

PAYCHEX[®]

Investor Presentation

1st Quarter Fiscal 2010

Forward-Looking Statements

Certain written and oral statements made by management of Paychex, Inc. and its wholly owned subsidiaries (“we,” “our,” “us”) may constitute “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Forward-looking statements are identified by such words and phrases as “we expect,” “expected to,” “estimates,” “estimated,” “current outlook,” “we look forward to,” “would equate to,” “projects,” “projections,” “projected to be,” “anticipates,” “anticipated,” “we believe,” “could be,” and other similar phrases. All statements addressing operating performance, events, or developments that we expect or anticipate will occur in the future, including statements relating to revenue growth, earnings, earnings-per-share growth, or similar projections, are forward-looking statements within the meaning of the Reform Act. Because they are forward-looking, they should be evaluated in light of important risk factors. These risk factors are contained in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Any of the risk factors could cause our actual results to differ materially from anticipated results. The information provided in this document is based upon the facts and circumstances known at this time. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of release of this information to our website, or to reflect the occurrence of unanticipated events.

Profile

- Provider of comprehensive payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses
- 554,000 clients as of May 31, 2009
- More than 100 offices nationwide and in Germany
- Fiscal 2009 – revenue of \$2 billion, pre-tax income of \$812 million and net income of \$534 million
- Founded in 1971, public in 1983

Competitors and Market Participation

Client Employees

	<u>Client Base Excluding International</u>	<u>1 – 49</u>	<u>50 – 500</u>	<u>>500</u>
PAYCHEX®	552,000	X	X	min
ADP®	488,000*	X	X	X

➤ Paychex client count as of May 31, 2009, with average client size of 17 employees.

➤ Paychex estimates of full service payroll outsourcing client counts are based on a review of public disclosures. To the best of our knowledge, there is no other competitor with more than 50,000 clients.

* Updated as of March 2009

Market Potential

<u>Business Size</u> (Number of Employees)	<u>Market Distribution</u> 11.5 Million Businesses in Areas Served (estimated)	<u>PAYCHEX®</u> <u>Client Base</u>
1 – 4	79%	40%
5 – 19	16%	42%
20 – 49	3%	12%
50 – 99	1%	4%
100+	1%	2%

Approximately 10% to 15% of target market outsources payroll

Services and Products Highlights

➤ Services and Products

- Enhanced comprehensive software-as-a-service solution for Major Markets clients with the addition of a web-based time and attendance management system and integrated payroll and expense management applications
- Continued expansion of health benefits coverage nationwide (Fiscal 2009 revenue of \$21 million)
- Ongoing enhancements to 401(k) recordkeeping services, allowing for greater flexibility in investment options strengthening our market leadership position

➤ Customer Service

- Focus on client retention and satisfaction
- Investment in staffing, training, and retaining payroll specialists

Payroll Services

- Core Payroll – small- to medium-sized businesses
- Major Market Services – clients with more sophisticated payroll and benefits needs
- Taxpay[®] – accurate, timely filing of tax returns and electronic funds transfer. Paychex is responsible for the filings, compliance and any penalties
- Employee Pay – flexible payment options for employees and a cost-effective solution for employers
- Regulatory Compliance Services – new-hire reporting, garnishments, etc.
- Internet Solutions – fully functional web-based payroll solution and other internet services

Leveraging Operating Income

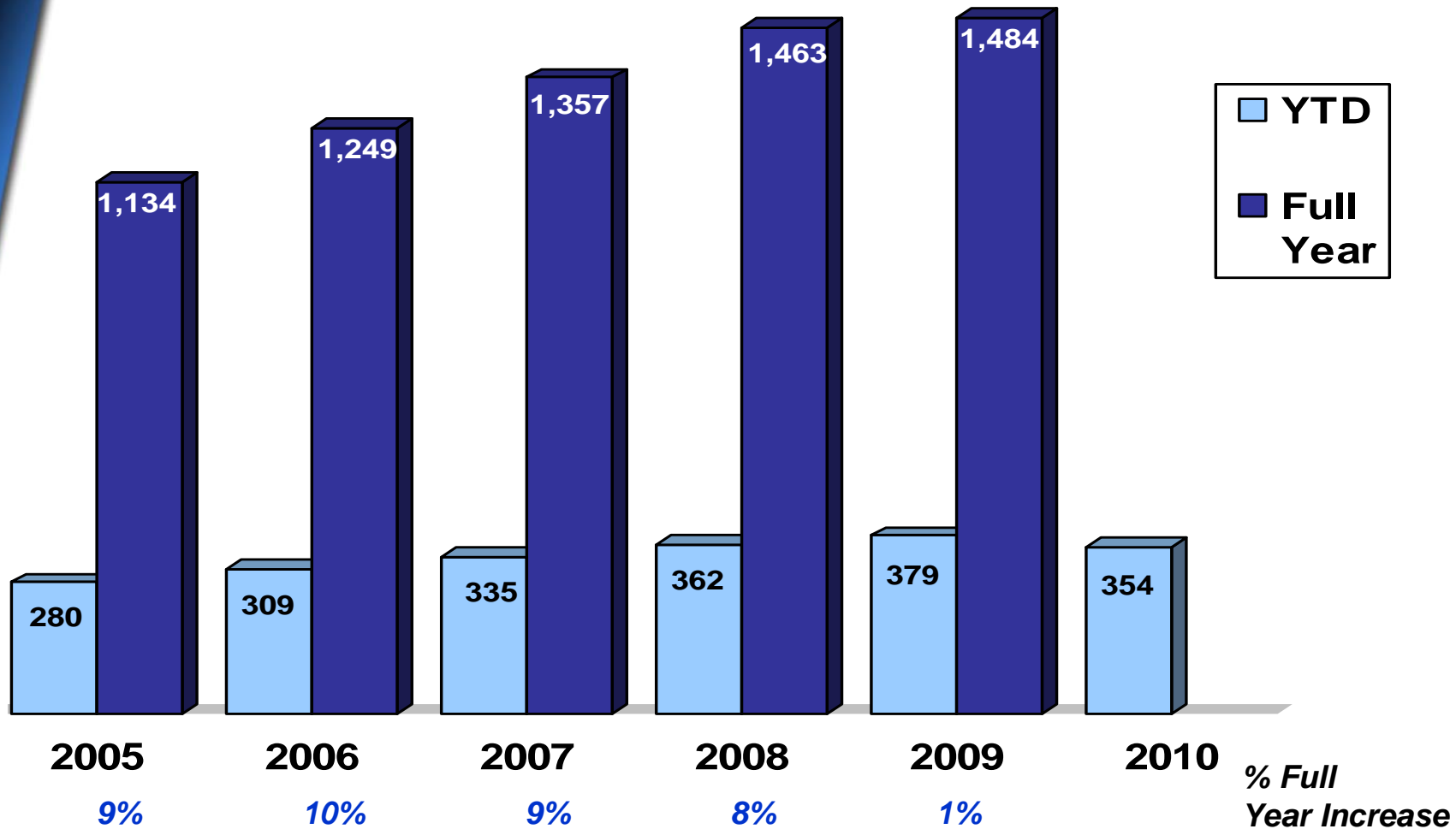
	Average	
	Annual Revenue	Annual Revenue
	<u>2009</u>	<u>2008</u>
Payroll Service ⁽¹⁾ (Avg. 30 Pay Periods)	\$2,800	\$2,700
Taxpay [®] – Investment Income	120	170
Employee Pay – Investment Income	<u>20</u>	<u>80</u>
Total Revenue	<u>\$2,940</u>	<u>\$2,950</u>

- Other ancillary products that leverage Paychex operating margins are retirement services, workers' compensation, and employee benefits.

(1) Payroll Service revenue includes payroll processing, W-2's, delivery and new-hire reporting.

Payroll Services Revenue

(in millions)



Outsourcing Payroll with Paychex

- Provide a worry-free solution for a client's payroll and employee administration responsibilities
- An employer typically files and makes payments for over 40 payroll tax returns per year
- Increased complexity from numerous tax law changes each year
- Significant penalties for non-compliance
- Confidentiality and reliability

Major Market Services

- Service clients with more sophisticated payroll and benefit needs
- Preview[®] – powerful computing and reporting capabilities
- HR Online – tools for managing payroll, employee benefits, personnel information, and compliance and reporting needs
- Other benefit solutions
 - BeneTrac, an industry-leading web-based employee benefits management and administration system
 - Time and Labor Online
 - Online human capital management partnership with Taleo Corporation
 - Other ancillary services including solutions through Paychex Premier[®]
- Strong new sales revenue, increasing just under 20% for fiscal 2009

Human Resource Services

- Focused on selling complimentary services to payroll clients in all markets
 - Retirement Services – 401(k), SIMPLE IRA, profit sharing and investment choices
 - Comprehensive Human Resource Outsourcing Services – Paychex Premier[®] and Professional Employer Organization
 - Group and Individual Health Insurance
 - Time and Attendance Solutions
 - Workers' Compensation Payment Services
- Growth rates in excess of payroll growth

Retirement Services

- Significantly enhanced fund investment choices, including a partnership with GuidedChoice® to provide access to hundreds of mutual fund companies
- Expanded plan features including safe harbor, Roth 401(k)
- Plan implementation, compliance with regulations, employee and employer reporting, online access, and plan administration
- More than 49,000 clients – one of the largest record keepers in the U.S. based on number of plans serviced; administering one in ten plans in the U.S.
- Market potential – approximately 27% of our clients have 401(k) plans and of those, 38% have plans with Paychex
- \$9.6 billion asset value of client employee funds (August 31, 2009)

Comprehensive Human Resource Outsourcing Services

- Services provided through Paychex Premier® and, for those clients where Paychex serves as co-employer, through our professional employer organization
- Payroll processing
- Benefits administration
- Human resource administration
- 400 client-assigned, on-site HR representatives
- Dedicated sales force
- Approximately 463,000 client employees served – nearly as much as ADP, Administaff and Gevity combined in terms of total worksite employees

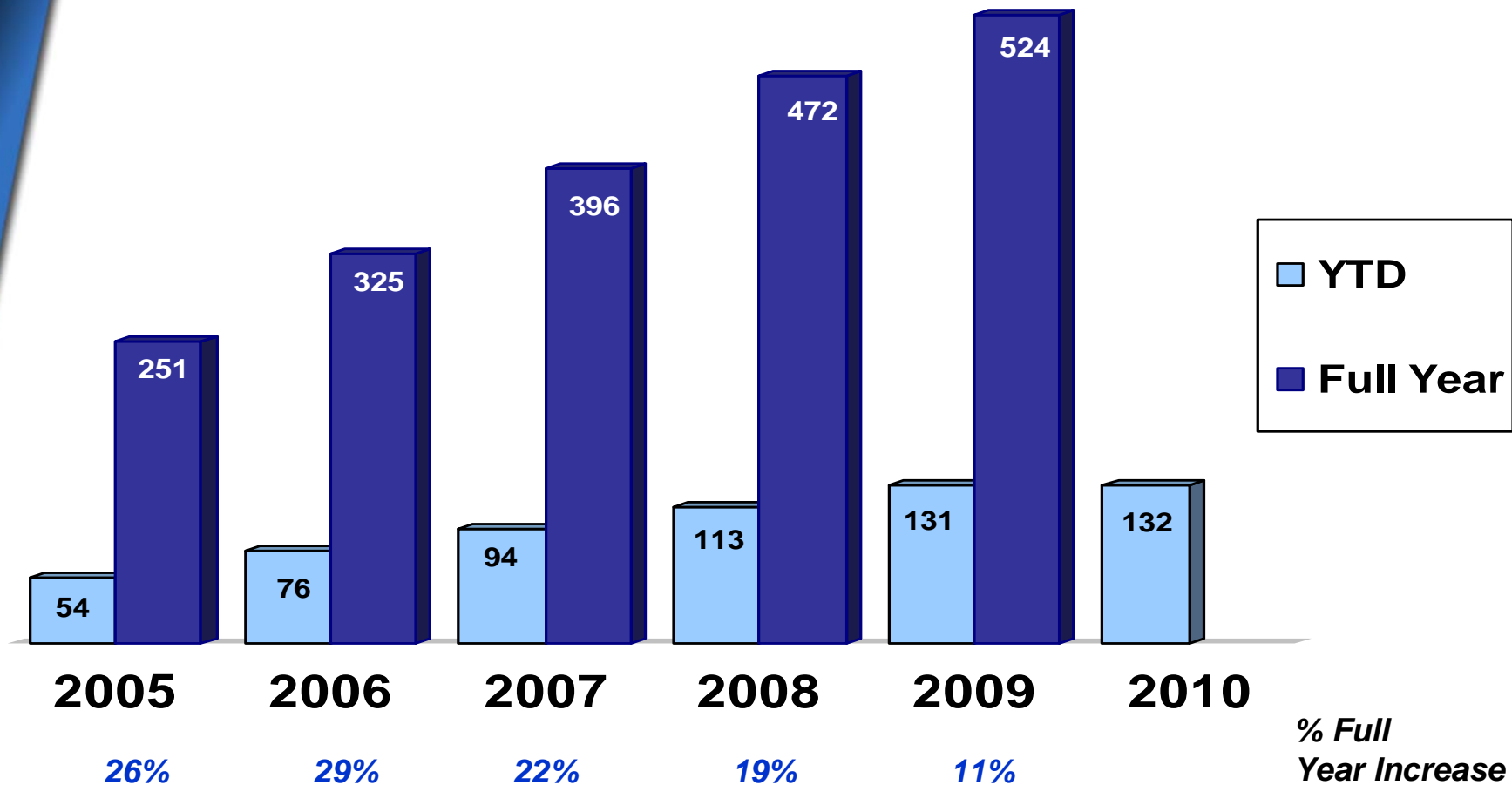
Group and Individual Health Insurance

- Valuable employee benefits at an affordable cost to the employee
- Match features and affordability to employer's needs through access to nearly 210 carriers with 160 currently active, including large national carriers such as United Healthcare, BlueCross BlueShield carriers and Aetna
- Licensed agents – simplify process of obtaining health coverage nationwide
- Communicate with the insurance carrier and assist with policy renewals
- Help manage payroll integration, COBRA administration, employee eligibility notification
- Automatic payroll deductions for employees' portion of premium
- Approximately 160 sales reps, both field and call center-based licensed agents covering the entire Paychex client base
- Revenue of \$21 million as of May 31, 2009, growing 70% over prior year. Expected to be in excess of \$30 million in fiscal 2010

Workers' Compensation Payment Service

- Insurance Provider
 - Access to low-end market
 - Payroll reported equals payroll paid
 - Reduces premium auditor expenses
- Premiums automatically collected each pay period and remitted to carrier monthly
- Monthly report details calculations and premium payment
- Avoid large deposits and year-end premium surprises
- Facilitates cash flow management
- Revenue - \$450 per average client

Human Resource Services Revenue (in millions)



Sales Model

Sales Territories	<u>FY10</u>	<u>% Inc.</u>	<u>FY09</u>	<u>% Inc.</u>	<u>FY08</u>	<u>% Inc.</u>
Payroll	1,590	5%	1,515	1%	1,505	6%
Retirement and other HR Services	350	(5%)	370	4%	355	11%
Comprehensive Human Resource Outsourcing Services	210	(5%)	220	7%	205	8%
Licensed Agents for Workers' Compensation	60	(8%)	65	8%	60	9%
Licensed Agents for Health and Benefits	160	23%	130	37%	95	73%
Total	<u>2,370</u>	3%	<u>2,300</u>	4%	<u>2,220</u>	9%

Fiscal 2010 Outlook

Payroll Service Revenue	(7%)	–	(5%)
Human Resource Services Revenue	3%	–	6%
Total Service Revenue	(5%)	–	(2%)
Interest on Funds Held For Clients	(30%)	–	(25%)
Total Revenue	(5%)	–	(2%)
Corporate Investment Income	(35%)	–	(30%)
Effective Income Tax Rate (approximate)			35%
Net Income	(12%)	–	(10%)

For fiscal 2010, we expect purchases of property and equipment to be in the range of \$55 to \$60 million. We expect depreciation expense to be in the range of \$65 to \$70 million, and amortization of intangible assets to be in the range of \$20 to \$25 million.



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Financial Results

Quarterly Highlights

(in millions, except per share amounts)

	Three Months Ended August 31, 2009	%
	<u> </u>	<u>Change</u>
Payroll Services Revenue	\$ 354.4	(6%)
Human Resource Services Revenue	<u>132.1</u>	1%
Total Service Revenue	486.5	(5%)
Interest on Funds Held for Clients	<u>13.7</u>	(43%)
Total Revenue	<u>\$ 500.2</u>	(6%)
Net Income	<u>\$ 123.6</u>	(17%)
Diluted Earnings Per Share	<u>\$ 0.34</u>	(17%)
Operating Income Excluding Interest on Funds Held for Clients	<u>\$ 176.2</u>	(11%)

Refer to the “Management’s Discussion and Analysis” section of Paychex, Inc.’s Form 10-Q for the three months ended August 31, 2009 for further discussion of operating income excluding interest on funds held for clients.

Funds Held for Clients and Corporate Investment Portfolios

	<u>Quarter Ended August 31, 2009</u>	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2007</u>
Average Investment Portfolio (in billions)	\$ 3.5	\$ 3.9	\$ 4.1	\$ 4.4
Average Investment Rates Earned	1.7%	2.1%	3.7%	4.0%
Realized Gains, Net (in millions)	\$ 0.3	\$ 1.1	\$ 6.4	\$ 2.1
<u>End of Period:</u>				
Unrealized Gains/(Losses), Net (in millions)	\$ 68.6	\$ 66.7	\$ 24.8	\$ (14.9)
Federal Funds Rate	0.25%	0.25%	2.00%	5.25%
3 Year “AAA” Municipal Yield	1.22%	1.35%	2.65%	3.71%

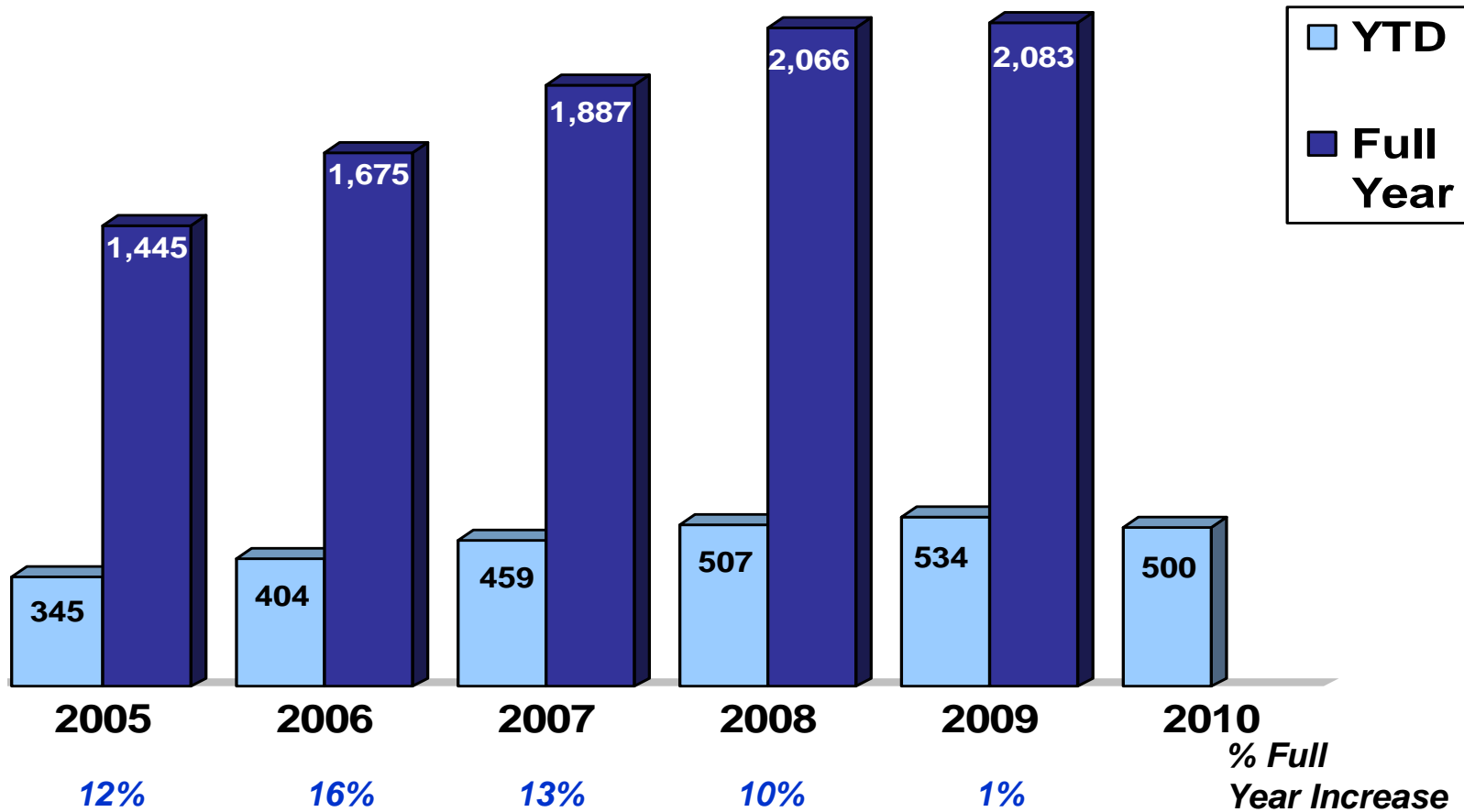
- The Federal Funds rate was at a range of zero to 0.25% as of August 31, 2009.
- Unrealized gains, net totaled approximately \$74.8 million as of September 18, 2009. During the three months ended August 31, 2009, the net unrealized gain on our investment portfolios ranged from \$55.1 million to \$76.7 million.

Investment Portfolio Management

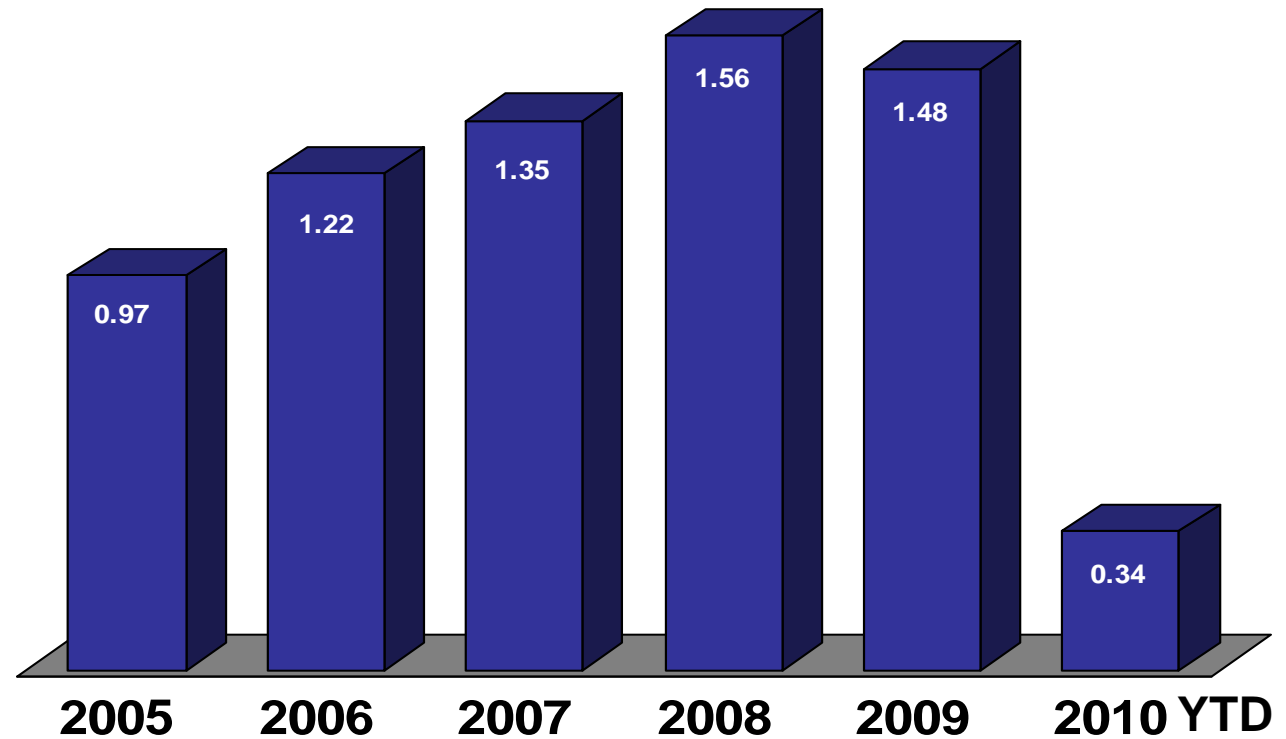
- Maximize liquidity and protect principal; currently primary investment is US agency discount notes
- High credit quality securities with AAA and AA ratings. Short-term securities with A-1/P-1 ratings
- Limit amounts invested in any single issuer
- No exposure to risky investments such as asset-backed securities, collateralized debt obligations, auction rate securities, enhanced cash money market funds or prime money market funds

Total Revenue

(in millions)



Diluted Earnings Per Share



**% Full Year
Increase/(Decrease)**

21% 26% 11% 16% (5%)

**Net Income
% Full Year
Increase/(Decrease)**

22% 26% 11% 12% (7%)

The fiscal 2007 results reflect \$38 million in an expense charge to increase the litigation reserve. This expense charge reduced diluted earnings per share by \$0.06 per share. For fiscal 2008, diluted earnings per share increased at a rate higher than net income growth due to a lower number of weighted-average shares outstanding from the \$1.0 billion stock repurchase program.

Free Cash Flows

(in millions)

	Three Months Ended	
	<u>August 31, 2009</u>	<u>August 31, 2008</u>
Cash Flows from Operations	\$ 186.6	\$ 214.6
Less: Purchase of Property and Equipment, net	10.1	16.2
Purchases of other Assets	4.1	1.3
Free Cash Flow	<u>\$ 172.4</u>	<u>\$ 197.1</u>
Dividends Paid	\$ 112.1	\$ 111.9

Balance Sheet

(in millions)

	<u>August 31, 2009</u>	<u>May 31, 2009</u>
Cash & Investments	\$ 634.1	\$ 574.7
Funds Held for Clients	3,017.5	3,501.4
Property and Equipment, Net	268.3	274.5
Goodwill & Intangible Assets, Net	508.8	510.0
Total Assets	4,707.7	5,127.4
Debt	—	—
Stockholders' Equity	1,364.9	1,341.5
Average Return on Equity	38%	41%

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