivative instruments and does not expect that adoption of SFAS No. 133 will have any significant effect on its consolidated results of operations or financial position.

Report of Ernst & Young LLP Independent Auditors

Board of Directors
Paychex, Inc.

We have audited the accompanying consolidated balance sheets of Paychex, Inc. as of May 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2000. 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 auditing standards generally accepted in the United States. 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. at May 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Buffalo, New York
June 23, 2000

Consolidated Statements of Income

<TABLE>
<CAPTION>

In thousands, except per share amounts

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>
Service revenues:			
Payroll	$594,445	$492,914	$411,798
ENS investment revenue	58,800	52,335	43,429
Total payroll service revenues	653,245	545,249	455,227
HRS-PEO (A)	74,874	52,047	38,477
Total service revenues	728,119	597,296	493,704
Operating costs	173,481	151,956	131,731
Selling, general, and administrative expenses	295,745	257,778	227,273
Operating income	258,893	187,562	134,700
Investment income	16,479	12,581	9,473
Income before income taxes	275,372	200,143	144,173
Income taxes	85,365	61,044	41,954
Net income	$190,007	$139,099	$102,219
Basic earnings per share	$ .51	$ .38	$ .28
Diluted earnings per share	$ .51	$ .37	$ .28
Weighted-average common shares outstanding	370,603	368,282	366,771
Weighted-average shares assuming dilution	375,081	373,182	370,829
Cash dividends per common share	$ .22	$ .15	$ .10

</TABLE>

See Notes to Consolidated Financial Statements.

(A) The HRS-PEO service revenues indicated above are net of PEO direct costs billed and incurred of $731,266, $578,132, and $499,741 for the fiscal years 2000, 1999 and 1998, respectively. PEO direct costs billed to clients are equal to PEO direct costs incurred for the wages and payroll taxes of worksite employees and their related benefit premiums and claims.

Consolidated Balance Sheets

<TABLE>
<CAPTION>
In thousands

May 31,	2000	1999
<S>	<C>	<C>
Assets		
Cash and cash equivalents	$ 47,136	$ 52,692
Corporate investments	412,357	290,555
Interest receivable	22,436	18,045
Accounts receivable	87,608	62,941
Deferred income taxes	9,539	1,364
Prepaid expenses and other current assets	6,531	6,000
Current assets before ENS investments	585,607	431,597
ENS investments	1,776,968	1,361,523
Total current assets	2,362,575	1,793,120
Property and equipment - net	75,375	65,931
Goodwill and intangible assets - net	5,584	4,418
Deferred income taxes	2,494	1,417
Other assets	9,549	8,215
Total assets	$2,455,577	$1,873,101
Liabilities		
Accounts payable	$ 17,086	$ 10,328
Accrued compensation and related items	52,631	36,574
Deferred revenue	4,719	4,643
Accrued income taxes	2,969	4,281
Other current liabilities	24,400	17,905
Current liabilities before ENS client deposits	101,805	73,731
ENS client deposits	1,785,140	1,358,605
Total current liabilities	1,886,945	1,432,336
Other long-term liabilities	5,200	4,965
Total liabilities	1,892,145	1,437,301
Stockholders' equity		
Common stock, $.01 par value, 600,000 authorized shares Issued: 371,769/2000 and 246,326/1999	3,718	2,463
Additional paid-in capital	98,904	68,238
Retained earnings	469,385	362,269
Accumulated other comprehensive income/(loss)	(8,575)	2,830
Total stockholders' equity	563,432	435,800
Total liabilities and stockholders' equity	$2,455,577	$1,873,101

</TABLE>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

<TABLE>
<CAPTION>

In thousands

	Common Stock		Additional		Accumulated other comprehen-sive	
	Shares	Amount	paid-in capital	Retained earnings	income/ (loss)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Balance at May 31, 1997	108,519	$1,085	$37,531	$212,387	$ 539	$251,542
Net income				102,219		102,219
Unrealized gains on securities, net of tax					2,866	2,866
Total comprehensive income						105,085
Cash dividends declared				(35,871)		(35,871)
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)
Balance at May 31, 1998	163,188	1,632	46,463	278,107	3,405	329,607
Net income				139,099		139,099
Unrealized losses on securities, net of tax					(575)	(575)
Total comprehensive income						138,524
Cash dividends declared				(54,055)		(54,055)
Exercise of stock options	1,032	10	5,525			5,535
Tax benefit from exercise of stock options			16,250			16,250
Shares issued in connection with three-for-two stock split	82,106	821		(882)		(61)
Balance at May 31, 1999	246,326	2,463	68,238	362,269	2,830	435,800
Net income				190,007		190,007
Unrealized losses on securities, net of tax					(11,405)	(11,405)
Total comprehensive income						178,602
Cash dividends declared				(81,583)		(81,583)
Exercise of stock options	1,532	16	11,226			11,242
Tax benefit from exercise of stock options			19,440			19,440
Shares issued in connection with three-for-two stock split	123,911	1,239		(1,308)		(69)
Balance at May 31, 2000	371,769	$3,718	$98,904	$469,385	$ (8,575)	$563,432

</TABLE>
See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>
In thousands

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>

Operating activities			
Net income	$ 190,007	$ 139,099	$ 102,219
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization on depreciable and intangible assets	23,903	22,097	18,764
Amortization of premiums and discounts on available-for-sale securities	12,581	10,814	8,497
Benefit for deferred income taxes	(2,786)	(427)	(1,030)
Provision for bad debts	1,871	1,886	1,648
Net realized (gains)/losses on sales of available-for-sale securities	3,728	(2,866)	(934)
Changes in operating assets and liabilities:			
Interest receivable	(4,391)	(4,818)	(2,765)
Accounts receivable	(26,538)	(10,231)	(10,717)
Prepaid expenses and other current assets	(531)	(1,609)	(1,905)
Accounts payable and other current liabilities	48,276	21,847	22,154
Net change in other assets and liabilities	2,908	(1,672)	830
Net cash provided by operating activities	249,028	174,120	136,761
Investing activities			
Purchases of available-for-sale securities	(869,795)	(755,335)	(529,413)
Proceeds from sales of available-for-sale securities	711,184	488,662	338,818
Proceeds from maturities of available-for-sale securities	19,770	31,535	7,232
Net change in ENS money market securities and other cash equivalents	(432,016)	(55,707)	(159,769)
Net change in ENS client deposits	426,535	208,121	254,404
Purchases of property and equipment, net of disposal proceeds	(32,888)	(22,104)	(28,197)
Purchases of other assets	(6,964)	(3,590)	(513)
Net cash used in investing activities	(184,174)	(108,418)	(117,438)
Financing activities			
Dividends paid	(81,583)	(54,055)	(35,871)
Proceeds from exercise of stock options	11,242	5,535	1,990
Other	(69)	(61)	(84)
Net cash used in financing activities	(70,410)	(48,581)	(33,965)
Increase/(decrease) in Cash and cash equivalents	(5,556)	17,121	(14,642)
Cash and cash equivalents, beginning of fiscal year	52,692	35,571	50,213
Cash and cash equivalents, end of fiscal year	$ 47,136	$ 52,692	$ 35,571

</TABLE>
See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies

Business activities and reportable segments: Paychex, Inc. and its wholly owned subsidiaries (the "Company") is a national provider of payroll, human resource, and employee benefits outsourcing solutions for small- to medium-sized businesses.

Paychex, Inc. operates within the continental United States of America, and has two reportable 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, federal, state, and local payroll tax returns, and collection and remittance of payroll obligations for small- to medium-sized businesses. In connection with Taxpay, an automated tax payment and filing service, Electronic Network Services (ENS) collects payroll taxes from clients on payday, files the applicable tax returns, and pays taxes to the appropriate taxing authorities on the due date. These collections from clients are typically paid between one and thirty days after receipt, with some items extending to ninety days. In connection with Employee Pay Services, employers are offered the option of paying their employees by direct deposit, Access Card, a check drawn on a Paychex account, or a check drawn on the employer's account. For the first three methods, ENS collects net payroll from the client's account one day before payroll and provides payment to the employee on payday. Taxpay and Employee Pay Services funds that are collected before due dates are invested and classified as ENS investments until remittance to the appropriate entity. The ENS investments and related client deposit liabilities are included in the Consolidated Balance Sheets as current assets and current liabilities. The amount of ENS funds held and related liabilities varies significantly during the year. Investment revenue from these ENS investments is included in Payroll service revenue on the Consolidated Statements of Income.

HRS-PEO segment: The HRS portion of the HRS-PEO segment provides small- to medium-sized businesses with 401(k) plan recordkeeping, workers' compensation insurance, section 125 plan administration, group benefits, state unemployment insurance, and employee management services. HRS offers these services either on an individual basis or bundled through its Paychex Administrative Services product.

The PEO portion of the HRS-PEO segment provides human resource management and personnel administration services to a diverse client base of small- to medium-sized businesses as a co-employer of the client's employees. The PEO provides certain managed care services, including managed health care and other benefits, comprehensive workers' compensation management, employee assistance programs, risk management, and loss containment services.

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 securities, and other investments with a maturity of three months or less when purchased. Amounts reported in the Consolidated Balance Sheets approximate fair values.

Corporate investments and ENS investments: Marketable securities included in Corporate investments and ENS investments consist primarily of debt securities classified as available-for-sale and are recorded at fair value obtained from an independent pricing service. ENS investments also include cash, money market securities, and short-term investments. Unrealized gains and losses, net of applicable income taxes, are reported as Accumulated other comprehensive income in the Consolidated Statements of Stockholders' Equity. Realized gains and losses on the sale of securities are determined by specific identification of the security's cost basis. Realized gains and losses from ENS investments are included in Payroll service revenue, and realized gains and losses from Corporate investments are included in Investment income on the Consolidated Statements of Income.

Concentrations: Substantially all of the Company's deposited cash is maintained at two large credit-worthy financial institutions. These deposits may exceed the amount of any insurance provided. All of the Company's deliverable securities are held in custody with one of the two aforementioned financial institutions, for which that institution bears the risk of custodial loss. Non-deliverable securities, primarily time deposits and money market securities, are restricted to credit-worthy broker-dealers and financial institutions.

Property and equipment - net: Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation is based on the estimated useful lives of property and equipment using the straight-line method. The typical estimated useful lives of depreciable assets are thirty-five years for buildings and two to ten years for all others.

Software development and enhancement: Effective June 1, 1999, the Company adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires the capitalization of internal use computer software costs if certain criteria are met, including all external direct costs for materials and services and certain payroll and related fringe benefit costs. Prior to fiscal 2000, the Company expensed as incurred certain payroll and related fringe benefit costs to develop and enhance its internal computer programs and software. Capitalized software development and enhancement costs are amortized on a straight-line basis over estimated useful lives ranging from three to five years. The effect of adopting the SOP increased net income by approximately $2,400,000 for the year ended May 31, 2000.

Goodwill and intangible assets - net: Goodwill and intangible assets result from business acquisitions and client acquisitions and are reported net of accumulated amortization in the Consolidated Balance Sheets. Goodwill and intangible assets are amortized over periods ranging from five to ten years using either straight-line or accelerated methods. The Company regularly reviews and assesses the recoverability of such assets.

Revenue recognition: Service revenues are recognized in the period services are rendered. Included in Payroll service revenues are investment revenues earned from ENS investments and net realized gains and losses from the sale of available-for-sale securities. PEO revenues are reported net of direct costs billed and incurred, which include wages, taxes, benefit premiums, and claims of worksite employees. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." This SAB formalizes the SEC's position on application of revenue recognition rules. Adoption of this SAB is for the fourth quarter of fiscal years beginning after December 15, 1999. The Company believes that adoption of the provisions of this SAB will not have a material impact on the Company's results of operations.

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 non-qualified stock options by reducing its accrued income tax liability and increasing additional paid-in capital.

Stock-based compensation costs: Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," establishes accounting and reporting standards for stock-based employee compensation plans. As permitted by the SFAS, the Company continues to account for such arrangements under Accounting Principles Board (APB) 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 12, 2000, May 13, 1999, and May 8, 1998, with respective distribution dates of May 22, 2000, May 21, 1999, and May 22, 1998. Basic and diluted earnings per share, cash dividends per common share, weighted-average shares outstanding, weighted average shares assuming dilution, and all applicable footnotes have been adjusted to reflect the aforementioned stock splits.

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.

New accounting standard: In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which establishes accounting and reporting standards for derivative instruments and for hedging activities, is effective for fiscal years beginning after June 15, 2000. The Company will adopt the provisions of SFAS No. 133 in the first quarter of fiscal 2002. The Company currently does not utilize derivative financial instruments and does not expect that adoption of SFAS No. 133 will have any significant effect on its consolidated results of operations or financial position.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on reported consolidated earnings.

Note B - Segment Financial Information

The Company operates in two reportable business segments - Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). Refer to Note A for a description of these segments. The Company reports segment financial information consistent with the presentation made to the Company's management for decision-making purposes and resource allocation. The Company's reportable segments are business units that are each managed separately because they offer and provide services through different means. The Company evaluates segment performance based on operating income, utilizing the Company's accounting policies described in the summary of significant accounting policies. There are no intersegment sales. The Company's Corporate function and expenses are comprised of the Information Technology, Organizational Development, Finance, Marketing, and Senior Management organizations.

Financial information for each segment is as follows:
<TABLE>
<CAPTION>

In thousands

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>
Service revenues:			
Payroll	$ 653,245	$ 545,249	$ 455,227
HRS-PEO (A)	74,874	52,047	38,477
Total service revenues	$ 728,119	$ 597,296	$ 493,704
ENS Investment revenue included in Payroll service revenue	$ 58,800	$ 52,335	$ 43,429
Operating income:			
Payroll (B)	$ 303,360	$ 237,236	$ 181,585
HRS-PEO (B)	23,395	11,072	5,322
Segment operating income	326,755	248,308	186,907
Corporate expenses	67,862	60,746	52,207
Total operating income	258,893	187,562	134,700
Investment income	16,479	12,581	9,473
Income before income taxes	$ 275,372	$ 200,143	$ 144,173
Purchases of long-lived assets:			
Payroll	$ 18,367	$ 13,597	$ 17,146
HRS-PEO	1,184	539	2,015
Corporate	21,567	11,570	9,591
Total purchases of long-lived assets	$ 41,118	$ 25,706	$ 28,752
Depreciation and amortization expense:			
Payroll	$ 22,177	$ 20,050	$ 17,187
HRS-PEO	1,115	1,070	1,078
Corporate	13,192	11,791	8,996
Total depreciation and amortization expense	$ 36,484	$ 32,911	$ 27,261
Identifiable assets:		May 31,	
Payroll	$1,889,554	$1,463,606	$1,244,272
HRS-PEO	57,822	32,144	30,726
Corporate	508,201	377,351	274,789
Total identifiable assets	$2,455,577	$1,873,101	$1,549,787

</TABLE>

(A) Net of PEO direct costs billed and incurred of $731,266, $578,132, and $499,741 for the years ended May 31, 2000, 1999, and 1998, respectively. PEO direct costs billed to clients are equal to PEO direct costs incurred for the wages and payroll taxes of worksite employees and their related benefit premiums and claims.

(B) In 2000, the Company began allocating a portion of operating facilities costs from the Payroll segment to the HRS-PEO segment. Prior years segment results have been restated to reflect the allocation of these facilities costs with no impact to total Segment operating income. The total amount of these allocations were $1,650,000, $1,526,000, and $1,320,000 in fiscal 2000, 1999, and 1998, respectively.

Note C - Basic and Diluted Earnings Per Share

Basic and diluted earnings per share were calculated as follows:
<TABLE>
<CAPTION>

In thousands, except per share amounts

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>
Basic earnings per share:			
Net income	$190,007	$139,099	$102,219
Weighted-average common shares outstanding	370,603	368,282	366,771
Basic earnings per share	$ .51	$ .38	$ .28
Diluted earnings per share:			

Net income	$190,007	$139,099	$102,219
Weighted-average common shares outstanding	370,603	368,282	366,771
Effect of dilutive stock options at average market price	4,478	4,900	4,058
Weighted-average shares assuming dilution	375,081	373,182	370,829
Diluted earnings per share	$ .51	$ .37	$ .28

</TABLE>

For the years ended May 31, 2000, 1999, and 1998, weighted-average options to purchase shares of common stock in the amount of 495,000, 149,000, and 2,160,000, 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 D - Corporate Investments and ENS Investments

Corporate investments and ENS investments held at May 31, 2000 and 1999 are as follows:

<TABLE>
<CAPTION>

In thousands

	2000		1999	
Type of issue:	Cost	Fair value	Cost	Fair value
<S>	<C>	<C>	<C>	<C>
Money market securities and other cash equivalents	$1,202,664	$1,202,664	$ 770,648	$ 770,648
Available-for-sale securities:				
General obligation municipal bonds	405,214	399,190	313,485	314,636
Pre-refunded municipal bonds	301,271	298,706	295,359	297,621
Revenue municipal bonds	291,157	286,294	266,264	267,290
Other securities	20	92	21	73
Total available-for-sale securities	997,662	984,282	875,129	879,620
Other	1,802	2,379	1,424	1,810
Total Corporate investments and ENS investments	$2,202,128	$2,189,325	$1,647,201	$1,652,078
Classification of investments on Consolidated Balance Sheets:				
Corporate investments	$ 416,988	$ 412,357	$ 288,596	$ 290,555
ENS investments	1,785,140	1,776,968	1,358,605	1,361,523
Total Corporate investments and ENS investments	$2,202,128	$2,189,325	$1,647,201	$1,652,078

</TABLE>

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 from rate volatility causing 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 and A-1 rated short-term securities, limiting amounts that can be invested in any single instrument, and investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes. At May 31, 2000, approximately 99% of the available-for-sale bond securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 or equivalent rating. The Company does not utilize derivative financial instruments to manage interest rate risk.

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

<TABLE>
<CAPTION>
In thousands

May 31,	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
2000	$997,662	$ 401	$13,781	$984,282
1999	$875,129	$6,180	$ 1,689	$879,620

Gross realized gains and losses are as follows:

In thousands

Year ended May 31,	2000	1999	1998
Gross realized gains	$ 590	$ 3,129	$ 1,481
Gross realized losses	$4,318	$ 263	$ 547

The cost and fair value of available-for-sale securities by contractual maturity at May 31, 2000 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.

In thousands

May 31, 2000	Cost	Fair value
Maturity date:		
Due in one year or less	$ 51,091	$ 51,130
Due after one year through three years	480,946	475,451
Due after three years through five years	333,764	328,369
Due after five years	131,861	129,332
Total available-for-sale securities	$997,662	$984,282

Note E - Property and Equipment - Net

The components of Property and equipment - net are as follows:

In thousands

May 31,	2000	1999
Land and improvements	$ 2,919	$ 2,896
Buildings and improvements	30,195	26,932
Data processing equipment and software	84,490	70,000
Furniture, fixtures, and equipment	64,729	59,818
Leasehold improvements	10,536	8,838
	192,869	168,484
Less: accumulated depreciation and amortization	117,494	102,553
Property and equipment - net	$ 75,375	$ 65,931

Depreciation expense was $22,442,000, $20,853,000, and $17,677,000 for fiscal years 2000, 1999, and 1998, respectively.

Note F - Goodwill and Intangible Assets - Net

The components of Goodwill and intangible assets - net are as follows:

In thousands

May 31,	2000	1999
Goodwill	$3,955	$3,955
Less: accumulated amortization	1,918	1,536
Goodwill - net	2,037	2,419
Intangible assets:		
Client acquisitions	6,748	4,120
Less: accumulated amortization	3,201	2,121
Client acquisitions - net	3,547	1,999
Goodwill and intangible assets - net	$5,584	$4,418

Goodwill amortization expense was $382,000, $402,000, and $409,000 for fiscal years 2000, 1999, and 1998, respectively. Amortization expense for client acquisitions was $1,079,000, $842,000, and $678,000 for fiscal years 2000, 1999, and 1998, respectively.

Note G - Stock Option Plans

The Company reserved 7,814,250 shares to be granted to employees in the form of non-qualified and incentive stock options under the 1998 Stock Incentive Plan, with 4,895,000 shares available for future grants at May 31, 2000. The 1995, 1992, and 1987 Stock Incentive Plans expired in August 1998, 1995, and 1992, respectively; however, options to purchase 7,777,000 shares under these plans remain outstanding at May 31, 2000.

The exercise price for the shares subject to options of the Company's common stock is equal to the fair market value on the date of the grant. All stock option grants have a contractual life of ten years from the date of the grant. Non-qualified stock option grants vest at 33.3% after two years of service from the date of the grant, with annual vesting at 33.3% thereafter.

In November 1996, the Company granted options to purchase 3,157,000 shares in a broad-based incentive stock option grant, for which 50% vested on May 3, 1999, and 50% will vest on May 1, 2001. At May 31, 2000, options to purchase 1,413,000 shares remained outstanding, with 537,000 exercisable at an exercise price of $11.53 per share. In July 1999, the Company granted options to purchase 1,381,000 shares in a second broad-based incentive stock option grant, for which 25% will vest in July of each of the following four years. Subsequent to each of the broad-based grants, each April and October, the Company granted options to newly hired employees that met certain criteria.

The following table summarizes stock option activity for the three years ended May 31, 2000:

In thousands, except per share amounts

	Shares subject to options	Weighted-average exercise price
Outstanding at May 31, 1997	11,936	$ 5.77
Granted	2,682	$12.27
Exercised	(975)	$ 2.63
Forfeited	(701)	$10.92
Outstanding at May 31, 1998	12,942	$ 7.08
Granted	1,130	$19.59
Exercised	(2,318)	$ 2.59
Forfeited	(882)	$12.37
Outstanding at May 31, 1999	10,872	$ 8.91

Granted	2,991	$22.82
Exercised	(2,281)	$ 5.16
Forfeited	(875)	$17.62
Outstanding at May 31, 2000	10,707	$12.88
Exercisable at May 31, 1998	5,354	$ 2.35
Exercisable at May 31, 1999	5,429	$ 4.99
Exercisable at May 31, 2000	4,708	$ 6.59

</TABLE>

The following table summarizes information about stock options outstanding and exercisable at May 31, 2000:

<TABLE>
<CAPTION>

	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
<S>	<C>	<C>	<C>	<C>	<C>
$ 0.59-$ 7.12	3,121	$ 3.91	3.9	3,121	$ 3.91
$ 7.13-$14.24	3,884	$11.56	6.7	1,518	$11.60
$14.25-$21.36	924	$18.78	7.9	67	$17.41
$21.37-$28.48	2,525	$21.59	9.0	2	$21.46
$28.49-$35.60	253	$35.58	9.8	-	-
	10,707	$12.88	6.6	4,708	$ 6.59

</TABLE>

In applying APB Opinion No. 25, no expense was recognized for stock options granted. SFAS No. 123 requires that a fair market value of all awards of stock-based compensation be determined using standard techniques and that pro forma net income and earnings per share be disclosed as if the resulting stock-based compensation amounts were recorded in the Consolidated Statements of Income. The table below depicts the effects of SFAS No. 123:

<TABLE>
<CAPTION>

In thousands, except per share amounts

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>
Pro forma net income	$180,849	$134,642	$97,448
Pro forma basic earnings per share	$ .49	$ .37	$ .27
Pro forma diluted earnings per share	$ .48	$ .36	$ .26

</TABLE>

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:

<TABLE>
<CAPTION>

Year ended May 31,	2000	1999	1998
<C>	<C>	<C>	<C>
Risk-free interest rate	5.7%	5.0%	5.8%
Dividend yield	1.1%	.8%	.9%
Volatility factor	.30	.40	.29
Expected option term life in years	5.0	4.5	4.5

</TABLE>

The weighted-average fair value of stock options granted for the years ended

May 31, 2000, 1999, and 1998 were $7.62, $7.45, and $3.92 per share, respectively.

Note H - Income Taxes

The components of net deferred tax assets are as follows:

<TABLE>
<CAPTION>

In thousands

May 31,	2000	1999
<S>	<C>	<C>
Deferred tax assets:		
Compensation and employee benefit liabilities	$ 4,163	$3,438
Allowance for bad debts	2,339	1,822
Other current liabilities	3,475	2,088
Unrealized losses on available-for-sale securities	4,805	--
Other	2,851	952
Gross deferred tax assets	17,633	8,300
Deferred tax liabilities:		
Revenue not subject to current taxes	4,440	3,631
Unrealized gains on available-for-sale securities	--	1,661
Other	1,160	227
Gross deferred tax liabilities	5,600	5,519
Net deferred tax asset	$12,033	$2,781

</TABLE>

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

<TABLE>
<CAPTION>

In thousands

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>
Current:			
Federal	$76,327	$51,224	$34,888
State	11,824	10,247	8,096
Total current	88,151	61,471	42,984
Deferred:			
Federal	(2,398)	(131)	(857)
State	(388)	(296)	(173)
Total deferred	(2,786)	(427)	(1,030)
Provision for income taxes	$85,365	$61,044	$41,954

</TABLE>

A reconciliation of the U.S. federal statutory tax rate to the effective rates reported for income before taxes for the three years ending May 31, 2000 is as follows:

<TABLE>
<CAPTION>

Year ended May 31,	2000	1999	1998
<S>	<C>	<C>	<C>
Federal statutory rate	35.0%	35.0%	35.0%
Increase/(decrease) resulting from:			
State income taxes, net of federal benefit	2.7	3.2	3.6
Tax-exempt municipal bond interest	(7.8)	(7.7)	(10.4)
Other items	1.1	-	.9
Effective income tax rate	31.0%	30.5%	29.1%

</TABLE>

Note I - 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:

<TABLE>
<CAPTION>

In thousands

Year ended May 31,	2000	1999	1998
Unrealized holding gains/(losses)	$(21,599)	$ 1,979	$ 5,420
Income tax (expense)/benefit related to unrealized holding (gains)/losses	7,806	(716)	(1,955)
Reclassification adjustment for the (gain)/loss on sale of securities realized in net income	3,728	(2,866)	(934)
Income tax expense/(benefit) on reclassification adjustment for gain/(loss) on sale of securities	(1,340)	1,028	335
Other comprehensive income/(loss)	$(11,405)	$ (575)	$ 2,866

</TABLE>

Note J - Supplemental Cash Flow Information

Income taxes paid: The Company paid income taxes of $68,194,000, $43,251,000, and $35,191,000 for the years ended May 31, 2000, 1999, and 1998, respectively.

Non-cash financing transactions: The Company recorded the tax benefit from the exercise of non-qualified stock options as a reduction of its income tax liability in the amount of $19,440,000, $16,250,000, and $6,945,000 for the years ended May 31, 2000, 1999, and 1998, respectively.

Note K - Commitments and Contingencies

Employee benefits: The Company's 401(k) Incentive Retirement Plan allows all employees to immediately participate in the salary deferral portion of the plan. Employees who have completed one year of service are eligible to receive a company matching contribution. The Company currently matches 50% of an employee's voluntary contribution, with a maximum of 3% of eligible compensation. Company contributions for the years ended May 31, 2000, 1999, and 1998 were $4,235,000, $3,525,000, and $3,239,000, respectively.

Lines of credit: The Company has two available, uncommitted, unsecured lines of credit from various banks totaling $140 million at market rates of interest. The Company also has an available, uncommitted, secured line of credit totaling $350 million at market rates of interest. No amounts were outstanding against these lines of credit at May 31, 2000 and 1999.

Contingencies: In the normal course of business and operations, the Company is subject to various claims and litigation. Management believes the resolution of these matters will not have a material effect on the financial position or results of operations of the Company.

Lease commitments: 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 years ended May 31, 2000, 1999, and 1998 was $25,400,000, $23,038,000, and $20,336,000, respectively. At May 31, 2000, future minimum lease payments under various noncancelable operating leases with terms of more than one year are $22,752,000 in fiscal 2001, $18,191,000 in fiscal 2002, $15,323,000 in fiscal 2003, $11,558,000 in fiscal 2004, $6,945,000 in fiscal 2005, and $11,280,000 thereafter.

QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

In thousands, except per share amounts

Fiscal 2000	August 31,	November 30,	February 29,	May 31,	Year
Service revenues:					
Payroll	$150,919	$154,899	$171,821	$175,606	$653,245
HRS-PEO (A)	15,473	17,459	20,362	21,580	74,874
Total service revenues	166,392	172,358	192,183	197,186	728,119
Operating costs	39,366	41,356	45,964	46,795	173,481
SG&A expenses	68,342	68,494	78,316	80,593	295,745
Operating income	58,684	62,508	67,903	69,798	258,893
Investment income	3,688	3,854	4,012	4,925	16,479
Income before income taxes	62,372	66,362	71,915	74,723	275,372
Income taxes	19,335	20,572	22,294	23,164	85,365
Net income	$ 43,037	$ 45,790	$ 49,621	$ 51,559	$190,007
Basic earnings per share	$ .12	$ .12	$ .13	$ .14	$ .51
Diluted earnings per share	$ .12	$ .12	$ .13	$ .14	$ .51
Weighted-average common shares outstanding	369,627	370,258	370,972	371,576	370,603
Weighted-average shares assuming dilution	373,493	374,717	377,723	376,407	375,081
Cash dividends per common share	$ .04	$ .06	$ .06	$ .06	$ .22
Market value per share:					
High	$ 22.13	$ 28.42	$ 34.13	$ 36.88	$ 36.88
Low	$ 16.58	$ 19.17	$ 24.67	$ 29.54	$ 16.58

Fiscal 1999	August 31,	November 30,	February 28,	May 31,	Year
Service revenues:					
Payroll	$127,982	$131,035	$144,257	$141,975	$545,249
HRS-PEO (A)	11,307	11,913	14,166	14,661	52,047
Total service revenues	139,289	142,948	158,423	156,636	597,296
Operating costs	35,885	36,863	40,989	38,219	151,956
SG&A expenses	61,761	61,089	68,941	65,987	257,778
Operating income	41,643	44,996	48,493	52,430	187,562
Investment income	2,961	3,006	3,073	3,541	12,581
Income before income taxes	44,604	48,002	51,566	55,971	200,143
Income taxes	13,203	14,394	15,366	18,081	61,044
Net income	$ 31,401	$ 33,608	$ 36,200	$ 37,890	$139,099
Basic earnings per share	$ .09	$ .09	$ .10	$ .10	$ .38
Diluted earnings per share	$ .08	$ .09	$ .10	$ .10	$ .37
Weighted-average common shares outstanding	367,374	367,942	368,540	369,229	368,282
Weighted-average shares assuming dilution	372,432	373,196	373,401	373,654	373,182
Cash dividends per common share	$ .03	$ .04	$ .04	$ .04	$ .15
Market value per share:					
High	$ 20.00	$ 24.47	$ 23.55	$ 24.45	$ 24.47
Low	$ 15.89	$ 16.22	$ 18.22	$ 16.11	$ 15.89

(A) Net of PEO direct costs billed and incurred of $160,987, $161,056, $193,047, and $216,176 for the three months ended August 31, 1999, November 30, 1999, February 29, 2000, and May 31, 2000, respectively, and $142,498, $139,033, $148,292, and $148,309 for the three months ended August 31, 1998, November 30, 1998, February 28, 1999, and May 31, 1999, respectively. PEO direct costs billed to clients are equal to PEO direct costs incurred for the wages and payroll taxes of worksite employees and their related benefit premiums and claims.

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 2000 and May 1999.

QUARTERLY SEGMENT FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

In thousands

Fiscal 2000	August 31,	November 30,	February 29,	May 31,	Year
<S>	<C>	<C>	<C>	<C>	<C>
Service revenues:					
Payroll	$150,919	$154,899	$171,821	$175,606	$653,245
HRS-PEO (A)	15,473	17,459	20,362	21,580	74,874
Total service revenues	166,392	172,358	192,183	197,186	728,119
ENS investment revenue included in Payroll service revenue:	$ 12,207	$ 12,033	$ 16,355	$ 18,205	$ 58,800
Operating income:					
Payroll (B)	$ 72,184	$ 72,567	$ 77,683	$ 80,926	$303,360
HRS-PEO (B)	4,504	5,729	6,831	6,331	23,395
Segment operating income	76,688	78,296	84,514	87,257	326,755
Corporate expenses	18,004	15,788	16,611	17,459	67,862
Total operating income	58,684	62,508	67,903	69,798	258,893
Investment income	3,688	3,854	4,012	4,925	16,479
Income before income taxes	$ 62,372	$ 66,362	$ 71,915	$ 74,723	$275,372

</TABLE>
<TABLE>
<CAPTION>

Fiscal 1999	August 31,	November 30,	February 28,	May 31,	Year
<S>	<C>	<C>	<C>	<C>	<C>
Service revenues:					
Payroll	$127,982	$131,035	$144,257	$141,975	$545,249
HRS-PEO (A)	11,307	11,913	14,166	14,661	52,047
Total service revenues	139,289	142,948	158,423	156,636	597,296
ENS investment revenue included in Payroll service revenue:	$ 11,776	$ 11,984	$ 14,775	$ 13,800	$ 52,335
Operating income:					
Payroll (B)	$ 54,269	$ 57,056	$ 61,375	$ 64,536	$237,236
HRS-PEO (B)	2,230	2,194	2,854	3,794	11,072
Segment operating income	56,499	59,250	64,229	68,330	248,308
Corporate expenses	14,856	14,254	15,736	15,900	60,746
Total operating income	41,643	44,996	48,493	52,430	187,562
Investment income	2,961	3,006	3,073	3,541	12,581
Income before income taxes	$ 44,604	$ 48,002	$ 51,566	$ 55,971	$200,143

</TABLE>

(A) Net of PEO direct costs billed and incurred of $160,987, $161,056, $193,047, and $216,176 for the three months ended August 31, 1999, November 30, 1999, February 29, 2000, and May 31, 2000, respectively, and $142,498, $139,033, $148,292, and $148,309 for the three months ended August 31, 1998, November 30, 1998, February 28, 1999, and May 31, 1999, respectively. PEO direct costs billed to clients are equal to PEO direct costs incurred for the wages and payroll taxes of worksite employees and their related benefit premiums and claims.

(B) In 2000, the Company began allocating a portion of operating facilities costs from the Payroll segment to the HRS-PEO segment. Prior quarterly segment results have been restated to reflect the allocation of these facilities costs with no impact to total Segment operating income. The amounts of these facilities allocations are approximately $412,500 per

quarter and $1,650,000 for the year for fiscal 2000, and approximately
$381,500 per quarter and $1,526,000 for the year for fiscal 1999.

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ELEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

In thousands, except per share amounts and other statistics

For the years ended May 31,	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Results of operations											
Service revenues:											
Payroll	$ 653,245	$ 545,249	$ 455,227	$ 368,855	$309,517	$254,093	$215,663	$184,004	$156,652	$133,886	$118,157
HRS-PEO (A)	74,874	52,047	38,477	30,878	23,791	18,020	11,290	7,700	5,253	3,289	2,043
Total service revenues	728,119	597,296	493,704	399,733	333,308	272,113	226,953	191,704	161,905	137,175	120,200
Operating costs	173,481	151,956	131,731	115,034	101,235	81,663	70,034	61,877	53,700	50,054	45,031
Selling, general and administrative expenses	295,745	257,778	227,273	188,074	162,151	138,186	119,477	102,893	89,393	73,854	63,042
Operating income	258,893	187,562	134,700	96,625	69,922	52,264	37,442	26,934	18,812	13,267	12,127
% of total service revenues	35.6%	31.4%	27.3%	24.2%	21.0%	19.2%	16.5%	14.0%	11.6%	9.7%	10.1%
Investment income	16,479	12,581	9,473	7,031	5,467	3,458	2,220	1,379	821	764	1,081
Income before income taxes	275,372	200,143	144,173	103,656	75,389	55,722	39,662	28,313	19,633	14,031	13,208
% of total service revenues	37.8%	33.5%	29.2%	25.9%	22.6%	20.5%	17.5%	14.8%	12.1%	10.2%	11.0%
Net income	190,007	139,099	102,219	75,150	55,035	40,389	28,746	20,241	13,788	9,606	8,566
% of total service revenues	26.1%	23.3%	20.7%	18.8%	16.5%	14.8%	12.7%	10.6%	8.5%	7.0%	7.1%
Basic earnings per share	$ .51	$ .38	$ .28	$ .21	$ .15	$ .11	$ .08	$ .06	$ .04	$ .03	$ .03
Diluted earnings per share	$ .51	$ .37	$ .28	$ .20	$ .15	$ .11	$ .08	$ .06	$ .04	$ .03	$ .03
Weighted-average common shares outstanding	370,603	368,282	366,771	364,503	360,885	356,016	354,972	353,505	351,057	349,464	334,196
Weighted-average shares assuming dilution	375,081	373,182	370,829	368,454	364,926	359,066	358,085	356,298	353,063	349,988	334,871
Cash dividends per common share	$ .22	$ .15	$ .10	$ .07	$ .05	$ .03	$ .02	$ .01	$ .01	$ .01	$ .01
Financial position											
Working capital	$ 475,630	$ 360,784	$ 263,118	$ 194,614	$138,639	$100,009	$ 68,888	$ 46,776	$ 28,245	$ 19,230	$ 21,257
Purchases of property & equipment	34,154	22,116	28,386	18,536	17,806	12,535	11,667	8,822	13,580	18,420	15,447
Total assets	2,455,577	1,873,101	1,549,787	1,201,323	831,585	647,366	474,786	322,214	221,771	133,342	74,501
Total debt	-	-	-	-	-	728	948	1,634	2,024		

										2,431	2,137
Stockholders' equity	563,432	435,800	329,607	251,542	191,072	141,976	109,124	85,365	67,623	54,512	47,160
Return on stockholders' equity	37.8%	35.9%	36.0%	33.9%	32.3%	32.2%	29.6%	26.5%	22.6%	18.9%	19.6%
Client statistics											
Payroll clients	351,900	322,600	293,600	262,700	243,300	207,900	185,900	167,500	150,400	135,200	120,600
Branch service and processing centers	81	79	79	79	75	71	70	70	70	70	74
Sales offices	29	29	25	23	23	23	24	20	17	16	15
401(k) Recordkeeping clients	14,700	10,100	6,000	3,000	1,300	200	-	-	-	-	-
401(k) client funds managed externally (in millions)	$ 1,337.5	$ 757.6	$ 383.3	$ 138.3	$ 35.0	-	-	-	-	-	-
Section 125 clients	23,900	20,200	16,400	13,200	11,400	8,800	7,400	5,000	2,800	500	-
Workers' Compensation Insurance clients	10,400	4,000	-	-	-	-	-	-	-	-	-
PEO worksite employees	20,200	18,300	19,200	13,800	9,200	5,300	3,400	1,800	500	-	-

</TABLE>

(A) Net of PEO direct costs billed and incurred. PEO direct costs billed to clients are equal to PEO direct costs incurred for the wages and payroll taxes of PEO worksite employees and their related benefit premiums and claims.

Note: Per share and weighted-average share amounts have been adjusted for three-for-two stock splits in May 2000, May 1999, May 1998, May 1997, May 1996, May 1995, August 1994, and May 1992.

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

WHOLLY-OWNED SUBSIDIARIES OF PAYCHEX, INC. AS OF MAY 31, 2000

Name of Subsidiaries	Jurisdiction of Incorporation
Paychex Treasury Corporation	New York
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 (Form 10-K) of Paychex, Inc. of our report dated June 23, 2000, included in the fiscal 2000 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 23, 2000, 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, 2000.

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 and Post-Effective Amendment #2 filed on November 19, 1999.
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.
h. Form S-8 - Paychex, Inc. 1998 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 1, 1998 (No. 333-65191).
i. Form S-8 - Paychex, Inc. 401(k) Incentive Retirement Plan - as filed with the Securities and Exchange Commission on July 30, 1999 (No. 333-84055).

Our audits also included the financial statement schedule of Paychex, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

August 25, 2000
Buffalo , New York

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, 2000, 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 10, 2000	/s/ Steven D. Brooks ------------------------- Steven D. Brooks
Dated: August 11, 2000	/s/ G. Thomas Clark ------------------------- G. Thomas Clark
Dated: August 10, 2000	/s/ David J. S. Flaschen ------------------------- David J. S. Flaschen
Dated: August 21, 2000	/s/ Phillip Horsley ------------------------- Phillip Horsley
Dated: August 11, 2000	/s/ Grant M. Inman ------------------------- Grant M. Inman
Dated: August 10, 2000	/s/ Harry P. Messina, Jr. ------------------------- Harry P. Messina, Jr.
Dated: August 10, 2000	/s/ J. Robert Sebo ------------------------- J. Robert Sebo
Dated: August 11, 2000	/s/ Joseph M. Tucci ------------------------- Joseph M. Tucci

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MAY 31, 2000 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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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 Paychex, Inc., (the "Company") 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 "are expected to," "we look forward to," "we expect," "expects", "expected to," "believes," "we believe," 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, availablility of internal and external resources, executing expansion plans, 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, state unemployment, and section 125 plans; delays in the development, timing of the introduction, and marketing of new products and services; changes in technology including use of the Internet; the possibility of catastrophic events that could impact the Company's operating facilities, computer technology and communication systems; and changes in short- and long-term interest rates and the credit rating of cash, cash equivalents, and securities held in the Company's investment portfolios. The information provided in this document is based upon the facts and circumstances known at this time. The Company is under no obligation to update forward-looking statements in this document for new information subsequent to its issuance.