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 NOVEMBER 30, 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.

CLASS	OUTSTANDING AT NOVEMBER 30, 1998
Common Stock, $.01 Par Value	163,618,400 Shares

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 November 30, 1998	1997	For the six months ended November 30, 1998	1997
Service revenues:				
Payroll	$131,035	$108,528	$259,017	$213,393
HRS-PEO	11,913	8,645	23,220	16,727
Total service revenues	142,948	117,173	282,237	230,120
PEO direct costs billed (A)	139,033	118,048	281,531	223,684
Total revenue	281,981	235,221	563,768	453,804
PEO direct costs (A)	139,033	118,048	281,531	223,684
Operating costs	36,863	31,891	72,748	62,197
Selling, general and administrative expenses	61,089	52,710	122,850	104,994
Operating income	44,996	32,572	86,639	62,929
Investment income	3,006	2,291	5,967	4,479
Income before income taxes	48,002	34,863	92,606	67,408
Income taxes	14,394	10,145	27,597	19,616
Net income	$ 33,608	$ 24,718	$ 65,009	$ 47,792

Basic earnings per share	$ .21	$ .15	$ .40	$ .29
Diluted earnings per share	$ .20	$ .15	$ .39	$ .29
Weighted-average common shares outstanding	163,530	162,958	163,407	162,902
Weighted-average shares assuming dilution	165,865	164,501	165,698	164,471
Cash dividends per common share	$ .09	$ .06	$ .15	$ .10

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)

	November 30, 1998 (UNAUDITED)	May 31, 1998 (AUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,376	$ 35,571
Investments	241,370	214,967
Interest receivable	14,160	13,227
Accounts receivable	74,065	54,596
Deferred income taxes	-	1,525
Prepaid expenses and other current assets	5,403	4,391
Current assets before ENS investments	364,374	324,277
Electronic Network Services investments	1,130,243	1,154,501
Total current assets	1,494,617	1,478,778
Property and equipment - net	68,313	64,698
Deferred income taxes	1,107	517
Other assets	6,198	5,794
Total assets	$1,570,235	$1,549,787
LIABILITIES		
Current liabilities:		
Accounts payable	$ 7,574	$ 10,496
Accrued compensation and related items	28,071	33,649
Deferred revenue	3,637	4,443
Accrued income taxes	1,169	2,628
Deferred income taxes	4,882	-
Other current liabilities	14,443	13,960
Current liabilities before ENS client deposits	59,776	65,176
Electronic Network Services client deposits	1,123,335	1,150,484
Total current liabilities	1,183,111	1,215,660
Other long-term liabilities	5,215	4,520
Total liabilities	1,188,326	1,220,180
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, authorized 300,000 shares Issued: 163,618/November 30, 1998 and 163,188/May 31, 1998	1,636	1,632
Additional paid-in capital	55,314	46,463
Retained earnings	318,594	278,107
Accumulated other comprehensive income	6,365	3,405
Total stockholders' equity	381,909	329,607
Total liabilities and stockholders' equity	$1,570,235	$1,549,787

See Notes to Consolidated Financial Statements.

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

For the six months ended November 30,	1998	1997
OPERATING ACTIVITIES		
Net income	$ 65,009	$ 47,792
Adjustments to reconcile net income		

to cash provided by operating activities:		
Depreciation and amortization		
on depreciable and intangible assets	10,576	8,763
Amortization of premiums and		
discounts on available-for sale securities	4,747	3,834
Provision for deferred income taxes	4,117	1,719
Provision for bad debts	835	982
Net realized gains on sales		
of available-for-sale securities	(1,556)	(165)
Changes in operating assets and liabilities:		
Interest receivable	(933)	(1,481)
Accounts receivable	(20,304)	(12,261)
Prepaid expenses and other current assets	(1,012)	(1,252)
Accounts payable and other current liabilities	(3,701)	2,824
Net change in other assets and liabilities	148	1,789
Net cash provided by operating activities	57,926	52,544
INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(270,419)	(178,892)
Proceeds from sales of		
available-for-sale securities	200,181	92,073
Proceeds from maturities of		
available-for-sale securities	7,425	300
Net change in Electronic Network		
Services money market securities		
and other cash equivalents	62,330	(5,571)
Net change in Electronic Network		
Services client deposits	(27,149)	69,514
Purchases of property and equipment,		
net of disposals	(13,576)	(13,410)
Other	(665)	(272)
Net cash used in investing activities	(41,873)	(36,258)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	2,274	1,125
Dividends paid	(24,522)	(16,295)
Other	-	733
Net cash used in financing activities	(22,248)	(14,437)
Increase/(decrease) in Cash and cash equivalents	(6,195)	1,849
Cash and cash equivalents, beginning of period	35,571	50,213
Cash and cash equivalents, end of period	$ 29,376	$ 52,062

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOVEMBER 30, 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 and six months ended November 30, 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 Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Footnotes presented in the Company's Annual Report on Form 10-K for the year ended May 31, 1998. Certain amounts from the prior year are reclassified to conform to fiscal 1999 presentations.

B) 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 six months ended November 30, 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 and six months ended November 30, 1998, stock options were exercised for 236,000 shares and 430,000 shares, respectively, of the Company's common stock.

C) Investments and ENS investments: Investments and ENS investments consist of various governmental securities, investment grade municipal securities, money market securities and other cash equivalents.

(In thousands)	November 30, 1998 UNAUDITED)		May 31, 1998 (AUDITED)	
	COST	FAIR VALUE	COST	FAIR VALUE
Type of issue				
Money market securities and other cash equivalents	$ 652,611	$ 652,611	$ 714,941	$ 714,941
Available-for-sale securities:				
General obligation municipal bonds	242,710	245,900	212,222	213,940
Pre-Refunded municipal bonds	264,678	268,753	236,151	238,462
Revenue municipal bonds	199,989	202,714	199,545	200,850
Other securities	1,394	1,635	1,231	1,275
Total available-for-sale securities	708,771	719,002	649,149	654,527
Total Investments and ENS investments	$1,361,382	$1,371,613	$1,364,090	$1,369,468
Classification of investments on Consolidated Balance Sheets:				
Investments	$ 238,043	$ 241,370	$ 213,606	$ 214,967
ENS investments	1,123,339	1,130,243	1,150,484	1,154,501
Totals	$1,361,382	$1,371,613	$1,364,090	$1,369,468

D) Property and equipment - net:

(In thousands)	November 30, 1998 (UNAUDITED)	May 31, 1998 (AUDITED)
Land and improvements	$ 2,815	$ 2,815
Buildings and improvements	25,948	24,914
Data processing equipment and software	69,970	64,247
Furniture, fixtures and equipment	57,855	52,752
Leasehold improvements	8,052	7,323
	164,640	152,051
Less accumulated depreciation and amortization	96,327	87,353
	$ 68,313	$ 64,698

E) 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, section 125 plans, workers' compensation, group benefits, and state unemployment insurance services, 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, Marketing and Senior Management functions of the Company.

(In thousands)	For the three months ended November 30, 1998	1997	For the six months ended November 30, 1998	1997
Total revenue:				
Payroll	$131,035	$108,528	$259,017	$213,393
HRS-PEO revenue:				
Service revenue	11,913	8,645	23,220	16,727

PEO direct costs billed (A)	139,033	118,048	281,531	223,684
Total HRS-PEO revenue	150,946	126,693	304,751	240,411
Total revenue	281,981	235,221	563,768	453,804
PEO direct costs (A)	139,033	118,048	281,531	223,684
Total revenue less PEO direct costs	142,948	117,173	282,237	230,120
Operating income:				
Payroll	56,675	44,230	110,563	85,464
HRS-PEO	2,575	994	5,186	2,198
Total operating income	59,250	45,224	115,749	87,662
Corporate expenses	14,254	12,652	29,110	24,733
Investment income	3,006	2,291	5,967	4,479
Income before income taxes	$ 48,002	$ 34,863	$ 92,606	$ 67,408
Investment revenue included in Payroll revenue	$ 11,984	$ 8,975	$ 23,760	$ 18,336

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

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

(In thousands)	For the three months ended November 30, 1998	1997	For the six months ended November 30, 1998	1997
Net income	$33,608	$24,718	$65,009	$47,792
Unrealized gains on securities, net of reclassification adjustments	710	846	2,960	2,254
Total comprehensive income	$34,318	$25,564	$67,969	$50,046

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, 1998 (fiscal 1999) and 1997 (fiscal 1998), and its financial condition at November 30, 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 November 30, 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
(In thousands, except per share amounts)

For the three months ended November 30,	1998	Change	1997
Service revenues	$ 142,948	+22.0%	$ 117,173
Operating income	$ 44,996	+38.1%	$ 32,572
Income before income taxes	$ 48,002	+37.7%	$ 34,863
Net income	$ 33,608	+36.0%	$ 24,718
Basic earnings per share	$ .21	+40.0%	$ .15
Diluted earnings per share	$ .20	+33.3%	$ .15

For the six months ended November 30,	1998	Change	1997
Service revenues	$ 282,237	+22.6%	$ 230,120
Operating income	$ 86,639	+37.7%	$ 62,929
Income before income taxes	$ 92,606	+37.4%	$ 67,408
Net income	$ 65,009	+36.0%	$ 47,792
Basic earnings per share	$ .40	+37.9%	$ .29
Diluted earnings per share	$ .39	+34.5%	$ .29

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 service revenues and net income for the three months and six months ended November 30, 1998.

Payroll segment:
(In thousands)

For the three months ended November 30,	1998	Change	1997
Payroll service revenue	$ 131,035	+20.7%	$ 108,528
Investment revenue included in Payroll service revenue	$ 11,984	+33.5%	$ 8,975
Payroll operating income	$ 56,675	+28.1%	$ 44,230

For the six months ended November 30,	1998	Change	1997
Payroll service revenue	$ 259,017	+21.4%	$ 213,393
Investment revenue included in Payroll service revenue	$ 23,760	+29.6%	$ 18,336
Payroll operating income	$ 110,563	+29.4%	$ 85,464

Client statistics at November 30,	1998	Change	1997
Payroll clients	307.8	+10.9%	277.5
Taxpay clients	236.6	+17.5%	201.3
Direct Deposit clients	120.9	+36.1%	88.8
Check Signing clients	36.4	+22.1%	29.8

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. Investment revenue also includes net realized gains and losses from the sale of available-for-sale securities. The increases in service revenue are primarily related to the continued growth of the Payroll client base, including improvement in client retention, and increased utilization of ancillary services such as Taxpay, Direct Deposit and Check Signing by both new and existing clients.

At November 30, 1998, approximately 77% 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 39% at November 30, 1998, and will provide additional growth opportunities in fiscal 1999 and beyond.

Fiscal 1999's percentage growth in service revenue is expected to be on the upper-end of the Paychex "formula" of 17-19%, as compared to fiscal 1998's growth of 23%. The anticipated decrease in revenue growth reflects the impact of lower interest rates and the maturing of Taxpay.

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:
(In thousands)

For the three months ended November 30,	1998	Change	1997
HRS-PEO service revenue	$ 11,913	+ 37.8%	$ 8,645
HRS-PEO operating income	$ 2,575	+159.1%	$ 994

For the six months ended November 30,	1998	Change	1997
HRS-PEO service revenue	$ 23,220	+ 38.8%	$ 16,727
HRS-PEO operating income	$ 5,186	+135.9%	$ 2,198

Client statistics at November 30,	1998	Change	1997
401(k) clients	8.0	+ 77.8%	4.5
401(k) client funds managed externally (in millions)	$ 519.9	+120.8%	$ 235.5
Section 125 clients	18.1	+ 24.8%	14.5
PEO worksite employees	15.8	- 4.2%	16.5

Revenues: The increases in service revenue are primarily related to the benefits of developing and growing a recurring revenue stream from 401(k) plan recordkeeping and PEO clients. Fiscal 1999's service revenue is expected to grow at a rate higher than Payroll segment revenues.

Operating income: The increases in HRS-PEO operating income are related to gains in the service revenue and continued benefits from the February 1998 consolidation of the PEO administrative functions in Rochester, New York. During the first half of fiscal 1999, the segment increased its 401(k) plan recordkeeping sales force by approximately 50 individuals to facilitate the goal of attaining more than 10,000 clients by the end of fiscal 1999. 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.

The decline in the number of worksite employees is primarily due to the loss of two large PEO clients during the month of November. The loss of these clients is not expected to have a material impact on full-year results.

Corporate expenses:
(In thousands)

For the three months ended November 30,	1998	Change	1997
Corporate expenses	$14,254	+12.7%	$12,652

For the six months ended November 30,	1998	Change	1997
Corporate expenses	$29,110	+17.7%	$24,733

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company. The period increases are primarily due to additional employees necessary to support the continued growth of the Company's business segments, and from increased national marketing efforts, commenced in the third quarter of fiscal 1998.

Investment income:
(In thousands)

For the three months ended November 30,	1998	Change	1997
Investment income	$ 3,006	+31.2%	$ 2,291

For the six months ended November 30,	1998	Change	1997
Investment income	$ 5,967	+33.2%	$ 4,479

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:
(In thousands)

For the three months ended November 30,	1998	Change	1997
Income taxes	$14,394	+41.9%	$10,145
Effective income tax rate	30.0%	+ .9	29.1%

For the six months ended November 30,	1998	Change	1997
Income taxes	$27,597	+40.7%	$19,616
Effective income tax rate	29.8%	+ .7	29.1%

The increases in the effective income tax rate are due to expected growth in taxable income exceeding the growth in tax-exempt income, which is derived primarily from Taxpay and Direct Deposit products that provide investment revenue. Fiscal 1999's quarter and annual effective income tax rates are expected to range from 29.5% to 30.0%.

Liquidity and Capital Resources

Operating cash flows:
(In thousands)

For the six months ended November 30,	1998	Change	1997
Operating cash flows	$ 57,926	+10.2%	$ 52,544

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 November 30, 1998, the Company had $267.7 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 short-term funds and available-for-sale investments which are described in Note C of the Notes to the Consolidated Financial Statements. Investments have increased due to the investment of cash provided by operating activities less dividend payments. The amount of ENS investments varies significantly based upon the timing of collecting client funds, and remitting the funds to the applicable tax authorities for Taxpay clients and client employees for Direct Deposit clients.

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 November 30, 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. Increases in interest rates normally decrease the market value of the available-for-sale securities, immediately increase earnings from short-term funds and over time increase earnings from available-for-sale securities. Earnings from the available-for-sale securities do not reflect changes in rates until the investments are sold or mature, and the proceeds are reinvested at current rates. Decreases in interest rates have the opposite affect on the available-for-sale securities and earnings from short-term funds. As of November 30, 1998, approximately one-half of the total investment portfolio was invested in short-term funds with an average duration of less than 30 days, and the available-for-sale securities had an average duration of 2.8 years.

During the quarter ended November 30, 1998, the federal funds rate was reduced by 75 basis points. A 25 basis point change affects the Company's tax-exempt interest rates by approximately 17 basis points. As a result of these rate decreases, the market value of the available-for-sale securities increased, and unrealized gains on the Company's total available-for-sale securities were $10.2 million at November 30, 1998, compared to $5.4 million at May 31, 1998.

Purchases of property and equipment:
(In thousands)

For the six months ended November 30,	1998	Change	1997
Purchases of property & equipment	$ 13,584	+.5%	$ 13,520

Purchases of property and equipment in fiscal 1999 are expected to approximate $30 million.

Cash dividends and stock splits:
(In thousands, except per share amounts)

For the six months ended November 30,	1998	Change	1997
Cash dividends	$ 24,522	+50.5%	$ 16,295
Cash dividends per common share	$ .15	+50.0%	$ .10

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, and declared a dividend which was paid November 16, 1998, to shareholders of record on November 2, 1998. The Company distributed a three-for-two stock split effected and distributed 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.

OTHER

Year 2000 readiness disclosure: 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 is in the process of enhancing 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 sixty-five percent spent through November 30, 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. Results of that meeting were reported in the Form 10-Q filed on October 15, 1998, for the quarterly period ended August 31, 1998, and is incorporated herein by reference.

ITEM 5: OTHER INFORMATION

The text portion on the Company's press release dated December 15, 1998, regarding its financial results for the three months and six months ended November 30, 1998, is attached. The related Consolidated Financial Statements are contained in PART I. FINANCIAL INFORMATION of this Form 10-Q.

FOR IMMEDIATE RELEASE

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

PAYCHEX, INC. REPORTS RECORD SECOND QUARTER RESULTS

ROCHESTER, NY, December 15, 1998 -- Paychex, Inc. (NASDAQ: PAYX) today announced record net income of $33.6 million or $.20 diluted earnings per share for the second quarter ended November 30, 1998, a 36% increase over net income of $24.7 million or $.15 diluted earnings per share for the same period last year. Total service revenues were $142.9 million, an increase of 22% over $117.2 million for the same period last year.

For the six months ended November 30, 1998, net income increased 36% to $65.0 million or $.39 diluted earnings per share as compared to net income of $47.8 million or $.29 diluted earnings per share for the same period last year. Total service revenues were $282.2 million, an increase of 23% over $230.1 million for the same period last year.

PAYROLL SEGMENT
For the quarter ended November 30, 1998, operating income from Payroll services increased 28% to $56.7 million from $44.2 million for the same period last year. Payroll service revenue was $131.0 million, an increase of 21% over $108.5 million for the same period last year.

For the six months ended November 30, 1998, operating income from Payroll services increased 29% to $110.6 million from $85.5 million for the same period last year. Payroll service revenue was $259.0 million, an increase of 21% over $213.4 million for the same period last year.

The increases in revenues and operating income were the result of an 11% year-over-year increase in the Company's payroll client base, and the continued year-over-year growth of the Taxpay and Direct Deposit products. Paychex currently services 307,800 payroll clients, with 236,600 utilizing Taxpay, the Company's tax filing and payment feature, 120,900 taking advantage of the Company's Direct Deposit product, and 36,400 using the Company's Check Signing option.

HRS-PEO SEGMENT

For the quarter ended November 30, 1998, operating income for the HRS-PEO segment increased 159% to $2.6 million from $1.0 million for the same period last year. HRS-PEO service revenue was $11.9 million, an increase of 38% over $8.6 million for the same period last year.

For the six months ended November 30, 1998, operating income for the HRS-PEO segment increased 136% to $5.2 million from $2.2 million for the same period last year. HRS-PEO service revenue was $23.2 million, an increase of 39% over $16.7 million for the same period last year.

The increases in service revenue for the quarter and six months are primarily related to higher revenues from 401(k) plan recordkeeping and PEO clients. As of November 30, 1998, the segment had 8,000 401(k) plan recordkeeping clients, 15,800 PEO worksite employees and 18,100 section 125 clients. The increases in operating income for the quarter and six months are related to the gains in service revenues and continued benefits from the February 1998 consolidation of the PEO administrative functions in Rochester, NY. The November 30, 1998 number of worksite employees represents a 4% decline over a year ago due to the loss of two large PEO clients during November. The loss of these clients is not expected to have a material impact on full-year results.

CORPORATE EXPENSES

Corporate expenses are primarily related to the Information Technology, Organizational Development, Finance, Marketing and Senior Management functions of the Company. For the quarter ended November 30, 1998, operating expenses increased 13% from $12.7 million to $14.3 million. For the six months ended November 30, 1998, operating expenses increased 18% from $24.7 million to $29.1 million. The period increases are primarily due to additional employees required to support the continued growth of the Company's business segments, and from increased national marketing efforts, commenced in the third quarter of fiscal 1998.

B. Thomas Golisano, Chairman, President, and Chief Executive Officer of Paychex said, "We are pleased with the second quarter and first half results for fiscal 1999. Expansion of our payroll client base and their utilization of our ancillary services continue to generate excellent results. Profits from our HRS-PEO segment are growing at a very good rate, and we continue to see more opportunities for growth in this business segment."

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 September 15, 1998, that included the Company's press release of the financial results for the first quarter ended August 31, 1998.

- The Company filed a report on Form 8-K on October 2, 1998, that included the Company's press release dated October 1, 1998. This press release announced a fifty percent increase in the quarterly dividend rate, with a quarterly dividend declaration and changes in executive management personnel.

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: December 15, 1998 /s/ B. Thomas Golisano

B. Thomas Golisano
Chairman, President and
Chief Executive Officer

Date: December 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 NOVEMBER 30, 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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<NAME> PAYCHEX, INC.
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EXHIBIT 99: "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

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

Certain written and oral statements made by 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, state unemployment, 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 cash, cash equivalents, and securities held in the Company's investment portfolios.