SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MAY 31, 1999

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)	(IRS Employer Identification Number)
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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, $.01 PAR VALUE
(Title of Class)

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 BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [ ].

AS OF JULY 31, 1999, SHARES HELD BY NON-AFFILIATES OF THE REGISTRANT HAD AN AGGREGATE MARKET VALUE OF $5,862,538,000

AS OF JULY 31, 1999, 246,393,828 SHARES OF THE REGISTRANT'S COMMON STOCK, $.01 PAR VALUE, WERE OUTSTANDING.

DOCUMENTS INCORPORATED BY REFERENCE

CERTAIN SPECIFIED PORTIONS OF THE REGISTRANT'S ANNUAL REPORT TO STOCKHOLDERS FOR THE FISCAL YEAR ENDED MAY 31, 1999 (THE "ANNUAL REPORT") IN RESPONSE TO PART II, ITEMS 5 THROUGH 8, INCLUSIVE. CERTAIN SPECIFIED PORTIONS OF THE REGISTRANT'S DEFINITIVE PROXY STATEMENT DATED AUGUST 16, 1999, IN RESPONSE TO PART III, ITEMS 10 THROUGH 12, INCLUSIVE.

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS
Paychex, Inc. (the "Company" or "Paychex"), a Delaware corporation, was formed in 1979 through the consolidation of 17 corporations engaged in providing computerized payroll accounting services. The Company's corporate headquarters is located in a suburb of Rochester, New York. The Company's fiscal year is from June 1 through May 31.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS
Financial information about the Company's business segments is contained in Note C - Segment Financial Information in the Notes to Consolidated Financial Statements contained in Exhibit 13, Portions of the Annual Report to Stockholders for the fiscal year ended May 31, 1999 (the "Annual Report"), which are incorporated herein by reference.

NARRATIVE DESCRIPTION OF BUSINESS

PAYROLL SEGMENT
The Payroll segment prepares and furnishes to clients paychecks, earnings statements and internal accounting records such as journals, summaries and earnings histories. The segment also prepares for its clients all required monthly, quarterly and annual payroll tax returns for federal, state and local governments. 79% of the Company's payroll clients utilize TAXPAY, a service which provides automatic payment of payroll taxes and filing of quarterly and annual payroll tax returns. The segment also provides enhanced payroll

services, including a digital check signing and inserting service and an automatic salary deposit service, DIRECT DEPOSIT. The DIRECT DEPOSIT service electronically transmits the net payroll for a client to its employees' account at financial institutions.

Paychex employs payroll specialists who communicate primarily by telephone with their assigned clients each payroll period to record the hours worked by each employee and any personnel or compensation changes. These specialists are trained by Paychex in all facets of payroll preparation and applicable tax regulations.

The Paychex payroll system is an on-line, direct entry computer system which enables the payroll specialist, upon receiving the information from the client over the telephone, to enter it simultaneously. Payroll processing is decentralized and performed in most Paychex branches while TAXPAY and DIRECT DEPOSIT are processed at a facility in Rochester, New York.

Paychex' Payroll segment is a national payroll processing and payroll tax preparation service provided to 322,600 small- to medium-sized businesses within the United States. There are about 5.4 million full-time employers in the markets this segment serves. Of those employers, 98% have less than 100 employees and are the Company's primary customers and target market.

The Payroll segment markets its services principally through its sales force located at its 89 branch operation centers and 29 sales offices in major metropolitan areas. Market share in branch processing center territories ranges from 1 to 20%, and no single client accounts for more than 1% of segment revenue. In addition to its direct marketing efforts, the Company utilizes relationships with many banks and accountants for client referrals.

Clients may discontinue Paychex payroll service at will. For the past three fiscal years, approximately 80% of the businesses which were clients in one fiscal year, continued to be clients in the succeeding fiscal year. Management believes ownership changes or business failures common to small businesses are the primary causes of client loss.

Payroll Competition
The Payroll segment competition, listed by size, include (i) manual payroll systems sold by numerous vendors, (ii) traditional in-house computerized payroll departments, and (iii) other computerized payroll service providers. Management believes that the primary elements of competition are price and service, and believes it has one major competitor that provides computerized payroll accounting services nationwide.

HRS-PEO SEGMENT
The HRS-PEO segment provides human resource products and services through its HRS division, on an a la carte basis to clients who choose to provide these benefits directly or through a co-employer relationship with Paychex Business Solutions, Inc. (PBS), a subsidiary of Paychex, which operates as a Professional Employer Organization (PEO).

Human Resource Services
Among the HRS products is a 401(k) recordkeeping service, used by 10,100 clients at May 31, 1999. This service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services.

The HRS division also offers products under section 125 of the Internal Revenue Code. The Premium Only Plan allows employees to pay for certain health insurance benefits with pre-tax dollars, with a resultant reduction in payroll taxes to employers and employees. The Flexible Spending Account Plan allows a client's employees to pay, with pre-tax dollars, health and dependent care expenses not covered by insurance. All required administration, compliance and coverage tests are provided with these services.

Other HRS products include employee handbooks, management manuals and personnel forms. These have been designed to simplify clients' office processes and enhance their employee benefits programs. Group benefits and workers' compensation insurance services are also offered in selected geographical areas. State unemployment insurance services provide clients with a prompt reply for all claims, appeals, determinations, change statements and requests for separation documents.

Professional Employer Organization Services
PBS is a leading professional employer organization, which provides small- and medium-sized businesses with an outsourcing solution to the complexities and costs related to employment and human resources. PBS provides professional employer services through five core activities: (i) human resource administration, (ii) employer regulatory compliance management, (iii) workers' compensation cost containment and safety management, (iv) employee benefits and related administration and (v) payroll processing and tax compliance. By engaging PBS to provide these services, clients are freed to concentrate their resources on their core businesses. As of May 31, 1999, PBS provided professional employer services to 18,300 employees, primarily in Florida, Georgia and southern California.

HRS-PEO Sales Process
HRS-PEO products and services are sold through a sales organization separate from that which sells Payroll services, and in fields related to one or more of the segment's core services. The HRS division sells the majority of its products and services to existing Payroll segment clients since the processed payroll information provides the data integration necessary to provide the service. PBS generates sales leads from two primary sources: direct sales efforts and referrals, including referrals of existing Payroll segment clients.

HRS-PEO Competition
HRS-PEO segment competitors include (i) traditional in-house human resource departments, (ii) other PEOs, and (iii) providers of unbundled employment-related services such as payroll processing firms, temporary employment firms, commercial insurance brokers, human resource consultants, workers compensation insurers, HMOs and other specialty managed care providers.

Competition in the highly fragmented PEO industry is generally on a local or regional basis. Management believes that the primary elements of competition are quality of service, choice and quality of benefits, and price. PBS management believes that name recognition, including its ownership by Paychex, regulatory expertise, financial resources, risk management and data processing capability distinguish Paychex and PBS from the rest of the industry.

SOFTWARE MAINTENANCE AND PRODUCT DEVELOPMENT
The ever-changing mandates of federal, state and local taxing authorities compel the Company to continuously update its proprietary software utilized by its Payroll and HRS-PEO business segments. The Company is also engaged in developing ongoing enhancements and maintenance to this software to meet the changing requirements of its clients and the marketplace. However, the Company is not engaged, to any significant extent, in basic or technological software research and development.

EMPLOYEES
As of May 31, 1999, the Company and its subsidiaries employed approximately 5,500 persons, of which 5,200 are full-time and 300 are part-time.

TRADEMARKS
As of May 31, 1999, the Company and its subsidiaries have a number of trademarks and service marks filed for registration or registered with the U.S. Patent and Trademark Office, including the names PAYCHEX, TAXPAY, PAYLINK, PREVIEW, BANKCHEX, READYCHEX, PAY-AS-YOU-GO and RAPID PAYROLL. The Company believes these trademarks and service marks are of material importance to its business.

SEASONALITY
There is no significant seasonality to the Company's business. However, during the third fiscal quarter, the number of new payroll segment clients and new PEO worksite employees tends to be higher than the rest of the fiscal year. Consequently, greater sales commission expenses are reported in the third quarter.

ITEM 2. PROPERTIES
The Company's headquarters for its Payroll segment and Corporate functions are housed in a 140,000 square foot building complex owned by the Company in a Rochester, New York suburb. In addition, approximately 112,000 square feet is leased in several office complexes within the Rochester area. These leased facilities house various Corporate functions, other Payroll operations and a telemarketing unit.

The Payroll segment leases approximately 1,100,000 square feet of space for its regional, branch, data processing centers and sales offices at various locations throughout the United States, concentrating on major metropolitan areas.

HRS operations are performed at the HRS-PEO headquarters, a 62,000 square foot office facility owned by the Company within 10 miles of the Corporate headquarters. PEO operations are performed mainly in leased facilities in Florida and Georgia, and utilize some leased office space at various Payroll branches. The HRS-PEO sales force utilizes office space at the segment's headquarters, PEO operating locations, and Payroll branches and sales offices.

The Company believes that adequate, suitable lease space will continue to be available for its needs.

ITEM 3. LEGAL PROCEEDINGS
There are no pending legal proceedings to which the Company or any of its subsidiaries is a party, that are material in relation to the Consolidated Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended May 31, 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
The Company's common stock trades on The Nasdaq Stock Market under the symbol "PAYX". The quarterly high and low sales price and dividend information for the past two years is set forth in the Company's Annual Report under the heading "Quarterly Financial Data (Unaudited)" and is incorporated herein by reference. Dividends are normally paid in February, May, August, and November. The level and continuation of future dividends are necessarily dependent on the Company's future earnings and cash flows.

On July 31, 1999, there were 6,805 registered holders of record of the Company's common stock, plus 2,769 participants in the Paychex, Inc. Dividend Reinvestment and Stock Purchase Plan, plus 4,783 participants in the Paychex, Inc. Employee Stock Purchase Plan.

ITEM 6. SELECTED FINANCIAL DATA
The information required is set forth in the Company's Annual Report under the heading "Eleven-Year Summary of Selected Financial Data" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The information required is set forth in the Company's Annual Report under the heading "Management's Discussion" and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
The information required is set forth in the Company's Annual Report under the heading "Management's Discussion" under subheading "Investments and ENS investments: Interest Rate Risk" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
The financial statements required are identified in Item 14(a), and are set forth in the Company's Annual Report and incorporated herein by reference. Supplementary data required is set forth in the Company's Annual Report under the heading "Quarterly Financial Data (Unaudited)" and is incorporated herein by reference. Also, see Financial Statement Schedule II - Valuation and Qualifying Accounts at Item 14(d).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
The information required is set forth in the Company's definitive Proxy Statement in the section entitled "PROPOSAL 1 - ELECTION OF DIRECTORS", the section entitled "OTHER EXECUTIVE OFFICERS OF THE COMPANY", and the section entitled "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION
The information required is set forth in the Company's definitive Proxy Statement in the section entitled "EXECUTIVE OFFICER COMPENSATION" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
The information required is set forth in the Company's definitive Proxy Statement under the heading "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGERS" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
There were no relationships or related transactions required to be reported.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K
(a) 1. Financial Statements and Supplementary Data

The following consolidated financial statements of the Company are incorporated herein by reference to the Company's Annual Report:

Report of Independent Auditors

Consolidated Statements of Income - For the Years ended May 31, 1999, 1998, and 1997

Consolidated Balance Sheets - May 31, 1999 and 1998

Consolidated Statements of Stockholders' Equity - For the Years ended May 31, 1999, 1998, and 1997

Consolidated Statements of Cash Flows - For the Years ended May 31, 1999, 1998, and 1997

Notes to Consolidated Financial Statements

2. Financial statement schedules required to be filed by Item 8 of this Form, include Schedule II - Valuation and Qualifying Accounts, and is included at Item 14(d). All other schedules are omitted as the required matter is not present, the amounts are not significant or the information is shown in the financial statements or the notes thereto.

3. Exhibits

(3) (a) Articles of Incorporation, as amended, incorporated herein by reference to the Company's Registration Statement No. 2-85103, Exhibits 3.1 through 3.5 and Form 8-K filed with the Commission on October 22, 1986 and Form 10-Q filed with the Commission on January 12, 1989 and Form 10-Q filed with the Commission on January 13, 1993 and Form 10-Q filed with the Commission on January 10, 1996 and Form 10-Q filed with the Commission on October 14, 1997.

(3) (b) By-Laws, as amended, incorporated herein by reference to the Company's Registration Statement No. 2-85103, Exhibit 3.6.

(10)(a) Paychex, Inc. 1987 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-17780.

(10)(b) Paychex, Inc. 1992 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-52772.

(10)(c) Paychex, Inc. 1995 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-64389.

(10)(d) Paychex, Inc. 1998 Stock Incentive Plan incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 333-65191.

(10)(e) Paychex, Inc. Section 401(k) Incentive Retirement Plan, incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-52838.

(10)(f) Paychex, Inc. Section 401(k) Incentive Retirement Plan, incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 333-84055.

(10)(g) Paychex, Inc. - Pay-Fone Systems, Inc. 1993, 1990, 1987, 1983, 1981 Incentive Stock Option Plans and Director Non-Qualified Stock Option Agreements incorporated herein by reference to the Company's Registration Statement on Form S-8, No. 33-60255.

(10)(h) Paychex, Inc. Officer Performance Incentive Program for the year ended May 31, 2000, and filed herewith. (Management contract)

(13) Portions of the Annual Report to Stockholders for the Fiscal Year ended May 31, 1999. Such report, except for the portions thereof which are expressly incorporated by reference in this filing, is furnished for the information of the Commission and is not to be deemed "filed" as part of this filing.

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Auditors.

(24) Power of Attorney.

(27) Financial Data Schedule (filed electronically).

(99) "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

(b) Reports on Form 8-K - The Company filed a Form 8-K on June 29, 1999, that included the Company's May 31, 1999 year-end earnings press release, and a preliminary Management's Discussion and Analysis of the Financial Condition and Results of Operations for the years ended May 31, 1999, 1998, and 1997.

(d) Schedule II - Valuation and Qualifying Accounts

Paychex, Inc.
Consolidated Financial Statement Schedule
For the year ended May 31,
(In thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
1999				
Allowance for bad debts	$1,750	$1,886	$1,241*	$2,395
1998				
Allowance for bad debts	$1,308	$1,648	$1,206*	$1,750
1997				
Allowance for bad debts	$ 872	$1,328	$ 892*	$1,308

* - Uncollectible accounts written off, net of recoveries.

Note: The Allowance for bad debts is deducted from the balance of Accounts receivable on the Consolidated Balance Sheets.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

Dated: August 27, 1999 By: /s/ B. Thomas Golisano
B. Thomas Golisano, Chairman, President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: August 27, 1999 By: /s/ B. Thomas Golisano
B. Thomas Golisano, Chairman, President, and Chief Executive Officer and Director

Dated: August 27, 1999 By: /s/ Steven D. Brooks*
Steven D. Brooks, Director

Dated: August 27, 1999 By: /s/ G. Thomas Clark*
G. Thomas Clark, Director

Dated: August 27, 1999 By: /s/ David J.S. Flaschen*
David J.S. Flaschen, Director

Dated: August 27, 1999 By: /s/ Phillip Horsley*
Phillip Horsley, Director

Dated: August 27, 1999 By: /s/ Grant M. Inman*
Grant M. Inman, Director

Dated: August 27, 1999 By: /s/ Harry P. Messina, Jr.*
Harry P. Messina, Jr., Director

Dated: August 27, 1999 By: /s/ J. Robert Sebo*
J. Robert Sebo, Director

Dated: August 27, 1999 By: /s/ John M. Morphy
John M. Morphy, Vice President, Chief Financial Officer and Secretary
(Principal Accounting Officer)

*By: /s/ B. Thomas Golisano
B. Thomas Golisano, as Attorney-in-Fact

EXHIBIT 10(h): PAYCHEX, INC. OFFICER PERFORMANCE INCENTIVE PROGRAM FOR THE YEAR ENDED MAY 31, 2000

On July 8, 1999, the Board of Directors (the "Board") approved the Compensation Committee's recommendation to adopt the Paychex, Inc. Officer Performance Incentive Program (the "Program") for the year ended May 31, 2000, as outlined below:

1. Participants: All Officers of Paychex, Inc.

2. Maximum Incentive: 40% of base salary for fiscal year 2000 as approved by the Board at the July 8, 1999 Board Meeting.

3. Performance Criteria: The Board has approved the following performance levels for a single measurement - year-over-year net income growth:

Factor	Minimum	Mid point	Maximum
Net income (In thousands)	$180,829	$184,306	$187,784
% Increase	30%	32.5%	35%
% Maximum Bonus	25%	62.5%	100%
% of Pay Earned	10%	25%	40%

Net income less than $180,829 would earn no bonus.
Net income greater than $187,784 would earn 100%.
The percentage of maximum bonus between minimum and target, and target and maximum will be interpolated to the nearest tenth of 1%.

4. Payment: Incentive payments to be paid in July 2000, after Board approval. Officer must be employed at the end of fiscal year 2000 to be eligible for any bonus.

5. Partial Year: New officers appointed to an executive officer position during the first three quarters of the year will participate in the Program, but their incentive payment will be prorated based upon their time in the position.

   Executive officers appointed during the fourth quarter of the fiscal year will begin participation with the start of the next fiscal year.

6. Changes and Terminations: Changes to and termination of the Program is at the sole discretion of the Board's Compensation Committee.

EXHIBIT 13: PORTIONS OF THE ANNUAL REPORT TO STOCKHOLDERS FOR THE FISCAL YEAR ENDED MAY 31, 1999

MANAGEMENT'S DISCUSSION

Management's Discussion reviews the Company's operating results for each of the three years ended May 31, 1999 (fiscal 1999, 1998 and 1997), and its financial condition at May 31, 1999. 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 Consolidated Financial Statements, the related Notes to Consolidated Financial Statements, and the Eleven-Year Summary of Selected Financial Data. Forward-looking statements in this reivew are qualified by the cautionary statement at the beginning of this Annual Report (Exhibit 99).

RESULTS OF OPERATIONS

In thousands, except per share amounts	1999	Change	1998	Change	1997
Service revenues	$597,296	21.0%	$493,704	23.5%	$399,733
Operating income	$187,562	39.2%	$134,700	39.4%	$ 96,625
Income before income taxes	$200,143	38.8%	$144,173	39.1%	$103,656
Net income	$139,099	36.1%	$102,219	36.0%	$ 75,150
Basic earnings per share	$ .57	35.7%	$ .42	35.5%	$ .31
Diluted earnings per share	$ .56	36.6%	$ .41	32.3%	$ .31

The financial results for Paychex, Inc., in 1999, reflect the ninth consecutive year of record service revenues and net income, and the eighth consecutive year of net income growth of 36% or more. The Company's ability to continually grow its client base, increase client utilization of ancillary services, implement modest price increases, and decrease operating expenses as a percent of service revenues has resulted in nine years of average compounded annual growth in service revenues of 19% and net income of 36%.

See Note A of the Notes to Consolidated Financial Statements for a detailed description of the Company's business activities and reportable segments.

Payroll segment

In thousands	1999	Change	1998	Change	1997
Payroll service revenue	$545,249	19.8%	$455,227	23.4%	$368,855
Investment revenue included in Payroll service revenue	$ 52,335	20.5%	$ 43,429	27.3%	$ 34,105
Payroll operating income	$235,710	30.8%	$180,265	33.2%	$135,364
Payroll clients	322.6	9.9%	293.6	11.8%	262.7
Taxpay clients	254.3	15.2%	220.7	22.0%	180.9
Direct Deposit clients	135.4	29.7%	104.4	36.5%	76.5
Check Signing clients	39.5	17.9%	33.5	23.2%	27.2

Revenues: Payroll service revenue includes service fees and investment revenue. Service fee revenue is earned primarily from Payroll, Taxpay, Direct Deposit, Check Signing and other ancillary services. Investment revenue is earned during the period between collecting client funds and remitting the funds to the applicable tax authorities for Taxpay clients and employees of 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 for 1999 and 1998 are primarily related to the 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. During 1998 and 1997, the growth of the Taxpay client base was accelerated by the Internal Revenue Service's Electronic Federal Tax Payment System mandate, which required many small businesses to remit payroll tax payments electronically as of July 1, 1997. Remitting payroll tax payments electronically by the Company, results in the payments becoming "good funds" one day earlier, and a one-day reduction in investment revenue.

At May 31, 1999, 79% of Payroll clients utilized the Taxpay service, compared with 75% at the end of 1998, and 69% at the end of 1997. 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 42% at May 31, 1999, versus 36% and 29% at May 31, 1998 and 1997, respectively. At May 31, 1999, only 25% of the total employees paid by the Company's payroll service utilized direct deposit. This service is expected to provide growth opportunities for fiscal 2000 and beyond.

The decrease in year-over-year percentage growth in Payroll service revenue in 1999 compared to 1998 reflects the impact of lower interest rates and the maturing of Taxpay. Fiscal 2000's percentage growth in Payroll revenue is expected to be within the long-term historical range of 17% to 19%. Additional discussion on interest rates and related risk is included in the Liquidity and Capital Resources section of this review under the caption "Investments and ENS investments."

Operating income: Operating income for 1999 and 1998 increased as a result of continued growth of the client base, record levels of client retention, increased utilization of ancillary services, modest price increases, and leveraging of the segment's operating expense base, as evidenced by the increases in the segment's operating margins year-over-year.

HRS-PEO segment

In thousands	1999	Change	1998	Change	1997
HRS-PEO service revenue	$ 52,047	35.3%	$ 38,477	24.6%	$ 30,878
PEO direct costs billed	578,132	15.7%	499,741	49.2%	334,966
Total HRS-PEO revenue	630,179	17.1%	538,218	47.1%	365,844
PEO direct costs	578,132	15.7%	499,741	49.2%	334,966
HRS-PEO operating income	$ 12,598	89.7%	$ 6,642	18.7%	$ 5,596
401(k) Recordkeeping clients	10.1	68.3%	6.0	100.0%	3.0
401(k) client funds managed externally (in millions)	$ 757.6	97.7%	$ 383.3	177.2%	$ 138.3
Section 125 clients	20.2	23.2%	16.4	24.2%	13.2
PEO worksite employees	18.3	-4.7%	19.2	39.1%	13.8

Revenues: The significant increases in service revenue for 1999 and 1998 are primarily related to the benefits of developing and growing a recurring revenue stream from 401(k) recordkeeping clients, section 125 plan clients, and the number of Professional Employer Organization (PEO) worksite employees. During fiscal 1999, additions to worksite employees exceeded expectations, but were offset by the loss of two large PEO clients during November 1998. Fiscal 2000's growth in HRS-PEO service revenue is expected to be comparable to 1999's rate and continue to grow at a rate higher than Payroll segment revenue.

PEO direct costs billed and PEO direct costs: Consistent with PEO industry practice, total PEO revenues reported in the Consolidated Statements of Income include the Company's 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 of employment. The lower percentage growth in 1999 for PEO direct costs billed and PEO direct costs is primarily due to the loss of the two large clients discussed above.

Operating income: For 1999 and 1998, the increases in operating income are primarily related to gains in service revenue and leveraging operating expenses. Fiscal 1999 also benefited from the February 1998 consolidation of the PEO administrative functions from Florida to Rochester, New York. During the first half of 1999, the segment increased its 401(k) recordkeeping sales force by approximately 50 individuals to attain the goal of servicing more than 10,000 clients by the end of 1999, and to build a selling infrastructure for future years.

Full-year fiscal 2000's HRS-PEO service revenue and operating income are anticipated to continue to grow at a rate that is higher than the Payroll segment's. Fiscal 2000's quarter-over-quarter percentage comparisons in HRS-PEO service revenue and operating income may vary significantly throughout the year, and any one particular quarter's results may not be indicative of expected full-year results.

Corporate expenses

In thousands	1999	Change	1998	Change	1997
Corporate expenses	$60,746	16.4%	$52,207	17.8%	$44,335

For 1999 and 1998, the increases in expenses are primarily due to additional employees required to support the continued growth of the Company's business segments. In addition, 1999 and 1998 expenses reflect increased national marketing efforts, which began in the latter part of the third quarter of fiscal 1998. Fiscal 2000's expenses are expected to increase at a rate slightly lower than 1999's growth rate.

Investment income

In thousands	1999	Change	1998	Change	1997
Investment income	$12,581	32.8%	$ 9,473	34.7%	$ 7,031

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 investment balances generated from increases in overall cash flows. Fiscal 1999's growth was slightly impacted by lower comparable interest rates. Additional discussion on interest rates and related risk is included in the Liquidity and Capital Resources section of this review under the caption "Investments and ENS investments." Investment income for fiscal 2000, subject to changes in market rates of interest, is expected to grow at a rate slightly lower than the Company's net income growth.

Income taxes

In thousands	1999	Change	1998	Change	1997
Income taxes	$61,044	45.5%	$41,954	47.2%	$28,506
Effective income tax rate	30.5%	1.4	29.1%	1.6	27.5%

For 1999 and 1998, the increases in the effective income tax rate are due to the growth in taxable income exceeding the growth in tax-exempt income. Tax-exempt income is derived primarily from the Taxpay and Direct Deposit services that provide investment revenue. In addition, the higher effective rate for 1999 was due to higher than anticipated investments in taxable financial instruments, which were yielding a higher net of tax return than tax-exempt investments. Fiscal 2000's effective income tax rate is expected to range from 30.5% to 31.0%, as taxable income is expected to grow at a faster rate than tax-exempt income.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

In thousands	1999	Change	1998	Change	1997
Operating cash flows	$174,120	27.3%	$136,761	27.8%	$107,027

The increases 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, forecasted growth, purchases of property and equipment and dividend payments. Furthermore, at year-end, the Company had $343.2 million in available cash and investments and $297.5 million of available, uncommitted, unsecured lines of credit.

Investing activities

In thousands	1999	Change	1998	Change	1997
Net Investments and ENS activities	$ (82,724)	-6.8%	$ (88,728)	152.4%	$(35,151)
Purchases of P&E, net	(22,104)	-21.6%	(28,197)	56.6%	(18,008)
Purchases of other assets	(3,590)	599.8%	(513)	-73.5%	(1,935)
Net cash used in investing activities	$(108,418)	-7.7%	$(117,438)	113.2%	$(55,094)

Investments and ENS investments: Investments are primarily available-for-sale debt securities, and ENS investments consist of short-term funds and available-for-sale debt securities, which are detailed in Note D of the Notes to Consolidated Financial Statements.

Investments have increased due to the investment of increasing cash balances provided by operating activities less purchases of property and equipment and dividend payments. The reported amount of ENS investments will vary significantly based upon the timing of collecting client funds, and remitting the funds to the applicable tax authorities for Taxpay clients and employees of Direct Deposit clients.

At May 31, 1999, the Company had $770.6 million of ENS funds and $47.6 million of Corporate cash equivalents invested in money market securities and other cash equivalents with an average maturity of less than 30 days, and $879.6 million invested in available-for-sale securities with an average duration of 2.5 years. At May 31, 1999, the market value of the available-for-sale securities exceeded their cost basis by $4.5 million compared to $5.4 million at the end of May 1998.

Interest rate risk - The Company's available-for-sale debt securities are exposed to market risk from changes in interest rates, as rate volatility will cause fluctuations in the market value of held investments. Increases in interest rates normally decrease the market value of the available-for-sale securities, while decreases in interest rates increase the market value of the available-for-sale securities.

In addition, the Company's available-for-sale securities and short-term funds are exposed to earnings risk from changes in interest rates, as rate volatility will cause fluctuations in the earnings potential of future investments. Increases in interest rates quickly increase earnings from short-term funds, and over time increase earnings from the available-for-sale securities portfolio. 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 earnings effect on the available-for-sale securities and short-term funds.

The Company does not utilize derivative financial instruments to manage interest rate risk. The Company directs investments towards high credit-quality, tax-exempt securities to mitigate the risk that earnings from the portfolio could be adversely impacted by changes in interest rates in the near term. The Company invests in short- to intermediate-term, fixed-rate municipal and government securities, which typically have lower interest rate volatility, and manages the securities portfolio to a benchmark duration of 2.5 to 3.0 years.

During the fiscal 1999 quarter ended November 30, 1998, the federal funds rate was reduced by 75 basis points to 4.75%. The earnings impact of these rate reductions is not precisely quantifiable because many factors influence the return on the Company's portfolio. These factors include, among others, daily interest rate changes, the proportional mix of taxable and tax-exempt investments, and changes in tax-exempt and taxable investment rates which are not synchronized, nor do they change simultaneously. Subject to the aforementioned factors, a 25 basis point change normally affects the Company's tax-exempt interest rates by approximately 17 basis points.

As of May 31, 1999, the Company had $879.6 million invested in available-for-sale securities at fair value, with a weighted-average yield to maturity of 4.10%. Assuming a hypothetical increase in interest rates of 75 basis points given the May 31, 1999 portfolio of securities, the resulting potential decrease in fair value would be approximately $16.2 million, or approximately 2% of the portfolio. Conversely, a corresponding decrease in interest rates would result in a comparable increase in fair value. This hypothetical increase or decrease in the fair value of the portfolio would be recorded as an adjustment to the portfolio's recorded value, with an offsetting amount recorded in stockholders' equity, and with no related or immediate impact to the results of operations. The Company's interest rate risk exposure has not changed materially since May 31, 1998.

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 by limiting amounts that can be invested in any single instrument. At May 31, 1999, approximately 96% of the available-for-sale securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 or equivalent rating.

Purchases of property and equipment, net: In addition to the $22.1 million of purchases of property and equipment for the year ended May 31, 1999, the Company had committed to purchase approximately $4.0 million of additional items at May 31, 1999. To support the Company's continued client and ancillary product growth, significant purchases and commitments were made in 1999 and 1998 for data processing and personal computer equipment, and for the expansion and upgrade of various operating facilities. Purchases of property and equipment in fiscal 2000 are expected to range from $27 million to $30 million.

Financing activities

In thousands, except per share amounts	1999	Change	1998	Change	1997
Dividends paid	$(54,055)	50.7%	$(35,871)	48.7%	$(24,117)
Proceeds from exercise of stock options	5,535	178.1%	1,990	-8.7%	2,180
Other	(61)	--	(84)	--	218
Net cash used in financing activities	$(48,581)	43.0%	$(33,965)	56.4%	$(21,719)
Cash dividends per common share	$ .22	46.7%	$ .15	50.0%	$ .10

Dividends paid: The Company has increased its quarterly cash dividend rate per share by 50% in each of the last seven fiscal years. The Company has distributed three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares each May in the past five fiscal years.

Proceeds from exercise of stock options: The increase in proceeds from exercise of stock options reflects the issuance of 1,032,000 shares of common stock for stock option exercises in 1999, versus 277,000 shares in 1998 and 267,000 shares in 1997, on a pre-split-adjusted basis. See Note F of the Notes to Consolidated Financial Statements for additional disclosure on the Company's stock option plans.

OTHER

Recently issued accounting standards: Through the end of 1999, the Company expensed as incurred certain costs to develop and enhance its internal computer programs and software. Expenditures for vendor-provided software were capitalized and amortized by the straight-line method over their estimated useful lives, ranging from 3 to 5 years. In March 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires the capitalization of internal use computer software costs if certain criteria are met, including all external direct costs for materials and services and certain payroll and related fringe benefit costs. The Company will adopt the SOP as of June 1, 1999. The effect of adopting the SOP is expected to increase net income by approximately $2.0 million to $3.0 million for the year ended May 31, 2000.

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.

Processes and procedures are in place to ensure the following: all future internal development and testing follow 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.

The Company's internal mission-critical systems were year 2000 compliant by the end of the first quarter of calendar year 1999. The remainder of calendar year 1999 will be used to assess and address year 2000 issues for internal desktop computers and software, complete interface testing with external agencies and partners, enhance existing normal business contingency plans to address any identified year 2000 issues, and 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, and expects minimal business disruption at the turn of the century.

The Company currently anticipates expenditures for year 2000 efforts to approximate $5 million, with approximately eighty percent spent through May 31, 1999. The remaining twenty percent will be spent on desktop computers and software, continued interface testing with external agencies and partners, enhancing existing contingency plans, and to react to yet unknown changes dictated by third parties. 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.

Report of Independent Auditors

Board of Directors

Paychex, Inc.

We have audited the accompanying consolidated balance sheets of Paychex, Inc. as of May 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paychex, Inc. at May 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 1999, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Syracuse, New York
June 25, 1999

CONSOLIDATED STATEMENTS OF INCOME

In thousands, except per share amounts	Year ended May 31, 1999	1998	1997
Service revenues:			
Payroll	$ 545,249	$ 455,227	$ 368,855
HRS-PEO	52,047	38,477	30,878
Total service revenues	597,296	493,704	399,733
PEO direct costs billed (A)	578,132	499,741	334,966
Total revenue	1,175,428	993,445	734,699
PEO direct costs (A)	578,132	499,741	334,966
Operating costs	151,956	131,731	115,034
Selling, general and administrative expenses	257,778	227,273	188,074
Operating income	187,562	134,700	96,625
Investment income	12,581	9,473	7,031
Income before income taxes	200,143	144,173	103,656
Income taxes	61,044	41,954	28,506
Net income	$ 139,099	$ 102,219	$ 75,150
Basic earnings per share	$ .57	$ .42	$ .31
Diluted earnings per share	$ .56	$ .41	$ .31
Weighted-average common shares outstanding	245,521	244,514	243,002
Weighted-average shares assuming dilution	248,788	247,219	245,636
Cash dividends per common share	$ .22	$ .15	$ .10

See Notes to Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS

In thousands	May 31, 1999	1998
ASSETS		
Cash and cash equivalents	$ 52,692	$ 35,571
Investments	290,555	214,967
Interest receivable	18,045	13,227
Accounts receivable	62,941	54,596

Deferred income taxes	1,364	1,525
Prepaid expenses and other current assets	6,000	4,391
Current assets before ENS investments	431,597	324,277
ENS investments	1,361,523	1,154,501
Total current assets	1,793,120	1,478,778
Property and equipment - net	65,931	64,698
Deferred income taxes	1,417	517
Other assets	12,633	5,794
Total assets	$1,873,101	$1,549,787
LIABILITIES		
Accounts payable	$ 10,328	$ 10,496
Accrued compensation and related items	36,574	33,649
Deferred revenue	4,643	4,443
Accrued income taxes	4,281	2,628
Other current liabilities	17,905	13,960
Current liabilities before ENS client deposits	73,731	65,176
ENS client deposits	1,358,605	1,150,484
Total current liabilities	1,432,336	1,215,660
Other long-term liabilities	4,965	4,520
Total liabilities	1,437,301	1,220,180
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 300,000 authorized shares Issued: 246,326/1999 and 163,188/1998	2,463	1,632
Additional paid-in capital	68,238	46,463
Retained earnings	362,269	278,107
Accumulated other comprehensive income	2,830	3,405
Total stockholders' equity	435,800	329,607
Total liabilities and stockholders' equity	$1,873,101	$1,549,787

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands	Common Stock				Accumulated Other	
	Shares	Amount	Additional paid-in capital	Retained earnings	Comprehensive income	Total
Balance at May 31, 1996	71,632	$ 716	$ 30,112	$161,536	$(1,292)	$191,072
Net income				75,150		75,150
Unrealized gains on securities, net of tax					1,831	1,831
Total comprehensive income						76,981
Cash dividends declared				(24,117)		(24,117)
Exercise of stock options	267	3	2,177			2,180
Tax benefit from exercise of stock options			5,208			5,208
Shares issued in connection with three-for-two stock split	36,172	362		(389)		(27)
Shares issued in connection with mergers	448	4	34	207		245
Balance at May 31, 1997	108,519	1,085	37,531	212,387	539	251,542
Net income				102,219		102,219
Unrealized gains on securities, net of tax					2,866	2,866
Total comprehensive income						105,085
Cash dividends declared				(35,871)		(35,871)
Exercise of stock options	277	3	1,987			1,990
Tax benefit from exercise of stock options			6,945			6,945
Shares issued in connection with three-for-two stock split	54,392	544		(628)		(84)
Balance at May 31, 1998	163,188	1,632	46,463	278,107	3,405	329,607
Net income				139,099		139,099
Unrealized losses on securities, net of tax					(575)	(575)

Total comprehensive income						138,524
Cash dividends declared				(54,055)		(54,055)
Exercise of stock options	1,032	10	5,525			5,535
Tax benefit from exercise of stock options			16,250			16,250
Shares issued in connection with three-for-two stock split	82,106	821		(882)		(61)
Balance at May 31, 1999	246,326	$2,463	$68,238	$362,269	$2,830	$435,800

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

	Year ended May 31, 1999	1998	1997
Operating Activities			
Net income	$139,099	$102,219	$ 75,150
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization on depreciable and intangible assets	22,097	18,764	15,329
Amortization of premiums and discounts on available-for-sale securities	10,814	8,497	6,115
Provision for deferred income taxes	(427)	(1,030)	(2,053)
Provision for bad debts	1,886	1,648	1,328
Net realized gains on sales of available-for-sale securities	(2,866)	(934)	(164)
Changes in operating assets and liabilities:			
Interest receivable	(4,818)	(2,765)	(3,077)
Accounts receivable	(10,231)	(10,717)	(4,779)
Prepaid expenses and other current assets	(1,609)	(1,905)	(583)
Accounts payable and other current liabilities	21,847	22,154	19,189
Net change in other assets and liabilities	(1,672)	830	572
Net cash provided by operating activities	174,120	136,761	107,027
Investing Activities			
Purchases of available-for-sale securities	(755,335)	(529,413)	(306,488)
Proceeds from sales of available-for-sale securities	488,662	338,818	185,161
Proceeds from maturities of available-for-sale securities	31,535	7,232	2,125
Net change in ENS money market securities and other cash equivalents	(55,707)	(159,769)	(210,669)
Net change in ENS client deposits	208,121	254,404	294,720
Purchases of property and equipment, net of disposal proceeds	(22,104)	(28,197)	(18,008)
Purchases of other assets	(3,590)	(513)	(1,935)
Net cash used in investing activities	(108,418)	(117,438)	(55,094)
Financing Activities			
Dividends paid	(54,055)	(35,871)	(24,117)
Proceeds from exercise of stock options	5,535	1,990	2,180
Other	(61)	(84)	218
Net cash used in financing activities	(48,581)	(33,965)	(21,719)
Increase/(decrease) in Cash and cash equivalents	17,121	(14,642)	30,214
Cash and cash equivalents, beginning of fiscal year	35,571	50,213	19,999
Cash and cash equivalents, end of fiscal year	$ 52,692	$ 35,571	$ 50,213

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note A - Significant Accounting Policies

Business activities and reportable segments: Paychex, Inc., and its wholly-owned subsidiaries (the "Company") operate within the continental United States of America, and have two business activities and reportable segments: Payroll and Human Resource Services-Professional Employer Organization (HRS-PEO). The Company reports segment financial information consistent with the presentation made to the Company's management for decision-making purposes and resource allocation. The Company's reportable segments are business units that are each managed separately because they offer and provide services through different means. The Company's Corporate function and expenses are comprised of the Information Technology, Organizational Development, Finance, Marketing and Senior Management organizations.

The Company evaluates segment performance based on operating income, utilizing the Company's accounting policies described in this summary of significant accounting policies. There are no intersegment sales.

Payroll segment: The Payroll segment is engaged in the preparation of payroll checks, internal accounting records, federal, state and local payroll tax returns, and collection and remittance of payroll obligations for small- to medium-sized businesses. In connection with Taxpay, an automated tax payment and filing service, Electronic Network Services (ENS) collects payroll taxes from clients on payday, files the applicable tax returns and pays taxes to the appropriate taxing authorities on the due date. These collections from clients are typically paid between one and thirty days after receipt, with some items extending to ninety days. The ENS Direct Deposit service collects net payroll from client accounts one day before payday and provides electronic salary deposit for employees. The funds collected before the due dates are invested and classified as ENS investments until remittance to the appropriate entity. The ENS investments and related client deposit liabilities are included in the Consolidated Balance Sheets as current assets and current liabilities. The amount of ENS funds held and related liabilities varies significantly during the year. Investment revenue from these ENS investments is included in Payroll service revenue on the Consolidated Statements of Income.

HRS-PEO segment: The HRS portion of the HRS-PEO segment provides small- to medium-sized businesses with 401(k) plan recordkeeping services, section 125 plan administration, workers' compensation, group benefits, and state unemployment insurance services, employee handbooks and management services. The 401(k) plan recordkeeping service provides plan implementation, ongoing compliance with government regulations, employee and employer reporting and other administrative services.

The PEO portion of the HRS-PEO segment provides human resource management and personnel administration services to a diverse client base of small- to medium-sized businesses as a co-employer of the client's employees. The PEO provides certain managed care services, including managed health care and other benefits, employee assistance programs, comprehensive workers' compensation management, risk management and loss containment services. Consistent with PEO industry practice, PEO direct costs billed include the wages and payroll taxes of worksite employees, their related benefit premiums and claims, including workers' compensation, and other direct costs of employment.

Principles of consolidation: The Consolidated Financial Statements include the accounts of Paychex, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: Cash and cash equivalents consist of available cash, money market securities and other investments with a maturity of three months or less when purchased. Amounts reported in the Consolidated Balance Sheets are approximate fair values.

Investments and ENS investments: Debt securities included in Investments and ENS investments are classified as available-for-sale and are recorded at fair value obtained from an independent pricing service. Unrealized gains and losses, net of applicable income taxes, are reported as Accumulated other comprehensive income in the Consolidated Statements of Stockholders' Equity. Realized gains and losses on the sale of securities are determined by specific identification of the security's cost basis. Realized gains and losses from ENS investments are included in Payroll service revenue, and realized gains and losses from Investments are included in Investment income on the Consolidated Statements of Income.

Concentrations: Substantially all of the Company's deposited cash is maintained at two large credit-worthy financial institutions. These deposits may exceed the amount of any insurance provided. All of the Company's deliverable securities are held in custody with one of the two aforementioned financial institutions, for which that institution bears the risk of custodial loss. Non-deliverable securities, primarily time deposits and money market securities, are restricted to credit-worthy broker-dealers and financial institutions.

Property and equipment - net: Property and equipment - net is stated at cost, less accumulated depreciation and amortization. Depreciation is based on the estimated useful lives of property and equipment using the straight-line method. The typical estimated useful lives of depreciable assets are 35 years for buildings and 2 to 10 years for all others.

Software development and enhancement: Through the end of 1999, the Company expensed as incurred certain costs to develop and enhance its internal computer programs and software. Expenditures for vendor-provided software were capitalized and amortized by the straight-line method over their estimated useful lives, ranging from 3 to 5 years. In March 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires the capitalization of internal use computer software costs if certain criteria are met, including all external direct costs for materials and services and certain payroll and related fringe benefit costs. The Company will adopt the SOP as of June 1, 1999. The effect of adopting the SOP is expected to increase net income by approximately $2,000,000 to $3,000,000 for the year ended May 31, 2000.

Revenue recognition: Payroll service revenues are recognized in the period services are rendered. Included in Payroll service revenues are investment revenues earned from ENS investments and net realized gains and losses from the sale of available-for-sale securities. HRS service revenues are recognized in the period service is rendered. PEO total revenues are recognized in the period the worksite employees perform service.

Income taxes: The Company accounts for deferred taxes by recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company accounts for the tax benefit from the exercise of stock options by reducing its accrued income tax liability and increasing additional paid-in capital.

Stock-based compensation costs: Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," establishes accounting and reporting standards for stock-based employee compensation plans. As permitted by the SFAS, the Company continues to account for such arrangements under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense is recognized for stock-option grants because the exercise price of the stock options equals the market price of the underlying stock on the date of grant.

Stock splits effected in the form of stock dividends: The Company declared three-for-two stock splits effected in the form of 50% stock dividends on outstanding shares payable to shareholders of record as of May 13, 1999, May 8, 1998, and May 8, 1997, with respective distribution dates of May 21, 1999, May 22, 1998, and May 29, 1997. Basic and diluted earnings per share, cash dividends per common share, weighted-average shares outstanding and all applicable footnotes have been adjusted to reflect the aforementioned stock splits.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual amounts and results could differ from those estimated.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation.

Note B - Basic and Diluted Earnings Per Share

In thousands, except per share amounts	Year ended May 31,		
	1999	1998	1997
Basic earnings per share:			
Net income	$139,099	$102,219	$ 75,150
Weighted-average common shares outstanding	245,521	244,514	243,002
Basic earnings per share	$ .57	$ .42	$ .31
Diluted earnings per share:			
Net income	$139,099	$102,219	$ 75,150
Weighted-average common shares outstanding	245,521	244,514	243,002
Effect of dilutive stock options at average market price	3,267	2,705	2,634
Weighted-average shares assuming dilution	248,788	247,219	245,636
Diluted earnings per share	$ .56	$ .41	$ .31

For the years ended May 31, 1999, 1998, and 1997, weighted-average options to purchase shares of common stock in the amount of 99,000, 1,440,000, and 1,529,000, respectively, were not included in the computation of diluted earnings per share. These options had an exercise price that was greater than the average market price of the common shares for the period and, therefore, the effect would have been antidilutive.

Note C - Segment Financial Information

See Note A for a description of the Company's business activities and reportable segments.

In thousands	Year ended May 31,		
	1999	1998	1997
Revenue:			
Payroll	$ 545,249	$ 455,227	$ 368,855
HRS-PEO revenue:			
Service revenue	52,047	38,477	30,878
PEO direct cost billed (A)	578,132	499,741	334,966
Total HRS-PEO revenue	630,179	538,218	365,844
Total revenue	1,175,428	993,445	734,699
PEO direct costs (A)	578,132	499,741	334,966
Total revenue less PEO direct costs	$ 597,296	$ 493,704	$ 399,733
Investment revenue included in Payroll revenue	$ 52,335	$ 43,429	$ 34,105
Operating income:			
Payroll	$ 235,710	$ 180,265	$ 135,364
HRS-PEO	12,598	6,642	5,596
Segment operating income	248,308	186,907	140,960
Corporate expenses	60,746	52,207	44,335
Total operating income	187,562	134,700	96,625
Investment income	12,581	9,473	7,031
Income before income taxes	$ 200,143	$ 144,173	$ 103,656
Purchases of long-lived assets:			
Payroll	$ 13,597	$ 17,146	$ 12,984
HRS-PEO	539	2,015	1,747
Corporate	11,570	9,591	5,716
Total purchases of long-lived assets	$ 25,706	$ 28,752	$ 20,447
Depreciation and amortization expense:			
Payroll	$ 20,050	$ 17,187	$ 13,128
HRS-PEO	1,070	1,078	585
Corporate	11,791	8,996	7,731
Total depreciation and amortization expense	$ 32,911	$ 27,261	$ 21,444
Identifiable assets:	May 31,		
Payroll	$1,463,606	$1,244,272	$ 967,688
HRS-PEO	32,144	30,726	24,477
Corporate	377,351	274,789	209,158
Total identifiable assets	$1,873,101	$1,549,787	$1,201,323

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

Note D - Investments and ENS Investments

Investments and ENS investments are as follows:

In thousands	May 31,			
	1999		1998	
Type of issue:	Cost	Fair value	Cost	Fair value
Money market securities and other cash equivalents	$ 770,648	$ 770,648	$ 714,941	$ 714,941
Available-for-sale securities:				
General obligation municipal bonds	313,485	314,636	212,222	213,940
Pre-Refunded municipal bonds	295,359	297,621	236,151	238,462
Revenue municipal bonds	266,264	267,290	199,545	200,850
Other securities	21	73	21	65
Total available-for-sale securities	875,129	879,620	647,939	653,317
Other	1,424	1,810	1,210	1,210

Total Investments and ENS investments	$1,647,201	$1,652,078	$1,364,090	$1,369,468
Classification of investments on Consolidated Balance Sheets:				
Investments	$ 288,596	$ 290,555	$ 213,606	$ 214,967
ENS investments	1,358,605	1,361,523	1,150,484	1,154,501
Total Investments and ENS investments	$1,647,201	$1,652,078	$1,364,090	$1,369,468

The Company is exposed to credit risk from the possible inability of the borrowers to meet the terms of their bonds. In addition, the Company is exposed to interest rate risk as rate volatility will cause fluctuations in the market value of held investments and the earnings potential of future investments. The Company does not utilize derivative financial instruments to manage interest rate risk. The Company attempts to limit these risks by investing primarily in AAA and AA rated securities, A-1 rated short-term securities, limiting amounts that can be invested in any single instrument, and by investing in short- to intermediate-term instruments whose market value is less sensitive to interest rate changes. At May 31, 1999, approximately 96% of the available-for-sale bond securities held an AA rating or better, and all short-term securities classified as cash equivalents held an A-1 or equivalent rating.

Cost, gross unrealized gains and losses, and the fair value of the available-for-sale securities are as follows:

In thousands May 31,	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
1999	$875,129	$ 6,180	$ 1,689	$879,620
1998	$647,939	$ 5,524	$ 146	$653,317

Gross realized gains and losses are as follows:

In thousands	Year ended May 31,		
	1999	1998	1997
Gross realized gains	$3,129	$1,481	$ 602
Gross realized losses	$ 263	$ 547	$ 438

The cost and fair value of available-for-sale securities at May 31, 1999, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties.

In thousands	May 31, 1999	
	Cost	Fair value
Maturity date:		
Due in one year or less	$105,696	$106,358
Due after one year through three years	463,838	466,939
Due after three years through five years	259,194	260,003
Due after five years	46,401	46,320
Total available-for-sale securities	$875,129	$879,620

NOTE E - PROPERTY AND EQUIPMENT - NET

In thousands	May 31,	
	1999	1998
Land and improvements	$ 2,896	$ 2,815
Buildings and improvements	26,932	24,914
Data processing equipment and software	70,000	64,247
Furniture, fixtures and equipment	59,818	52,752
Leasehold improvements	8,838	7,323
	168,484	152,051
Less accumulated depreciation and amortization	102,553	87,353
Property and equipment - net	$ 65,931	$ 64,698

NOTE F - STOCK OPTION PLANS

The Company reserved 5,209,500 shares to be granted to employees in the form of non-qualified and incentive stock options under the 1998 Stock Incentive Plan, with 4,954,000 shares available for future grants at May 31, 1999. The 1995, 1992, and 1987 Stock Incentive Plans expired in August 1998, 1995, and 1992, respectively; however, options to purchase 6,993,000 shares under these plans remain outstanding at May 31, 1999.

The exercise price for the shares subject to options of the Company's common stock is equal to the fair market value on the date of the grant. All stock option grants have a contractual life of ten years from the date of the grant. Non-qualified stock option grants vest at 33.3% after two years of service from the date of the grant, with annual vesting at 33.3% thereafter.

In November 1996, the Company granted options to purchase 2,103,000 shares in a broad-based incentive stock option grant, for which 50% vested on May 3, 1999, and 50% will vest on May 1, 2001. At May 31, 1999, options to purchase 1,264,000 shares remained outstanding, with 601,000 exercisable at an exercise price of $17.30 per share. Subsequently, each April and October, the Company has granted options to newly hired employees that meet certain criteria, which vest at 50% after two years and four years of service from the date of the grant.

The following table summarizes stock option activity for the three years ended May 31, 1999:

In thousands, except per share amounts	Shares subject to options	Weighted-average exercise price
Outstanding at May 31, 1996	6,615	$ 4.29
Granted	2,961	$ 17.09
Exercised	(900)	$ 2.43
Forfeited	(719)	$ 10.98
Outstanding at May 31, 1997	7,957	$ 8.66
Granted	1,788	$ 18.41
Exercised	(650)	$ 3.94
Forfeited	(467)	$ 16.38
Outstanding at May 31, 1998	8,628	$ 10.62
Granted	753	$ 29.39
Exercised	(1,545)	$ 3.89
Forfeited	(588)	$ 18.55
Outstanding at May 31, 1999	7,248	$ 13.36
Exercisable at May 31, 1997	2,951	$ 2.71
Exercisable at May 31, 1998	3,569	$ 3.52
Exercisable at May 31, 1999	3,619	$ 7.49

The following table summarizes information about stock options outstanding at May 31, 1999:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Shares subject to options (In thousands)	Weighted-average exercise price per share	Weighted-average remaining contractual life in years	Shares subject to options (In thousands)	Weighted-average exercise price per share
$ 0.00 -$ 7.50	2,208	$ 3.53	4.0	2,205	$ 3.53
$ 7.51 -$15.00	1,100	$ 9.50	6.4	666	$ 9.40
$15.01 -$22.50	3,082	$ 17.48	7.8	748	$ 17.45
$22.51 -$30.00	729	$ 28.09	9.1	-	
$30.01 -$37.50	129	$ 33.08	9.7	-	
	7,248	$ 13.36	6.6	3,619	$ 7.49

In applying APB Opinion No. 25, no expense was recognized for stock options granted. SFAS No. 123 requires that a fair market value of all awards of stock-based compensation be determined using standard techniques and that pro forma net income and earnings per share be disclosed as if the resulting stock-based compensation amounts were recorded in the Consolidated Statements of Income. The table below depicts the effects of SFAS No. 123:

In thousands, except per share amounts	Year ended May 31,		
	1999	1998	1997

Pro forma net income	$134,642	$97,448	$72,060
Pro forma basic earnings per share	$ .55	$ .40	$ .29
Pro forma diluted earnings per share	$ .54	$ .39	$ .29

The pro forma effect on net income is not representative of future pro forma effects, since these calculations only take into account the options granted since June 1, 1995.

For purposes of pro forma disclosures, the estimated fair value of the stock option is amortized to expense over the option's vesting period. The fair value of these stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Year ended May 31,		
	1999	1998	1997
Risk-free interest rate	5.0%	5.8%	6.2%
Dividend yield	.8%	.9%	.9%
Volatility factor	.40	.29	.28
Expected option term life in years	4.5	4.5	4.9

The weighted-average fair value of stock options granted for the years ended May 31, 1999, 1998, and 1997 were $11.17, $5.87, and $5.59 per share, respectively.

NOTE G - INCOME TAXES

The components of net deferred tax assets are as follows:

In thousands	May 31,	
	1999	1998
Deferred tax assets:		
Accrued vacation pay	$1,257	$1,170
Allowance for bad debts	1,822	1,355
Accrual for future medical claims	1,337	1,169
Reserve for workers' compensation claims	659	1,186
Other	3,225	1,940
Gross deferred tax assets	8,300	6,820
Deferred tax liabilities:		
Revenue not subject to current taxes	3,631	2,388
Unrealized gains on available-for-sale securities	1,661	1,973
Other	227	417
Gross deferred tax liabilities	5,519	4,778
Net deferred tax asset	$2,781	$2,042

The components of the provision for income taxes are as follows:

In thousands	Year ended May 31,		
	1999	1998	1997
Current:			
Federal	$51,224	$34,888	$24,699
State	10,247	8,096	5,860
Total current	61,471	42,984	30,559
Deferred:			
Federal	(131)	(857)	(1,719)
State	(296)	(173)	(334)
Total deferred	(427)	(1,030)	(2,053)
Provision for income taxes	$61,044	$41,954	$28,506

Reconciliations of the U.S. federal statutory tax rate with effective tax rates reported for income before income taxes are as follows:

	Year ended May 31,		
	1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
Increase/(decrease) resulting from:			
State income taxes, net of federal benefit	3.2	3.6	3.5

Tax-exempt municipal bond interest	(7.7)	(10.4)	(10.9)
Other items	-	.9	(.1)
Effective income tax rate	30.5%	29.1%	27.5%

Note H - Other Comprehensive Income

The following table sets forth the related tax effects allocated to unrealized gains and losses on available-for-sale securities, the only component of other comprehensive income:

In thousands	Year ended May 31,		
	1999	1998	1997
Unrealized holding gains	$ 1,979	$ 5,420	$ 3,215
Less: Income tax expense related to unrealized holding gains	716	1,955	1,279
Gain on sale of securities realized in net income	2,866	934	164
Plus: Income tax expense on gain on sale of securities	1,028	335	59
Other comprehensive income/(loss)	$ (575)	$ 2,866	$ 1,831

Note I - Supplemental Cash Flow Information

Income taxes paid: The Company paid income taxes of $43,251,000, $35,191,000, and $24,256,000 for the years ended May 31, 1999, 1998 and 1997, respectively.

Non-cash financing transactions: The Company recorded the tax benefit from the exercise of stock options as a reduction of its income tax liability in the amount of $16,250,000, $6,945,000, and $5,208,000 for the years ended May 31, 1999, 1998, and 1997, respectively.

Note J - Commitments and Contingencies

Employee benefits: The Company's 401(k) Incentive Retirement Plan allows employees with one or more years of service to participate. The Company currently matches 50% of an employee's voluntary contribution, with a maximum of 3% of eligible compensation. Company contributions for the years ended May 31, 1999, 1998, and 1997 were $3,525,000, $3,239,000, and $2,712,000, respectively.

Lines of credit: At May 31, 1999, the Company has several available, uncommitted, unsecured lines of credit from various banks totaling $297,500,000 at market rates of interest. No amounts were outstanding against these lines of credit at May 31, 1999 and 1998.

Contingencies: The Company is a defendant in various lawsuits as a result of normal operations and in the ordinary course of business. Management believes the outcome of these lawsuits will not have a material effect on the financial position or results of operations of the Company.

Lease commitments: The Company leases office space and data processing equipment under terms of various operating leases, with most data processing equipment leases containing a purchase option at prices representing the fair value of the equipment at expiration of the lease term. Rent expense for the years ended May 31, 1999, 1998, and 1997 was $23,038,000, $20,336,000, and $17,314,000, respectively. At May 31, 1999, future minimum lease payments under various noncancelable operating leases with terms of more than one year are $17,579,000 in fiscal 2000, $17,989,000 in fiscal 2001, $11,725,000 in fiscal 2002, $8,959,000 in fiscal 2003, $5,841,000 in fiscal 2004, and $8,046,000 thereafter.

Note K - Business Combinations

The following table summarizes business combinations completed in the year ended May 31, 1997:

Entity name	Business	Date	Method of accounting	Common shares issued (In thousands)
National Business Solutions, Inc.	PEO	August 1996	Pooling	9,904
The Payroll Service, Inc.	Payroll services	August 1996	Pooling	186
Olsen Computer Systems, Inc.	Payroll services	November 1996	Pooling	1,326

Results of operations prior to completion of the pooling of interests transaction with National Business Solutions, Inc. were restated. Results of operations prior to completion of the other two business combination transactions were not restated as the effects were not material.

ELEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA
In thousands, except per share amounts and other statistics
<TABLE>
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For the years ended May 31,	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Results of Operations											
Service revenues:											
Payroll	$ 545,249	$455,227	$368,855	$309,517	$254,093	$215,663	$184,004	$156,652	$133,886	$118,157	$100,488
HRS-PEO	52,047	38,477	30,878	23,791	18,020	11,290	7,700	5,253	3,289	2,043	666
Total service revenues	597,296	493,704	399,733	333,308	272,113	226,953	191,704	161,905	137,175	120,200	101,154
PEO direct costs billed (A)	578,132	499,741	334,966	233,135	139,953	96,952	60,434	21,775	2,617	-	-
Total revenue	1,175,428	993,445	734,699	566,443	412,066	323,905	252,138	183,680	139,792	120,200	101,154
PEO direct costs (A)	578,132	499,741	334,966	233,135	139,953	96,952	60,434	21,775	2,617	-	-
Operating costs	151,956	131,731	115,034	101,235	81,663	70,034	61,877	53,700	50,054	45,031	35,557
Selling, general and administrative expenses	257,778	227,273	188,074	162,151	138,186	119,477	102,893	89,393	73,854	63,042	51,480
Operating income	187,562	134,700	96,625	69,922	52,264	37,442	26,934	18,812	13,267	12,127	14,117
% of total service revenues	31.4%	27.3%	24.2%	21.0%	19.2%	16.5%	14.0%	11.6%	9.7%	10.1%	14.0%
Investment income	12,581	9,473	7,031	5,467	3,458	2,220	1,379	821	764	1,081	857
Income before income taxes	200,143	144,173	103,656	75,389	55,722	39,662	28,313	19,633	14,031	13,208	14,974
% of total service revenues	33.5%	29.2%	25.9%	22.6%	20.5%	17.5%	14.8%	12.1%	10.2%	11.0%	14.8%
Net income	139,099	102,219	75,150	55,035	40,389	28,746	20,241	13,788	9,606	8,566	9,446
% of total service revenues	23.3%	20.7%	18.8%	16.5%	14.8%	12.7%	10.6%	8.5%	7.0%	7.1%	9.3%
Basic earnings per share	$ .57	$ .42	$ .31	$ .23	$ .17	$ .12	$ .09	$ .06	$ .04	$ .04	$ .04
Diluted earnings per share	$ .56	$ .41	$ .31	$ .23	$ .17	$ .12	$ .09	$ .06	$ .04	$ .04	$ .04
Weighted-average common shares outstanding	245,521	244,514	243,002	240,590	237,344	236,648	235,670	234,038	232,976	222,797	222,255
Weighted-average shares assuming dilution	248,788	247,219	245,636	243,284	239,377	238,723	237,532	235,375	233,325	223,247	222,898
Cash dividends per common share	$ .22	$ .15	$ .10	$ .07	$ .04	$ .03	$ .02	$ .01	$ .01	$ .01	$ .01
Financial Position											
Working capital	$360,784	$263,118	$194,614	$138,639	$100,009	$ 68,888	$ 46,776	$ 28,245	$ 19,230	$ 21,257	$ 22,951
Purchases of property and equipment	22,116	28,386	18,536	17,806	12,535	11,667	8,822	13,580	18,420	15,447	9,132
Total assets	1,873,101	1,549,787	1,201,323	831,585	647,366	474,786	322,214	221,771	133,342	74,501	55,638
Total debt	-	-	-	-	728	948	1,634	2,024	2,431	2,137	2,770
Stockholders' equity	435,800	329,607	251,542	191,072	141,976	109,124	85,365	67,623	54,512	47,160	40,245
Return on stockholders' equity	35.9%	36.0%	33.9%	32.3%	32.2%	29.6%	26.5%	22.6%	18.9%	19.6%	26.3%
Client Statistics											
Payroll clients	322,600	293,600	262,700	234,300	207,900	185,900	167,500	150,400	135,200	120,600	105,600
Branch service centers	79	79	79	75	71	70	70	70	70		

										74	68
Sales offices	29	25	23	23	23	24	20	17	16	15	16
401(k) Recordkeeping clients	10,100	6,000	3,000	1,300	200	-	-	-	-	-	-
401(k) client funds managed externally (in millions)	$ 757.6	$ 383.3	$ 138.3	$ 35.0	-	-	-	-	-	-	-
Section 125 clients	20,200	16,400	13,200	11,400	8,800	7,400	5,000	2,800	500	-	-
PEO worksite employees	18,300	19,200	13,800	9,200	5,300	3,400	1,800	500	-	-	-

</TABLE>

Note: Per share and weighted-average share amounts have been adjusted for three-for-two stock splits in May 1999, May 1998, May 1997, May 1996, May 1995, August 1993, and May 1992.

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

QUARTERLY FINANCIAL DATA (UNAUDITED)
In thousands, except per share amounts

Fiscal 1999	August 31,	November 30,	February 28,	May 31,	Year
Service revenues:					
Payroll	$127,982	$131,035	$144,257	$141,975	$ 545,249
HRS-PEO	11,307	11,913	14,166	14,661	52,047
Total service revenues	139,289	142,948	158,423	156,636	597,296
PEO direct costs billed (A)	142,498	139,033	148,292	148,309	578,132
Total revenue	281,787	281,981	306,715	304,945	$1,175,428
PEO direct costs(A)	142,498	139,033	148,292	148,309	578,132
Operating costs	35,885	36,863	40,989	38,219	151,956
SG&A expenses	61,761	61,089	68,941	65,987	257,778
Operating income	41,643	44,996	48,493	52,430	187,562
Investment income	2,961	3,006	3,073	3,541	12,581
Income before income taxes	44,604	48,002	51,566	55,971	200,143
Income taxes	13,203	14,394	15,366	18,081	61,044
Net income	$ 31,401	$ 33,608	$ 36,200	$ 37,890	$ 139,099
Basic earnings per share	$ .13	$ .14	$ .15	$ .15	$ .57
Diluted earnings per share	$ .13	$ .14	$ .15	$ .15	$ .56
Cash dividends per common share	$ .04	$ .06	$ .06	$ .06	$ .22
Market value per share:					
High	$ 30.00	$ 36.71	$ 35.33	$ 36.67	$ 36.71
Low	$ 23.83	$ 24.33	$ 27.33	$ 24.17	$ 23.83

Fiscal 1998	August 31,	November 30,	February 28,	May 31,	Year
Service revenues:					
Payroll	$104,865	$108,528	$122,239	$119,595	$ 455,227
HRS-PEO	8,082	8,645	9,634	12,116	38,477
Total service revenues	112,947	117,173	131,873	131,711	493,704
PEO direct costs billed (A)	105,636	118,048	139,482	136,575	499,741
Total revenue	218,583	235,221	271,355	268,286	993,445
PEO direct costs(A)	105,636	118,048	139,482	136,575	499,741
Operating costs	30,306	31,891	35,347	34,187	131,731
SG&A expenses	52,284	52,710	61,674	60,605	227,273
Operating income	30,357	32,572	34,852	36,919	134,700
Investment income	2,188	2,291	2,349	2,645	9,473
Income before income taxes	32,545	34,863	37,201	39,564	144,173
Income taxes	9,471	10,145	10,825	11,513	41,954

Net income	$ 23,074	$ 24,718	$ 26,376	$ 28,051	$ 102,219
	========	========	========	========	==========
Basic earnings per share	$ .09	$ .10	$ .11	$ .11	$ .42
Diluted earnings per share	$ .09	$ .10	$ .11	$ .11	$ .41
Cash dividends per common share	$ .03	$ .04	$ .04	$ .04	$ .15
Market value per share:					
High	$ 18.33	$ 20.17	$ 23.42	$ 26.56	$ 26.56
Low	$ 14.44	$ 14.89	$ 17.81	$ 22.08	$ 14.44

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

Note: Each quarter is a discrete period and the sum of the four quarters' basic and diluted earnings per share amounts may not equal the full year amount. Per share amounts have been adjusted for three-for-two stock splits in May 1999 and May 1998.

EXHIBIT 21: SUBSIDIARIES OF THE REGISTRANT

WHOLLY-OWNED SUBSIDIARIES OF PAYCHEX, INC. AS OF MAY 31, 1999

Name of Subsidiaries	Jurisdiction of Incorporation
Paychex Treasury Corporation	New York
Paychex Management Corporation	New York
Paychex Securities Corporation	New York
Rapid Payroll, Inc.	California
Paychex Business Solutions, Inc.	Florida
Paychex Agency, Inc.	New York
Paychex Administrative Services, Inc.	Florida

The names of certain subsidiaries have been omitted in accordance with SEC reg. S-K 601(21)(ii) because they do not, in the aggregate, constitute a "significant subsidiary" of Paychex, Inc.

EXHIBIT 23: CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Paychex, Inc. of our report dated June 25, 1999, included in the fiscal 1999 Annual Report to Stockholders of Paychex, Inc.

We also consent to the incorporation by reference in the Registration Statements of Paychex, Inc., outlined below, of our report dated June 25, 1999, with respect to the consolidated financial statements of Paychex, Inc. incorporated by reference in this Annual Report on Form 10-K for the year ended May 31, 1999.

a. Form S-8 - Paychex, Inc. 1987 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 9, 1987 (No. 33-17780) together with Post Effective Amendment No. 1 filed on November 13, 1992.

b. Form S-8 - Paychex, Inc. 1992 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 2, 1992 (No. 33-52772).

c. Form S-8 - Paychex, Inc. 401(k) Incentive Retirement Plan - as filed with the Securities and Exchange Commission on October 2, 1992 (No. 33-52838).

d. Form S-8 - Pay-Fone Systems, Inc. 1993, 1990, 1987, 1983, 1981 Incentive Stock Option Plans and Director Non-Qualified Stock Option Agreements, as filed with the Securities and Exchange Commission on June 15, 1995 (No. 33-60255).

e. Form S-8 - Paychex, Inc. 1995 Stock Incentive Plan - as filed with the Securities and Exchange Commission on November 17, 1995 (No. 33-64389).

f. Form S-3 - Paychex, Inc. Registration Statement under the Securities Act of 1933 - as filed with the Securities and Exchange Commission on October 30, 1996 (No. 333-15105), together with Post-Effective Amendment #1 filed on May 22, 1997.

g. Form S-3 - Paychex, Inc. Registration Statement under the Securities Act of 1933 - as filed with the Securities and Exchange Commission on January 31, 1997 (No. 333-20797), together with Amendment #1 filed on March 27, 1997 and Amendment #2 filed on May 22, 1997.

h. Form S-8 - Paychex, Inc. 1998 Stock Incentive Plan - as filed with the Securities and Exchange Commission on October 1, 1998 (No. 333-65191).

i. Form S-8 - Paychex, Inc. 401(k) Incentive Retirement Plan - as filed with the Securities and Exchange Commission on July 30, 1999 (No. 333-84055).

Our audits also included the financial statement schedule of Paychex, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

August 24, 1999
Syracuse, New York

EXHIBIT 24: POWER OF ATTORNEY

The undersigned Directors of Paychex, Inc., do hereby constitute and appoint B. Thomas Golisano their true and lawful attorney and agent, to execute the Paychex, Inc., Annual Report on Form 10-K for the fiscal year ended May 31, 1999, for us and in our names as Directors, to comply with the Securities Exchange Act of 1934, and the rules, regulations and requirements of the Securities and Exchange Commission, in connection therewith.

Dated: August 13, 1999	/s/ Steven D. Brooks ------------------------- Steven D. Brooks
Dated: August 13, 1999	/s/ G. Thomas Clark ------------------------- G. Thomas Clark
Dated: August 12, 1999	/s/ David J. S. Flaschen ------------------------- David J. S. Flaschen
Dated: August 16, 1999	/s/ Phillip Horsley ------------------------- Phillip Horsley
Dated: August 12, 1999	/s/ Grant M. Inman ------------------------- Grant M. Inman
Dated: August 11, 1999	/s/ Harry P. Messina, Jr. ------------------------- Harry P. Messina, Jr.
Dated: August 12, 1999	/s/ J. Robert Sebo ------------------------- J. Robert Sebo

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MAY 31, 1999 CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF PAYCHEX, INC., AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<CIK> 0000723531
<NAME> PAYCHEX, INC.
<MULTIPLIER> 1,000

<S>	<C>
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</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 Paychex, Inc., (the "Company") management may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by such words and phrases as "expects", "is expected to be" 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, timing of the introduction, 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.