

PAYCHEX[®]

Investor Presentation

4th Quarter Fiscal 2008

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 and integrated human resource and employee benefits outsourcing solutions for small- to medium-sized businesses
- 572,000 clients
- More than 100 offices nationwide and in Germany
- Eighteen consecutive years of record revenues, net income and EPS
- Fiscal 2008 – revenue of \$2 billion, pre-tax income of \$855 million and net income of \$576 million
- Founded in 1971, public in 1983

Competitors and Market Participation

		<u>Client Employees</u>		
	<u>Client Base</u>	<u>1 – 49</u>	<u>50 – 500</u>	<u>>500</u>
PAYCHEX[®]	572,000	X	X	min
ADP [®]	502,000*	X	X	X
Intuit [®]	57,000*	X	min	min

➤ Paychex client count as of May 31, 2008, with average client size of 17 employees.

* Paychex estimate of full service payroll outsourcing client counts are based on a review of public disclosures. ADP and Intuit[®] client base excludes international clients. To the best of our knowledge, there is no other competitor with more than 50,000 clients.

Market Potential

<u>Business Size</u> (Number of Employees)	<u>Market Distribution</u> 9.4 Million Businesses in Areas Served (estimated)	<u>PAYCHEX[®]</u> <u>Client Base</u>
1 – 4	77%	39%
5 – 19	18%	42%
20 – 49	4%	13%
50 – 99	1%	4%
100+	--	2%

Approximately 15% of target market outsources payroll

Services and Products Highlights

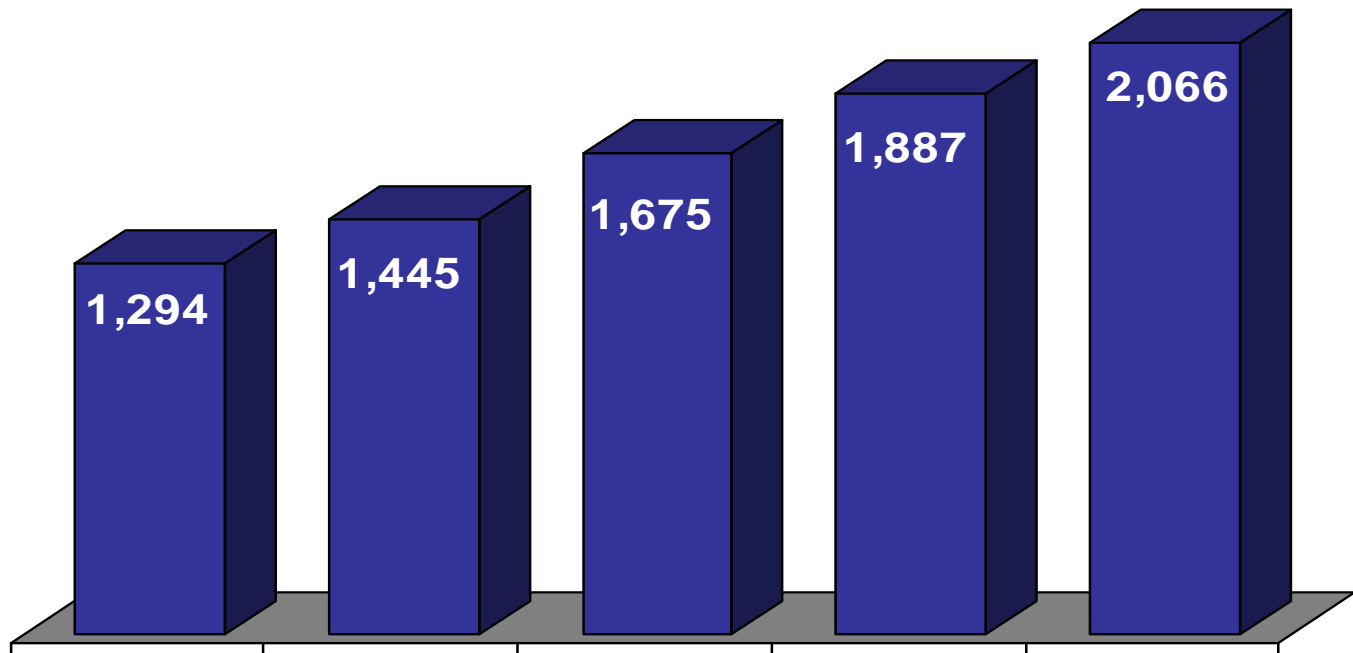
➤ Services and Products

- Strengthened software-as-a-service solution for Major Market clients by acquiring BeneTrac, a web-based employee benefits management system; and partnering with Taleo for online recruiting and hiring management tools
- Introduced Workers' Compensation Payment Service to our Major Market clients
- Continued expansion of health benefits coverage nationwide
- Ongoing enhancements to 401(k) recordkeeping services, allowing for greater flexibility in investment options strengthening our market leadership position.

➤ Customer Service

- Focus on attaining record levels of client retention and satisfaction
- Investment in staffing, training, and retaining payroll specialists

Total Revenues (in millions)



2004

2005

2006

2007

2008

18%

12%

16%

13%

10%

**% Full Year
Increase**

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

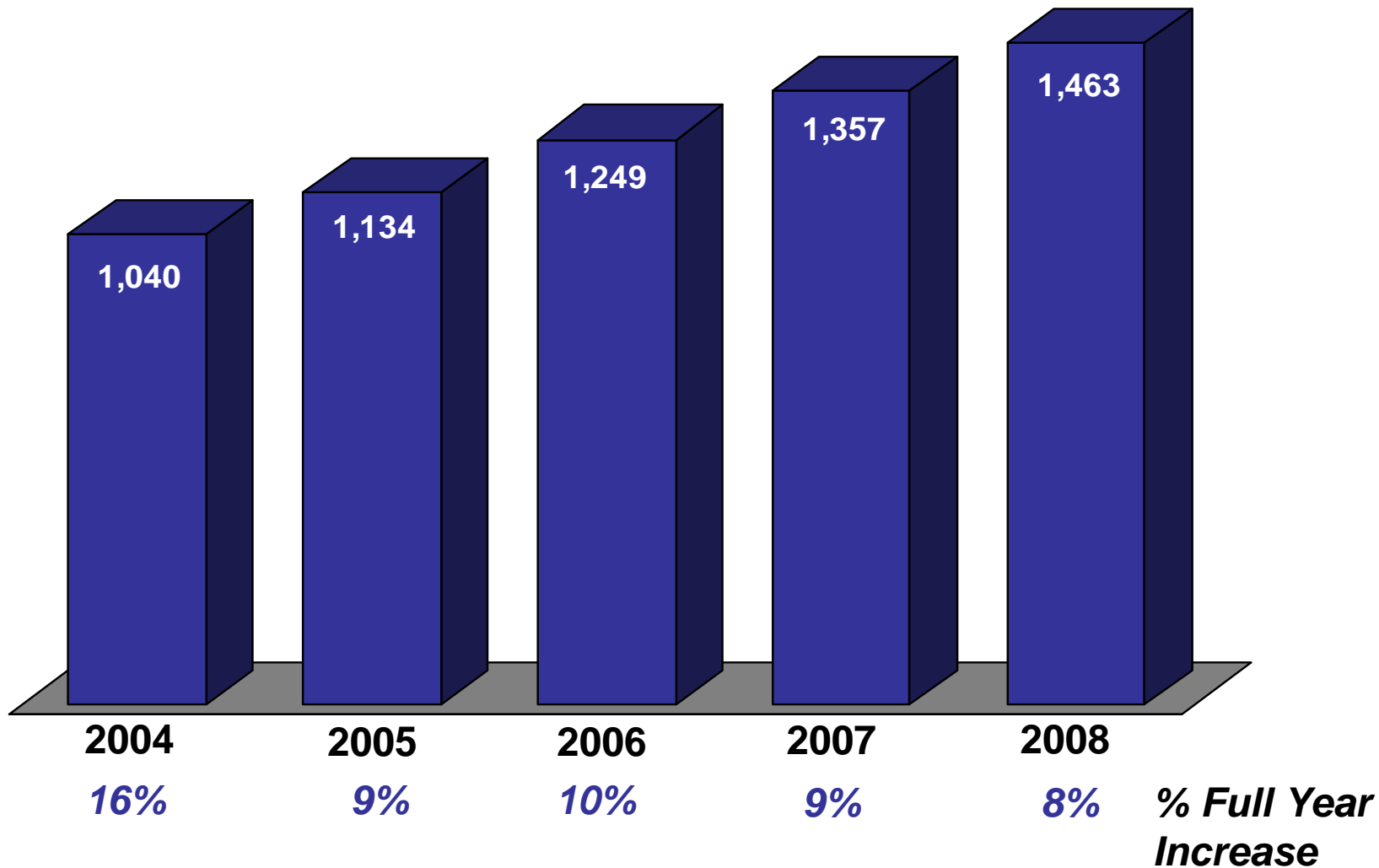
Leveraging Operating Income without Float

	Average	
	Annual Revenue	Annual Revenue
	<u>2008</u>	<u>2007</u>
Payroll Service ^(A) (Avg. 30 Pay Periods)	\$2,710	\$2,630
Taypay [®] – Investment Income	180	190
Employee Pay – Investment Income	<u>80</u>	<u>90</u>
Total Revenue	<u>\$2,970</u>	<u>\$2,910</u>

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

(A) 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 enrollment and admin solution
 - Time and Labor Online
 - Online human capital management partnership with Taleo Corporation
 - Other ancillary services including solutions through Paychex Premier[®]

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
 - Workers' Compensation Payment Services
 - Time and Attendance Solutions
- Growth rates well 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 fund features including safe harbor, Roth 401(k)
- Plan implementation, compliance with regulations, employee and employer reporting, online access, and plan administration
- More than 48,000 clients – largest record keeper in the U.S. based on number of plans serviced; administering one in ten plans in the U.S.
- Market potential – approximately 26% of our clients have 401(k) plans and of those, 38% have plans with Paychex
- \$9.7 billion asset value of client employee funds (May 31, 2008)

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
- Client-assigned, on-site HR representative
- Dedicated sales force
- Approximately 439,000 client employees served – more than ADP, Administaff and Gevity combined in terms of total worksite employees

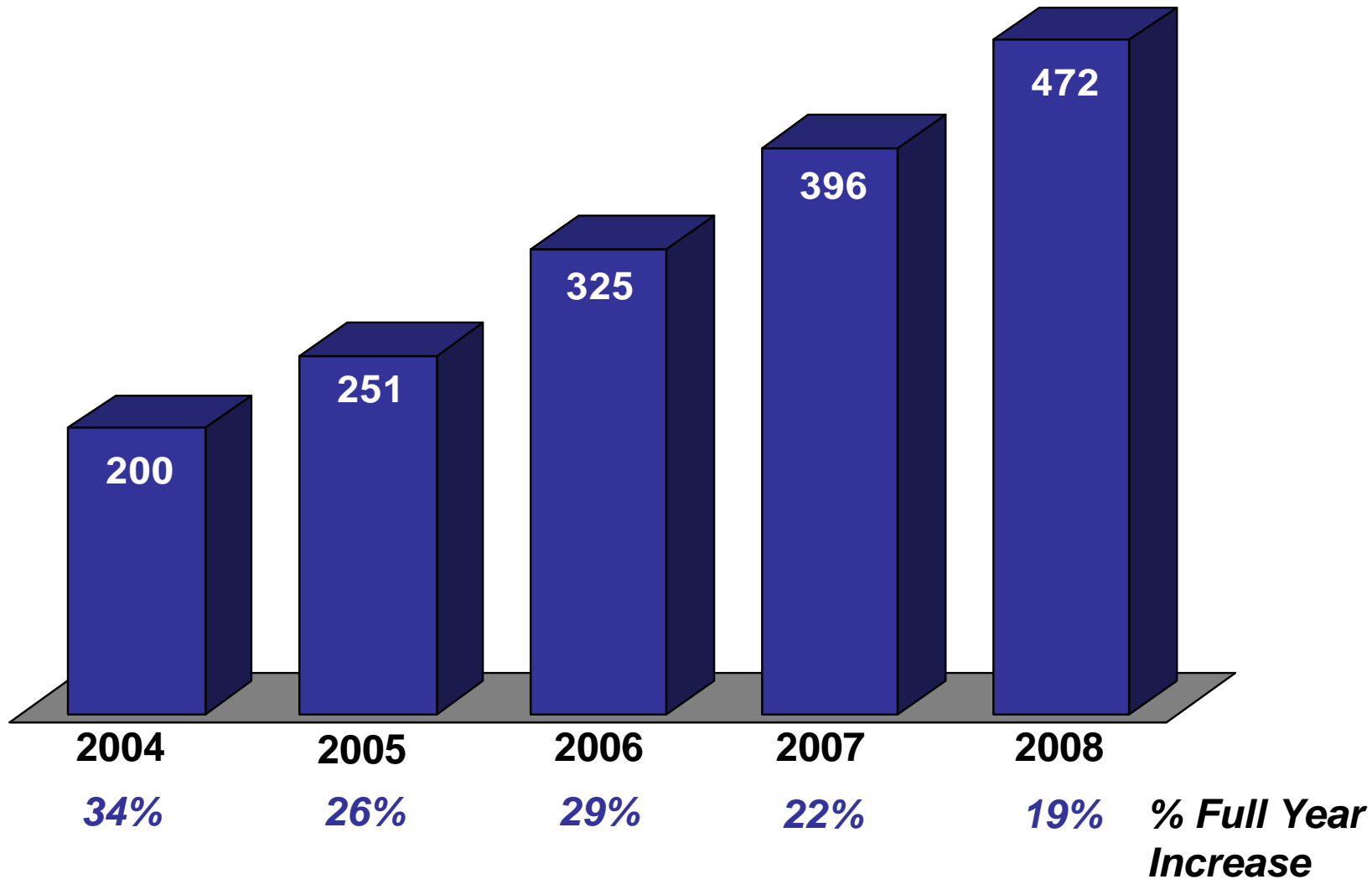
Group and Individual Health Insurance

- Valuable employee benefits at an affordable cost to the employee
- Match features and affordability to employer's needs through access to nearly 200 carriers with 130 currently active
- 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 130 sales reps, both field and call center-based licensed agents covering the entire Paychex client base

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 - \$460 per average client

Human Resource Services Revenue (in millions)



Sales Model

Sales Territories	<u>FY09</u>	<u>% Inc.</u>	<u>FY08</u>	<u>% Inc.</u>	<u>FY07</u>	<u>% Inc.</u>
Payroll	1,535	2%	1,505	6%	1,415	8%
Retirement and other HR Services	340	6%	320	12%	285	19%
Comprehensive Human Resource Outsourcing Services	220	7%	205	8%	190	19%
Licensed Agents for Workers' Compensation	65	8%	60	9%	55	22%
Licensed Agents for Health and Benefits	130	37%	95	73%	55	120%
Other	<u>35</u>	—%	<u>35</u>	—%	<u>35</u>	40%
Total	<u>2,325</u>	5%	<u>2,220</u>	9%	<u>2,035</u>	13%

Lead Generation: CPA Referrals, Client Referrals, Telemarketing, Cold Calls, Internet

Opportunities

- Growth in payroll – small- to medium-sized businesses providing excellent growth opportunities
- Comprehensive portfolio of services for Major Market clients
- Expanded offering of ancillary services
- Comprehensive human resource outsourcing services
- Nationwide health insurance coverage
- Retirement services investment choices

Long-Term Growth Formula

- 12% Service Revenue Growth
- 15% Operating Income Growth, Net of Certain Items

Fiscal 2009 Outlook

Payroll Service Revenue	7%	–	8%
Human Resource Services Revenue	19%	–	22%
Total Service Revenue	9%	–	11%
Interest on Funds Held For Clients	(30%)	–	(25%)
Total Revenue	7%	–	9%
Corporate Investment Income	(60%)	–	(55%)
Effective Income Tax Rate (approximate)			34%
Net Income	2%	–	4%

For fiscal 2009, we expect purchases of property and equipment to be in the range of \$80 to \$85 million. We expect depreciation expense to approximate \$68 million, and amortization of intangible assets to approximate \$20 million.



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Financial Results

Summary Results of Operations

(in millions, except per share amounts)

	Three Months Ended May 31, 2008	%	Twelve Months Ended May 31, 2008	%
		Change		Change
Payroll Services Revenue	\$ 365.4	6%	\$ 1,462.7	8%
Human Resource Services Revenue	<u>122.4</u>	15%	<u>471.8</u>	19%
Total Service Revenue	487.8	8%	1,934.5	10%
Interest on Funds Held for Clients	<u>31.4</u>	(15%)	<u>131.8</u>	(2%)
Total Revenue	<u>\$ 519.2</u>	7%	<u>\$ 2,066.3</u>	10%
Net Income	<u>\$ 135.5</u>	12%	<u>\$ 576.1</u>	12%
Diluted Earnings Per Share	<u>\$ 0.38</u>	19%	<u>\$ 1.56</u>	16%
Operating Income, Net of Certain Items	<u>\$ 166.4</u>	12%	<u>\$ 696.5</u>	15%

Interest on funds held for clients was \$31 million and \$37 million for the three months ended May 31, 2008 and May 31, 2007, respectively, and \$132 million and \$134 million for the twelve months ended May, 31, 2008 and May 31, 2007, respectively. Refer to the "Management's Discussion and Analysis" section of Paychex, Inc.'s Form 10-K for the year ended May 31, 2008 for further discussion of operating income, net of certain items.

Funds Held for Clients and Corporate Investment Portfolios

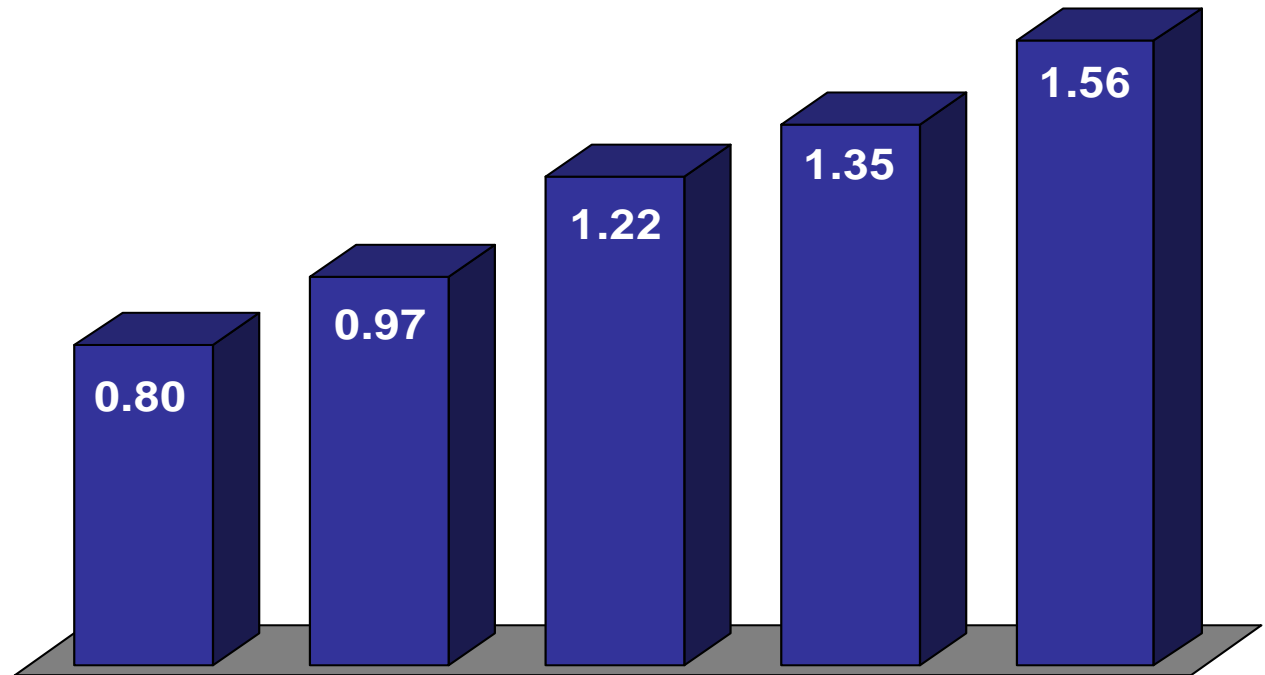
	<u>Fiscal Year Ended May 31, 2008</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Average Investment Portfolio (in billions)	\$ 4.1	\$ 4.4	\$ 3.9	\$ 3.4
Average Investment Rates Earned	3.7%	4.0%	3.2%	2.2%
Realized Gains, Net (in millions)	\$ 6.4	\$ 2.1	\$ 1.0	\$ 0.2
<u>End of Period:</u>				
Unrealized Gains/(Losses), Net (in millions)	\$ 24.8	\$ (14.9)	\$ (22.0)	\$ (9.9)
Federal Funds Rate	2.00%	5.25%	5.00%	3.00%
3 Year “AAA” Municipal Yield	2.65%	3.71%	3.65%	2.85%

- A 25-basis-point change in interest rates affects net income by approximately \$4.5 million for the next twelve month period.
- Unrealized gains, net totaled approximately \$23.3 million at July 11, 2008. During the twelve months ended May 31, 2008, the investment portfolios ranged from a net unrealized loss of \$24.3 million to a net unrealized gain of \$48.7 million.

Investment Portfolio Management

- Maximize liquidity and protect principal
- Highly liquid, investment grade fixed income securities with AAA and AA ratings. Short-term securities with A-1/P-1 ratings.
- Limit amounts invested in single issue
- Insured variable rate demand notes exposure limited to Financial Security Assurance
- No exposure to:
 - Sub-prime mortgage securities
 - Auction rate securities
 - Asset-backed securities or commercial paper
 - Collateralized debt obligations
 - Enhanced cash or cash plus mutual funds
 - Structured investment vehicles (SIVs)

Diluted Earnings Per Share



	2004	2005	2006	2007	2008
% Full Year Increase	3%	21%	26%	11%	16%
Net Income % Full Year Increase	3%	22%	26%	11%	12%

The fiscal 2004 and 2007 results reflect \$36 million and \$38 million, respectively, in expense charges to increase the litigation reserve. These expense charges reduced diluted earnings per share by \$0.06 per share in both fiscal 2004 and fiscal 2007. 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.

Balance Sheet and Cash Flows

(in millions)

	<u>May 31, 2008</u>	<u>May 31, 2007</u>
Cash & Investments	\$ 434.8	\$ 1,224.2
Funds Held for Clients	3,808.1	3,973.1
Property and Equipment, Net	275.3	256.1
Goodwill & Intangible Assets, Net	507.8	474.9
Total Assets	5,309.8	6,246.5
Debt	—	—
Stockholders' Equity	1,196.6	1,952.2
Average Return on Equity	39%	28%

Purchases of property and equipment for the twelve months ended May 31, 2008 and May 31, 2007 were \$82 million and \$79 million, respectively. Depreciation and amortization on property and equipment and intangible assets was \$81 million and \$73 million for the twelve months ended May 31, 2008 and May 31, 2007, respectively.

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