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, 2001
COMMISSION FILE NUMBER 0-11330

PAYCHEX, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	16-1124166
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

911 PANORAMA TRAIL SOUTH, ROCHESTER, NEW YORK	14625-0397
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (716) 385-6666

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, $.01 PAR VALUE
(Title of Class)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES [X] NO [ ].

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [ ].

AS OF JULY 31, 2001, SHARES HELD BY NON-AFFILIATES OF THE REGISTRANT HAD AN AGGREGATE MARKET VALUE OF $12,838,923,000.

AS OF JULY 31, 2001, 374,216,565 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, 2001 (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 24,2001, IN RESPONSE TO PART III, ITEMS 10 THROUGH 12, INCLUSIVE.

PART I

ITEM 1. BUSINESS

Paychex, Inc. (the "Company" or "Paychex"), is a leading, national provider of comprehensive 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. At the end of fiscal 2001, the Company serviced over 375,000 clients. The Company has corporate headquarters in Rochester, New York and more than 100 offices nationwide. The Company's fiscal year ends May 31st.

In fiscal 2001 the Company had two reportable business segments - Payroll and Human Resource and Benefits. 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, 2001 (the "Annual Report"), which are incorporated herein by reference thereto.

The Company's strategy is to grow its client base and provide quality payroll processing service and support. In addition, Paychex offers a comprehensive suite of ancillary services that helps clients meet their payroll and human resource and benefits needs. The following describes the Company's business activitites.

PAYROLL

Paychex provides payroll processing service to over 375,000 small- to medium-sized business within the United States, which includes the preparation of payroll checks, internal accounting records, and federal, state, and local tax returns.

83% of the Company's clients utilize its Taxpay(Registered Trademark) service, which provides automatic payment of payroll taxes and filing of quarterly and annual payroll tax returns. In connection with Taxpay, the Company 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 taxes are typically paid between one and thirty days after receipt of collections from clients, with some items extending to ninety days.

53% 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 (Service Mark)) or a check drawn on the Employer's account. For the first three methods, Paychex 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 interest on Taxpay and Employee Pay Services funds that are collected before due dates and invested (funds held for clients) until remittance to the appropriate entity. Interest on funds held for clients is included in total revenues 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 services are processed at a facility in Rochester, New York.

Paychex also offers New-hire Reporting services, which comply with federal and state requirements to report information on new employees, to aid the government in enforcing child support orders and minimizing fraudulent unemployement and workers' compensation insurance claims. In fiscal 2001, the Company introduced its Garnishment Processing service, which provides deductions of appropriate amounts from employees' payroll, forwarding the payment to the proper agency, and accurately tracking the obligation to fulfillment. Another new product offering in fiscal 2001 was After-the-Fact payroll, which was designed specifically for accountants. This service allows accountants to give Paychex information regarding net payroll, and Paychex will handle all tax calculations and regulatory reporting "after-the-fact."

Clients can communicate their payroll information to Paychex through telephone or fax, using the Paychex Paylink(Registered Trademark) and Preview (Service Mark) software to transfer data from their personal computer, or via the Internet. Paychex payroll specialists 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 Paychex payroll specialist, upon receiving the information from the client over the telephone, to enter it simultaneously. Paychex provides delivery service for many of its client's payrolls. The revenue earned on the delivery service is included in Payroll service revenues and the costs for the delivery are included in operating costs on the Consolidated Statements of Income.

The average Paychex core Payroll client employs fourteen people. The Major Market Services (MMS) Payroll product targets companies that have outgrown the Company's core Payroll service or new clients that have more complex payroll and benefits needs. As of May 31, 2001 the MMS product was offered in approximately half of the more than one hundred markets currently serviced by the core payroll product. MMS clients communicate their payroll information primarily using the Company's 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 and access current and historical payroll information using the Paychex Internet Report Service. The General Ledger Reporting Service transfers payroll information computed by Paychex to the client's general ledger software.

HUMAN RESOURCE AND BENEFITS

The Company provides Human Resource and Benefits products and services either on an a-la-carte basis or bundled through the Paychex Adminstrative Services or Professional Employer Organization products.

The Paychex Administrative Services Product (PAS), which was made available nationwide in May 2000, offers businesses a bundled package that includes payroll, employer compliance, human resource and employee benefit administration, and employee risk management. This comprehensive bundle of services is designed to make it easier for small businesses to manage their payroll and benefits costs. The Company also operates a Professional Employer Organization (PEO), which provides small- and medium-sized businesses with the

same combined package of services. The Company's PEO is operated primarily in Florida and Georgia, where PEO's are popular and operate under an attractive regulatory environment. Paychex offers its PEO product through its subsidiary, Paychex Business Solutions. Clients that utilize the bundled services offered through the PAS and PEO products are freed to concentrate their resources on their core businesses. As of May 31, 2001, the PAS and PEO products combined serviced over 60,000 client employees.

The Company's 401(k) Plan Recordkeeping service, which includes 401(k) plans, 401(k) SIMPLE, IRA SIMPLE, profit sharing, and money purchase plans, was used by over 19,000 clients at May 31, 2001. This service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services.

Paychex provides Workers' Compensation Insurance Administration services nationwide. Paychex acts, via its licensed insurance agency, as a general agent providing workers' compensation insurance through a variety of insurance carriers who are underwriters. The Pay-As-You-Go(Service Mark) 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, which stablilizes their cash flow and minimizes year-end adjustments.

The Company also offers outsourcing of plan administration 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.

Group health benefits are also offered in selected geographical areas, as are state unemployment insurance services, which provide clients with a prompt processing for all claims, appeals, determinations, change statements and requests for separation documents. Other Human Resource and Benefits products include Employee Handbooks, Management Manuals and Personnel Forms. These have been designed to simplify clients' office processes and enhance their employee benefits programs.

MARKETING AND SALES

There are about six million full-time employers in the markets the Company serves within the United States. Of those employers, 98% have less than 100 employees and are the Company's primary customers and target market. The Company markets its services principally through its sales force located in major metropolitan markets serviced by the Company. The Company's direct sales force is comprised of individuals who specialize in products within either core Payroll, MMS Payroll, or Human Resource and Benefits products. The sales force for Human Resource and Benefits products is primarily focused on selling these products and services to existing payroll clients since the processed payroll information provides the data integration necessary to provide these services. In addition to its direct selling and marketing efforts, the Company utilizes relationships with existing clients, Certified Public Accountants, and banks for new client referrals.

COMPETITION

The Company's primary competition for Payroll processing includes manual payroll systems sold by numerous vendors, traditional in-house computerized payroll departments, other computerized payroll service providers, and Certified Public Accountants. In addition, the Company's Human Resource and Benefits products compete with traditional in-house human resource departments, other PEOs, and 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. Management believes that the primary elements of competition are quality of service, choice and quality of benefits, and price. The Company believes it has one major national competitor that provides computerized payroll accounting services nationwide.

SOFTWARE MAINTENANCE AND PRODUCT DEVELOPMENT

The ever-changing mandates of federal, state, and local taxing authorities compel Paychex to continuously update its proprietary software utilized by the Company to provide Payroll and Human Resource and Benefits services to its clients. 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. Research and development expenses are not significant to the Company's overall results of operations.

EMPLOYEES

As of May 31, 2001, the Company and its subsidiaries employed approximately 7,300 persons, of which approximately 7,000 are full-time and approximately 300 are part-time.

TRADEMARKS

As of May 31, 2001, 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, READYCHEX, PAY-AS-YOU-GO, and RAPID PAYROLL. The Company believes these trademarks and service marks are important 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 clients, 401(k) Recordkeeping 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 are located in a 140,000 square foot building complex owned by the Company in Rochester, New York. In addition, the Company owns another 62,000 square-foot facility and leases approximately 174,000 square feet in several office complexes within the Rochester area. These facilities house various administrative functions, certain Payroll and Human Resource and Benefits ancillary services, and a telemarketing unit.

The Company leases approximately 1,400,000 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 56,000 square feet.

In May 2001, the Company purchased a 135,000 square foot building in Rochester, New York which will house a centralized data information center and various other support functions.

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

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, 2001.

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 thereto. Dividends are normally paid in February, May, August, and November. The level and continuation of future dividends are dependent on the Company's future earnings and cash flows.

On July 31, 2001, there were 13,894 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 6,924 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 thereto.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 thereto. Supplementary data required is set forth in the Company's Annual Report under the heading "Quarterly Financial Data (Unaudited)" and is incorporated herein by reference thereto. 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 thereto.

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 thereto.

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 thereto.

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, 2001, 2000, and 1999

Consolidated Balance Sheets - May 31, 2001 and 2000

Consolidated Statements of Stockholders' Equity - For the Years ended May 31, 2001, 2000, and 1999

Consolidated Statements of Cash Flows - For the Years ended May 31, 2001, 2000, and 1999

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, which 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) Certificate of Incorporation, as amended, is 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, are incorporated herein by reference to the Company's Registration Statement No. 2-85103, Exhibit 3.6.

(10)(a) Paychex, Inc. 1987 Stock Incentive Plan is 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 is 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 is 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 is 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 is incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 333-84055.

(10)(f) Paychex, Inc. - Pay-Fone Systems, Inc. 1993, 1990, 1987, 1983, 1981 Incentive Stock Option Plans and Director Non-Qualified Stock Option Agreements are incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-60255.

(10)(g) Paychex, Inc. Officer Performance Incentive Program for the year ended May 31, 2002 is filed herewith.

(13) Portions of the Annual Report to Stockholders for the Fiscal Year ended May 31, 2001. 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.

(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 June 25, 2001, that included the Company's May 31, 2001 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, 2001, 2000, and 1999.

(d) Schedule II - Valuation and Qualifying Accounts

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
2001				
Allowance for bad debts	$3,253	$1,413	$1,301*	$3,365
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

* - 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 24, 2001 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 24, 2001 By: /s/ B. Thomas Golisano
B. Thomas Golisano, Chairman, President, and Chief Executive Officer and Director

Dated: August 24, 2001 By: /s/ Steven D. Brooks*
Steven D. Brooks, Director

Dated: August 24, 2001 By: /s/ G. Thomas Clark*
G. Thomas Clark, Director

Dated: August 24, 2001 By: /s/ David J.S. Flaschen*
David J.S. Flaschen, Director

Dated: August 24, 2001 By: /s/ Phillip Horsley*
Phillip Horsley, Director

Dated: August 24, 2001 By: /s/ Grant M. Inman*
Grant M. Inman, Director

Dated: August 24, 2001 By: /s/ Harry P. Messina, Jr.*

Harry P. Messina, Jr., Director

Dated: August 24, 2001 By: /s/ J. Robert Sebo*

J. Robert Sebo, Director

Dated: August 24, 2001 By: /s/ Joseph M. Tucci*

Joseph M. Tucci, Director

Dated: August 24, 2001 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(g): PAYCHEX, INC. OFFICER PERFORMANCE INCENTIVE PROGRAM FOR THE YEAR ENDED MAY 31, 2002

On July 12, 2001, 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, 2002, as outlined below:

1. Participants: All Officers of Paychex, Inc.

2. Maximum Incentive: 40% of base salary for fiscal year 2002 as approved by the Board of Directors at the July 2001 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 2002, after Board approval. Officer must be employed at the end of fiscal year 2002 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 are at the sole discretion of the Board.

Financial Highlights

In millions, except per share amounts

Year ended May 31,	2001	2000	Increase
Total revenues	$869.9	$728.1	19%
Operating income	$336.7	$258.9	30%
As a percent of total revenues	39%	36%	
Net income	$254.9	$190.0	34%
As a percent of total revenues	29%	26%	
Diluted earnings per share	$ .68	$ .51	33%
Cash dividends per common share	$ .33	$ .22	50%
Return on stockholders' equity	38%	38%	

[graphics omitted]

The data in the following table was depicted in bar graphs in the 2001 Annual Report to Shareholders:

(millions $)	1997	1998	1999	2000	2001
Total Revenues	$399.7	$493.7	$597.3	$728.1	$869.9
Operating Income	$ 96.6	$134.7	$187.6	$258.9	$336.7
Net Income	$ 75.2	$102.2	$139.1	$190.0	$254.9

[pictures omitted]

To Our Shareholders

In 2001, Paychex completed thirty years serving American businesses. In that time we have built a comprehensive employer and employee administrative services company. 2001 also represents the eleventh straight year that our company has achieved record levels of service revenues and net income.

For the year ended May 31, 2001, total revenues increased by 19% to $869.9 million. Operating income grew 30% to $336.7 million, with an operating margin of 39% compared with 36% in the prior year. This was the tenth consecutive year of net income growth exceeding 30%, as net income for 2001 increased 34% to $254.9 million. Our earnings per share rose 33% from $.51 to $.68.

Paychex has a strong balance sheet and solid liquidity position. Our corporate cash and investments position has grown to $614.0 million and we have no outstanding notes or mortgages. Our cash flow from operations was $304.9 million for fiscal 2001, an increase of 22% over the prior year. Return on equity was 38%. In October 2000, in recognition of the company's strong financial position, our Board of Directors increased the quarterly dividend to shareholders for the ninth consecutive year, and dividend payments equaled 48% of this year's net income.

Strong financial results were achieved while making investments in future growth. Paychex Administrative Services (PAS) provides a great example of Paychex building on well-established foundations. PAS brings businesses a full-service approach to the outsourcing of employer and employee administrative needs. It is payroll, benefits and retirement plan administration, human resource and risk management - a wide spectrum of services rolled into one. In its first full year of nationwide availability, PAS has grown significantly and has already surpassed our professional employer organization in the number of client employees served.

As we continue to grow our core client base, we develop new services that our clients seek as they expand and mature. For example, our investment in Internet initiatives continues, as does client acceptance and usage. Our online payroll sales presentation has proven to be a cost-efficient tool, providing a new source of leads and sales while complementing the efforts of our field sales force. The Paychex Internet Report Service, Internet Time Sheets, General Ledger Reporting Service, and other Internet product features provide an additional way that our clients, their employees, and their accountants can exchange payroll information with Paychex in a fast, convenient, and cost-effective manner. The Internet also extends our reach, making it increasingly practical to service remote markets, opening a previously untapped pool of potential clients.

In 2001, we continued expansion of our Major Market Services (MMS) payroll product offering. The MMS product is now available in almost half of the markets where our core payroll service is offered. Businesses served by MMS are larger and have more complex payroll needs than our core clients, and as a result are more likely to need additional services. As such, MMS clients generally deliver substantially higher per-client revenues.

Our retirement plan recordkeeping services now offer a full spectrum of options, including 401(k) and 401(k) SIMPLE, IRA SIMPLE, as well as profit sharing and money purchase plans. Retirement plan recordkeeping revenues increased 36% in fiscal 2001 and the client base soared by 33%, making us one of the largest 401(k) recordkeepers for small business in the United States. Given the strong growth in workers' compensation sales, we also continued expansion of our sales force for this product, which provides insurance for qualified clients through several leading insurance providers. Sales of workers' compensation insurance are through Paychex Agency, Inc., our licensed insurance agency.

An extensive consolidation of our electronic network and human resource operations infrastructure was completed this year. This improved client response times and streamlined support for clients, with the added benefit of increased billing and accounts receivable efficiencies. We will realize further productivity and customer service benefits as the results of this reorganization take effect.

The past decade has been a very exciting time for Paychex. Our total revenues are fast approaching the one billion dollar mark. We have significantly expanded our product portfolio to include a variety of ancillary services that help small- to medium-sized employers comply with governmental regulations and offer valuable benefits to their employees. Our organization has grown to over 7,300 employees nationwide. We have a consistent record of strong financial performance for our shareholders. In 1991 we were a company with revenues of $137 million and net income of $10 million. Over the past ten years we have experienced an average annual compounded growth rate of 20% for revenues and 39% for net income to arrive at the results we have today. We have achieved this level of success by consistently applying our growth strategy - increasing our client base, obtaining higher utilization of ancillary services, developing new services, and leveraging our infrastructure.

As mentioned earlier, we successfully completed our tenth consecutive year of better than 30% year-over-year net income growth. Few companies in the world have experienced a decade similar to what Paychex has achieved. Looking ahead to fiscal 2002, we recognize interest rate reductions will impact our year-over-year net income growth. However, we expect to continue to generate record revenues and net income with total revenue growth in the range of 16% to 18%.

In closing, with sadness I mention the loss of Gene Polisseni, our Senior Vice President of Marketing, who passed away after a lengthy battle with cancer. He provided Paychex with decades of exceptional service, and most recently was instrumental in the building of our human resource and benefits product line. Both Paychex and I will sorely miss his contributions, friendship, and sound advice.

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

CLIENTS, EMPLOYEES, SHAREHOLDERS

Paychex was founded in 1971 with an objective of providing timely, accurate, and affordable payroll-related services to American business. Focused on that goal, the company and its employees have been successfully serving clients and their employees while achieving consistent growth and strong financial performance for shareholders.

Business Process Outsourcing

The outsourcing of business processes has become an increasingly important management practice, with over $340 billion spent in the U.S. on such services each year. Outsourcing of employer and employee services - of which payroll, tax compliance, transaction processing, cash flow management, and benefits administration are some of the most relied upon segments - is the capability Paychex provides to the business community.

The complexity of employer and employee administrative tasks and ever-changing regulations (not to mention penalties for non-compliance) make outsourcing an increasingly attractive alternative. Outsourcing also helps companies reduce and control operating costs, gain access to world-class capabilities, improve the speed and accuracy of these complex functions, and free resources. In short, companies no longer have room for in-house "cost centers" or processes that detract from primary objectives and competencies. Instead, they turn to experts like Paychex, who free client manpower to concentrate on the goals of the business.

Our Clients and Markets

There are approximately six million businesses in the markets we serve and 98% of them have fewer than 100 employees. Market penetration remains relatively small, with all payroll processors combined serving only about 15% of the potential businesses. Therefore, there is still tremendous opportunity for growth in our business.

Paychex provides payroll and employee benefit outsourcing to over 375,000 small- to medium-sized businesses located throughout the United States. The primary human resource needs of the businesses we serve include staffing, managing, paying, and retaining employees. The technical capabilities, knowledge, and operational expertise that Paychex has built - as well as the wide portfolio of products we offer - allow us to partner with our clients to effectively meet their diverse needs.

Paychex began by specializing in payroll processing for smaller businesses, and these companies remain our focus. As the small business market has become better informed about the benefits of outsourcing, and as the needs of such businesses have become more complex and more sophisticated, we have added products to meet these needs. The demand for "more than just payroll" has been evidenced in the success of newer Paychex products such as retirement plan recordkeeping, new employee pay options, and our workers' compensation service.

Paychex has also built capabilities tailored to meet the diverse and complex requirements of both midsize and small businesses. Today, we have clients with thousands of employees, and thousands of clients that have but one employee. Each of these businesses receives quality sales, processing service, and support from one of the more than 100 Paychex offices across the United States and the employees in our corporate headquarters in Rochester, New York. Our highly trained, experienced, and motivated employees have translated into a service culture that results in about two-thirds of our new business coming from current client and accountant referrals.

Partnership for Success

The days of the stereotypical accountant with an eye shade and ledgers, working in a windowless room under a harsh light, are long gone. Today's accounting professionals are more often business consultants who provide a wide spectrum of support and guidance to businesses, while outsourcing much of their labor-intensive, low-margin compliance work such as payroll. As a result, many accountants turn to Paychex and we continually seek new ways to bring value to this relationship. For example, our Internet Report Service and General Ledger Reporting Service have provided accountants with convenient new ways to access current and historical client payroll data.

After-the-Fact Payroll, introduced this year, was designed specifically for accountants. The term "after-the-fact" refers to situations outside of the normal payroll process. For example, an employer may pay its employees a net dollar amount without considering the tax withholding implications. The tax impact, including tax calculations and regulatory reporting, is left for the accounting professional to perform "after-the-fact." This triggers time-consuming accounting and compliance tasks. Paychex now offers a way to accomplish the required work while the accountant need only let us know the "who, when, and how much" of the after-the-fact payments.

==

[SIDEBAR]

Recognition for Paychex: Paychex achievements are often recognized by the press. Here are some of the honors received this year.

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 #212 to #169. In the profits category, the company went from #458 to #372. In the 817-company "super rank" that combines sales, profits, assets, and value, Paychex advanced ninety-seven positions to #373.

The Wall Street Journal's "Shareholders' Scoreboard." This annual evaluation ranks the total return to investors of 1,000 companies. Paychex joined the exclusive list of only fourteen comprising "The Honor Roll." These are companies that earned straight-A ratings on five-year average compound annual total returns, and were in the top 20% of companies evaluated for the past one, three, five, and ten years. Paychex also topped the "Industrial Services" sector listing that compared forty-four businesses.

Forbes Global A-List. In this listing of the 400 best companies in the world, Forbes Global magazine divided the group into twenty-eight sectors composed of "companies that are leaders in their fields." For the second year in a row, Paychex was the featured company in the sixteen-firm business services category.

The Business Week 50. Paychex became a BW 50 "top corporate performer" in this ranking of the S&P 500, moving up to #47, from #68 last year. In making selections, Business Week weighs eight criteria, including sales, profits, and return to shareholders.

IBD Corporate Leaders, Long-Term Performers. Paychex placed #3 in the Investor's Business Daily's annual list of the "decade's best long-term outperformers." This list was limited to ten companies. With an increase of 4,388%, Paychex was #5 on an accompanying list that ranked companies by the amount that their stock price changed between December 29, 1989 and April 12,2001.

The Business Week Global 1000. This list ranks companies, worldwide, by market value. The Paychex position in the U.S. was #172, and internationally #330.

[end of sidebar]

==

Products like our Internet services and After-the-Fact Payroll, CPE seminar programs, and informational publiscations expand on a well-established partnership for success that mutually benefits the accounting community and Paychex.

Paychex Employees

One of our greatest assets is the dedication and skill of our 7,300 employees nationwide. Paychex realizes the value of its human resources and emphasizes personal development through employee recognition, internal promotion, and an emphasis on training and development programs. Paychex has a corporate training and development center that delivers comprehensive professional programs, many of which are certified for college credit. This year, there were over one million employee hours dedicated to field training, formal classroom instruction, and testing. These programs keep everyone from payroll specialists and sales representatives to computer operators up to date on products, payroll and tax regulations, management skills, and other topics that are important to delivering quality customer service.

IT ALL BEGINS WITH PAYROLL

Calculating a payroll, remitting the appropriate taxes, and getting pay to employees requires that Paychex handle the funds as well as extensive employer and employee information. These data and funds, combined with the sophisticated capabilities and knowledge used to handle them, form a foundation upon which Paychex builds new products to meet the needs of its clients.

Payroll Processing

Any business owner with employees knows the headaches that come from calculating payrolls, determining and filing tax payments, keeping records, and providing employee benefits. They are never-ending tasks that are filled with the risk of legal penalties, take away from the business of doing business, and can become overwhelming. To ease this burden, many businesses turn to Paychex.

Calculation and delivery of employee pay, production of management reports, and preparation of payroll tax returns form the basis of the Paychex payroll service. Core payroll clients have an average of fourteen employees and thirty-one payrolls processed each year.

Clients send their employee hour and wage information to Paychex in a variety of ways. For personalized service, our Payroll Specialists telephone businesses on a scheduled basis to obtain payroll data. Other clients prefer to fax us their information, send it from a personal computer via our Paylink(Registered Trademark) or Preview(Service Mark) software, or use our Internet Time Sheet. We also offer the ability to accept payroll input from time and attendance systems of our clients.

Paychex Major Market Services (MMS) specializes in the needs of current clients who have outgrown our core service or new clients with more complex payroll and human resource needs. Larger companies often prefer to retain process control with an in-house payroll system, and this is provided by Paychex Preview software. Paychex handles the software maintenance and compliance, payroll taxes, direct deposit, payroll packaging, and related issues of business continuity. This is a mutually beneficial division of labor for businesses and Paychex, and this year MMS revenue increased 58%.

Internet Utilization

Paychex continues to expand its Internet capabilities and clients have embraced the efficiencies these services offer. While our Internet Time Sheet facilitates the flow of payroll information from businesses to our processing centers, two other Internet products expand the ways that information can travel back to clients. The Paychex Internet Report Service lets companies access their current and historical payroll information, and reduces the cost and delivery time of their reports. Our General Ledger Reporting Service transfers calculated payroll information to a client's accounting software, eliminating time-consuming manual entries and improving the accuracy of bookkeeping.

The view from the Paychex end of this electronic pipeline is one of broader communication with prospects and clients, expanded avenues for customer service, improved productivity, and new opportunities for delivering products and services. We plan continued expansion of Internet capabilities where they promise benefits to those on both ends of the connection. For example, in fiscal 2002, we will be implementing enhancements to our retirement plan programs that will provide 401(k) participants online access to their personal information. They will be able to review the status of their account, calculate contribution scenarios, and make changes to the way funds are invested, as allowed by their plan. This Internet capability will benefit employers, employees, and Paychex by streamlining access for participants while reducing the time and expense spent on support by company managers and Paychex personnel.

We also plan on introducing a real-time, online payroll service that will complement our current set of Internet payroll products. With this new capability, clients will be able to enter their payroll data and receive full payroll processing, including all reports, within hours.

BEYOND A STRONG FOUNDATION

Payroll doesn't end with the gathering of the hours an employee has worked and the calculation of their net pay. Complying with tax and other laws, transferring funds, and accomplishing other necessary tasks provide the demand for products that Paychex continues to build on the foundation of basic payroll processing.

Taxpay(Registered Trademark)

An employer typically files and makes payments for over forty payroll tax returns a year. Penalties can result if they do not deposit payroll taxes and file returns in a timely fashion. The Paychex Taxpay service provides peace of mind to clients by assuming the responsibility for the accurate preparation and punctual filing of quarterly and year-end returns, as well as the electronic transfer of funds to the appropriate agencies. This very successful ancillary service has reached 83% client utilization, with Paychex making available federal, state, and local payroll and business tax services. During fiscal 2001, Paychex made $54.0 billion in payroll tax payments on behalf of clients.

Employee Pay Services

Conventional payroll checks, direct bank deposit, a debit and purchase card option called the Paychex Access Card (in association with MasterCard(Registered Trademark)), and a special check called Readychex(Service Mark) are all payment selections offered by Paychex. These allow payroll disbursements that fit the variable needs of both employees and employers. Additionally, the Paychex Flexible Pay Package provides a cost-effective, bundled approach that can have the extended benefit of very convenient, one-step payroll account reconciliation for employers. From the Paychex perspective, direct deposit, Access Card, Readychex, and the Flexible Pay Package encourage purely electronic money transfers that cut costs, increase productivity, extend the use of ancillary products, and maximize investment periods on related float monies.

This year, Paychex transferred $67.1 billion in direct deposit funds to employee accounts. Client utilization of our employee pay services has grown to 53%, from 47% in 2000.

New-Hire Reporting

New-hire reporting helps employers meet federal and state requirements that aid enforcement of child support orders, and help reduce fraudulent workers' compensation and unemployment claims. This service removes a compliance concern from the schedule of employers and eliminates the risk of penalties. Niche services like new-hire reporting contribute to our full-service goals and, in combination with other products, encourage businesses to maintain a long-term relationship with Paychex.

Garnishment Processing

When legal action causes a worker's wages to be garnished, the task of compliance falls on the shoulders of the person's employer. This involves deduction of the appropriate amount each pay period, forwarding of the payment to the proper agency, and accurate tracking so that the garnishment ceases when the obligation has been fulfilled. To help simplify this process, Paychex has introduced a payroll garnishment service that will be available nationwide by the end of calendar 2001.

Research indicates that as many as one in ten American workers has a wage garnishment, suggesting widespread need for this product. In addition to extending revenue per client, this garnishment service is another offering that helps solidify the Paychex partnership with clients and encourages retention.

COMPREHENSIVE SERVICES FOR EMPLOYERS AND EMPLOYEES

Payroll provides the fulcrum on which Paychex leverages many other value-added products. This has made Paychex a full-service company, capable of delivering complete employer and employee administrative services. With this "critical mass" of infrastructure, knowledge, and experience, Paychex is well positioned to both create and exploit new windows of opportunity.

Comprehensive Administrative Services

Paychex has introduced Paychex Administrative Services (PAS) nationwide, and we are very excited about the potential for this inclusive format of bundled services. In its first full year of nationwide availability, PAS already serves more client employees than our professional employer organization (PEO). PAS provides the most beneficial and acceptable approach for employers because it brings businesses a total package that includes payroll, employer compliance, employee benefits administration, and risk management. Smaller companies find this approach attractive because it brings them comprehensive, big-company human resource services and expertise that were previously out of reach. Larger firms favor PAS because they seek a turnkey approach with related administrative functions sourced from a single vendor. PAS does not engage in co-employment of workers, removing objections that many employers have with some employee leasing programs. It also eliminates substantial areas of co-employer risk and other factors that tend to dilute margins.

A professional employer organization takes a somewhat different approach to total services by becoming co-employer of a client company's employees. In Florida and Georgia, states that offer an attractive regulatory environment that reduces risks related to co-employer status and where PEOs are popular, we offer this service through our PEO, Paychex Business Solutions.

Retirement Services

The 401(k) retirement plan has become a prevalent part of employee benefit packages, and because of its unique position as a payroll processor, Paychex has been able to make these plans economical for almost any employer. The number of companies that depend on Paychex for their funds transfer and 401(k) plan recordkeeping increased 33% over last year. This represented $1.8 billion in plans for which we do the recordkeeping. Paychex has been very successful in educating the marketplace about retirement plan options, particularly for smaller companies that previously thought that such programs were out of reach. Measured by the number of plans administered, Paychex has become one of the country's fastest-growing and largest recordkeepers. Even with this growth, this service offers considerable room for continued expansion.

In addition to conventional 401(k) administration, Paychex also partners with leading fund managers to offer SIMPLE Individual Retirement Account plans. 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.

Recognizing the value of our 401(k) recordkeeping capabilities, Paychex has extended the product to companies that are not using our payroll service. Their payroll information is transferred electronically to Paychex directly from the company or its payroll provider. Only recently introduced, this service provides an example of how our company can extend capabilities without requiring recordkeeping clients to become Paychex payroll clients. However, pricing has been structured to make the conversion to the Paychex payroll service attractive if so desired by the recordkeeping client. This product promises broad potential because it allows Paychex to market 401(k) recordkeeping, regardless of whether we initially obtain the client's payroll business.

Workers' Compensation Services

Most employers are required to carry workers' compensation insurance, which provides payments to employees who are unable to work because of job-related injuries. Usually, companies pay estimated premiums at the start of the coverage period and then an audit examines claims, wage rates, and job classifications for an adjustment at the end of the period. Smaller companies in particular find the ups and downs of these payments a difficult cash management problem. The Paychex Pay-As-You-Go(Service Mark) plan stabilizes cash flow and minimizes period-end adjustments by monitoring claims, rates, and classifications on a continuing basis and assesses costs more evenly throughout the term of the policy.

This product has significant growth potential because of the near universal need for workers' compensation insurance. Paychex acts, through its licensed agency, as a general agent providing insurance through a variety of insurance carriers who are the underwriters, and receives revenue from fees and float income from the collection and subsequent distribution of premiums to carriers.

Section 125 Plans

Section 125 of the U.S. Internal Revenue Code was established to encourage individual health care planning, and it provides favorable tax considerations for persons who contribute to premium-only plans and flexible spending accounts (FSAs). Section 125 provisions are typically implemented via payroll deductions, and handling these plans can be time consuming for employers because of government reporting and compliance requirements, and recordkeeping needed for the deductions and disbursements on FSA plans. Paychex provides cost-efficient outsourcing of section 125 plan administration, which allows the addition of a section 125 plan to a client's benefits package at low cost.

Other Human Resource Products

From employee handbooks to workplace compliance packages, Paychex provides a range of products that helps employers and employees communicate and stay informed. With these services, Paychex seeks to round out an offering that provides comprehensive business process outsourcing to employers.

Strategies for Success

Outsourcing the administration of important, and often confidential business functions requires confidence and trust. As we continue to expand our client base, we will focus on improving client services, growing revenue per client through increased utilization of ancillary services, and on continued leveraging of our infrastructure. We have built a full-service company capable of delivering comprehensive employer and employee administrative services, and are well prepared to capitalize on these strategies for future success.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations reviews the Company's operating results for each of the three fiscal years in the period ended May 31, 2001 (fiscal 2001, 2000, and 1999), and its financial condition at May 31, 2001. 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 contained in Exhibit 99: "Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995.

Results of Operations

In thousands, except per share amounts	2001	Change	2000	Change	1999
Total revenues	$869,857	19.5%	$728,119	21.9%	$597,296
Combined operating and SG&A expenses	$533,155	13.6%	$469,226	14.5%	$409,734
Operating income	$336,702	30.1%	$258,893	38.0%	$187,562
Operating margin	38.7%		35.6%		31.4%
Income before income taxes	$363,981	32.2%	$275,372	37.6%	$200,143
Net income	$254,869	34.1%	$190,007	36.6%	$139,099
% of total revenues	29.3%		26.1%		23.3%
Basic earnings per share	$ .68	33.3%	$ .51	34.2%	$ .38
Diluted earnings per share	$ .68	33.3%	$ .51	37.8%	$ .37

The financial results for Paychex, Inc. in fiscal 2001 reflect the eleventh consecutive year of record service revenues and net income, and the tenth consecutive year of net income growth of 30% or more. The Company's ability to grow its client base, increase client utilization of ancillary services, develop new services, implement price increases, and decrease operating expenses as a percent of total revenues has driven the increases in total revenues and net income in fiscal 2001 and fiscal 2000.

The increases in combined operating and selling, general, and administrative (SG&A) expenses reflect increases in personnel, information technology, and facility costs necessary to support the growth of the Company. At the end of fiscal 2001, the Company had 7,300 employees compared with 6,200 at the end of fiscal 2000. In fiscal 2002, combined operating and SG&A costs are expected to grow at a rate slightly below the growth rate experienced in fiscal 2001.

The increase in operating income and the improvement in operating margins reflect the Company's ability to add profitable ancillary services and leverage its infrastructure to grow profits faster than revenue growth.

In fiscal 2001, total revenues and net income benefited from higher comparable average rates of interest earned and net realized gains on available-for-sale securities related to the funds held for clients and corporate investment portfolios. The recent trend of interest rate reductions is evidenced by the Federal Funds rate moving from 6.50% at the beginning of January 2001 to 4.00% at the end of May 2001. Looking ahead to fiscal 2002, the interest rate reductions will impact year-over-year net income growth. The Company expects to continue to generate record revenues and net income with total revenue growth in the range of 16% to 18%.

In fiscal 2001, 2000, and 1999, the Company had two reportable business segments: Payroll and Human Resource and Benefits. See Note A of the Notes to Consolidated Financial Statements for a detailed description of these reportable segments and related business activities.

Payroll segment

In thousands	2001	Change	2000	Change	1999
Service revenue	$688,650	15.8%	$594,445	20.6%	$492,914
Interest on funds held for clients	$ 83,336	41.7%	$ 58,800	12.4%	$ 52,335
Total Payroll segment revenues	$771,986	18.2%	$653,245	19.8%	$545,249
Operating income	$366,498	20.8%	$303,360	27.9%	$237,236

Operating margin	47.5%	46.4%	43.5%

</TABLE>

Revenues: Total Payroll segment revenues include service fees and interest on funds held for clients. Service fee revenue is earned primarily from Payroll, Taxpay, Employee Pay Services, and other ancillary services. Employee Pay Services includes the Direct Deposit, Readychex, and Access Card products. In addition to service fees paid by clients, the Company earns interest on Taxpay and Employee Pay Services funds that are collected before due dates and invested (funds held for clients) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. Interest on funds held for clients is included in total revenues 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. Interest on funds held for clients also includes net realized gains and losses from the sale of available-for-sale securities.

The increases in Payroll service revenue are primarily related to the addition of new clients, new services, price increases, and increased utilization of ancillary services, by both new and existing clients. At May 31, 2001, 83% of Paychex clients utilized Taxpay, the Company's tax filing and payment feature, compared with 81% at the end of 2000 and 79% at the end of 1999. Client utilization of the Taxpay product is expected to mature within a range of 83% to 87%. The Company's Employee Pay Services were utilized by 53% of clients at May 31, 2001, versus 47% and 42% at May 31, 2000 and 1999, respectively. During fiscal 2001 and 2000, the Company continued expansion of its Major Market Services (MMS) payroll product offering. MMS is now available in approximately half of the markets served by the Company. MMS revenues totaled $47.4 million, $30.0 million, and $19.3 million in fiscal 2001, 2000, and 1999, respectively. This represents year-over-year revenue growth of 58% for fiscal 2001 and 55% for fiscal 2000. Employee Pay Services and MMS are expected to provide continuing revenue growth opportunities for fiscal 2002 and beyond. In fiscal 2001, the Company introduced new payroll product enhancements including Employee Garnishments and After-the-Fact payroll. Fiscal 2002's percentage growth in Payroll service revenue is expected to be in the range of 16% to 18%.

In fiscal 2001 and 2000, interest on funds held for clients increased due to growth in the utilization of Taxpay and Employee Pay Services by new and existing clients and higher average daily balances. Average daily portfolio balances for funds held for clients were approximately $1.7 billion, $1.4 billion, and $1.1 billion in fiscal 2001, 2000, and 1999, respectively. The significantly higher percentage growth in interest on funds held for clients in fiscal 2001 reflects the benefit of higher comparable average rates of return and net realized gains on the sale of available-for-sale securities. In fiscal 2001, interest on funds held for clients included net realized gains of $5.7 million compared with net realized losses of $2.9 million and net realized gains of $2.4 million in fiscal 2000 and 1999, respectively. During the third and fourth quarters of fiscal 2001, market rates of interest declined significantly with the Federal Funds rate decreasing 2.50 percentage points during the period.

Due to the decrease in interest rates, the Company expects that interest on funds held for clients in fiscal 2002 will be lower than in fiscal 2001. For further discussion of interest rates and related risks, refer to the "Market Risk Factors" section of this review.

Operating income: Operating income for 2001 and 2000 increased as a result of the increases in Payroll service revenue and interest on funds held for clients and continued leveraging of the segment's operating expense base as evidenced by the improvement in operating margins year-over-year.

Effective September 1, 1999, the Company increased its sales force compensation package by approximately $6.0 million on an annualized basis to increase the retention and quality of its payroll sales representatives. This compensation increase resulted in additional expense of approximately $4.5 million in fiscal 2000 and $1.5 million in the first quarter of fiscal 2001 when compared to the prior years.

Human Resource and Benefits segment

<TABLE>
<CAPTION>

In thousands	2001	Change	2000	Change	1999
<S>	<C>	<C>	<C>	<C>	<C>
Service revenue	$97,871	30.7%	$74,874	43.9%	$52,047
Operating income	$37,890	62.0%	$23,395	111.3%	$11,072
Operating margin	38.7%		31.2%		21.3%

</TABLE>

Revenues: The significant increases in service revenue for 2001 and 2000 are primarily related to increasing 401(k) Recordkeeping, Workers' Compensation

Insurance Administration, and Section 125 clients, and PAS and PEO client employees serviced. At May 31, 2001, over 19,000 clients utilized the Company's 401(k) Recordkeeping service, and over $1.7 billion of client employee funds were managed externally. The growth in 401(k) clients reflects the continuing interest of small- to medium-sized businesses in offerering retirement savings benefits to their employees. 401(k) Recordkeeping revenues were $43.0 million, $31.5 million, and $19.7 million in fiscal 2001, 2000, and 1999, respectively. This represents year-over-year growth of 36% in fiscal 2001 and 60% in fiscal 2000. The Company continued to expand its Workers' Compensation Insurance Administration product, which provides insurance for qualified clients through leading insurance providers and a reporting method to stabilize their cash flows throughout the year.

In fiscal 2000, the Company began a nationwide expansion of its Paychex Administrative Services (PAS) product, a combined package of payroll, employer compliance, employee benefit administration, and risk management outsourcing services designed to make it easier for small businesses to manage their payroll and related benefit costs. Expansion efforts continued throughout fiscal 2001, and the PAS product is now available nationwide. The Company operates a Professional Employer Organization (PEO) which provides the same combined package of services as the PAS product, but as a co-employer of the client's employees. The Company's PEO service is primarily focused in the states of Florida and Georgia where PEOs are popular and operate under an attractive regulatory environment. At the end of fiscal 2001, the PAS and PEO products serviced over 60,000 client employees.

Operating income: For 2001 and 2000, the increases in operating income are primarily related to the service revenue gains and the leveraging of operating expenses.

Full-year fiscal 2002's Human Resource and Benefits service revenue is expected to grow at a rate slightly higher than in fiscal 2001. Fiscal 2002's quarter-over-quarter percentage comparisons in Human Resource and Benefits 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	2001	Change	2000	Change	1999
<S>	<C>	<C>	<C>	<C>	<C>
Corporate expenses	$67,686	-.3%	$67,862	11.7%	$60,746

</TABLE>

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing, and Senior Management functions of the Company. Corporate expenses have increased primarily due to additional employees and other expenditures required to support the continued growth of the Company's service operations and sales force. In fiscal 2001, these increases were offset by lower spending on national marketing efforts and other areas, resulting in a relatively flat growth year-over-year. Looking forward, the Company expects the growth in corporate expenses to be in the range of 10% to 13% in fiscal 2002.

Investment income
<TABLE>
<CAPTION>

In thousands	2001	Change	2000	Change	1999
<S>	<C>	<C>	<C>	<C>	<C>
Investment income	$27,279	65.5%	$16,479	31.0%	$12,581

</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 interest on funds held for clients, which are recorded within the Payroll segment and total revenue. The increases in investment income in fiscal 2001 and 2000 are primarily due to the increase in average daily invested balances generated from increases in overall cash flows. Average daily balances invested were $.6 billion, $.4 billion, and $.3 billion for fiscal 2001, 2000, and 1999, respectively. Fiscal 2001 also benefited from higher comparable average rates of return and net realized gains on available-for-sale securities. In fiscal 2001, investment income included net realized gains on available-for-sale securities of $1.7 million compared to net realized losses of $0.8 million in fiscal 2000 and net realized gains of $0.5 million in fiscal 1999. During the third and fourth quarters of fiscal 2001, market rates of interest declined significantly with the Federal Funds rate decreasing 2.50 percentage points during the period. As a result of the decrease in interest rates, investment income for fiscal 2002 is expected to grow at a rate significantly lower than in fiscal 2001. Refer to the "Market Risk Factors" section of this review for further discussion of interest rates and the related risks.

Income taxes

In thousands

	2001	Change	2000	Change	1999
Income taxes	$109,112	27.8%	$85,365	39.8%	$61,044
Effective income tax rate	30.0%		31.0%		30.5%

The change in the effective income tax rate in 2001 is due to the growth in tax-exempt income exceeding the growth in taxable income and other tax reduction opportunities. Tax-exempt income is derived primarily from income earned on municipal debt securities. Fiscal 2002's effective income tax rate is expected to approximate 31.0%.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

In thousands

	2001	Change	2000	Change	1999
Operating cash flows	$304,938	22.5%	$249,028	43.0%	$174,120

The increases in operating cash flows resulted primarily from the achievement of higher net income. Projected operating cash flows are expected to adequately support normal business operations, forecasted growth, purchases of property and equipment, and dividend payments. At May 31, 2001, the Company had $614 million in available cash and corporate 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.

Investing activities

In thousands

	2001	Change	2000	Change	1999
Net funds held for clients and corporate investment activities	$(144,270)	--	$(144,322)	74.5%	$(82,724)
Purchases of property and equipment	(45,250)	32.5%	(34,154)	54.4%	(22,116)
Proceeds from the sale of property and equipment	32	--	1,266	--	12
Purchases of other assets	(8,290)	19.0%	(6,964)	94.0%	(3,590)
Net cash used in investing activities	$(197,778)	7.4%	$(184,174)	69.9%	$(108,418)

Funds held for clients and corporate investments: Funds held for clients are primarily comprised of short-term funds and available-for-sale debt securities, and corporate investments are primarily comprised of available-for-sale debt securities. The portfolio of funds held for clients and corporate investments is detailed in Note D of the Notes to Consolidated Financial Statements.

The reported amount of funds held for clients will vary significantly based upon the timing of collecting client funds, and the related remittance of funds to the applicable tax authorities for Taxpay clients and employees of clients utilizing Employee Pay Services. Corporate investments have increased due to the investment of growing cash balances provided by operating activities offset by purchases of property and equipment and dividend payments. At May 31, 2001, the total available-for-sale portfolio included unrealized gains of $20.5 million, compared to a portfolio at May 31, 2000 that included unrealized losses of $13.4

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

Purchases of property and equipment: To support the Company's client and ancillary product growth, investments are regularly made in data processing equipment and software, and for the expansion and upgrade of various branch facilities. In fiscal 2001, the Company made purchases of property and equipment of $45.3 million compared with $34.2 million of purchases in fiscal 2000. In May 2001, the Company purchased a 135,000-square-foot office facility in Rochester for approximately $5.0 million. This facility will house a centralized information technology data center and various other support functions. As a result of this purchase, the Company has delayed previously announced plans to construct a new 300,000-square-foot building at an estimated cost of $40 million. During fiscal 2000, the Company sold an office facility in California for $1.2 million and purchased a branch office facility in Pennsylvania for $6.1 million. Purchases of property and equipment in fiscal 2002 are expected to be in the range of $35 million to $40 million. Fiscal 2002 depreciation expense is projected to be approximately $28 million.

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. The effect of adopting the SOP increased net income by approximately $3.2 million and $2.4 million for the years ended May 31, 2001 and May 31, 2000, respectively.

Financing activities
<TABLE>
<CAPTION>

In thousands, except per share amounts	2001	Change	2000	Change	1999
<S>	<C>	<C>	<C>	<C>	<C>
Dividends paid	$(123,112)	50.9%	$(81,583)	50.9%	$(54,055)
Proceeds from exercise of stock options	14,600	29.9%	11,242	103.1%	5,535
Other	--	--	(69)	13.1%	(61)
Net cash used in financing activities	$(108,512)	54.1%	$(70,410)	44.9%	$(48,581)
Cash dividends per common share	$ .33	50.0%	$ .22	46.7%	$ .15

</TABLE>

Dividends paid: On October 10, 2000 and October 7, 1999, the Company increased its quarterly cash dividend rate per share by 50%. Future dividends are dependent on the Company's future earnings and cash flow. The Company has declared three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares in May of 2000 and 1999.

Proceeds from exercise of stock options: The increase in proceeds from the exercise of stock options is primarily due to an increase in the number of shares exercised and higher comparable exercise prices per share. The Company has recognized a tax benefit from the exercise of stock options of $26.4 million, $19.4 million, and $16.3 million for fiscal 2001, fiscal 2000, and fiscal 1999, respectively. This tax benefit reduces the accrued income tax liability and increases additional paid-in capital, with no impact on the expense amount for income taxes. 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: Funds held for clients are primarily comprised of short-term funds and available-for-sale debt securities, and corporate investments are primarily comprised of available-for-sale debt securities. The Company's available-for-sale debt securities are exposed to interest rate risk as interest rate volatility will cause fluctuations in the market value of held investments and the earnings potential of future investments. Decreases in interest rates normally increase the market value of the available-for-sale securities, while increases in interest rates decrease the market value of the available-for-sale securities. 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. Decreases in interest rates quickly decrease earnings from short-term funds, and over time decrease earnings from the available-for-sale securities portfolio. Increases in interest rates have the opposite earnings effect on the available-for-sale securities and short-term funds. 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. The immediate impact of changing interest rates on earnings from short-term funds may be temporarily offset by realized gains or losses from transactions in the Company's available-for-sale portfolio. The Company estimates that the earnings effect of a 25-basis-point change in interest rates (17 basis points for tax-exempt investments) at this point in time would equate to approximately $3.0 million for fiscal 2002.

The Company directs investments towards 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.

The recent trend in interest rates has been toward interest rate reductions versus interest rate increases during fiscal 2000. The following table summarizes the changes in the Federal Funds rate over the last three years:
<TABLE>
<CAPTION>

	2001	2000	1999
<S>	<C>	<C>	<C>
Federal Funds rate - beginning of fiscal year	6.50%	4.75%	5.50%
Rate increase/(decrease):			
First quarter	-	.50	-
Second quarter	-	.25	(.75)
Third quarter	(1.00)	.25	-
Fourth quarter	(1.50)	.75	-
Federal Funds rate - end of fiscal year	4.00%	6.50%	4.75%
Three-Year "AAA" Municipal Securities Yield at May 31:	3.44%	4.96%	3.85%

</TABLE>

Calculating the future effects of changing interest rates involves many factors. These factors include, but are not limited to, daily interest rate changes, seasonal variations in investment balances, actual duration of short- and intermediate-term investments, the proportionate mix of taxable and tax-exempt investments, and changes in tax-exempt municipal rates versus taxable investment rates - which are not synchronized or simultaneous. Subject to these factors, a 25-basis-point change generally affects the Company's tax-exempt interest rates by approximately 17 basis points. Realized gains are more prevalent in a decreasing rate environment and realized losses are more prevalent in an increasing rate environment. During fiscal 2001, the Company's total investment portfolio averaged approximately $2.3 billion compared with an average of $1.8 billion for fiscal 2000. The total investment portfolio is expected to average $2.6 billion in fiscal 2002. The Company's normal and anticipated allocation is approximately 50% invested in short-term securities with a duration of less than 30 days and 50% invested in intermediate-term municipal securities with an average duration of three years.

As of May 31, 2001, the available-for-sale securities included unrealized gains of $20.5 million, compared with a portfolio at May 31, 2000 that included unrealized losses of $13.4 million. In fiscal 2000, the available-for-sale portfolio had a market value less than its cost basis as a result of the upward trend in interest rates throughout the year. The decreasing interest rate environment in fiscal 2001 resulted in the improvement in the market value of the available-for-sale portfolio. As of May 31, 2001 and May 31, 2000, the Company had $1.3 billion and $1.0 billion invested in available-for-sale securities at fair value, with weighted average yields to maturity of 4.3% and 4.5%, respectively. Assuming a hypothetical decrease in interest rates of 25 basis points given the May 31, 2001 securities portfolios, the resulting potential increases in fair value would be in the range of $7.5 million to $8.5 million. Conversely, a corresponding increase in interest rates would result in a comparable decrease in fair value. This hypothetical decrease or increase 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, with no related or immediate impact to the results of operations.

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, 2001, approximately 98% 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. The Company adopted SAB No. 101 in the fourth quarter of fiscal 2001 with no material impact on the Company's results of operations or financial position.

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 was most recently amended in June 2000 by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of FASB Statement No. 133." These statements are collectively referred to as SFAS 133. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities and 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 a 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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2001. 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Buffalo, New York

June 21, 2001

<TABLE>

Consolidated Statements of Income
<CAPTION>

In thousands, except per share amounts

Year ended May 31,	2001	2000	1999
<S>	<C>	<C>	<C>
Revenues:			
Payroll	$688,650	$594,445	$492,914

Human Resource and Benefits	97,871	74,874	52,047
Total service revenues	786,521	669,319	544,961
Interest on funds held for clients	83,336	58,800	52,335
Total revenues	869,857	728,119	597,296
Operating costs	200,352	173,481	151,956
Selling, general, and administrative expenses	332,803	295,745	257,778
Operating income	336,702	258,893	187,562
Investment income	27,279	16,479	12,581
Income before income taxes	363,981	275,372	200,143
Income taxes	109,112	85,365	61,044
Net income	$254,869	$190,007	$139,099
Basic earnings per share	$ .68	$ .51	$ .38
Diluted earnings per share	$ .68	$ .51	$ .37
Weighted-average common shares outstanding	372,777	370,603	368,282
Weighted-average shares assuming dilution	377,510	375,081	373,182
Cash dividends per common share	$ .33	$ .22	$ .15

<FN>
See Notes to Consolidated Financial Statements.
</FN>
</TABLE>

<TABLE>
Consolidated Balance Sheets
<CAPTION>

In thousands

May 31,	2001	2000
<S>	<C>	<C>
Assets		
Cash and cash equivalents	$ 45,784	$ 47,136
Corporate investments	568,217	412,357
Interest receivable	28,281	22,436
Accounts receivable	100,640	87,608
Deferred income taxes	--	9,539
Prepaid expenses and other current assets	7,306	6,531
Current assets before funds held for clients	750,228	585,607
Funds held for clients	2,041,045	1,776,968
Total current assets	2,791,273	2,362,575
Property and equipment - net	96,078	75,375
Goodwill and intangible assets - net	9,612	5,584
Deferred income taxes	1,361	2,494
Other assets	8,872	9,549
Total assets	$2,907,196	$2,455,577
Liabilities		
Accounts payable	$ 16,377	$ 17,086
Accrued compensation and related items	57,418	52,631
Deferred revenue	4,421	4,719
Accrued income taxes	9,783	2,969
Deferred income taxes	4,996	--
Other current liabilities	19,282	24,400
Current liabilities before client fund deposits	112,277	101,805
Client fund deposits	2,031,565	1,785,140
Total current liabilities	2,143,842	1,886,945
Long-term liabilities	5,512	5,200
Total liabilities	2,149,354	1,892,145
Stockholders' equity		
Common stock, $.01 par value, 600,000 authorized shares		

Issued: 373,647/2001 and 371,769/2000	3,736	3,718
Additional paid-in capital	139,897	98,904
Retained earnings	601,142	469,385
Accumulated other comprehensive income/(loss)	13,067	(8,575)
Total stockholders' equity	757,842	563,432
Total liabilities and stockholders' equity	$2,907,196	$2,455,577

<FN>

See Notes to Consolidated Financial Statements.
</FN>
</TABLE>

<TABLE>
Consolidated Statements of Stockholders' Equity
<CAPTION>

In thousands	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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

Net income				254,869		254,869
Unrealized gains on securities, net of tax					21,642	21,642
Total comprehensive income						276,511
Cash dividends declared				(123,112)		(123,112)
Exercise of stock options	1,878	18	14,582			14,600
Tax benefit from exercise of stock options			26,411			26,411
Balance at May 31, 2001	373,647	$3,736	$139,897	$ 601,142	$ 13,067	$ 757,842

<FN>
See Notes to Consolidated Financial Statements.
</FN>
</TABLE>

<TABLE>
Consolidated Statements of Cash Flows
<CAPTION>

In thousands

Year ended May 31,	2001	2000	1999
<S>	<C>	<C>	<C>
Operating activities			
Net income	$ 254,869	$ 190,007	$ 139,099
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization on depreciable and intangible assets	26,439	23,903	22,097
Amortization of premiums and discounts on available-for-sale securities	12,700	12,581	10,814
Provision (benefit) for deferred income taxes	3,411	(2,786)	(427)
Provision for bad debts	1,413	1,871	1,886
Net realized (gains)/losses on sales of available-for-sale securities	(7,423)	3,728	(2,866)
Changes in operating assets and liabilities:			
Interest receivable	(5,845)	(4,391)	(4,818)
Accounts receivable	(14,445)	(26,538)	(10,231)
Prepaid expenses and other current assets	(775)	(531)	(1,609)
Accounts payable and other current liabilities	34,116	48,276	21,847
Net change in other assets and liabilities	478	2,908	(1,672)
Net cash provided by operating activities	304,938	249,028	174,120
Investing activities			
Purchases of available-for-sale securities	(921,138)	(869,795)	(755,335)
Proceeds from sales of available-for-sale securities	575,247	711,184	488,662
Proceeds from maturities of available-for-sale securities	19,230	19,770	31,535
Net change in funds held for clients money market securities and other cash equivalents	(64,034)	(432,016)	(55,707)
Net change in client fund deposits	246,425	426,535	208,121
Purchases of property and equipment	(45,250)	(34,154)	(22,116)
Proceeds on the disposal of property and equipment	32	1,266	12
Purchases of other assets	(8,290)	(6,964)	(3,590)
Net cash used in investing activities	(197,778)	(184,174)	(108,418)
Financing activities			
Dividends paid	(123,112)	(81,583)	(54,055)
Proceeds from exercise of stock options	14,600	11,242	5,535
Other	--	(69)	(61)
Net cash used in financing activities	(108,512)	(70,410)	(48,581)
Increase/(decrease) in cash and cash equivalents	(1,352)	(5,556)	17,121
Cash and cash equivalents, beginning of fiscal year	47,136	52,692	35,571

Cash and cash equivalents, end of fiscal year	$ 45,784	$ 47,136	$ 52,692

<FN>
See Notes to Consolidated Financial Statements.
</FN>

</TABLE>

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 and Benefits.

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, the Company collects payroll taxes from clients on payday, files the applicable tax returns, and pays taxes to the appropriate taxing authorities on the due dates. These collections from clients are typically paid between one and thirty days after receipt, with some items extending to ninety days. The Company handles all regulatory correspondence, amendments, and penalty and interest disputes and is subject to cash penalties imposed by tax authorities for late filings or underpayments of taxes.

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, net payroll is collected from the client's account one day before payroll and provides payment to the employee on payday.

In addition to service fees paid by clients, the Company earns interest on Taxpay and Employee Pay Services funds that are collected before due dates and invested (funds held for clients) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. The funds held for clients and related client deposit liability are included in the Consolidated Balance Sheets as current assets and current liabilities. The amount of funds held for clients and related client deposit liability varies significantly during the year.

Human Resource and Benefits segment: The Human Resource and Benefits segment provides small- to medium-sized businesses with 401(k) Plan Recordkeeping, Workers' Compensation Insurance Administration, Section 125 Plan Administration, Group Benefits, State Unemployment Insurance, and Employee Management Services. The Company's Paychex Administrative Services (PAS) product provides a combined package of payroll, employer compliance, employee benefit administration, and risk management outsourcing services designed to make it easier for small businesses to manage their payroll and related benefit costs. The Company also operates a Professional Employer Organization (PEO), which provides the same combined package of services as the PAS product, but as a co-employer of the client's employees.

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.

Funds held for clients and corporate investments: Marketable securities included in funds held for clients and corporate investments consist primarily of debt securities classified as available-for-sale and are recorded at fair value obtained from an independent pricing service. Funds held for clients 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 each security's cost basis. Realized gains and losses from funds held for clients are included in interest on funds held for clients, 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, creditworthy 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 creditworthy 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 35 years for buildings and 2 to 15 years for all others.

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 5 to 10 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 and earned. PEO revenues are included in Human Resource and Benefits service revenues and are reported net of direct costs billed and incurred, which include wages, taxes, benefit premiums, and claims of PEO worksite employees. Direct costs billed and incurred were $865,716,000, $731,266,000, and $578,132,000 for fiscal 2001, 2000, and 1999, respectively.

Interest on funds held for clients is earned on Taxpay and Employee Pay Services funds that are collected by the Company before due dates and invested (funds held for clients) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. The interest earned on these funds is included in total revenues 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. Interest on funds held for clients also includes net realized gains and losses from the sale of available-for-sale securities.

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. The Company adopted SAB No. 101 in the fourth quarter of fiscal 2001 and there was no significant impact to the consolidated results of operations or financial position.

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 accounts 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 in the form of 50% stock dividends on outstanding shares payable to shareholders of record as of May 12, 2000 and May 13, 1999, with respective distribution dates of May 22, 2000 and May 21, 1999. 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." The statement was most recently amended in June 2000 by Statement of Financial Accounting Standards No.

138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of FASB Statement No. 133." The statements are collectively referred to as SFAS 133. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities and 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 and Benefits. 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 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,	2001	2000	1999
Revenues:			
Payroll service revenue	$ 688,650	$ 594,445	$ 492,914
Interest on funds held for clients	83,336	58,800	52,335
Total Payroll segment revenues	771,986	653,245	545,249
Human Resource and Benefits service revenue	97,871	74,874	52,047
Total revenues	$ 869,857	$ 728,119	$ 597,296
Operating income:			
Payroll	$ 366,498	$ 303,360	$ 237,236
Human Resource and Benefits	37,890	23,395	11,072
Segment operating income	404,388	326,755	248,308
Corporate expenses	67,686	67,862	60,746
Total operating income	336,702	258,893	187,562
Investment income	27,279	16,479	12,581
Income before income taxes	$ 363,981	$ 275,372	$ 200,143
Purchases of long-lived assets:			
Payroll	$ 26,513	$ 18,367	$ 13,597
Human Resource and Benefits	3,650	1,184	539
Corporate	23,377	21,567	

			11,570
Total purchases of long-lived assets	$ 53,540	$ 41,118	$ 25,706
Depreciation and amortization expense:			
Payroll	$ 23,123	$ 22,177	$ 20,050
Human Resource and Benefits	1,405	1,115	1,070
Corporate	14,611	13,192	11,791
Total depreciation and amortization expense	$ 39,139	$ 36,484	$ 32,911
Identifiable assets:		May 31,	
Payroll	$2,166,836	$1,889,554	$1,463,606
Human Resource and Benefits	65,987	57,822	32,144
Corporate	674,373	508,201	377,351
Total identifiable assets	$2,907,196	$2,455,577	$1,873,101

</TABLE>

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,	2001	2000	1999
<S>	<C>	<C>	<C>
Basic earnings per share:			
Net income	$ 254,869	$ 190,007	$ 139,099
Weighted-average common shares outstanding	372,777	370,603	368,282
Basic earnings per share	$ .68	$ .51	$ .38
Diluted earnings per share:			
Net income	$ 254,869	$ 190,007	$ 139,099
Weighted-average common shares outstanding	372,777	370,603	368,282
Effect of dilutive stock options at average market price	4,733	4,478	4,900
Weighted-average shares assuming dilution	377,510	375,081	373,182
Diluted earnings per share	$ .68	$ .51	$ .37

</TABLE>

For the years ended May 31, 2001, 2000, and 1999, weighted-average options to purchase shares of common stock in the amount of 328,000, 495,000, and 149,000, 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 anti-dilutive.

Note D - Corporate Investments and Funds Held For Clients

Corporate investments and funds held for clients at May 31, 2001 and 2000 are as follows:
<TABLE>
<CAPTION>

In thousands	2001		2000	
Type of issue:	Cost	Fair value	Cost	Fair value
<S>	<C>	<C>	<C>	<C>
Money market securities and other cash equivalents	$1,266,698	$1,266,698	$1,202,664	$1,202,664
Available-for-sale securities:				
General obligation municipal bonds	582,249	590,806	405,214	399,190
Pre-refunded municipal bonds	293,109	298,058	301,271	298,706
Revenue municipal bonds	443,667	450,635	291,157	286,294
Other securities	20	64	20	92
Total available-for-sale securities	1,319,045	1,339,563	997,662	984,282
Other	3,099	3,001	1,802	2,379
Total corporate investments and funds held for clients	$2,588,842	$2,609,262	$2,202,128	$2,189,325
Classification of investments on Consolidated Balance Sheets:				
Corporate investments	$ 557,277	$ 568,217	$ 416,988	$ 412,357
Funds held for clients	2,031,565	2,041,045	1,785,140	1,776,968
Total corporate investments and funds held for clients	$2,588,842	$2,609,262	$2,202,128	$2,189,325

</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 as rate volatility will cause fluctuations in the market value of held investments and the earnings potential of future investments. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities and A-1 rated short-term securities, limiting amounts that can be invested in any single instrument, and by investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes. At May 31, 2001, approximately 98% 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
<S>	<C>	<C>	<C>	<C>
2001	$1,319,045	$ 20,771	$ 253	$1,339,563
2000	$ 997,662	$ 401	$ 13,781	$ 984,282

</TABLE>

Gross realized gains and losses are as follows:
<TABLE>

<CAPTION>

In thousands Year ended May 31,	2001	2000	1999
Gross realized gains	$ 8,157	$ 590	$ 3,129
Gross realized losses	$ 734	$ 4,318	$ 263

</TABLE>

The cost and fair value of available-for-sale securities at May 31, 2001, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.
<TABLE>
<CAPTION>

In thousands May 31, 2001	Cost	Fair value
Maturity date:		
Due in one year or less	$ 165,753	$ 166,797
Due after one year through three years	528,282	536,873
Due after three years through five years	410,691	418,461
Due after five years	214,319	217,432
Total available-for-sale securities	$1,319,045	$1,339,563

</TABLE>

Note E - Property and Equipment - Net

The components of property and equipment - net are as follows:
<TABLE>
<CAPTION>

In thousands May 31,	2001	2000
Land and improvements	$ 2,919	$ 2,919
Buildings and improvements	36,923	30,195
Data processing equipment and software	106,359	84,490
Furniture, fixtures, and equipment	75,243	64,729
Leasehold improvements	12,545	10,536
	233,989	192,869
Less: accumulated depreciation and amortization	137,911	117,494
Property and equipment - net	$ 96,078	$ 75,375

</TABLE>

Depreciation expense was $24,406,000, $22,442,000, and $20,853,000 for fiscal years 2001, 2000, and 1999, respectively.

Note F - Goodwill and Intangible Assets - Net

The components of goodwill and intangible assets - net are as follows:
<TABLE>
<CAPTION>

--
In thousands

May 31,	2001	2000
Goodwill	$ 3,955	$ 3,955
Less: accumulated amortization	2,300	1,918
Goodwill - net	$ 1,655	$ 2,037
Intangible assets:		
Client acquisitions	$ 12,809	$ 6,748
Less: accumulated amortization	4,852	3,201
Client acquisitions - net	$ 7,957	$ 3,547
Goodwill and intangible assets - net	$ 9,612	$ 5,584

</TABLE>

Goodwill amortization expense was $382,000, $382,000, and $402,000 for fiscal years 2001, 2000, and 1999, respectively. Amortization expense for client acquisitions was $1,651,000, $1,079,000, and $842,000 for fiscal years 2001, 2000, and 1999, 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 4,386,000 shares available for future grants at May 31, 2001. The 1995, 1992, and 1987 Stock Incentive Plans expired in August 1998, 1995, and 1992, respectively; however, options to purchase 5,850,000 shares under these plans remained outstanding at May 31, 2001.

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% vested on May 1, 2001. At May 31, 2001, options to purchase 1,160,000 shares remained outstanding and 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% vested in July 2000 and an additional 25% will vest in each of the following three years. At May 31, 2001, options to purchase 943,000 shares remained outstanding at an exercise price of $21.46 per share. 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, 2001:
<TABLE>
<CAPTION>

In thousands, except per share amounts	Shares subject to options	Weighted-average exercise price
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
Granted	881	$ 43.35
Exercised	(1,878)	$ 8.10
Forfeited	(547)	$ 22.73
Outstanding at May 31, 2001	9,163	$ 16.21
Exercisable at May 31, 1999	5,429	$ 4.99

Exercisable at May 31, 2000	4,708	$ 6.59
Exercisable at May 31, 2001	5,202	$ 9.63

The following table summarizes information about stock options outstanding and exercisable at May 31, 2001:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Shares subject to options (in thousands)	Weighted-average exercise price per share	Weighted-average remaining contractual life in years	Shares subject to options (in thousands)	Weighted-average exercise price per share
$ 1.08 - $10.28	2,177	$ 4.26	3.2	2,177	$ 4.26
$10.29 - $20.55	3,780	$13.08	5.9	2,708	$12.31
$20.56 - $30.83	2,178	$21.57	8.0	273	$21.67
$30.84 - $41.10	382	$34.84	9.2	44	$35.58
$41.11 - $51.38	646	$45.74	9.2	--	$ --
	9,163	$16.21	6.1	5,202	$ 9.63

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:

In thousands, except per share amounts

Year ended May 31,	2001	2000	1999
Pro forma net income	$244,481	$180,849	$134,642
Pro forma basic earnings per share	$ .66	$ .49	$ .37
Pro forma diluted earnings per share	$ .65	$ .48	$ .36

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:

Year ended May 31,	2001	2000	1999
Risk-free interest rate	5.7%	5.7%	5.0%
Dividend yield	.8%	1.1%	.8%
Volatility factor	.33	.30	.40
Expected option term life in years	5.0	5.0	4.5

The weighted-average fair value of stock options granted for the years ended May 31, 2001, 2000, and 1999 were $15.55, $7.62, and $7.45 per share, respectively.

Note H - Income Taxes

The components of net deferred tax assets are as follows:
<TABLE>
<CAPTION>

In thousands May 31,	2001	2000
Deferred tax assets:		
Compensation and employee benefit liabilities	$ 3,717	$ 3,500
Allowance for bad debts	1,307	1,250
Other current liabilities	4,247	5,227
Unrealized losses on available-for-sale securities	--	4,805
Other	2,879	2,851
Gross deferred tax assets	12,150	17,633
Deferred tax liabilities:		
Revenue not subject to current taxes	5,782	4,440
Unrealized gains on available-for-sale securities	7,451	--
Other	2,552	1,160
Gross deferred tax liabilities	15,785	5,600
Net deferred tax asset/(liability)	$(3,635)	$12,033

</TABLE>

The components of the provision for income taxes are as follows:
<TABLE>
<CAPTION>

In thousands Year ended May 31,	2001	2000	1999
Current:			
Federal	$ 91,297	$76,327	$51,224
State	14,404	11,824	10,247
Total current	105,701	88,151	61,471
Deferred:			
Federal	2,934	(2,398)	(131)
State	477	(388)	(296)
Total deferred	3,411	(2,786)	(427)
Provision for income taxes	$109,112	$85,365	$61,044

</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, 2001 is as follows:
<TABLE>
<CAPTION>

Year ended May 31,	2001	2000	1999
Federal statutory rate	35.0%	35.0%	35.0%
Increase/(decrease) resulting from:			
State income taxes, net of federal benefit	2.7	2.7	3.2
Tax-exempt municipal bond interest	(7.8)	(7.8)	(7.7)
Other items	.1	1.1	-
Effective income tax rate	30.0%	31.0%	30.5%

</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:

In thousands Year ended May 31,	2001	2000	1999
Unrealized holding gains/(losses)	$ 41,321	$(21,599)	$ 1,979
Income tax (expense)/benefit related to unrealized holding (gains)/losses	(14,923)	7,806	(716)
Reclassification adjustment for the (gain)/loss on sale of securities realized in net income	(7,423)	3,728	(2,866)
Income tax expense/(benefit) on reclassification adjustment for gain/(loss) on sale of securities	2,667	(1,340)	1,028
Other comprehensive income/(loss)	$ 21,642	$(11,405)	$ (575)

Note J - Supplemental Cash Flow Information

Income taxes paid: The Company paid state and federal income taxes of $71,734,000, $68,194,000, and $43,251,000 for the years ended May 31, 2001, 2000, and 1999, 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 $26,411,000, $19,440,000, and $16,250,000 for the years ended May 31, 2001, 2000, and 1999, 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, 2001, 2000, and 1999 were $4,981,000, $4,235,000, and $3,525,000, 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, 2001 and 2000.

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, 2001, 2000, and 1999 was $29,054,000, $25,400,000, and $23,038,000, respectively. At May 31, 2001, future minimum lease payments under various noncancelable operating leases with terms of more than one year are $23,284,000 in fiscal 2002, $21,379,000 in fiscal 2003, $17,975,000 in fiscal 2004, $13,251,000 in fiscal 2005, $10,580,000 in fiscal 2006, and $17,502,000 thereafter.

QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands, except per share amounts

Fiscal 2001	August 31,	November 30,	February 28,	May 31,	Year
Revenues:					
Payroll	$164,521	$167,133	$177,842	$179,154	$688,650
Human Resource and Benefits	21,949	23,612	25,509	26,801	97,871

Total service revenues	186,470	190,745	203,351	205,955	786,521
Interest on funds held for clients	17,413	17,353	25,905	22,665	83,336
Total revenues	$203,883	$208,098	$229,256	$228,620	$869,857
Operating income	$ 78,826	$ 83,425	$ 86,882	$ 87,569	$336,702
Investment income	5,534	5,965	7,234	8,546	27,279
Income before income taxes	84,360	89,390	94,116	96,115	363,981
Income taxes	25,730	27,264	27,764	28,354	109,112
Net income	$ 58,630	$ 62,126	$ 66,352	$ 67,761	$254,869
Basic earnings per share	$ .16	$ .17	$ .18	$ .18	$ .68
Diluted earnings per share	$ .16	$ .16	$ .18	$ .18	$ .68
Weighted-average common shares outstanding	372,015	372,618	373,057	373,455	372,777
Weighted-average shares assuming dilution	377,165	377,839	377,681	377,397	377,510
Cash dividends per common share	$ .06	$ .09	$ .09	$ .09	$ .33
Market value per share:					
High	$ 46.88	$ 61.25	$ 58.63	$ 42.85	$ 61.25
Low	$ 35.00	$ 40.50	$ 36.75	$ 30.61	$ 30.61

</TABLE>
<TABLE>
<CAPTION>

Fiscal 2000	August 31,	November 30,	February 29,	May 31,	Year
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Payroll	$138,712	$142,866	$155,466	$157,401	$594,445
Human Resource and Benefits	15,473	17,459	20,362	21,580	74,874
Total service revenues	154,185	160,325	175,828	178,981	669,319
Interest on funds held for clients	12,207	12,033	16,355	18,205	58,800
Total revenues	$166,392	$172,358	$192,183	$197,186	$728,119
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

<FN>

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.
</FN>
</TABLE>

<TABLE>

QUARTERLY SEGMENT FINANCIAL DATA (UNAUDITED)
<CAPTION>

In thousands

Fiscal 2001	August 31,	November 30,	February 28,	May 31,	Year
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Payroll service revenue	$164,521	$167,133	$177,842	$179,154	$688,650
Interest on funds held for clients	17,413	17,353	25,905	22,665	83,336

Total Payroll segment revenues	181,934	184,486	203,747	201,819	771,986
Human Resource and Benefits service revenue	21,949	23,612	25,509	26,801	97,871
Total revenues	$203,883	$208,098	$229,256	$228,620	$869,857
Operating income:					
Payroll	$ 87,534	$ 90,328	$ 94,259	$ 94,377	$366,498
Human Resource and Benefits	8,394	9,199	9,349	10,948	37,890
Segment operating income	95,928	99,527	103,608	105,325	404,388
Corporate expenses	17,102	16,102	16,726	17,756	67,686
Total operating income	78,826	83,425	86,882	87,569	336,702
Investment income	5,534	5,965	7,234	8,546	27,279
Income before income taxes	$ 84,360	$ 89,390	$ 94,116	$ 96,115	$363,981

</TABLE>
<TABLE>
<CAPTION>

Fiscal 2000	August 31,	November 30,	February 29,	May 31,	Year
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Payroll service revenue	$138,712	$142,866	$155,466	$157,401	$594,445
Interest on funds held for clients	12,207	12,033	16,355	18,205	58,800
Total Payroll segment revenues	150,919	154,899	171,821	175,606	653,245
Human Resource and Benefits service revenue	15,473	17,459	20,362	21,580	74,874
Total revenues	$166,392	$172,358	$192,183	$197,186	$728,119
Operating income:					
Payroll	$ 72,184	$ 72,567	$ 77,683	$ 80,926	$303,360
Human Resource and Benefits	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>

ELEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA
<CAPTION>
In thousands, except per share amounts

Year ended May 31,	2001	2000	1999	1998	1997	1996
Results of operations						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Payroll	$ 688,650	$ 594,445	$ 492,914	$ 411,798	$ 334,750	$282,452
Human Resource and Benefits	97,871	74,874	52,047	38,477	30,878	23,791
Total service revenues	786,521	669,319	544,961	450,275	365,628	306,243
Interest on funds held for clients	83,336	58,800	52,335	43,429	34,105	27,065
Total revenues	$ 869,857	$ 728,119	$ 597,296	$ 493,704	$ 399,733	$333,308

Operating income	$ 336,702	$ 258,893	$ 187,562	$ 134,700	$ 96,625	$ 69,922
% of total revenues	38.7%	35.6%	31.4%	27.3%	24.2%	21.0%
Investment income	$ 27,279	$ 16,479	$ 12,581	$ 9,473	$ 7,031	$ 5,467
Income before income taxes	$ 363,981	$ 275,372	$ 200,143	$ 144,173	$ 103,656	$ 75,389
% of total revenues	41.8%	37.8%	33.5%	29.2%	25.9%	22.6%
Net income	$ 254,869	$ 190,007	$ 139,099	$ 102,219	$ 75,150	$ 55,035
% of total revenues	29.3%	26.1%	23.3%	20.7%	18.8%	16.5%
Basic earnings per share	$ .68	$ .51	$ .38	$ .28	$ .21	$ .15
Diluted earnings per share	$ .68	$ .51	$ .37	$ .28	$ .20	$ .15
Weighted-average common shares outstanding	372,777	370,603	368,282	366,771	364,503	360,885
Weighted-average shares assuming dilution	377,510	375,081	373,182	370,829	368,454	364,926
Cash dividends per common share	$ .33	$ .22	$ .15	$ .10	$ .07	$ .05
Financial position						
Working capital	$ 647,431	$ 475,630	$ 360,784	$ 263,118	$ 194,614	$138,639
Purchases of property and equipment	$ 45,250	$ 34,154	$ 22,116	$ 28,386	$ 18,536	$ 17,806
Total assets	$2,907,196	$2,455,577	$1,873,101	$1,549,787	$1,201,323	$831,585
Total debt	$ --	$ --	$ --	$ --	$ --	$ --
Stockholders' equity	$ 757,842	$ 563,432	$ 435,800	$ 329,607	$ 251,542	$191,072
Return on stockholders' equity	37.9%	37.8%	35.9%	36.0%	33.9%	32.3%

<FN>

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 1993, and May 1992.

</FN>
</TABLE>

<TABLE>
<CAPTION>

Year ended May 31,	1995	1994	1993	1992	1991
Results of operations					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Payroll	$235,427	$203,612	$175,071	$151,138	$131,711
Human Resource and Benefits	18,020	11,290	7,700	5,253	3,289
Total service revenues	253,447	214,902	182,771	156,391	135,000
Interest on funds held for clients	18,666	12,051	8,933	5,514	2,175
Total revenues	$272,113	$226,953	$191,704	$161,905	$137,175
Operating income	$ 52,264	$ 37,442	$ 26,934	$ 18,812	$ 13,267
% of total revenues	19.2%	16.5%	14.0%	11.6%	9.7%
Investment income	$ 3,458	$ 2,220	$ 1,379	$ 821	$ 764
Income before income taxes	$ 55,722	$ 39,662	$ 28,313	$ 19,633	$ 14,031
% of total revenues	20.5%	17.5%	14.8%	12.1%	10.2%
Net income	$ 40,389	$ 28,746	$ 20,241	$ 13,788	$ 9,606
% of total revenues	14.8%	12.7%	10.6%	8.5%	7.0%
Basic earnings per share	$ .11	$ .08	$ .06	$ .04	$ .03
Diluted earnings per share	$ .11	$ .08	$ .06	$ .04	$ .03
Weighted-average common shares outstanding	356,016	354,972	353,505	351,057	349,464
Weighted-average shares assuming dilution	359,066	358,085	356,298	353,063	349,988

Cash dividends per common share	$ .03	$ .02	$ .01	$ .01	$ .01
Financial position					
Working capital	$100,009	$ 68,888	$ 46,776	$ 28,245	$ 19,230
Purchases of property and equipment	$ 12,535	$ 11,667	$ 8,822	$ 13,580	$ 18,420
Total assets	$647,366	$474,786	$322,214	$221,771	$133,342
Total debt	$ 728	$ 948	$ 1,634	$ 2,024	$ 2,431
Stockholders' equity	$141,976	$109,124	$ 85,365	$ 67,623	$ 54,512
Return on stockholders' equity	32.2%	29.6%	26.5%	22.6%	18.9%

</TABLE>

Board of Directors

B. Thomas Golisano, 59, a director since 1979, founded Paychex, Inc., in 1971 and is Chairman, President, and Chief Executive Officer of the Company. He serves on the Board of Trustees of the Rochester Institute of Technology and is a member of the Board of Directors of Iron Mountain Corporation and several privately held companies. He is former chairman of Greater Rochester Fights Back (a coalition to combat illegal drugs and alcohol abuse), has served as a member of the Board of Directors of numerous non-profit organizations, and is founder of the B. Thomas Golisano Foundation.

Steven D. Brooks, 50, a director since 1995, is a founding Managing Director of Broadview Capital Partners, a private equity firm focused on investments in the technology sector. From 1997 to 1999, he served as a Managing Director and head of technology mergers and acquisitions at Donaldson, Lufkin & Jenrette Securities Corporation. From 1996 to August 1997, he was a private investor and a consultant to technology companies. From 1994 to 1996, he served as Managing Director and head of Global Technology Investment Banking at Union Bank of Switzerland Securities LLC. He is a member of the Board of Directors of Pharsight Corporation, an enterprise software company serving the pharmaceutical industry, and VERITAS Software Corporation, a storage management software company, as well as several privately held companies.

G. Thomas Clark, 63, a director since 1980, retired as Senior Vice President of Finance, Secretary, and Treasurer of Paychex, Inc., in October 1996. He joined Paychex in 1979 after spending eighteen years in the commercial banking business. He is a member of the Board of Directors of Unity Health Systems, the Rochester School of the Holy Childhood, the Heritage Christian Home Foundation, and Harris Interactive, Inc. as well as several privately held companies. Mr. Clark is a Trustee of the B. Thomas Golisano Foundation.

David J. S. Flaschen, 45, a director since 1999, is currently a General Partner with OneLiberty Ventures. From 1997 to 1999, he was the President and Chief Executive Officer of Thomson Financial, an information services company focused on the financial industry. Previously, he served as Chairman and Chief Executive Officer of Donnelley Marketing, Inc., a consumer information services company. Prior to 1995, he was with Dun & Bradstreet for ten years as the President and Chief Operating Officer of A.C. Nielsen, North America, and held senior management positions at IMS and DataQuest. Mr. Flaschen is a member of the Board of Directors of Buyerzone.com and a member of the Board of Advisors of SI Ventures.

Phillip Horsley, 62, a director since 1982, is the founder and Managing Director of Horsley Bridge Partners, formed in 1983. Horsley Bridge manages private equity investments for institutional investors.

Grant M. Inman, 59, a director since 1983, is the founder and President of Inman Investment Management, a private venture capital investment company formed in 1998. Prior to 1998, he co-founded and was general partner of Inman & Bowman, a private venture capital partnership formed in 1985. He is a member of the Board of Directors of Lam Research Corporation, Wind River Systems, Inc., and several privately held companies. Mr. Inman is a trustee of the University of California, Berkeley Foundation and the University of Oregon Foundation.

Harry P. Messina, Jr., 69, a director since 1985, has been a partner for more than thirty-five years in the law firm of Woods Oviatt Gilman LLP. He serves on the Advisory Board of M & T Bank, the Board of Trustees of St. Joseph's Villa, and is a member of the Board of Directors of Rochester Management, Inc., as well as several privately held companies.

J. Robert Sebo, 65, a director since 1979, retired as Senior Vice President/Director of Eastern Operations of Paychex, Inc., in December 1994, where he also had many sales and operations positions within the Company. In 1974, he started his own Paychex franchise operation in Cleveland, Ohio. For fourteen years prior to that he held sales, marketing, and business management positions in the Cadillac Motor Car Division of General Motors Corporation.

Joseph M. Tucci, 53, a director since January 2000, is the President and Chief Executive Officer of EMC Corporation, a leading provider of intelligent enterprise information storage systems, software, networks, and services. From January 2000 to January 2001, he was President and Chief Operating Officer of EMC Corporation. Prior to joining EMC, Mr. Tucci served as Deputy Chief Executive Officer of Getronics NV, an information technology services company, from June 1999 through December 1999. From 1993 to June 1999, he served as Chairman and Chief Executive Officer of Wang Global, a leader in networked technology services and solutions, which was acquired by Getronics NV in June 1999. Mr. Tucci is a member of the Board of Directors of Telecom Italia S.p.A.

Officers

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

Daniel Canzano
Vice President, Information Technology

William Kuchta
Vice President, Organizational Development

John Morphy
Vice President, Chief Financial Officer, and Secretary

Diane Rambo
Vice President, Human Resource Services

Walter Turek
Vice President, Sales

In Memoriam
EUGENE POLISSENI
[picture omitted]

At Paychex, we have visionaries. We have financial professionals. We have technicians. We have salespeople. In Gene Polisseni, we had something special. Gene represented the heart and soul of Paychex. You could approach him about anything - and when you did, you would always find him smiling.

Gene deserves credit for designing our management structure of separate sales and operations divisions. He became our first vice president of sales, creating many of the sales and management techniques we still use today. Gene formed our first centralized training schools for salespeople, and was our first director of human resources. He became director of marketing, and started our first telemarketing organization. Most recently, Gene oversaw the creation of our Human Resource Services division, and initiated many new products, including 401(k) recordkeeping, employee handbooks, cafeteria plans, workers' compensation insurance, our PEO, and Paychex Administrative Services. But with all of that said, Gene's most notable accomplishment was the many, many employees he recruited and brought into this organization - and then was instrumental in their development.

We will remember Gene for his friendship and for his advice and counsel. His contributions to our company and, in particular, to the officer group were invaluable.

SHAREHOLDER INFORMATION

Annual Meeting
The annual meeting of stockholders will be held Thursday, October 11, 2001, at 10:00 a.m. at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, NY 14604.

Common Stock
The Company's common stock trades on The NASDAQ Stock Market(Service Mark) under the symbol PAYX.

Dividends
The Company has paid a cash dividend each quarter since 1988. Dividends are normally paid in February, May, August, and November. The level and continuation of future dividends is dependent on the Company's future earnings and cash flow.

Transfer Agent and Registrar
Please send inquiries, certificates for transfer, address changes, and dividend reinvestment and stock purchase requests to:
American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
1-800-937-5449

Direct Reinvestment and Stock Purchase Plan
Stockholders can elect to have some or all of their dividends reinvested, and can make additional investments in common stock through American Stock Transfer & Trust Co.

Independent Auditors
Ernst & Young LLP
1400 Key Tower
50 Fountain Plaza
Buffalo, NY 14202

Financial Information
The Company's 2001 annual report on Form 10-K is filed with the Securities and Exchange Commission and is available without charge upon written request submitted to:
Paychex, Inc., c/o Secretary
911 Panorama Trail South
Rochester, NY 14625-0397

Investor Relations
Members of the financial community and the media should direct inquiries to John Morphy, Vice President, Chief Financial Officer, and Secretary.

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

WHOLLY OWNED SUBSIDIARIES OF PAYCHEX, INC. AS OF MAY 31, 2001

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
Paychex Properties, Inc.	California

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 21, 2001, included in the fiscal 2001 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 21, 2001, 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, 2001.

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 January 31, 1997 (No. 333-20797), together with Amendment #1 filed on March 27, 1997 and Amendment #2 filed on May 22, 1997.
g. Form S-8 - Paychex, Inc. 1998 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 1, 1998 (No. 333-65191).
h. 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

ERNST & YOUNG LLP

August 23, 2001
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, 2001, for us and in our names as Directors, to comply with the Securities Exchange Act of 1934, and the rules, regulations and requirements of the Securities and Exchange Commission, in connection therewith.

Dated: July 11, 2001	/s/ Steven D. Brooks ------------------------- Steven D. Brooks
Dated: July 11, 2001	/s/ G. Thomas Clark ------------------------- G. Thomas Clark
Dated: July 11, 2001	/s/ David J. S. Flaschen ------------------------- David J. S. Flaschen
Dated: July 11, 2001	/s/ Phillip Horsely ------------------------- Phillip Horsley
Dated: July 11, 2001	/s/ Grant M. Inman ------------------------- Grant M. Inman
Dated: July 11, 2001	/s/ Harry P. Messina, Jr. ------------------------- Harry P. Messina, Jr.
Dated: July 11, 2001	/s/ J. Robert Sebo ------------------------- J. Robert Sebo
Dated: July 11, 2001	/s/ Joseph M. Tucci ------------------------- Joseph M. Tucci

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 "we expect," "expected to," "estimates," "we look forward to," "would equate to," "are projected at," "we believe," "could be" and other similar phrases. Because they are forward-looking, they should be evaluated in light of important risk factors. These risk factors include, but are not limited to, general market and economic conditions, including demand for the Company's products and services, availability 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, changes in the market value of available-for-sale securities, and the credit rating of cash, cash equivalents, and securities held in the Company's investment portfolios, all of which could cause actual results to differ materially from anticipated results. The information provided in this document is based upon the facts and circumstances known at this time. The Company assumes no obligation to update this document for new information subsequent to its issuance.