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 AUGUST 31, 1998

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	163,537,368 Shares
CLASS	OUTSTANDING AT SEPTEMBER 30, 1998

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 August 31, 1998	August 31, 1997
Service revenues:		
Payroll	$127,982	$104,865
HRS-PEO	11,307	8,082
Total service revenues	139,289	112,947
PEO direct costs billed (A)	142,498	105,636
Total revenue	281,787	218,583
PEO direct costs (A)	142,498	105,636
Operating costs	35,885	30,306
Selling, general and administrative expenses	61,761	52,284
Operating income	41,643	30,357
Investment income	2,961	2,188
Income before income taxes	44,604	32,545
Income taxes	13,203	9,471
Net income	$ 31,401	$ 23,074
Basic earnings per share	$ .19	$ .14

Diluted earnings per share	$ .19	$ .14
Weighted-average common shares outstanding	163,277	162,845
Weighted-average shares assuming dilution	165,525	164,441
Cash dividends per common share	$ .06	$ .04

See Notes to Consolidated Financial Statements.

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

PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	August 31, 1998 (UNAUDITED)	May 31, 1998 (AUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,519	$ 35,571
Investments	219,350	214,967
Interest receivable	11,759	13,227
Accounts receivable	66,332	54,596
Deferred income taxes	-	1,525
Prepaid expenses and other current assets	3,960	4,391
Current assets before ENS investments	350,920	324,277
Electronic Network Services investments	1,110,205	1,154,501
Total current assets	1,461,125	1,478,778
Property and equipment - net	62,986	64,698
Deferred income taxes	866	517
Other assets	5,980	5,794
Total assets	$1,530,957	$1,549,787
LIABILITIES		
Current liabilities:		
Accounts payable	$ 6,589	$ 10,496
Accrued compensation and related items	26,287	33,649
Deferred revenue	3,014	4,443
Accrued income taxes	10,581	2,628
Deferred income taxes	1,511	-
Other current liabilities	17,094	13,960
Current liabilities before ENS client deposits	65,076	65,176
Electronic Network Services client deposits	1,103,784	1,150,484
Total current liabilities	1,168,860	1,215,660
Other long-term liabilities	5,110	4,520
Total liabilities	1,173,970	1,220,180
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, authorized 300,000 shares Issued: 163,382/ August 31, 1998 and 163,188/ May 31, 1998	1,634	1,632
Additional paid-in capital	49,989	46,463
Retained earnings	299,709	278,107
Accumulated other comprehensive income	5,655	3,405
Total stockholders' equity	356,987	329,607
Total liabilities and stockholders' equity	$1,530,957	$1,549,787

See Notes to Consolidated Financial Statements.

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

For the three months ended August 31,	1998	1997
OPERATING ACTIVITIES		
Net income	$ 31,401	$ 23,074
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization on depreciable and intangible assets	5,165	4,189
Amortization of premiums and discounts on available-for sale securities	2,301	1,831
Provision for deferred income taxes	1,398	669

Provision for bad debts	380	383
Net realized gains on sales of available-for-sale securities	(504)	(32)
Changes in operating assets and liabilities:		
Interest receivable	1,468	880
Accounts receivable	(12,116)	(3,998)
Prepaid expenses and other current assets	431	92
Accounts payable and other current liabilities	1,317	1,554
Net change in other assets and liabilities	372	984
Net cash provided by operating activities	31,613	29,626
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(130,021)	(98,712)
Proceeds from sales of available-for-sale securities	117,756	55,209
Proceeds from maturities of available-for-sale securities	2,190	-
Net change in Electronic Network Services money market securities and other cash equivalents	51,730	6,728
Net change in Electronic Network Services client deposits	(46,700)	22,195
Purchases of property and equipment, net of disposals	(3,157)	(5,273)
Purchases of other assets	(264)	(326)
Net cash used in investing activities	(8,466)	(20,179)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	600	198
Dividends paid	(9,799)	(6,516)
Other	-	(26)
Net cash used in financing activities	(9,199)	(6,344)
Increase in Cash and cash equivalents	13,948	3,103
Cash and cash equivalents, beginning of period	35,571	50,213
Cash and cash equivalents, end of period	$ 49,519	$ 53,316

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AUGUST 31, 1998

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 ended August 31, 1998, are not necessarily indicative of the results that may be expected for the full year ended May 31, 1999. There is no significant seasonality to the Company's business, except that over 30% of new Payroll segment clients and over 40% of new PEO worksite employees added in each of the last three fiscal years have been added during the third fiscal quarter. Consequently, greater revenue and sales commission expenses are reported in that quarter. The accompanying financial statements should be read in conjunction with the financial statements and footnotes presented in the Company's Annual Report on Form 10-K for the year ended May 31, 1998.

B) Basic earnings per share, diluted earnings per share, cash dividends per share, weighted-average shares outstanding, weighted-average shares assuming dilution and all other applicable information for the three months ended August 31, 1997, 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, 1998, and distributed on May 22, 1998. For the three months ended August 31, 1998, stock options were exercised for 194,000 shares of the Company's common stock.

C) Property and equipment - net:

(In thousands)	August 31, 1998 (UNAUDITED)	May 31, 1998 (AUDITED)
Land and improvements	$ 2,815	$ 2,815
Buildings and improvements	24,965	24,914
Data processing equipment and software	65,486	64,247
Furniture, fixtures and equipment	54,157	52,752

Leasehold improvements	7,517	7,323
	154,940	152,051
Less accumulated depreciation and amortization	91,954	87,353
	$ 62,986	$ 64,698

D) Segment Information: Effective May 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Statement requires the Company to report segment financial information consistent with the presentation made to the Company's management for decision-making purposes. Prior year segment disclosures have been restated to be consistent.

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, 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. Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance and Senior Management functions of the Company.

(In thousands)	For the three months ended August 31, 1998	August 31, 1997
Total revenue:		
Payroll	$127,982	$104,865
HRS-PEO revenue:		
Service revenue	11,307	8,082
PEO direct costs billed (A)	142,498	105,636
Total HRS-PEO revenue	153,805	113,718
Total revenue	281,787	218,583
PEO direct costs (A)	142,498	105,636
Total revenue less PEO direct costs	139,289	112,947
Operating income:		
Payroll	53,888	41,234
HRS-PEO	2,611	1,204
Total operating income	56,499	42,438
Corporate expenses	14,856	12,081
Investment income	2,961	2,188
Income before income taxes	$ 44,604	$ 32,545

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

E) 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 August 31, 1998	August 31, 1997
Net income	$ 31,401	$ 23,074
Unrealized gains on securities, net of reclassification adjustments	2,250	1,408
Total comprehensive income	$ 33,651	$ 24,482

F) Certain amounts from the prior year are reclassified to conform to fiscal 1999 presentations.

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 ended August 31, 1998 (fiscal 1999) and 1997 (fiscal 1998), and its financial condition at August 31, 1998. 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 August 31, 1998 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

For the three months ended August 31, (In thousands, except per share amounts)	1998	Change	1997
Service revenues	$ 139,289	+23.3%	$ 112,947
Operating income	$ 41,643	+37.2%	$ 30,357
Income before income taxes	$ 44,604	+37.1%	$ 32,545
Net income	$ 31,401	+36.1%	$ 23,074
Basic earnings per share	$ .19	+35.7%	$ .14
Diluted earnings per share	$ .19	+35.7%	$ .14

The Company's ability to continually grow its client base, increase the utilization of ancillary services and decrease operating expenses as a percent of service revenues resulted in record first quarter service revenues and net income for the three months ended August 31, 1998.

Payroll segment:

For the three months ended August 31, (In thousands)	1998	Change	1997
Payroll service revenue	$127,982	+22.0%	$104,865
Payroll operating income	$ 53,888	+30.7%	$ 41,234
Client statistics at August 31,			
Payroll clients	300.9	+11.3%	270.3
Taxpay clients	228.9	+19.0%	192.4
Direct Deposit clients	112.4	+37.2%	81.9
Check Signing clients	35.3	+23.4%	28.6

Revenues: Payroll, Taxpay and Direct Deposit revenues include service fees and investment revenue. Investment revenue is earned during the period between collecting client funds and remitting the funds to the applicable tax authorities for Taxpay clients and client employees for Direct Deposit clients. The increase in service revenue is primarily related to the continued growth of the Payroll client base and increased utilization of ancillary services such as Taxpay, Direct Deposit and Check Signing by both new and existing clients. On August 31, 1998, approximately 76% of Payroll clients utilize the Taxpay service. Client utilization of this product is expected to mature within the next several years within a range of 82% to 87%. Client utilization of Direct Deposit was approximately 37% at August 31, 1998, and will provide additional growth opportunities in fiscal 1999 and beyond. During the second quarter of fiscal 1998, the Payroll segment also began to earn new revenues from the reporting of clients' newly hired employees to meet federal and state requirements. Fiscal 1999's percentage growth in service revenue is expected to be slightly above 19%.

Operating income: Operating income increased as a result of continued growth of the client base, increased utilization of ancillary services, and leveraging of the segment's operating expense base.

HRS-PEO segment:

For the three months ended August 31, (In thousands)	1998	Change	1997
HRS-PEO service revenue	$ 11,307	+ 39.9%	$ 8,082
PEO direct costs billed	142,498	+ 34.9%	105,636
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Total HRS-PEO revenue	153,805	+ 35.3%	113,718
PEO direct costs	142,498	+ 34.9%	105,636
HRS-PEO operating income	$ 2,611	+116.9%	$ 1,204
Client statistics at August 31,			
401(k) clients	6.7	+ 86.1%	3.6
401(k) client funds managed externally (in millions)	$ 401.9	+111.0%	$ 190.5
Section 125 clients	17.3	+ 24.5%	13.9
PEO worksite employees	19.0	+ 31.0%	14.5

Revenues: The growth in service revenue was due to gains in the number of 401(k) recordkeeping clients, section 125 cafeteria plan clients and Professional Employer Organization (PEO) worksite employees, which produced higher recurring revenues. Fiscal 1999's service revenue is expected to grow at a rate higher than Payroll segment revenues.

Operating income: Improvements in HRS-PEO operating income resulted primarily from revenue growth, and benefited from the consolidation of the PEO administrative functions in Rochester, New York, completed in February 1998. During the three months ended August 31, 1998, the segment increased its 401(k) recordkeeping sales force by approximately 40 individuals to facilitate the goal of attaining 10,000 clients by the end of that fiscal year. Operating income for the full year of fiscal 1999 is expected to increase due to continued client base growth and from efficiencies gained from centralized operations.

PEO direct costs billed and direct costs: Consistent with industry practices and generally accepted accounting principles, total PEO revenues reported in the Consolidated Statements of Income include the service fee, plus the PEO 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 increases in PEO direct costs billed and direct costs are reflective of the increases in the number of PEO worksite employees.

Corporate expenses:

For the three months ended August 31, (In thousands)	1998	Change	1997
Corporate expenses	$ 14,856	+23.0%	$ 12,081

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance and Senior Management functions of the Company. The increase in expenses is primarily related to additional employees necessary to support the continued growth of the Company's business. In addition, expenses reflect increased national marketing efforts commenced during the third quarter of fiscal 1998. Fiscal 1999's expenses are expected to increase at a rate similar to fiscal 1998's rate of approximately 18%.

Investment income:

For the three months ended August 31, (In thousands)	1998	Change	1997
Investment income	$ 2,961	+35.3%	$ 2,188

Investment income earned from the Company's Investments, which does not include the investment revenue earned from ENS investments, has grown mainly as a result of increases in total cash and investment balances generated from continual gains in operating cash flows. Investment income for 1999, subject to changes in market rates of interest, is expected to grow at a rate slightly lower than net income growth.

Income taxes: The Company's effective tax rate for the three months ended August 31, 1998 and 1997, was 29.6%, and 29.1%, respectively. The increase in fiscal 1999's rate is due to expected growth in pre-tax income exceeding the growth in tax-exempt income, which is derived primarily from Taxpay and Direct Deposit products that produce float income. Fiscal 1999's effective tax rate is expected to range from 29.5% to 30.0%.

Liquidity and Capital Resources

Operating cash flows:

For the three months ended August 31, (In thousands)	1998	Change	1997
Operating cash flows	$ 31,613	+ 6.7%	$ 29,626

The increase in operating cash flows resulted primarily from the consistent achievement of record net income. Projected operating cash flows are expected to adequately support normal business operations and forecasted growth, planned purchases of property and equipment and planned dividend payments. Furthermore, at August 31, 1998, the Company had $268.9 million in available cash and investments and $262.5 million of available, uncommitted and unsecured lines of credit.
Investments and ENS investments: Investments and ENS investments consist of various government securities, investment grade municipal securities, money market securities and other short-term cash equivalents. The Company's Investments increased from the investment of gains in operating cash flows. The amount of ENS funds held will vary significantly during the year due to the timing of payroll tax and direct deposit payments and collections.

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 limiting amounts that can be invested in any single instrument. At August 31, 1998, approximately 97% 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 rating or an equivalent rating.

Interest rate risk - The Company's available-for-sale securities are exposed to market risk from changes in interest rates, as rate volatility will cause fluctuations in the market value of held investments and the earnings potential of future investments. The Company's objective in managing interest rate risk is 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, as they are less sensitive to interest rate fluctuations, and manages the portfolio to a benchmark duration of 2.5 to 3.0 years.

Purchases of property and equipment:

For the three months ended August 31, (In thousands)	1998	Change	1997
Purchases of property & equipment	$ 3,166	-40.0%	$ 5,280

The decrease in purchases is primarily related to higher purchases of data processing equipment in the three months ended August 31, 1997, versus the same period ended August 31, 1998. Purchases of property and equipment in fiscal 1999 are expected to be in the range of $30 million.

Cash dividends and stock splits:

For the three months ended August 31, (In thousands, except per share amounts)	1998	Change	1997
Cash dividends	$ 9,799	+50.4%	$ 6,516
Cash dividends per share	$ .06	+50.0%	$ .04

The increase in cash dividends and per share amounts is due to the 50% increase declared October 1997 and paid in November 1997. The Company distributed a three-for-two stock split effected in the form of a 50% stock dividend on outstanding shares in May 1998. All financial information within this Form 10-Q has been adjusted for this stock split. On October 1, 1998, 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 16, 1998, to shareholders of record November 2, 1998.

OTHER

Year 2000 date conversion: The Company is actively pursuing resolution of year 2000 issues. The year 2000 problem originated with the advent of computers, when dates were stored without century indicators, in an effort to reduce the need for expensive storage space used for input, output and storage media. In order to process and calculate dates correctly, internal computer systems must be changed to handle the year 2000 and beyond. Year 2000 efforts extend past the Company's internal computer systems and require coordination with clients, vendors, government entities, financial institutions and other third parties to understand their plans for making systems and related interfaces compliant.

In response to year 2000 issues, the Company initiated a program to manage progress in year 2000 compliance efforts. The managers of the Company's year 2000 compliance program report directly to the Vice President of Information Technology and provide regular reports to the Company's Senior Management and the Board of Directors.

The Company plans to have the majority of internal mission-critical systems year 2000 compliant by the end of calendar year 1998, and the few remaining internal systems compliant by the end of the first quarter of calendar year 1999. Processes and procedures are in place to ensure the following: all future internal development and testing follows year 2000 development and testing standards, all projects undertaken in the interim deliver year 2000 compliant solutions, all future third-party hardware and software acquisitions are year 2000 compliant, and all commercial third-party service providers are being queried regarding their year 2000 compliance plans. In addition, the Company is actively working with all government agency partners to determine their year 2000 compliance plans, and has begun making year 2000 changes based on their mandates.

Calendar year 1999 will be used to react to yet unknown changes dictated by third parties, such as government agencies, hardware and software vendors, financial institutions, or utility companies. Third-party interface testing and resolution of year 2000 issues with external agencies and partners is dependent upon those third parties completing their own year 2000 remediation efforts.

The Company expects minimal business disruption will occur as a result of year

2000 issues for systems that the Company directly controls. The Company will enhance existing normal business contingency plans to address any identified year 2000 issues based on actual testing experience with third parties and assessment of outside risks. There can be no assurance that there will not be an adverse effect on the Company if third parties, such as government agencies, hardware and software vendors, financial institutions or utility companies, do not convert their systems in a timely manner and in a way that is compatible with the Company's systems. However, management believes that ongoing communication with and assessment of these third parties will minimize these risks.

The Company currently anticipates expenditures for year 2000 efforts to approximate $5 million, with approximately fifty percent spent through August 31, 1998. The cost of the project and the date on which the Company plans to complete the year 2000 modifications are based on management's best estimates. These estimates were derived from internal assessments and assumptions of future events. The estimates may be adversely affected by the continued availability of personnel and system resources, as well as the failure of third-party vendors, service providers, and agencies to properly address year 2000 issues. There is no guarantee that these estimates will be achieved, and actual results could differ significantly from those anticipated.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders was held on October 1, 1998. Stockholders elected seven Directors nominated in the August 7, 1998 Proxy Statement, incorporated herein by reference, to hold office until the next Annual Meeting of Stockholders. Additionally, the stockholders ratified the proposal to adopt the Paychex, Inc. 1998 stock Incentive Plan.

Results of stockholder voting are as follows:

1. Election of Directors	Votes For	Votes Withheld
B. Thomas Golisano	134,474,955	474,228
Steven D. Brooks	134,509,941	432,242
G. Thomas Clark	134,477,200	471,783
Phillip Horsley	134,510,429	438,754
Grant M. Inman	134,507,487	444,696
Harry P. Messina, Jr.	134,475,941	473,441
J. Robert Sebo	134,475,205	473,978

2. Proposal to adopt the Paychex, Inc. 1998 Stock Incentive Plan

For	Against	Abstaining	Broker Non-Votes
132,540,946	1,876,707	531,513	21

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 on July 2, 1998, that included the Company's press release for the fourth quarter and year ended May 31, 1998.

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: October 15, 1998

/s/ B. Thomas Golisano

B. Thomas Golisano
Chairman, President and
Chief Executive Officer

Date: October 15, 1998

/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 AUGUST 31, 1998 CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES TO CONSOLIDATED FOR FINANCIAL STATEMENTS OF PAYCHEX, INC., AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. ON MAY 22, 1998, PAYCHEX, INC., DISTRIBUTED A THREE-FOR-TWO STOCK SPLIT EFFECTED IN THE FORM OF A 50% STOCK DIVIDEND TO STOCKHOLDERS OF RECORD AS OF MAY 8, 1998. THEREFORE, ALL APPLICABLE AMOUNTS FOR THE PRIOR YEAR INCLUDED IN THIS SCHEDULE AFFECTED BY THE STOCK SPLIT HAVE BEEN ADJUSTED.
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</FN>

</TABLE>

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 the Company's 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 "expects" 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; 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, including year 2000 issues; and changes in short- and long-term interest rates and the credit rating of securities held in the Company's investment portfolios.