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 28, 2001

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	373,323,010 Shares
CLASS	OUTSTANDING AT FEBRUARY 28, 2001

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>

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

<CAPTION>

	For the three months ended February 28, 2001	For the three months ended February 29, 2000	For the nine months ended February 28, 2001	For the nine months ended February 29, 2000
<S>	<C>	<C>	<C>	<C>
Service revenues:				
Payroll	$177,842	$155,466	$509,496	$437,044
ENS investment revenue	25,905	16,355	60,671	40,595
Total payroll service revenues	203,747	171,821	570,167	477,639
HRS-PEO	25,509	20,362	71,070	53,294
Total service revenues	229,256	192,183	641,237	530,933
Operating costs	54,376	45,964	147,398	126,686
Selling, general and administrative expenses	87,998	78,316	244,706	215,152
Operating income	86,882	67,903	249,133	189,095
Investment income	7,234	4,012	18,733	11,554

Income before income taxes	94,116	71,915	267,866	200,649
Income taxes	27,764	22,294	80,758	62,201
Net income	$ 66,352	$ 49,621	$187,108	$138,448
Basic earnings per share	$ .18	$ .13	$ .50	$ .37
Diluted earnings per share	$ .18	$ .13	$ .50	$ .37
Weighted-average common shares outstanding	373,057	370,973	372,560	370,284
Weighted-average shares assuming dilution	377,681	377,723	377,558	375,309
Cash dividends per common share	$ .09	$ .06	$ .24	$ .16

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

<CAPTION>

<S>	February 28, 2001 (UNAUDITED) <C>	May 31, 2000 (AUDITED) <C>
ASSETS		
Cash and cash equivalents	$ 106,796	$ 47,136
Corporate investments	506,273	412,357
Interest receivable	20,173	22,436
Accounts receivable	89,898	87,608
Deferred income taxes	--	9,539
Prepaid expenses and other current assets	8,185	6,531
Current assets before ENS investments	731,325	585,607
ENS investments	1,833,417	1,776,968
Total current assets	2,564,742	2,362,575
Property and equipment - net	86,291	75,375
Goodwill and intangible assets - net	8,843	5,584
Deferred income taxes	2,294	2,494
Other assets	8,961	9,549
Total assets	$2,671,131	$2,455,577
LIABILITIES		
Accounts payable	$ 14,116	$ 17,086
Accrued compensation and related items	59,246	52,631
Deferred revenue	6,093	4,719
Accrued income taxes	21,963	2,969
Deferred income taxes	1,190	--
Other current liabilities	22,305	24,400
Current liabilities before ENS client deposits	124,913	101,805
ENS client deposits	1,823,693	1,785,140
Total current liabilities	1,948,606	1,886,945
Long-term liabilities	5,134	5,200
Total liabilities	1,953,740	1,892,145
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 600,000 authorized shares Issued: 373,323/February 28, 2001 and 371,769/May 31, 2000	3,733	3,718
Additional paid-in capital	133,434	98,904
Retained earnings	566,993	469,385
Accumulated other comprehensive income/(loss)	13,231	(8,575)
Total stockholders' equity	717,391	563,432
Total liabilities and stockholders' equity	$2,671,131	$2,455,577

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

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

<CAPTION>

	For the nine months ended February 28, 2001	February 29, 2000
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	$ 187,108	$ 138,448
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization on depreciable and intangible assets	19,344	17,639
Amortization of premiums and discounts on available-for-sale securities	9,183	9,274
Provision for deferred income taxes	(1,413)	(3,634)
Provision for bad debts	968	1,359
Net realized (gains)/losses on sales of available-for-sale securities	(3,531)	2,292
Changes in operating assets and liabilities:		
Interest receivable	2,263	114
Accounts receivable	(3,258)	(15,755)
Prepaid expenses and other current assets	(1,654)	962
Accounts payable and other current liabilities	47,070	39,598
Net change in other assets and liabilities	159	2,588
Net cash provided by operating activities	256,239	192,885
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(543,624)	(623,829)
Proceeds from sales of available-for-sale securities	398,188	443,225
Proceeds from maturities of available-for-sale securities	17,230	15,770
Net change in ENS money market securities and other cash equivalents	6,754	(413,702)
Net change in ENS client deposits	38,553	478,994
Purchases of property and equipment	(28,971)	(25,685)
Proceeds from sale of property and equipment	41	1,263
Purchases of other assets	(6,773)	(6,416)
Net cash used in investing activities	(118,602)	(130,380)
FINANCING ACTIVITIES		
Dividends paid	(89,457)	(59,281)
Proceeds from exercise of stock options	11,480	8,923
Net cash used in financing activities	(77,977)	(50,358)
Increase in Cash and cash equivalents	59,660	12,147
Cash and cash equivalents, beginning of period	47,136	52,692
Cash and cash equivalents, end of period	$ 106,796	$ 64,839

</TABLE>

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
February 28, 2001

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 and nine months ended February 28, 2001 are not necessarily indicative of the results that may be expected for the full year ended May 31, 2001.

Service revenues are recognized in the period services are rendered. Total payroll service revenues include service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay(Registered Trademark), Employee Pay Services and other ancillary services. Employee Pay Services includes the Direct Deposit, Readychex and Access Card products. In addition to fees paid by clients for these services, the Company earns investment revenue on Taxpay and Employee Pay Services funds that are collected by the Company's Electronic Network Services division (ENS) before due dates and invested (ENS investments) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. These collections from clients are typically remitted between one and thirty days after receipt, with some items extending to ninety days. Investment revenue from these ENS investments is included in total payroll service 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. ENS investment revenue also includes net realized gains and losses from the sale of available-for-sale securities.

PEO revenues are reported net of direct costs billed and incurred, which include wages, taxes, benefit premiums and claims of worksite employees. Direct costs billed and incurred (in thousands) were $238,027 and $193,047 for the three months ended February 28, 2001 and February 29, 2000, respectively, and $639,973 and $515,090 for the nine months ended February 28, 2001, and February 29, 2000 respectively.

There is no significant seasonality to the Company's business. However, during the third fiscal quarter, the number of new payroll segment 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.

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, 2000. Certain amounts from the prior year have been reclassified to conform to the current year presentation.

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 small- to medium-sized businesses with cost-effective outsourcing solutions for their employee benefits. HRS-PEO products include 401(k) plan recordkeeping, workers' compensation insurance administration, section 125 plan administration, group benefits, state unemployment insurance, employee handbooks and management services, and Paychex Administrative Services (PAS) and Professional Employer Organization (PEO) 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 28, 2001	For the three months ended February 29, 2000	For the nine months ended February 28, 2001	For the nine months ended February 29, 2000
Service revenues:				
Payroll	$177,842	$155,466	$509,496	$437,044
ENS investment revenue	25,905	16,355	60,671	40,595
Total payroll service revenues	203,747	171,821	570,167	477,639
HRS-PEO	25,509	20,362	71,070	53,294
Total service revenues	$229,256	$192,183	$641,237	$530,933
Operating income:				
Payroll	$ 94,259	$ 77,683	$272,121	$222,434
HRS-PEO	9,349	6,831	26,942	17,064
Segment operating income	103,608	84,514	299,063	239,498
Corporate expenses	16,726	16,611	49,930	50,403
Total operating income	86,882	67,903	249,133	189,095
Investment income	7,234	4,012	18,733	11,554
Income before income taxes	$ 94,116	$ 71,915	$267,866	$200,649

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 and nine months ended February 29, 2000, 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 12, 2000, and distributed on May 22, 2000.

(In thousands, except per share amounts)	For the three months ended February 28, 2001	For the three months ended February 29, 2000	For the nine months ended February 28, 2001	For the nine months ended February 29, 2000
Basic earnings per share:				
Net Income	$ 66,352	$ 49,621	$187,108	$138,448
Weighted-average common shares outstanding	373,057	370,973	372,560	370,284
Basic earnings per share	$ .18	$ .13	$ .50	$ .37
Diluted earnings per share:				
Net income	$ 66,352	$ 49,621	$187,108	$138,448
Weighted-average common shares outstanding	373,057	370,973	372,560	370,284
Net effect of dilutive stock options at average market price	4,624	6,750	4,998	5,025
Weighted-average shares assuming dilution	377,681	377,723	377,558	375,309
Diluted earnings per share	$ .18	$ .13	$ .50	$ .37
Weighted-average anti-dilutive stock options	261	-	221	572

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; therefore, the effect would have been anti-dilutive.

For the three and nine months ended February 28, 2001, stock options were exercised for 413,000 and 1,554,000 shares of the Company's common stock, respectively.

D) Corporate investments and ENS investments:

(In thousands)	February 28, 2001 (UNAUDITED)		May 31, 2000 (AUDITED)	
	COST	FAIR VALUE	COST	FAIR VALUE
Type of issue:				
Money market securities and other cash equivalents	$1,195,910	$1,195,910	$1,202,664	$1,202,664
Available-for-sale securities:				
General obligation municipal bonds	477,957	486,541	405,214	399,190
Pre-refunded municipal bonds	286,074	291,946	301,271	298,706
Revenue municipal bonds	356,165	362,381	291,157	286,294
Other securities	20	73	20	92
Total available-for-sale securities	1,120,216	1,140,941	997,662	984,282
Other	2,980	2,839	1,802	2,379
Total Corporate investments and ENS investments	$2,319,106	$2,339,690	$2,202,128	$2,189,325
Classification of investments on Consolidated Balance Sheets:				
Corporate investments	$ 495,413	$ 506,273	$ 416,988	$ 412,357
ENS investments	1,823,693	1,833,417	1,785,140	1,776,968
Total Corporate investments				

and ENS investments	$2,319,106	$2,339,690	$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 from rate volatility causing fluctuations in the market value of held investments and the earnings potential of future investments. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities and A-1 rated short-term securities, limiting amounts that can be invested in any single instrument, and investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes. At February 28, 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.

E) Property and equipment - net:
<TABLE>
<CAPTION>

(In thousands)	February 28, 2001 (UNAUDITED)	May 31, 2000 (AUDITED)
<S>	<C>	<C>
Land and improvements	$ 2,919	$ 2,919
Buildings and improvements	31,091	30,195
Data processing equipment and software	100,337	84,490
Furniture, fixtures and equipment	72,178	64,729
Leasehold improvements	11,606	10,536
	-------	-------
	218,131	192,869
Less accumulated depreciation and amortization	131,840	117,494
	-------	-------
Property and equipment - net	$ 86,291	$ 75,375
	=======	=======

</TABLE>

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:

<TABLE>
<CAPTION>

(In thousands)	For the three months ended February 28, 2001	February 29, 2000	For the nine months ended Feburary 28, 2001	February 29, 2000
<S>	<C>	<C>	<C>	<C>
Net income	$66,352	$49,621	$187,108	$138,448
Unrealized gains/ (losses) on securities, net of reclassification adjustments	11,039	(3,737)	21,806	(9,806)
	------	------	-------	-------
Total comprehensive income	$77,391	$45,884	$208,914	$128,642
	======	======	=======	=======

</TABLE>

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 28, 2001 (fiscal 2001) and February 29, 2000 (fiscal 2000), and its financial condition at February 28, 2001 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 28, 2001 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 included in the "Other" section of this review under the sub-heading "Safe-Harbor Statement under the Private Securities Litigation Reform Act of 1995."

RESULTS OF OPERATIONS

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

For the three months ended	February 28, 2001	Change	Feburary 29, 2000
<S>	<C>	<C>	<C>
Service revenues	$229,256	19.3%	$192,183
Operating income	$ 86,882	28.0%	$ 67,903
Operating margin	37.9%		35.3%
Income before income taxes	$ 94,116	30.9%	$ 71,915
Net income	$ 66,352	33.7%	$ 49,621
% of service revenues	28.9%		25.8%
Basic earnings per share	$ .18	38.5%	$ .13
Diluted earnings per share	$ .18	38.5%	$ .13

</TABLE>
<TABLE>
<CAPTION>

For the nine months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Service revenues	$641,237	20.8%	$530,933
Operating income	$249,133	31.8%	$189,095
Operating margin	38.9%		35.6%
Income before income taxes	$267,866	33.5%	$200,649
Net income	$187,108	35.1%	$138,448
% of service revenues	29.2%		26.1%
Basic earnings per share	$ .50	35.1%	$ .37
Diluted earnings per share	$ .50	35.1%	$ .37

</TABLE>

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 28, 2001.

The year-over-year growth in total service revenues is expected to be approximately 20% for the full year fiscal 2001.

In fiscal 2001, operating expenses increased 18% and 16% for the respective third quarter and nine months over the prior year periods. For the full year, the growth in operating costs is expected to be consistent with the first nine months. Selling, general and administrative expenses (SG&A) for the third quarter and nine months increased 12% and 14%, respectively, over the prior year. Combined, operating costs and SG&A increased 15% on a year-over-year basis for both the third quarter and year-to-date periods.

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

Looking forward, in comparing the fourth quarter fiscal 2001 to the fourth quarter fiscal 2000, the fourth quarter of last year reflected higher than normal total payroll revenue growth (24%) and higher than normal growth in consolidated combined operating and selling, general and administrative expenses (22%).

Payroll segment

<TABLE>
<CAPTION>
(In thousands)

For the three months ended	February 28, 2001	Change	Feburary 29, 2000
<S>	<C>	<C>	<C>
Payroll service revenue	$177,842	14.4%	$155,466
ENS investment revenue	25,905	58.4%	16,355
Total payroll service revenues	$203,747	18.6%	$171,821
Payroll operating income	$ 94,259	21.3%	$ 77,683
Payroll operating margin	46.3%		45.2%

</TABLE>

<TABLE>
<CAPTION>

For the nine months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Payroll service revenue	$509,496	16.6%	$437,044
ENS investment revenue	60,671	49.5%	40,595

Total payroll service revenues	$570,167	19.4%	$477,639
Payroll operating income	$272,121	22.3%	$222,434
Payroll operating margin	47.7%		46.6%

Revenues: Total payroll service revenues include service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay, Employee Pay Services and other ancillary services. The Employee Pay Services includes the Direct Deposit, Readychex and Access Card products. In addition to fees paid by clients for these services, the Company earns investment revenue on Taxpay and Employee Pay Services funds that are collected by the Company's Electronic Network Services Division (ENS) before due dates and invested (ENS investments) until remittance to the applicable tax authorities for Taxpay clients and employees of Employee Pay Services clients. Investment revenue from these ENS investments is included in total payroll service 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. ENS investment revenue 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. As of February 28, 2001 83% of Paychex clients utilized Taxpay, the Company's tax filing and payment feature. Client utilization of the Taxpay product is expected to mature within a range of 83% to 87%. The Company's Employee Pay Services was utilized by 52% of its clients at February 28, 2001. During the first nine months of fiscal 2001, the Company continued expansion of its Major Market Services (MMS) payroll product offering. MMS revenue increased 64.8% and 58.7% for the third quarter and nine-month periods to $13.7 million and $34.0 million, respectively. Employee Pay Services and MMS are expected to provide growth opportunities for the remainder of fiscal 2001 and beyond. In fiscal 2001, the Company also introduced new payroll product enhancements including employee garnishments and After-The-Fact payroll.

The increases in ENS investment revenue are due to growth in the utilization of Taxpay and Employee Pay Services by new and existing clients, higher comparative rates of return and net realized gains on the sale of available-for-sale securities. ENS investment revenue included net realized gains on available for sale securities of $3.4 million and $3.1 million in the third quarter and nine months of fiscal 2001 compared with net realized losses of $.8 million and $1.6 million in the respective prior year periods. Additional discussion on interest rates and related risk is included in the "Market Risk Factors" section of this review.

Payroll service revenue comparisons for the third quarter and fourth quarter of fiscal 2001 are impacted by the fact that there is one less billing day in the third quarter and two less billing days in the fourth quarter when compared to the prior year quarters. Subject to the impact of further changes in interest rates, the Company expects that full year fiscal 2001's percentage growth in total payroll service revenues to be in the range of 18% to 19%.

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.

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 $1.5 million in the first quarter of fiscal 2001 compared to the prior year period.

HRS-PEO segment

(In thousands)

For the three months ended	February 28, 2001	Change	February 29, 2000
HRS-PEO service revenue	$25,509	25.3%	$20,362
HRS-PEO operating income	$ 9,349	36.9%	$ 6,831
HRS-PEO operating margin	36.6%		33.5%

For the nine months ended	February 28, 2001	Change	February 29, 2000
HRS-PEO service revenue	$71,070	33.4%	$53,294

HRS-PEO operating income	$26,942	57.9%	$17,064
HRS-PEO operating margin	37.9%		32.0%

Revenues: The increases in service revenue are primarily related to increasing 401(k) recordkeeping, workers' compensation insurance and Section 125 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. 401(k) recordkeeping revenues increased 34.1% and 40.5% in the third quarter and nine-month periods to $11.4 million and $31.5 million, respectively.

The Company continued to expand its workers' compensation insurance product, which provides insurance for qualified clients through leading insurance providers and a method to stabilize their cash flows throughout the year. The Company also continued expansion efforts related to its Paychex Administrative Services (PAS) product, a combined payroll and human resource outsourcing solution designed to make it easier for small businesses to manage their payroll and benefit costs.

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

Full year fiscal 2001's HRS-PEO service revenue is expected to be slightly under $100 million. Segment operating income for the full year fiscal 2001 is expected to be slightly higher than the growth rate through the first nine months. 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 or future results.

Corporate expenses

(In thousands)

For the three months ended	February 28, 2001	Change	February 29, 2000
Corporate expenses	$16,726	.7%	$16,611

For the nine months ended	February 28, 2001	Change	February 29, 2000
Corporate expenses	$49,930	-.9%	$50,403

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company. Corporate expenses remained relatively flat through the nine months of fiscal 2001 with additional expenditures to support the continued growth of the Company being offset by lower spending on national marketing efforts and other areas. Looking forward, the Company expects the growth in corporate expenses to be flat in the fourth quarter and up less than 10% in fiscal 2002.

Investment income

(In thousands)

For the three months ended	February 28, 2001	Change	February 29, 2000
Investment income	$ 7,234	80.3%	$ 4,012

For the nine months ended	February 28, 2001	Change	February 29, 2000
Investment income	$18,733	62.1%	$11,554

Investment income represents earnings from the Company's cash and cash equivalents and corporate 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 increase in average daily invested balances, higher comparable rates of return and net realized gains on the sale of available-for-sale securities. Net realized gains included in investment income were $.6 million and $.4 million for the third quarter and nine-month periods of fiscal 2001 compared with net realized losses of $.4 million and $.7 million in the respective prior year periods. Refer to the "Market Risk Factors" section of this review for further discussion of interest rates and the related risks.

Income taxes

<TABLE>
<CAPTION>

(In thousands) For the three months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Income taxes	$27,764	24.5%	$22,294
Effective income tax rate	29.5%		31.0%

</TABLE>

<TABLE>
<CAPTION>

For the nine months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Income taxes	$80,758	29.8%	$62,201
Effective income tax rate	30.1%		31.0%

</TABLE>

The slight decrease in the effective income tax rate 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. The effective income tax rate is expected to be 29.5% and 30.0% for the fourth quarter and full year periods of fiscal 2001. The effective rate for fiscal 2002 is expected to be in the range of 30.0% to 31.0%.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

<TABLE>
<CAPTION>

(In thousands) For the nine months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Operating cash flows	$256,239	32.8%	$192,885

</TABLE>

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 28, 2001 the Company had $613.1 million in available cash and corporate investments. The Company also has $140 million of available, uncommitted, unsecured lines of credit and $350 million available under an uncommitted, secured line of credit.

Investing activities

<TABLE>
<CAPTION>

(In thousands) For the nine months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Net Corporate investments and ENS activities	$ (82,899)	-16.7%	$ (99,542)
Purchases of P&E	(28,971)	12.8%	(25,685)
Proceeds from the sale of property and equipment	41	-96.8%	1,263
Purchases of other assets	(6,773)	5.6%	(6,416)
Net cash used in investing activities	$(118,602)	-9.0%	$(130,380)

</TABLE>

Corporate investments and ENS investments: Corporate investments are primarily comprised of available-for-sale debt securities, and ENS investments are primarily comprised of short-term funds and available-for-sale debt securities.

The portfolio of corporate investments and ENS investments is detailed in Note D of the Notes to the Consolidated Financial Statements.

Corporate investments have increased due to the investment of increasing cash balances provided by operating activities less purchases of property and equipment and dividend payments. The reported amount of ENS investments will vary significantly based upon the timing of collecting client funds, and remitting the funds to the applicable tax authorities for Taxpay clients and employees of clients utilizing Employee Pay Services. At February 28, 2001 the total available-for-sale portfolio, including corporate investments and ENS investments, had a market value exceeding the cost basis by $20.7 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 continued client and ancillary product growth, purchases of property and equipment were made for data processing equipment and software, and for the expansion and upgrade of various operating facilities. Purchases of property and equipment in fiscal 2001 are expected to approximate $35 million compared with expected full year depreciation in the range of $25 million to $26 million. The Company is proceeding with the construction of a new building to be utilized by ENS and Information Technology personnel. This building is currently estimated to cost approximately $40 million, but will allow for a significant reduction in leased space in the Rochester, New York area. Occupancy is expected in the fall of 2002.

Financing activities

<TABLE>
<CAPTION>

(In thousands, except per share amounts) For the nine months ended	February 28, 2001	Change	February 29, 2000
<S>	<C>	<C>	<C>
Dividends paid	$ (89,457)	50.9%	$(59,281)
Proceeds from exercise of stock options	11,480	28.7%	8,923
Net cash used in financing activities	$ (77,977)	54.8%	$(50,358)
Cash dividends per common share	$ .24	50.0%	$ .16

</TABLE>

Dividends paid: On October 10, 2000, the Company's Board of Directors increased the quarterly cash dividend rate by 50% from $.06 per share to $.09 per share. During the quarter ended February 28, 2001 the Company's Board of Directors declared a dividend which was paid February 15, 2001 to shareholders of record as of February 1, 2001.

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 $23.1 million and $14.2 million for the nine months ended February 28, 2001 and February 29, 2000 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.

MARKET RISK FACTORS

Interest rate risk - 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. As of February 28, 2001 unrealized gains on the available-for-sale portfolio were $20.7 million.

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 recent changes in the Federal funds rate:

<TABLE>
<CAPTION>

<S>	Nine Months Ended February 28, 2001 <C>	Fiscal Year Ended May 31, 2000 <C>	Fiscal Year Ended May 31, 1999 <C>
Federal funds rate - beginning of period	6.50%	4.75%	5.50%
Rate increase/(decrease):			
First quarter	--	.50	--
Second quarter	--	.25	(.75)
Third quarter	(1.00)	.25	--
Fourth quarter	N/A	.75	--
Federal funds rate - end of period	5.50%	6.50%	4.75%

</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 proportional 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 the aforementioned factors, a 25 basis point change normally 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 is expected to average approximately $2.2 billion (compared with an average of $1.8 billion for fiscal 2000), of which approximately 50% is invested in intermediate-term municipal securities with an average duration of three years. The duration of short-term investments is generally less than thirty days.

At February 28, 2001, the available-for-sale securities portfolio had a market value greater than its cost basis by $20.7 million, compared with the portfolio at May 31, 2000, which had a market value less than its cost basis by $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 is driving the improvement in the market value of the available-for-sale portfolio.

As of February 28, 2001 and May 31, 2000, the Company had $1.1 billion and $1.0 billion invested in available-for-sale securities at fair value, with weighted average yields to maturity of 4.6% and 4.5%, repectively. Assuming a hypothetical decrease in interest rates of 25 basis points given the February 28, 2001 portfolio of securities, the resulting potential increase in fair value would be in the range of $6 million to $7 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, and 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 February 28, 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

"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", "expects", "expected to", "we look forward to", "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 the 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, all of which may 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

The information called for by this item is provided under the caption "Market Risk Factors" under ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

PART II. OTHER INFORMATION

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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

(b) Reports on Form 8-K:

(1) The Company filed a report on Form 8-K on December 20, 2000 that included the Company's press release dated December 20, 2000 reporting the Company's results of operations for the second quarter and six-month periods ended November 30, 2000.

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 19, 2001

/s/ B. Thomas Golisano

B. Thomas Golisano
Chairman, President and
Chief Executive Officer

Date: March 19, 2001

/s/ John M. Morphy

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

<TABLE> <S> <C>

<ARTICLE>	5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FEBRUARY 28, 2001 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.

</LEGEND>

<CIK>	0000723531
<NAME>	PAYCHEX, INC.
<MULTIPLIER>	1,000

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	MAY-31-2001
<PERIOD-START>	JUN-01-2000
<PERIOD-END>	FEB-28-2001
<CASH>	106,796
<SECURITIES>	2,339,690
<RECEIVABLES>	89,898
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	2,564,742
<PP&E>	218,131
<DEPRECIATION>	131,840
<TOTAL-ASSETS>	2,671,131
<CURRENT-LIABILITIES>	1,948,606
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	3,733
<OTHER-SE>	713,658
<TOTAL-LIABILITY-AND-EQUITY>	2,671,131
<SALES>	0
<TOTAL-REVENUES>	641,237
<CGS>	0
<TOTAL-COSTS>	147,398
<OTHER-EXPENSES>	244,706
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	267,866
<INCOME-TAX>	80,758
<INCOME-CONTINUING>	187,108
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	187,108
<EPS-BASIC>	.50
<EPS-DILUTED>	.50

</TABLE>