

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended November 30, 1997  
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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  
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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)

(Registrant's telephone number, including area code) (716)385-6666  
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(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  . NO  .  
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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	108,701,311 Shares
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CLASS	OUTSTANDING AT DECEMBER 31, 1997
	PAYCHEX, INC.

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## PART I. FINANCIAL INFORMATION

PAYCHEX, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands except share amounts)

	November 30, 1997 (UNAUDITED)	May 31, 1997 (AUDITED)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,062	\$ 50,213
Investments	152,538	132,780
Interest receivable	11,943	10,462
Accounts receivable	56,806	45,527
Deferred income taxes	--	2,560
Prepaid expenses and other current assets	3,738	2,486
	-----	-----
Current assets before ENS investments	277,087	244,028
Electronic Network Services investments (1)	968,858	896,633
	-----	-----
Total current assets	1,245,945	1,140,661
Property and equipment - net	59,352	54,178
Deferred income taxes	673	72
Other assets	6,102	6,412
	-----	-----
Total assets	\$1,312,072	\$1,201,323
	=====	=====
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,686	\$ 5,649
Accrued compensation and related items	25,777	26,969
Deferred revenue	3,042	4,335
Reserve for workers' compensation	2,349	1,813
Accrued income taxes	4,911	1,774
Deferred income taxes	1,042	--
Other current liabilities	11,540	9,427
	-----	-----
Current liabilities before ENS client deposits	52,347	49,967
Electronic Network Services client deposits (1)	965,594	896,080
	-----	-----
Total current liabilities	1,017,941	946,047
Other liabilities:		
Reserve for workers' compensation	1,650	928
Other long-term liabilities	3,819	2,806
	-----	-----
Total liabilities	1,023,410	949,781
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, authorized 150,000,000 shares; Issued: 108,693,676 and 108,518,831, respectively	1,087	1,085
Additional paid-in capital	40,898	37,531
Retained earnings	246,677	212,926
	-----	-----
Total stockholders' equity	288,662	251,542
	-----	-----
Total liabilities and stockholders' equity	\$1,312,072	\$1,201,323
	=====	=====

See notes to consolidated financial statements.

(1) Electronic Network Services (ENS) investments and related client deposits result from the collection of funds for Taxpay and Direct Deposit products.

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

	For the three months ended November 30,		For the six months ended November 30,	
	1997	1996	1997	1996
<b>Service revenues:</b>				
Payroll	\$108,528	\$ 87,704	\$213,393	\$172,011
HRS-PEO	8,645	7,562	16,727	14,528
	-----	-----	-----	-----

Total service revenues	117,173	95,266	230,120	186,539
PEO direct costs billed (1)	118,048	74,233	223,684	149,002
	-----	-----	-----	-----
Total revenue	235,221	169,499	453,804	335,541
PEO direct costs (1)	118,048	74,233	223,684	149,002
Operating costs	31,891	28,059	62,197	54,623
Selling, general and administrative expenses	52,710	43,858	104,994	86,470
	-----	-----	-----	-----
Operating income	32,572	23,349	62,929	45,446
Investment income	2,291	1,745	4,479	3,230
	-----	-----	-----	-----
Income before income taxes	34,863	25,094	67,408	48,676
Income taxes	10,145	7,026	19,616	13,535
	-----	-----	-----	-----
Net income	\$ 24,718	\$ 18,068	\$ 47,792	\$ 35,141
	=====	=====	=====	=====
Earnings per share	\$ .23	\$ .17	\$ .44	\$ .33
	=====	=====	=====	=====
Cash dividends per share	\$ .09	\$ .06	\$ .15	\$ .10
	=====	=====	=====	=====
Weighted-average shares outstanding	108,639	107,742	108,601	107,625
	=====	=====	=====	=====

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See notes to consolidated financial statements.

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

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

For the six months ended November 30,	1997	1996 (Restated)
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 47,792	\$ 35,141
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization on depreciable and intangible assets	8,763	7,434
Amortization of premiums and discounts on securities	3,834	1,966
Net change in provision for deferred income taxes	1,719	174
Provision for bad debts	982	750
Net realized gains on sales of available-for-sale securities	(165)	(103)
Changes in operating assets and liabilities:		
Accounts receivable	(12,261)	(4,746)
Interest receivable	(1,481)	(1,686)
Prepaid expenses and other current assets	(1,252)	(1,128)
Accounts payable and other current liabilities	580	6,378
Net change in other assets and liabilities	1,789	280
	-----	-----
Net cash provided by operating activities	50,300	44,460
<b>INVESTING ACTIVITIES:</b>		
Investment purchases of available-for-sale securities	(178,892)	(192,229)
Proceeds from sales of available-for-sale securities	92,073	116,081
Proceeds from maturities of available-for-sale securities	300	1,500
Net change in Electronic Network Services money market funds and other cash equivalents	(5,571)	(62,659)
Net change in Electronic Network Services client deposits	69,514	114,380
Additions to property and equipment, net of disposals	(13,410)	(8,811)
Purchases of other assets	(272)	(2,756)
	-----	-----
Net cash used in investing activities	(36,258)	(34,494)
<b>FINANCING ACTIVITIES:</b>		
Proceeds and tax benefit from exercise of stock options	3,369	401
Dividends paid	(16,295)	(11,101)
Payment in lieu of issuance of fractional shares	(26)	-

Other	759	294
	-----	-----
Net cash used in financing activities	(12,193)	(10,406)
	-----	-----
Increase (decrease) in cash and cash equivalents	1,849	(440)
Cash and cash equivalents, beginning of period	50,213	19,999
	-----	-----
Cash and cash equivalents, end of period	\$ 52,062	\$ 19,559
	=====	=====

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See notes to consolidated financial statements.

PAYCHEX, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
NOVEMBER 30, 1997

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 periods. Operating results for the three months and six months ended November 30, 1997, are not necessarily indicative of the results that may be expected for the year ended May 31, 1998. There is no significant seasonality to the Company's business, except that over 30% of new Payroll segment clients added in each of the last three fiscal years have been added during the third fiscal quarter. Consequently, greater sales commissions are earned in that quarter, resulting in higher selling expenses for the third quarter. The accompanying financial statements should be read in conjunction with the financial statements and footnotes presented in the Company's Form 10-K and Annual Report for the year ended May 31, 1997.

B) In May 1997, the Company restated previously reported consolidated financial statements to reflect the Electronic Network Services funds and related client deposit liabilities as current assets and current liabilities on the consolidated balance sheets. This restatement had no effect on previously reported net income or earnings per share, but required the restatement of the consolidated statement of cash flows for the six months ended November 30, 1996, contained herein.

C) Earnings per share, cash dividends per share, weighted-average shares outstanding and all other applicable information for the three months and six months ended November 30, 1996, have been adjusted to reflect a three-for-two stock split effected in the form of 50% stock dividends to holders of record on May 8, 1997, and distributed on May 29, 1997.

D) Net income per share of common stock is based upon the weighted-average number of shares of common stock outstanding during the period. Common stock equivalents have not been included as their impact is not materially dilutive. See Part II, Item 6, (a) Exhibit 11, "Statement re computation of per share earnings".

E) Recently issued accounting standards: In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company will adopt this SFAS in the quarter ending August 31, 1998 (the first quarter of fiscal year 1999), and will reclassify its financial statements for earlier periods provided for comparative purposes. The Company's management does not believe that the difference between reported net income and pro forma comprehensive income to be significant. In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of An Enterprise and Related Information," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Currently, management believes this SFAS will not have a significant effect on the Company's segment disclosures and related information.

F) Certain amounts from the prior year are reclassified to conform to fiscal 1998 presentations.

G) Property and equipment - net:

November 30,                      May 31,

(In thousands)	1997 (UNAUDITED)	1997 (AUDITED)
Land and improvements	\$ 2,798	\$ 2,789
Buildings and improvements	24,725	24,672
Data processing equipment and software	58,060	50,973
Furniture, fixtures and equipment	48,231	44,251
Leasehold improvements	5,359	3,582
	-----	-----
	139,173	126,267
Less accumulated depreciation and amortization	79,821	72,089
	-----	-----
	\$ 59,352	\$ 54,178
	=====	=====

H) Segment financial information: The Company operates in 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, all 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- and medium-sized businesses with cost-effective outsourcing solutions for their employee benefits. HRS-PEO products include 401(k) plan recordkeeping services, group benefits and workers' compensation insurance services, section 125 plans, employee handbooks and management services. As an outsourcing solution, HRS-PEO relieves the business owner of human resource administration, employment regulatory compliance, workers' compensation coverage, health care and other employee related responsibilities. Consistent with PEO industry practice, HRS-PEO revenue includes all amounts billed to clients for the services provided.

(In thousands and unaudited)

	For the three months ended November 30,		For the six months ended November 30,	
	1997	1996	1997	1996
				(Restated (2))
Total revenue:				
Payroll	\$108,528	\$ 87,704	\$213,393	\$172,011
HRS-PEO revenue:				
Service revenue	8,645	7,562	16,727	14,528
PEO direct costs billed (1)	118,048	74,233	223,684	149,002
	-----	-----	-----	-----
Total HRS-PEO revenue	126,693	81,795	240,411	163,530
	-----	-----	-----	-----
Total revenue	235,221	169,499	453,804	335,541
PEO direct costs (1)	118,048	74,233	223,684	149,002
	-----	-----	-----	-----
Total revenue less PEO direct costs	117,173	95,266	230,120	186,539
	=====	=====	=====	=====
Operating costs:				
Payroll	29,589	25,744	57,838	50,125
HRS-PEO	2,302	2,315	4,359	4,498
	-----	-----	-----	-----
Total operating costs	31,891	28,059	62,197	54,623
	=====	=====	=====	=====
Selling, general and administrative expenses:				
Payroll	46,238	38,701	92,676	76,628
HRS-PEO	5,600	3,460	10,640	6,649
	-----	-----	-----	-----
Total selling, general and administrative expenses	51,838	42,161	103,316	83,277
	=====	=====	=====	=====
Operating income:				
Payroll	32,701	23,259	62,879	45,258
HRS-PEO	743	1,787	1,728	3,381
	-----	-----	-----	-----
Total operating income	33,444	25,046	64,607	48,639
	-----	-----	-----	-----
General corporate expenses	872	1,697	1,678	3,193
Investment income	2,291	1,745	4,479	3,230
	-----	-----	-----	-----
Income before income taxes	\$ 34,863	\$ 25,094	\$ 67,408	\$ 48,676
	=====	=====	=====	=====

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

(2) All financial information has been restated to reflect the formation of the HRS-PEO business segment in the third quarter of fiscal 1997.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis reviews the Company's operating results for the three months and six months ended November 30, 1997 and 1996, and its financial condition at November 30, 1997. 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 November 30, 1997 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 at the end of this discussion.

RESULTS OF CONSOLIDATED OPERATIONS

(In thousands except per share amounts)

For the three months ended November 30,	1997	Change	1996
Service revenues	\$117,173	+23.0%	\$ 95,266
Total revenue	\$235,221	+38.8%	\$169,499
Operating income	\$ 32,572	+39.5%	\$ 23,349
Net income	\$ 24,718	+36.8%	\$ 18,068
Earnings per share	\$ .23	+35.3%	\$ .17

For the six months ended November 30,	1997	Change	1996
Service revenues	\$230,120	+23.4%	\$186,539
Total revenue	\$453,804	+35.2%	\$335,541
Operating income	\$ 62,929	+38.5%	\$ 45,446
Net income	\$ 47,792	+36.0%	\$ 35,141
Earnings per share	\$ .44	+33.3%	\$ .33

The Company's record levels of service revenues, total revenue and net income resulted from continued growth in its client base, increased utilization of ancillary services, and decreased operating and selling, general and administrative expenses as a percent of service revenues and total revenue.

PAYROLL SEGMENT

(In thousands)

For the three months ended November 30,	1997	Change	1996
Payroll service revenue	\$108,528	+23.7%	\$ 87,704
Payroll operating income	\$ 32,701	+40.6%	\$ 23,259

For the six months ended November 30,	1997	Change	1996
Payroll service revenue	\$213,393	+24.1%	\$172,011
Payroll operating income	\$ 62,879	+38.9%	\$ 45,258

Client statistics at November 30,	1997	Change	1996
Payroll clients	277.5	+12.6%	246.5
Taxpay clients	201.3	+28.6%	156.5
Direct Deposit clients	88.8	+43.0%	62.1
Check Signing clients	29.8	+22.1%	24.4

Revenues: Payroll, Taxpay, Direct Deposit and other payroll revenues include service fees and investment income. Investment income is earned during the period between collecting client funds and remitting the funds to the applicable tax authorities or client employees from Taxpay and Direct Deposit products. Client base gains continue to be the main reason for the increased Payroll segment revenues for the three months and six months ended November 30, 1997.

Operating income: Operating income for the three months and six months ended November 30, 1997, increased as a result of continued growth of the client base and utilization of ancillary services, plus continued leveraging of the segment's operating and selling, general and administrative expenses as percent of revenue. The segment's operating and selling, general and administrative expenses as a percent of revenue decreased to 69.9% and 70.5% for the three months and six months ended November 30, 1997, respectively, as compared to 73.5% and 73.7%, respectively, for same periods in the prior fiscal year.

Effective July 1, 1997, the Company complied with the Internal Revenue Service's Electronic Funds Transfer Payment Service by making client tax payments "good funds" one business day earlier. Therefore, revenue and income for the quarter was reduced by lower levels of tax-exempt municipal security investments. The Company offset these reductions by a modest price increase for its Taxpay services.

HRS-PEO SEGMENT

(In thousands)

For the three months ended November 30,	1997	Change	1996
HRS-PEO service revenue	\$ 8,645	+14.3%	\$ 7,562
PEO direct costs billed	118,048	+59.0%	74,233
Total HRS-PEO revenue	126,693	+54.9%	81,795
PEO direct costs	118,048	+59.0%	74,233
HRS-PEO operating income	\$ 743	-58.4%	\$ 1,787

For the six months ended November 30,	1997	Change	1996
HRS-PEO service revenue	\$ 16,727	+15.1%	\$ 14,528

PEO direct costs billed	223,684	+50.1%	149,002
	-----	-----	-----
Total HRS-PEO revenue	240,411	+47.0%	163,530
PEO direct costs	223,684	+50.1%	149,002

HRS-PEO operating income \$ 1,728 -48.9% \$ 3,381

Client statistics at November 30,	1997	Change	1996
	-----	-----	-----
401(k) clients	4.5	+114.3%	2.1
PEO worksite employees	16.5	+ 63.4%	10.1

Revenues: For the three months ended November 30, 1997, the increase in HRS-PEO service revenue was a result of increases in the number of 401(k) clients, section 125 cafeteria plan clients and PEO worksite employees. For the six months ended November 30, 1997, the increase in HRS-PEO service revenue was a result of increases in the number of 401(k) clients, section 125 cafeteria plan clients and PEO worksite employees, offset by a decrease of \$1.2 million in Handbook revenues. The Handbook revenue decrease was primarily due to the reallocation of resources from Handbook products to generate recurring revenues from 401(k) recordkeeping services and section 125 cafeteria plans. Fiscal 1998 revenues are expected to grow as the Company continues to increase 401(k) clients, PEO worksite employees and other HRS-PEO ancillary product sales.

Operating income: For the three months ended November 30, 1997, the decrease in HRS-PEO operating income was due to lower average selling prices for the Company's PEO products and continued investments for the Company's PEO operations and centralization activities. For the six months ended November 30, 1997, the decrease in HRS-PEO operating income was due to the reallocation of resources from Handbook products to generate recurring revenues from 401(k) recordkeeping services and section 125 cafeteria plans, lower average selling prices for the Company's PEO products and continued investments for the Company's PEO operations and centralization activities.

PEO direct costs billed and direct costs: Consistent with industry practices and generally accepted accounting principles, PEO revenues reported in the consolidated statements of income include the service fee, plus the direct costs billed to clients for the wages and payroll taxes of worksite employees, their related benefit premiums and claims and other direct costs. The Company continually manages the costs related to employee benefits, including workers' compensation liabilities. The Company records reserves for workers' compensation claims costs at the expected liability amount based on the estimated loss exposure considering the maximum potential exposure under the workers' compensation deductible insurance policies. At November 30, 1997, the recorded reserve is at the maximum exposure under these insurance policies. The increases in PEO direct costs billed and direct costs are reflective of the increases in the number of PEO worksite employees.

#### INVESTMENT INCOME

(In thousands)

For the three months ended November 30, 1997 Change 1996

Investment income	\$2,291	+31.3%	\$1,745
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For the six months ended November 30, 1997 Change 1996

Investment income	\$4,479	+38.7%	\$3,230
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Investment income earned from the Company's Investments, which does not include the income earned from ENS investments, has grown as a result of increases in investment balances generated from successive gains in operating cash flows. Investment income for fiscal 1998 is expected to grow as a result of increased net income and investment of subsequent operating cash flows, but will be impacted by typical changes in market rates of interest.

#### INCOME TAXES

The Company's effective tax rate for the three months ended November 30, 1997 and 1996 was 29.1% and 28.0%, respectively. The Company's effective tax rate for the six months ended November 30, 1997 and 1996 was 29.1% and 27.8%, respectively. The effective tax rate for the three months and six months ended November 30, 1997, was impacted by the reduction of investment income earned from lower levels of tax-exempt municipal securities and by the increase in taxable service fee revenue charged for the Company's Taxpay services. Fiscal 1998's effective tax rate is expected to approximate 29.0%.

#### LIQUIDITY AND CAPITAL RESOURCES

Consolidated operating cash flows:

(In thousands)

For the six months ended November 30, 1997 Change 1996

Operating cash flows	\$50,300	+13.1%	\$44,460
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The increase in operating cash flows resulted primarily from the continued achievement of record net income for the six months ended November 30, 1997. Projected operating cash flows are expected to be adequate to support normal

business operations and continued growth, planned purchases of property and equipment and dividend payments. Furthermore, at November 30, 1997, the Company had \$204.6 million in available cash and investments and \$261.7 million of available, unsecured and unused lines of credit.

Investments and ENS investments: Investments and ENS investments consist of various government securities, investment grade municipal securities, money market funds and other cash equivalents that are available-for-sale. 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-rated or better money market funds and by limiting amounts that can be invested in any single instrument. The Company invests in short- to intermediate-term securities as they are less sensitive to interest rate fluctuations. At November 30, 1997, the portfolio of securities had an average duration of 2.6 years. The Investments and ENS investments balances continue to increase from positive operating cash flows and increases in Taxpay and Direct Deposit client counts.

Purchases of property and equipment:

(In thousands)

For the six months ended November 30,	1997	Change	1996
Purchases of property and equipment	\$13,520	+53.4%	\$8,811

Purchases of property and equipment for the six months ended November 30, 1997 increased over 1996 as a result of additional data processing and personal computer equipment, workstations, and leasehold improvements at the Company's expanding branches. Purchases of property and equipment in fiscal 1998 are expected to range from \$21 to \$26 million.

Cash dividends:

(In thousands except per share amounts)

For the six months ended November 30,	1997	Change	1996
Cash dividends	\$16,295	+46.8%	\$11,101
Cash dividends per share	\$ .15	+50.0%	\$ .10

On October 2, 1997, the Company's Board of Directors declared a 50% increase in the Company's quarterly dividend from \$.06 per share to \$.09 per share, payable November 24, 1997 to shareholders of record October 27, 1997.

On January 8, 1998, the Company's Board of Directors declared a regular quarterly dividend of \$.09 per share, payable February 16, 1998 to shareholders of record February 2, 1998. The Board also established a policy of setting future dividend record dates on the 1st business day of February, May, August, and November with the dividend payable date on the 15th or first business day thereafter of the same month.

OTHER

Recently issued accounting standards: In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company will adopt this SFAS in the quarter ending August 31, 1998 (the first quarter of fiscal year 1999), and will reclassify its financial statements for earlier periods provided for comparative purposes. The Company's management does not believe that the difference between reported net income and pro forma comprehensive income to be significant.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of An Enterprise and Related Information," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Currently, management believes this SFAS will not have a significant effect on the Company's segment disclosures and related information.

FORWARD-LOOKING CAUTIONARY STATEMENT

In an effort to give investors a well-rounded view of the Company's current condition and future opportunities, this Form 10-Q includes comments by the Company's management about future performance and results. Because they are forward-looking, these forecasts involve uncertainties. They include risks of general market conditions, including demand for the Company's products and services, competition and price levels; changes in the laws regulating collection and payment of payroll taxes, professional employer organizations, and employee benefits, including 401(k) plans, workers' compensation, and section 125 plans; delays in the development and marketing of new products and services; the possibility of catastrophic events that could impact the Company's operating facilities, computer technology and communication systems; changes in short- and long-term interest rates and the credit rating of



municipal securities held in the Company's investment portfolios.

Item 3. Quantitative and Qualitative Disclosures About  
Market Risk

Not applicable.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders was held on October 2, 1997. Results of that meeting were reported in the Form 10-Q filed on October 14, 1997, for the quarterly period ended August 31, 1997, and is incorporated here by reference.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 11, "Statement re computation of per share earnings" is filed herewith at the end of this Form 10-Q.

Exhibit 27, "Financial Data Schedules" are filed electronically.

(b) Reports on Form 8-K: There were no reports filed on Form 8-K during the three month period ended November 30, 1997.

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: January 14, 1998

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

Date: January 14, 1998

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

## EXHIBIT 11

PAYCHEX, INC.  
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
(In thousands except per share data)

	For the three months ended November 30,		For the six months ended November 30,	
	1997	1996	1997	1996
A. Net income	\$ 24,718	\$ 18,068	\$ 47,792	\$ 35,141
B. Actual weighted-average number of common shares outstanding	108,639	107,742	108,601	107,625
C. Earnings per common share (A/B) (1)	\$ .23	\$ .17	\$ .44	\$ .33
PRIMARY DILUTED EARNINGS PER SHARE(2):				
D. Net effect of dilutive stock options based on Treasury Stock Method using average market price for the three months and six months ended November 30,	1,028	1,274	1,047	1,254
E. Adjusted weighted-average shares outstanding (B+D)	109,667	109,016	109,648	108,879
F. Primary diluted earnings per share (A/E)	\$ .23	\$ .17	\$ .44	\$ .32
G. Dilutive effect on earnings per share (C-F)	\$ .00	\$ .00	\$ .00	\$ .01
FULLY DILUTED EARNINGS PER SHARE(2):				
H. Net effect of dilutive stock options based on Treasury Stock Method using the period end market price, if greater than the average market price for the three months and six months ended November 30,	1,114	1,274	1,090	1,280
I. Adjusted weighted-average shares outstanding (B+H)	109,753	109,016	109,691	108,905
J. Fully diluted earnings per share (A/I)	\$ .23	\$ .17	\$ .44	\$ .32
K. Dilutive effect on earnings per share (C-J)	\$ .00	\$ .00	\$ .00	\$ .01

(1) Earnings per common share information is based on weighted-average number of shares of common stock outstanding during each period. No effect has been given to stock options outstanding under the Company's Stock Incentive Plans as no material dilutive effect would result from the exercise of these options.

(2) This calculation is submitted in accordance with The Securities and Exchange Act of 1934, although not required by Accounting Principles Board Opinion No. 15, since no material dilutive effect would result from the exercise of these options.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE NOVEMBER 30, 1997 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>

<RESTATED>

<CIK> 0000723531

<NAME> PAYCHEX, INC.

<MULTIPLIER> 1,000

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<EPS-DILUTED>	.44	.33

<FN>

<F1>Includes amounts related to Electronic Network Services investments with a balance at November 30, 1997 and 1996 of \$968,858 and \$718,306, respectively.

<F2>Prior to May 1997, the Company did not report the Electronic Network Services (ENS) funds as assets and liabilities based on its understanding of the nature of funds and industry practices. Due to recent changes in case law, the Company restated previously reported consolidated financial statements to reflect the ENS funds and related client deposits as current assets and current liabilities on the consolidated balance sheets. This restatement had no effect on previously reported net income or earnings per share.

</FN>

</TABLE>