

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

(Mark One)

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

For the quarterly period ended August 31, 1995

OR

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

For the transition period from _____ to _____

For Quarter Ended August 31, 1995 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)

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

(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 .

CLASS

OUTSTANDING AT AUGUST 31, 1995

(Common Stock, \$.01 Par Value)

(45,380,862 Shares)

PAYCHEX, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

PAYCHEX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	AUGUST 31, 1995	MAY 31, 1995
	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 11,451	\$ 12,942
INVESTMENTS	82,136	70,753
INTEREST RECEIVABLE	6,219	6,699
TRADE ACCOUNTS RECEIVABLE	33,744	30,772
PREPAID EXPENSES AND OTHER		
CURRENT ASSETS	2,734	1,743
DEFERRED INCOME TAXES	911	1,310
	-----	-----
TOTAL CURRENT ASSETS	137,195	124,219
PROPERTY AND EQUIPMENT		
LAND AND IMPROVEMENTS	2,787	2,779
BUILDINGS	24,346	21,304
DATA PROCESSING EQUIPMENT	38,308	33,980
FURNITURE, FIXTURES AND EQUIPMENT	32,374	29,135
LEASEHOLD IMPROVEMENTS	1,777	1,528
	-----	-----
	99,592	88,726
LESS ALLOWANCE FOR DEPRECIATION AND AMORTIZATION	51,843	45,019
	-----	-----
NET PROPERTY AND EQUIPMENT	47,749	43,707
OTHER ASSETS	1,086	511
	-----	-----
TOTAL ASSETS	\$186,030	\$ 168,437
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAYCHEX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, CONT'D.

	AUGUST 31, 1995	MAY 31, 1995
	(UNAUDITED)	
	(in thousands)	
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
TRADE ACCOUNTS PAYABLE	\$ 3,413	\$ 3,519
ACCRUED COMPENSATION AND RELATED ITEMS	12,025	13,162
ACCRUED INCOME TAXES	4,995	682
OTHER ACCRUED EXPENSES	6,676	6,116
DEFERRED REVENUE	2,334	2,977
CURRENT PORTION OF LONG-TERM DEBT	728	205
	-----	-----
TOTAL CURRENT LIABILITIES	30,171	26,661
OTHER LIABILITIES		
LONG-TERM DEBT	-0-	523
UNAMORTIZED LEASE INCENTIVES	501	557
DEFERRED INCOME TAXES	616	764
	-----	-----
TOTAL LIABILITIES	31,288	28,505

STOCKHOLDERS' EQUITY

COMMON STOCK, \$.01 PAR VALUE, AUTHORIZED 50,000,000 SHARES: ISSUED 45,380,862 AT AUGUST 31, 1995 AND 45,031,716 AT MAY 31, 1995	454	450
ADDITIONAL CAPITAL	21,009	17,727
RETAINED EARNINGS	133,279	121,755
	-----	-----
	154,742	139,932
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$186,030	\$ 168,437
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PAYCHEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<TABLE>

<CAPTION>

THREE MONTHS ENDED
AUGUST 31,

1995 1994

(in thousands, except per share amounts)

<S>	<C>	<C>
REVENUE	\$76,173	\$62,923
OPERATING COSTS	22,384	17,650
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	38,030	32,371
	-----	-----
OPERATING INCOME	15,759	12,902
OTHER INCOME (EXPENSE)		
INVESTMENT INCOME	1,356	706
INTEREST EXPENSE	(24)	(41)
	-----	-----
INCOME BEFORE INCOME TAXES	17,091	13,567
INCOME TAXES	4,888	4,016
	-----	-----
NET INCOME	\$12,203	\$ 9,551
	=====	=====
NET INCOME PER SHARE	\$.27	\$.21
	=====	=====
CASH DIVIDENDS PER SHARE	\$.06	\$.04
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	45,379	44,867
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PAYCHEX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>

<CAPTION>

THREE MONTHS ENDED AUGUST 31,

1995 1994

(in thousands)

<S>	<C>	<C>
OPERATING ACTIVITIES		
NET INCOME	\$12,203	\$ 9,551
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION AND AMORTIZATION	3,527	2,550
PROVISION FOR DEFERRED INCOME TAXES	161	185
PROVISION FOR BAD DEBTS	316	282

NET REALIZED GAIN ON SALES OF AVAILABLE-FOR-SALE SECURITIES	(251)	(18)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
TRADE ACCOUNTS RECEIVABLE	(2,795)	(5,255)
INTEREST RECEIVABLE	480	967
PREPAID EXPENSES AND OTHER CURRENT ASSETS	(752)	318
TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES	3,424	7,732
DEFERRED REVENUE	(643)	(846)
CHANGE IN UNAMORTIZED LEASE INCENTIVES	(88)	(130)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,582	15,336
INVESTING ACTIVITIES		
INVESTMENT PURCHASES OF AVAILABLE-FOR-SALE SECURITIES	(30,775)	(17,754)
PROCEEDS FROM SALES OF AVAILABLE-FOR-SALE SECURITIES	18,457	2,771
PROCEEDS FROM MATURITIES OF AVAILABLE-FOR-SALE SECURITIES	2,250	500
ADDITIONS TO PROPERTY AND EQUIPMENT, NET OF NORMAL DISPOSALS	(4,907)	(2,593)
NET CHANGE IN OTHER ASSETS	(521)	(267)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(15,496)	(17,343)
FINANCING ACTIVITIES		
PROCEEDS AND TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS	334	69
DIVIDENDS PAID	(2,716)	(1,794)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(2,382)	(1,725)
	-----	-----
(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,296)	(3,732)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,942	14,605
CASH OBTAINED FROM PAY-FONE MERGER	805	-0-
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,451	\$ 10,873
	=====	=====

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS
PAYCHEX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AUGUST 31, 1995

- A) THE 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, ALL ADJUSTMENTS CONSIDERED NECESSARY FOR A FAIR PRESENTATION HAVE BEEN INCLUDED. THE ACCOMPANYING FINANCIAL STATEMENTS SHOULD BE READ IN CONJUNCTION WITH THE NOTES TO FINANCIAL STATEMENTS PRESENTED IN THE COMPANY'S FORM 10-K AND ANNUAL REPORT FOR THE YEAR ENDED MAY 31, 1995.
- B) DURING THE THREE-MONTH PERIOD ENDING AUGUST 31, 1995, 28,897 SHARES OF STOCK WERE ISSUED UPON EXERCISE OF STOCK OPTIONS.
- C) ON MARCH 20, 1995, THE COMPANY AND PAY-FONE SYSTEMS, INC. AGREED IN PRINCIPLE THAT ALL OF THE OUTSTANDING COMMON STOCK OF PAY-FONE SYSTEMS, INC., WOULD BE ACQUIRED BY THE COMPANY IN A BUSINESS COMBINATION ACCOUNTED FOR AS A POOLING OF INTERESTS. UPON CONSUMMATION OF THE MERGER ON JUNE 15, 1995, THE STOCKHOLDERS OF PAY-FONE SYSTEMS, INC. RECEIVED APPROXIMATELY 332,000 SHARES OF PAYCHEX COMMON STOCK. RESULTS OF OPERATIONS PRIOR TO THE MERGER HAVE NOT BEEN RESTATED AS THE EFFECTS WOULD BE IMMATERIAL.
- D) ON SEPTEMBER 29, 1995, PAYCHEX ACQUIRED THE PAYROLL COMPANY, INC. IN A BUSINESS COMBINATION ACCOUNTED FOR AS A PURCHASE. THE PURCHASE WILL NOT HAVE A SIGNIFICANT IMPACT ON THE COMPANY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS.
- E) CERTAIN AMOUNTS FROM THE PRIOR YEAR ARE RECLASSIFIED TO CONFORM TO

PAYCHEX, INC. AND SUBSIDIARIES

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

THE FOLLOWING IS MANAGEMENT'S DISCUSSION OF CERTAIN SIGNIFICANT CHANGES IN THE RESULTS OF OPERATIONS DURING THE PERIODS INCLUDED IN THE ACCOMPANYING FINANCIAL STATEMENTS.

RESULTS OF OPERATIONS

REVENUE FOR THE FIRST QUARTER ENDED AUGUST 31, 1995 ROSE 21% TO A RECORD \$76,173,000 FROM \$62,923,000 A YEAR AGO. THIS INCREASE RESULTED FROM GROWTH OF CLIENTS UTILIZING THE BASIC PAYROLL SERVICE, THE TAXPAY TAX FILING AND PAYMENT SERVICE AND FROM INCREASED SALES OF OTHER ADD-ON PAYROLL SERVICES. REVENUE GAINS WERE ALSO ACHIEVED IN THE HUMAN RESOURCE SERVICES DIVISION. THE COMPANY EXPECTS CONTINUED EXPANSION OF ITS CLIENT BASE FOR ALL PRODUCTS AND SERVICES THROUGHOUT THE YEAR.

OPERATING COSTS WERE 29% OF REVENUE IN THE FIRST QUARTER, UP MODESTLY FROM 28% IN THE FIRST QUARTER OF LAST YEAR. FULL YEAR OPERATING COSTS, AS A PERCENTAGE OF REVENUE, ARE EXPECTED TO CONTINUE TO REMAIN RELATIVELY CONSISTENT WITH FISCAL 1995.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES WERE 50% OF REVENUE FOR THE CURRENT QUARTER AS COMPARED TO 51% FOR THE SAME PERIOD LAST YEAR. AS A PERCENTAGE OF REVENUE, EXPENDITURES FOR ADMINISTRATIVE WAGES WERE LOWER THAN LAST YEAR. FURTHERMORE, NON-RECURRING MERGER COSTS INCURRED FOR THE PAY-FONE SYSTEMS, INC. MERGER WERE FULLY ABSORBED IN THE FIRST QUARTER. THE COMPANY EXPECTS SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, AS A PERCENTAGE OF REVENUE, TO BE SLIGHTLY LOWER THAN LAST YEAR.

THE EFFECTIVE TAX RATE FOR THE CURRENT QUARTER WAS 28.6%, DOWN FROM 29.6% FOR THE SAME PERIOD LAST YEAR. THE LOWER RATE WAS GENERALLY DUE TO THE INCREASE OF TAX-EXEMPT INTEREST INCOME AS A PERCENTAGE OF PRE-TAX INCOME. IT IS ANTICIPATED THAT THE EFFECTIVE TAX RATE FOR THE CURRENT FISCAL YEAR WILL BE CONSISTENT WITH LAST YEAR'S RATE.

ON JUNE 15, 1995, THE STOCKHOLDERS OF PAY-FONE SYSTEMS, INC. RECEIVED APPROXIMATELY 332,000 SHARES OF PAYCHEX COMMON STOCK IN A BUSINESS COMBINATION ACCOUNTED FOR AS A POOLING OF INTERESTS. RESULTS OF OPERATIONS PRIOR TO THE MERGER HAVE NOT BEEN RESTATED AS THE EFFECTS WOULD BE IMMATERIAL.

ON SEPTEMBER 29, 1995, THE COMPANY ACQUIRED THE PAYROLL COMPANY, INC. IN A BUSINESS COMBINATION WAS ACCOUNTED FOR AS A PURCHASE. THE ACQUISITION WILL NOT HAVE A SIGNIFICANT IMPACT ON PAYCHEX' FINANCIAL POSITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

NET CASH PROVIDED BY OPERATING ACTIVITIES TOTALED \$15,582,000 AND \$15,336,000 FOR THE FIRST QUARTER OF 1996 AND 1995, RESPECTIVELY. NET INCOME FOR THE CURRENT QUARTER CONTRIBUTED A RECORD \$12,203,000 TO CASH FROM OPERATIONS, UP 28% OVER NET INCOME OF \$9,551,000 FOR THE FIRST QUARTER LAST YEAR.

INVESTMENT PURCHASES AND SALES INCREASED IN THE CURRENT PERIOD WHEN COMPARED TO THE SAME PERIOD LAST YEAR RESULTING FROM GROWTH IN THE COMPANY'S INVESTMENT PORTFOLIO.

CAPITAL EXPENDITURES FOR THE FIRST QUARTER TOTALED \$4,939,000. CAPITAL EXPENDITURES FOR THE REMAINDER OF THE YEAR ARE ESTIMATED AT \$14,000,000 TO \$17,000,000.

PROJECTED CASH FLOWS ARE EXPECTED TO BE ADEQUATE TO SUPPORT NORMAL BUSINESS OPERATIONS, PLANNED CAPITAL EXPENDITURES AND DIVIDEND PAYMENTS. FURTHERMORE, THE COMPANY HAS \$200,000,000 OF UNSECURED BANK LINES OF CREDIT AVAILABLE FOR ITS USE. AS OF AUGUST 31, 1995, THERE WERE NO OUTSTANDING BORROWINGS UNDER THESE LINES OF CREDIT.

PART II. OTHER INFORMATION

PAYCHEX, INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS:

THERE WERE NO EXHIBITS APPLICABLE FOR THE THREE MONTH PERIOD ENDED AUGUST 31, 1995.

(B) REPORTS ON FORM 8-K:

A FORM 8-K WAS FILED ON AUGUST 25, 1995 ANNOUNCING THE CONSOLIDATED FINANCIAL RESULTS OF PAYCHEX, INC. AND PAY-FONE SYSTEMS, INC. FOR THE TWO MONTH PERIOD ENDED JULY 31, 1995.

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. AND SUBSIDIARIES

DATE: OCTOBER 13, 1995

/s/ B. THOMAS GOLISANO

B. THOMAS GOLISANO
CHAIRMAN, PRESIDENT AND CHIEF
EXECUTIVE OFFICER

DATE: OCTOBER 13, 1995

/s/ G. THOMAS CLARK

G. THOMAS CLARK
SECRETARY, TREASURER AND
SENIOR VICE PRESIDENT OF FINANCE

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUGUST 31, 1995 FINANCIAL STATEMENTS OF PAYCHEX, INC. AND SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK> 0000723531

<NAME> PAYCHEX INC.

<MULTIPLIER> 1000

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