FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED February 29, 2000

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

COMMISSION FILE NUMBER 0-11330

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

DELAWARE	16-1124166
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(716) 385-6666
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 Par Value	247,532,832 Shares
CLASS	OUTSTANDING AT February 29, 2000

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

	For the three months ended February 29, 2000	For the three months ended February 28, 1999	For the nine months ended February 29, 2000	For the nine months ended February 28, 1999
Service revenues:				
Payroll	$171,821	$144,257	$477,639	$403,274
HRS-PEO (Net of PEO direct costs billed and incurred of $193,047, $148,292, $515,090 and $429,823, respectively (A))	20,362	14,166	53,294	37,386
Total service revenues	192,183	158,423	530,933	440,660
Operating costs	45,964	40,989	126,686	113,737
Selling, general and administrative expenses	78,316	68,941	215,152	191,791
Operating income	67,903	48,493	189,095	135,132
Investment income	4,012	3,073	11,554	9,040
Income before income taxes	71,915	51,566	200,649	144,172
Income taxes	22,294	15,366	62,201	42,963

Net income	$ 49,621	$ 36,200	$138,448	$101,209
Basic earnings per share	$ .20	$ .15	$ .56	$ .41
Diluted earnings per share	$ .20	$ .15	$ .55	$ .41
Weighted-average common shares outstanding	247,315	245,693	246,856	245,311
Weighted-average shares assuming dilution	251,815	248,934	250,206	248,683
Cash dividends per common share	$ .09	$ .06	$ .24	$ .16

See Notes to Consolidated Financial Statements.

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

PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	February 29, 2000 (UNAUDITED)	May 31, 1999 (AUDITED)
ASSETS		
Cash and cash equivalents	$ 64,839	$ 52,692
Investments	373,682	290,555
Interest receivable	17,931	18,045
Accounts receivable	77,337	62,941
Deferred income taxes	9,654	1,364
Prepaid expenses and other current assets	5,038	6,000
Current assets before ENS investments	548,481	431,597
ENS investments	1,830,485	1,361,523
Total current assets	2,378,966	1,793,120
Property and equipment - net	72,757	65,931
Deferred income taxes	2,322	1,417
Other assets	15,560	12,633
Total assets	$2,469,605	$1,873,101
LIABILITIES		
Accounts payable	$ 12,810	$ 10,328
Accrued compensation and related items	45,888	36,574
Deferred revenue	5,963	4,643
Accrued income taxes	12,062	4,281
Other current liabilities	21,846	17,905
Current liabilities before ENS client deposits	98,569	73,731
ENS client deposits	1,837,599	1,358,605
Total current liabilities	1,936,168	1,432,336
Long-term liabilities	5,154	4,965
Total liabilities	1,941,322	1,437,301
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 600,000 authorized shares Issued: 247,533/February 29, 2000 and 246,326/May 31, 1999	2,475	2,463
Additional paid-in capital	91,349	68,238
Retained earnings	441,435	362,269
Accumulated other comprehensive income/(loss)	(6,976)	2,830
Total stockholders' equity	528,283	435,800
Total liabilities and stockholders' equity	$2,469,605	$1,873,101

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the nine months ended February 29, 2000	February 28, 1999
OPERATING ACTIVITIES		

Net income	$138,448	$101,209
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization on depreciable and intangible assets	17,639	16,206
Amortization of premiums and discounts on available-for-sale securities	9,274	7,557
Provision for deferred income taxes	(3,634)	(2,058)
Provision for bad debts	1,359	1,363
Net realized (gains)/losses on sales of available-for-sale securities	2,292	(2,813)
Changes in operating assets and liabilities:		
Interest receivable	114	(1,298)
Accounts receivable	(15,755)	(6,063)
Prepaid expenses and other current assets	962	(1,595)
Accounts payable and other current liabilities	39,598	17,670
Net change in other assets and liabilities	2,588	(1,496)
Net cash provided by operating activities	192,885	128,682
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(623,829)	(571,285)
Proceeds from sales of available-for-sale securities	443,225	352,013
Proceeds from maturities of available-for-sale securities	15,770	31,135
Net change in ENS money market securities and other cash equivalents	(413,702)	(184,548)
Net change in ENS client deposits	478,994	320,749
Purchases of property and equipment, net of disposal proceeds	(24,422)	(18,482)
Purchases of other assets	(6,416)	(3,418)
Net cash used in investing activities	(130,380)	(73,836)
FINANCING ACTIVITIES		
Dividends paid	(59,281)	(39,280)
Proceeds from exercise of stock options	8,923	3,428
Net cash used in financing activities	(50,358)	(35,852)
Increase in Cash and cash equivalents	12,147	18,994
Cash and cash equivalents, beginning of period	52,692	35,571
Cash and cash equivalents, end of period	$ 64,839	$ 54,565

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
February 29, 2000

A) The accompanying unaudited Consolidated Financial Statements of Paychex, Inc., and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information furnished herein reflects all adjustments (consisting of items of a normal recurring nature) which are necessary for a fair presentation of the results for the interim period. Operating results for the three months and nine months ended February 29, 2000, are not necessarily indicative of the results that may be expected for the full year ended May 31, 2000.

There is no significant seasonality to the Company's business. However, during the third fiscal quarter, the number of new payroll segment clients and new PEO worksite employees tends to be higher than the rest of the fiscal year. Consequently, greater sales commission expenses are reported in the third quarter.

The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related Notes presented in the Company's Annual Report on Form 10-K for the year ended May 31, 1999. Certain amounts from the prior year are reclassified to conform to current year presentations.

B) Segment Financial Information: The Company has two business segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). 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. The HRS-PEO segment specializes in providing smallto medium-sized businesses with cost-effective outsourcing solutions for their employee benefits. HRS-PEO products include 401(k) plan recordkeeping services, section 125 plan administration, Professional Employer Organization (PEO) services, workers' compensation, group benefits, state unemployment insurance services, employee handbooks and management services. Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company.

(In thousands)	For the three months ended February 29, 2000	February 28, 1999	For the nine months ended February 29, 2000	February 28, 1999
Service revenues:				
Payroll	$171,821	$144,257	$477,639	$403,274
HRS-PEO (A)	20,362	14,166	53,294	37,386
Total service revenues	$192,183	$158,423	$530,933	$440,660
ENS investment revenue included in Payroll revenue	$ 16,355	$ 14,775	$ 40,595	$ 38,535
Operating income:				
Payroll	$ 77,270	$ 60,993	$221,197	$171,556
HRS-PEO	7,244	3,236	18,301	8,422
Segment operating income	84,514	64,229	239,498	179,978
Corporate expenses	16,611	15,736	50,403	44,846
Total operating income	67,903	48,493	189,095	135,132
Investment income	4,012	3,073	11,554	9,040
Income before income taxes	$ 71,915	$ 51,566	$200,649	$144,172

(A) Net of PEO direct costs billed and incurred of $193,047 and $148,292 for the three months ended February 29, 2000 and February 28, 1999, respectively, and $515,090 and $429,823 for the nine months ended February 29, 2000 and February 28, 1999, respectively. PEO direct costs billed to clients are equal to PEO direct costs incurred for the wages and payroll taxes of worksite employees and their related benefit premiums and claims.

C) Basic and diluted earnings per share and stock split information: Basic earnings per share, diluted earnings per share, cash dividends per common share, weighted-average common shares outstanding, weighted-average shares assuming dilution and all other applicable information for the three months and nine months ended February 28, 1999, have been adjusted to reflect a three-for-two stock split effected in the form of 50% stock dividends on outstanding shares payable to shareholders of record as of May 13, 1999, and distributed on May 21, 1999.

(In thousands, except per share amounts)	For the three months ended February 29, 2000	February 28, 1999	For the nine months ended February 29, 2000	February 28, 1999
Basic earnings per share:				
Net income	$ 49,621	$ 36,200	$138,448	$101,209
Weighted-average common share outstanding	247,315	245,693	246,856	245,311
Basic earnings per share	$ .20	$ .15	$ .56	$ .41
Diluted earnings per share:				
Net income	$ 49,621	$ 36,200	$138,448	$101,209
Weighted-average common shares outstanding	247,315	245,693	246,856	245,311
Net effect of dilutive stock options at average market price	4,500	3,241	3,350	3,372
Weighted-average shares assuming dilution	251,815	248,934	250,206	248,683
Diluted earnings per share	$ .20	$ .15	$ .55	$ .41
Weighted-average anti-dilutive stock options	$ --	$ --	$ 381	$ 90

Weighted-average anti-dilutive stock options to purchase shares of common stock were excluded from 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.

For the three months and nine months ended February 29, 2000, stock options were exercised for 396,000 and 1,207,000 shares of the Company's common stock, respectively.

D) Investments and ENS investments:

(In thousands)	February 29, 2000 (UNAUDITED)		May 31, 1999 (AUDITED)	
	COST	FAIR VALUE	COST	FAIR VALUE
Type of issue:				
Money market securities and other cash equivalents	$1,184,350	$1,184,350	$ 770,648	$ 770,648
Available-for-sale securities:				
General obligation municipal bonds	434,786	429,791	313,485	314,636
Pre-refunded municipal bonds	316,457	314,221	295,359	297,621
Revenue municipal bonds	277,133	273,431	266,264	267,290
Other securities	21	78	21	73
Total available-for-sale securities	1,028,397	1,017,521	875,129	879,620
Other	1,802	2,296	1,424	1,810
Total Investments and ENS investments	$2,214,549	$2,204,167	$1,647,201	$1,652,078
Classification of investments on Consolidated Balance Sheets:				
Investments	$ 376,950	$ 373,682	$ 288,596	$ 290,555
ENS investments	1,837,599	1,830,485	1,358,605	1,361,523
Total Investments and ENS investments	$2,214,549	$2,204,167	$1,647,201	$1,652,078

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 does not utilize derivative financial instruments to manage interest rate risk. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities, A-1 rated short-term securities, limiting amounts that can be invested in any single instrument, and by investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes. At February 29, 2000, 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.

E) Property and equipment - net:

(In thousands)	February 29, 2000 (UNAUDITED)	May 31, 1999 (AUDITED)
Land and improvements	$ 2,919	$ 2,896
Buildings and improvements	29,769	26,932
Data processing equipment and software	79,128	70,000
Furniture, fixtures and equipment	62,924	59,818
Leasehold improvements	10,159	8,838
	184,899	168,484
Less accumulated depreciation and amortization	112,142	102,553
Property and equipment - net	$ 72,757	$ 65,931

F) Comprehensive income: Comprehensive income is comprised of two components: net income and other comprehensive income. Comprehensive income includes all changes in equity during a period except those resulting from transactions with owners of the Company. The unrealized gains and losses, net of applicable taxes, related to available-for-sale securities is the only component reported in accumulated other comprehensive income in the Consolidated Balance Sheets for the Company. Comprehensive income, net of related tax effects, is as follows:

(In thousands)	For the three months ended February 29, 2000	February 28, 1999	For the nine months ended February 29, 2000	February 28, 1999
Net income	$ 49,621	$ 36,200	$138,448	$101,209

Unrealized gains/(losses) on securities, net of reclassification adjustments	(3,737)	253	(9,806)	3,213
Total comprehensive income	$ 45,884	$ 36,453	$128,642	$104,422

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

Management's Discussion and Analysis reviews the operating results for the three months and nine months ended February 29, 2000, (fiscal 2000) and February 28, 1999 (fiscal 1999), and its financial condition at February 29, 2000 for Paychex, Inc. and its subsidiaries (the "Company"). The focus of this review is on the underlying business reasons for significant changes and trends affecting revenues, net income and financial condition. This review should be read in conjunction with the accompanying February 29, 2000 Consolidated Financial Statements, and the related Notes to Consolidated Financial Statements contained in this Form 10-Q. Forward-looking statements in this Management's Discussion and Analysis are qualified by the cautionary statement in Exhibit 99, contained in this Form 10-Q.

RESULTS OF OPERATIONS

(In thousands, except per share amounts)

For the three months ended	February 29, 2000	Change	February 28, 1999
Service revenues	$192,183	21.3%	$158,423
Operating income	$ 67,903	40.0%	$ 48,493
Operating margin	35.3%	4.7	30.6%
Income before income taxes	$ 71,915	39.5%	$ 51,566
Net income	$ 49,621	37.1%	$ 36,200
% of service revenues	25.8%	2.9	22.9%
Basic earnings per share	$ .20	33.3%	$ .15
Diluted earnings per share	$ .20	33.3%	$ .15

For the nine months ended	February 29, 2000	Change	February 28, 1999
Service revenues	$530,933	20.5%	$440,660
Operating income	$189,095	39.9%	$135,132
Operating margin	35.6%	4.9	30.7%
Income before income taxes	$200,649	39.2%	$144,172
Net income	$138,448	36.8%	$101,209
% of service revenues	26.1%	3.1	23.0%
Basic earnings per share	$ .56	36.6%	$ .41
Diluted earnings per share	$ .55	34.1%	$ .41

The Company's continued 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 service revenues has resulted in record service revenues and net income for the three months and nine months ended February 29, 2000.

Payroll segment

(In thousands)

For the three months ended	February 29, 2000	Change	February 28, 1999
Payroll service revenue	$171,821	19.1%	$144,257
ENS investment revenue included in Payroll service revenue	$ 16,355	10.7%	$ 14,775
Payroll operating income	$ 77,270	26.7%	$ 60,993
Payroll operating margin	45.0%	2.7	42.3%

For the nine months ended	February 29, 2000	Change	February 28, 1999
Payroll service revenue	$477,639	18.4%	$403,274
ENS investment revenue included in Payroll service revenue	$ 40,595	5.3%	$ 38,535
Payroll operating income	$221,197	28.9%	$171,556
Payroll operating margin	46.3%	3.8	42.5%

Client statistics at	February 29, 2000	Change	February 28, 1999

Payroll clients	345.9	9.2%	316.9
Taxpay clients	276.8	12.2%	246.7
% of Payroll clients	80.0%	2.2	77.8%
Flexible Pay Package clients	157.1	20.8%	130.1
% of Payroll clients	45.4%	4.3	41.1%

Revenues: Payroll service revenue includes service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay, Flexible Pay Package and other ancillary services. The Flexible Pay Package includes the Direct Deposit, Readychex, and Access Card products. ENS investment revenue is earned during the period between collecting client funds (ENS investments) and remitting the funds to the applicable tax authorities for Taxpay clients and employees of Flexible Pay Package clients. ENS investment revenue also includes net realized gains and losses from the sale of available-for-sale securities. Additional discussion on interest rates and related risk is included in the Liquidity and Capital Resources section of this review under the caption "Investments and ENS investments".

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, such as Taxpay and Flexible Pay Package by both new and existing clients. Client utilization of the Taxpay product is expected to mature within the next several years within a range of 82% to 87%. Client utilization of the Flexible Pay Package product is expected to provide growth opportunities for fiscal 2000 and beyond.

ENS investment revenue increased in the third quarter due to the growth in Taxpay and Flexible Pay Package utilization and higher comparative short-term rates of return. These increases were offset by realized losses of $.8 million recognized on the sale of securities compared with realized gains of $1.1 million which were recognized during the same period last year.

The percentage increase in ENS investment revenue for the first nine months of fiscal 2000 was lower than the percentage growth experienced in the third quarter. This was primarily due to lower comparable rates of return during the first six months of the fiscal year. Realized losses for the nine-month period were $1.6 million compared with realized gains of $2.3 million in the prior year period.

Operating income: Operating income increased as a result of the increases in revenue and continued leveraging of the segment's operating expense base as evidenced by the improvement in operating margins.

During the second quarter of fiscal 2000, the Company began the process of expanding its Major Market Services payroll product offering to include thirty-four cities that are currently serviced by its core Payroll product. The Company will continue to evaluate additional expansion efforts for this product in the future. Effective September 1, 1999, the Company increased its sales force compensation package in an effort to increase the retention and quality of its payroll sales representatives. The estimated impact of this increase resulted in additional pre-tax expense of approximately $1.5 million for the third quarter and $3.0 million year-to-date.

HRS-PEO segment

(In thousands)

For the three months ended	February 29, 2000	Change	February 28, 1999
HRS-PEO service revenue	$ 20,362	43.7%	$14,166
HRS-PEO operating income	$ 7,244	123.9%	$ 3,236
HRS-PEO operating margin	35.6%	12.8	22.8%

For the nine months ended	February 29, 2000	Change	February 28, 1999
HRS-PEO service revenue	$ 53,294	42.6%	$37,386
HRS-PEO operating income	$ 18,301	117.3%	$ 8,422
HRS-PEO operating margin	34.3%	11.8	22.5%

Client Statistics at	February 29, 2000	Change	February 28, 1999
401(k) recordkeeping clients	13.4	47.3%	9.1
401(k) client funds managed externally (in millions)	$1,178.5	93.0%	$ 610.7
Section 125 clients	23.1	19.7%	19.3
Workers' compensation insurance clients	8.8	450.0%	1.6
PEO worksite employees	20.1	18.9%	16.9

Revenues: The increases in service revenue are primarily related to increasing

401(k) recordkeeping, Section 125 and Workers' compensation insurance clients and PEO worksite employees. The increase in 401(k) clients reflects the continuing interest of small- to medium-sized businesses to offer retirement savings benefits to their employees. During the first quarter of fiscal 1999, the Company began a national rollout of its Workers' compensation insurance product, which provides insurance for qualified clients through a leading insurance provider and a method to stabilize their cash flows throughout the year.

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

In the third quarter of fiscal 2000 the Company entered into a new contract for Worker's compensation insurance coverage for the PEO worksite employees. Annual pre-tax costs under the new contract are expected to be approximately $1.8 million higher than under the previous contract.

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

Corporate expenses

(In thousands)

For the three months ended	February 29, 2000	Change	February 28, 1999
Corporate expenses	$16,611	5.6%	$15,736

For the nine months ended	February 29, 2000	Change	February 28, 1999
Corporate expenses	$50,403	12.4%	$44,846

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company. The increases in expenses are due to additional employees and other expenditures required to support the continued growth of the Company's business segments. These increases are reduced by the costs capitalized for the development of internal-use software, in accordance with the adoption of Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", effective June 1, 1999. Additional discussion related to SOP 98-1 is included in the Liquidity and Capital Resources section of this document under the caption "Purchases of property and equipment, net of disposal proceeds." During the third quarter, Corporate expenses increased at a rate lower than in 1999 as a result of reduced spending on national marketing efforts. The Company expects the lower spending on national marketing efforts to continue in the fourth quarter.

Investment income

(In thousands)

For the three months ended	February 29, 2000	Change	February 28, 1999
Investment income	$ 4,012	30.6%	$3,073

For the nine months ended	February 29, 2000	Change	February 28, 1999
Investment income	$11,554	27.8%	$9,040

Investment income represents earnings from the Company's cash and cash equivalents and investments in available-for-sale securities. Investment income does not include earnings from the ENS investments which are recorded as ENS investment revenue within the Payroll segment. The increases in Investment income are primarily due to the increases in average daily invested balances generated from increases in overall cash flows offset by realized losses during fiscal 2000. Realized losses were $.4 million and $.7 million for the third quarter and nine-month period, respectively, compared with realized gains in the third quarter and nine-months of fiscal 1999 of $.1 million and $.5 million, respectively. For the three-month period, Investment income also benefited from higher comparable rates of return. Average rates of return earned for the nine-month period were slightly lower than in the prior year period. Additional discussion on interest rates and related risk is included in the Liquidity and Capital Resources section of this review under the caption "Investments and ENS investments". Investment income for full-year fiscal 2000, subject to changes in market rates of interest, is expected to grow at a rate lower than the Company's net income growth.

Income taxes

(In thousands)

For the three months ended	February 29, 2000	Change	February 28, 1999
Income taxes	$22,294	45.1%	$15,366
Effective income tax rate	31.0%	1.2	29.8%

For the nine months ended	February 29, 2000	Change	February 28, 1999
Income taxes	$62,201	44.8%	$42,963
Effective income tax rate	31.0%	1.2	29.8%

The increases in the effective income tax rate are due to the growth in taxable income exceeding the growth in tax-exempt income. Tax-exempt income is derived primarily from the Taxpay and Flexible Pay Package products that provide ENS investment revenue. Full-year fiscal 2000's effective income tax rate is expected to approximate 31%.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

(In thousands)

For the nine months ended	February 29, 2000	Change	February 28, 1999
Operating cash flows	$192,885	49.9%	$128,682

The increase in operating cash flows resulted primarily from the consistent 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 February 29, 2000, the Company had $439 million in available cash and investments. The Company also has $140 million of available, uncommitted, unsecured lines of credit and $350 million available under a uncommitted, secured line of credit which was entered into during the third quarter of Fiscal 2000.

Investing activities

(In thousands)

For the nine months ended	February 29, 2000	Change	February 28, 1999
Net Investments and ENS activities	$ (99,542)	91.7%	$(51,936)
Purchases of P&E, net of disposal proceeds	(24,422)	32.1%	(18,482)
Purchases of other assets	(6,416)	87.7%	(3,418)
Net cash used in investing activities	$(130,380)	76.6%	$(73,836)

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

Investments have increased due to the investment of increasing cash balances provided by operating activities less purchases of property and equipment and dividend payments. The reported amount of ENS investments will vary significantly based upon the timing of collecting client funds, and remitting the funds to the applicable tax authorities for Taxpay clients and employees of clients utilizing the Flexible Pay Package. These increases in Investments and ENS investments have been offset by unrealized losses during fiscal 2000. At February 29, 2000 the available-for-sale debt securities in the Investments portfolio and ENS investments portfolio had market values exceeding the cost basis by $3.8 million and $7.1 million, respectively.

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

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

The Company does not utilize derivative financial instruments to manage interest rate risk. 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.

During the second quarter of fiscal 1999, the federal funds rate was reduced by 75 basis points to 4.75%. During the first quarter of fiscal 2000, the federal funds rate was increased by 50 basis points to 5.25%. During the second quarter of fiscal 2000, the rate was increased by 25 basis points to 5.50%, and during the third quarter of fiscal 2000, the rate was increased by 25 basis points to 5.75%. The earnings impact of these rate changes is not precisely quantifiable because many factors influence the return on the Company's portfolio. These factors include, among others, daily interest rate changes, the proportional mix of taxable and tax-exempt investments, and changes in tax-exempt and taxable investment rates, which are not synchronized, nor do they change simultaneously. Subject to the aforementioned factors, a 25 basis point change normally affects the Company's tax-exempt interest rates by approximately 17 basis points.

At February 29, 2000, the Company had $1.18 billion of ENS investment funds invested in money market securities and other cash equivalents with an average maturity of less than 30 days, and $1.02 billion invested in available-for-sale securities with an average duration of 2.4 years. At February 29, 2000, the available-for-sale securities portfolio had a market value less than its cost basis by $10.9 million, compared with the portfolio at May 31, 1999, which had a market value greater than its cost basis by $4.5 million. The decrease in the portfolio's market value is due to the increase in relative interest rates experienced during the nine months ended February 29, 2000.

As of February 29, 2000 and May 31, 1999, the Company had $1.02 billion and $879.6 million invested in available-for-sale securities at fair value, with a weighted-average yield to maturity of 4.4% and 4.1%, respectively. Assuming a hypothetical increase in interest rates of 75 basis points given the February 29, 2000 and May 31, 1999 portfolio of securities, the resulting potential decrease in fair value would be approximately $18.3 million and $16.2 million, respectively. Conversely, a corresponding decrease in interest rates would result in a comparable increase in fair value. This hypothetical increase or decrease in the fair value of the portfolio would be recorded as an adjustment to the portfolio's recorded value, with an offsetting amount recorded in stockholders' equity, and with no related or immediate impact to the results of operations. The Company's interest rate risk exposure has not changed materially since May 31, 1999.

Credit risk - The Company is exposed to credit risk in connection with these investments through the possible inability of the borrowers to meet the terms of the bonds. The Company attempts to limit credit risk by investing primarily in AAA and AA rated securities, A-1 rated short-term securities and by limiting amounts that can be invested in any single instrument. At February 29, 2000, 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.

Purchases of property and equipment, net of disposal proceeds: To support the Company's continued client and ancillary product growth, purchases of property and equipment were made for data processing and personal computer equipment, and for the expansion and upgrade of various operating facilities. During the first quarter ended August 31, 1999, the Company sold an office facility for approximately $1.2 million in cash proceeds. The Company purchased a branch office facility for $6.1 million during the quarter ended February 29, 2000. Purchases of property and equipment in fiscal 2000 are expected to approximate $35 million.

Through the end of 1999, the Company expensed as incurred certain costs to develop and enhance its internal computer programs and software. In March 1998, the Accounting Standards Executive Committee issued 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. The Company adopted the SOP effective June 1, 1999. The effect of adopting the SOP is expected to increase net income by approximately $2.0 million to $3.0 million for the year ended May 31, 2000.

Financing activities

(In thousands, except per share amounts) For the nine months ended	February 29, 2000	Change	February 28, 1999
Dividends paid	$(59,281)	50.9%	$(39,280)
Proceeds from exercise of stock options	8,923	160.3%	3,428
Net cash used in financing activities	$(50,358)	40.5%	$(35,852)
Cash dividends per common share	$ .24	50.0%	$ .16

Dividends paid: On October 7, 1999, the Company's Board of Directors increased the quarterly dividend rate from $.06 per share to $.09 per share. During the quarter ended February 29, 2000 the Company's Board of Directors declared a dividend which was paid February 15, 2000, for shareholders of record as of February 1, 2000. The Company has increased its quarterly cash dividend rate per share by 50% in each of the last eight fiscal years. The Company has distributed three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares each May in the past five fiscal years.

Proceeds from exercise of stock options: The increase in proceeds from the exercise of stock options is primarily due to higher comparable exercise prices per share, plus an increase in the number of shares exercised. The Company has recognized a tax benefit from the exercise of stock options of $14.2 million and $12.5 million for the nine months ended February 29, 2000 and February 28, 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.

OTHER

Year 2000 disclosure: The Company completed its year 2000 compliance program as scheduled. The Company has not experienced any significant problems or business disruptions resulting from year 2000 issues with either its internal systems or its interfaces with external agencies and partners. The Company is not aware that any of its external agencies and partners which include hardware and software vendors, government agencies, financial institutions, service providers, or other third parties, have experienced any significant year 2000 related problems.

There could be an adverse effect on the Company for year 2000 failures that have not yet been discovered with either its internal systems or with third-party systems. However, since the Company has not experienced any significant year 2000 problems through this point in time, the Company believes this risk is minimal. Contingency plans remain in place to provide guidelines and instructions for reacting to any year 2000 issues that may be encountered.

The Company estimates that it spent approximately $5 million from 1997 through the beginning of calendar year 2000 for its year 2000 compliance efforts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

The information called for by this item is provided under the caption "Investments and ENS investments" at subheading "Interest rate risk:" under ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, within this Form 10-Q.

ITEM 4. OTHER INFORMATION

The text portion of the Company's press release dated March 16, 2000, regarding its financial results for the three months and nine months ended February 29, 2000, is attached. The related Consolidated Financial Statements are contained in PART I. FINANCIAL INFORMATION of this Form 10-Q.

FOR IMMEDIATE RELEASE

John M. Morphy, Chief Financial Officer
Or
Jan Shuler 716-383-3406
Access Paychex, Inc. Third Quarter SEC Form 10-Q,
News Releases and related SEC filings at
http://www.paychex.com/paychex/finance/finance.html

PAYCHEX, INC. REPORTS RECORD THIRD QUARTER RESULTS

ROCHESTER, NY, March 16, 2000 -- Paychex, Inc. (NASDAQ: PAYX) today announced record net income of $49.6 million or $.20 diluted earnings per share for the third quarter ended February 29, 2000, a 37% increase over net income of $36.2 million or $.15 diluted earnings per share for the same period last year. Total service revenues were $192.2 million, an increase of 21% over $158.4 million for the third quarter last year.

For the nine months ended February 29, 2000, net income increased 37% to $138.4 million or $.55 diluted earnings per share as compared to net income of $101.2 million or $.41 diluted earnings per share for the same period last year. Total service revenues were $530.9 million, an increase of 20% over $440.7 million for the same period last year.

PAYROLL SEGMENT

For the third quarter ended February 29, 2000, operating income for the Payroll segment increased 27% to $77.3 million from $61.0 million for the same period last year. Payroll service revenue was $171.8 million, an increase of 19% over $144.3 million for the third quarter last year.

For the nine months ended February 29, 2000, operating income from Payroll services increased 29% to $221.2 million from $171.6 million for the same period last year. Payroll service revenue was $477.6 million, an increase of 18% over $403.3 million for the same period last year.

The increases in service revenue and operating income were primarily the result of continued growth in the Payroll client base, utilization of ancillary services and leveraging of operating expenses. Paychex currently services 345,900 Payroll clients, a 9.2% increase over last year. The Major Market Services client base increased by 39%. As of the end of the third quarter, 276,800 clients were using the Taxpay (registered trademark) product, the Company's tax filing and payment feature, and 157,100 clients were taking advantage of the Company's Flexible Pay Package, which includes Direct Deposit, Readychex and Access Card products.

HRS-PEO SEGMENT

For the third quarter ended February 29, 2000, operating income for the HRS-PEO segment increased 124% from $3.2 million to $7.2 million. HRS-PEO service revenue was $20.4 million, an increase of 44% over $14.2 million for the third quarter last year.

For the nine months ended February 29, 2000, operating income for the HRS-PEO segment increased 117% from $8.4 million to $18.3 million. HRS-PEO service revenue was $53.3 million, an increase of 43% over $37.4 million for the same period last year.

The increases in service revenue and operating income are primarily related to increasing 401(k) recordkeeping, Section 125 and Workers' compensation insurance clients. As of February 29, 2000, 8,800 clients have taken advantage of the Workers' compensation insurance product, since its national rollout in the first quarter of fiscal 1999. As of February 29, 2000, the segment serviced 13,400 401(k) recordkeeping clients, and 23,100 Section 125 administration plans, representing 47% and 20% year-over-year increases in these client bases, respectively.

CORPORATE EXPENSES

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company. For the third quarter ended February 29, 2000, Corporate expenses increased 6% from $15.7 million to $16.6 million. For the nine months ended February 29, 2000, Corporate expenses increased 12% from $44.8 million to $50.4 million. The increases are primarily due to additional employees and other expenditures to support the continued growth of the Company.

B. Thomas Golisano, Chairman, President and Chief Executive Officer of Paychex said, "We are pleased with our financial results for the first nine months of fiscal 2000. We continue to see opportunities in our payroll segment including our program to expand the Major Market Services payroll product and our efforts to increase utilization of ancillary services such as the Flexible Pay Package. The 401(k) and Workers' compensation products continue to drive strong increases in service revenues and operating income in our HRS-PEO segment. We look forward to pursuing these and other growth opportunities in the future."

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit 27 - "Financial Data Schedule" is filed electronically.

Exhibit 99 - "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

(b) Reports on Form 8-K:

The Company filed a report on Form 8-K dated January 26, 2000 that included the Company's press release on January 26, 2000 announcing the election of Joseph M. Tucci to the Company's Board of Directors.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAYCHEX, INC.

Date: March 16, 2000

/s/ B. Thomas Golisano

B. Thomas Golisano
Chairman, President and
Chief Executive Officer

Date: March 16, 2000

/s/ John M. Morphy

John M. Morphy
Vice President, Chief
Financial Officer and
Secretary

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FEBRUARY 29, 2000 CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC., AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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EXHIBIT 99: "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

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

Certain written and oral statements made by Paychex, Inc. (the "Company") management may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by such words and phrases as "are expected to", "we look forward to", "expects", "expected to", "we believe" and "could be." Because they are forward-looking, they should be evaluated in light of important risk factors. These risk factors include general market conditions, including demand for the Company's products and services, 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 and the credit rating of cash, cash equivalents, and securities held in the Company's investment portfolios. The information provided in this document is based upon the facts and circumstances known at this time. The Company is under no obligation to update forward-looking statments in this document for new information subsequent to its issuance.