

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended March 31, 2024

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to
Commission file number 001-36348

PAYLOCITY HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-4066644
(IRS Employer
Identification No.)

**1400 American Lane
Schaumburg, Illinois**
(Address of principal executive offices)

60173
(Zip Code)

(847) 463-3200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	PCTY	The NASDAQ Global Select Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 56,431,253 shares of Common Stock, \$0.001 par value per share, as of April 26, 2024.

Paylocity Holding Corporation
Form 10-Q
For the Quarterly Period Ended March 31, 2024

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Balance Sheets
(in thousands, except per share data)

	June 30, 2023	March 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 288,767	\$ 492,695
Accounts receivable, net	25,085	33,714
Deferred contract costs	78,109	92,450
Prepaid expenses and other	35,061	36,476
Total current assets before funds held for clients	427,022	655,335
Funds held for clients	2,621,415	3,591,198
Total current assets	3,048,437	4,246,533
Capitalized internal-use software, net	86,127	110,681
Property and equipment, net	64,069	60,773
Operating lease right-of-use assets	44,067	35,705
Intangible assets, net	34,527	30,868
Goodwill	102,054	108,527
Long-term deferred contract costs	294,222	333,393
Long-term prepaid expenses and other	6,331	7,404
Deferred income tax assets	15,846	19,153
Total assets	\$ 3,695,680	\$ 4,953,037
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,153	\$ 5,181
Accrued expenses	143,287	170,575
Total current liabilities before client fund obligations	149,440	175,756
Client fund obligations	2,625,355	3,589,437
Total current liabilities	2,774,795	3,765,193
Long-term operating lease liabilities	62,471	48,888
Other long-term liabilities	3,731	6,008
Deferred income tax liabilities	11,820	33,534
Total liabilities	\$ 2,852,817	\$ 3,853,623
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2023 and March 31, 2024	\$ —	\$ —
Common stock, \$0.001 par value, 155,000 shares authorized at June 30, 2023 and March 31, 2024; 55,912 shares issued and outstanding at June 30, 2023 and 56,427 shares issued and outstanding at March 31, 2024	56	56
Additional paid-in capital	380,632	475,414
Retained earnings	466,690	624,637
Accumulated other comprehensive loss	(4,515)	(693)
Total stockholders' equity	\$ 842,863	\$ 1,099,414
Total liabilities and stockholders' equity	\$ 3,695,680	\$ 4,953,037

See accompanying notes to unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Revenues:				
Recurring and other revenue	\$ 314,170	\$ 366,840	\$ 816,010	\$ 956,941
Interest income on funds held for clients	25,687	34,441	50,135	88,287
Total revenues	339,857	401,281	866,145	1,045,228
Cost of revenues	95,714	115,983	270,333	324,849
Gross profit	244,143	285,298	595,812	720,379
Operating expenses:				
Sales and marketing	74,064	86,760	220,821	246,940
Research and development	42,323	43,386	123,445	134,130
General and administrative	47,379	48,863	145,872	142,125
Total operating expenses	163,766	179,009	490,138	523,195
Operating income	80,377	106,289	105,674	197,184
Other income	1,139	4,324	971	11,349
Income before income taxes	81,516	110,613	106,645	208,533
Income tax expense	23,900	25,299	3,077	50,586
Net income	\$ 57,616	\$ 85,314	\$ 103,568	\$ 157,947
Other comprehensive income (loss), net of tax	1,919	(1,227)	63	3,822
Comprehensive income	\$ 59,535	\$ 84,087	\$ 103,631	\$ 161,769
Net income per share:				
Basic	\$ 1.03	\$ 1.51	\$ 1.86	\$ 2.81
Diluted	\$ 1.02	\$ 1.50	\$ 1.83	\$ 2.77
Weighted-average shares used in computing net income per share:				
Basic	55,788	56,369	55,653	56,216
Diluted	56,555	57,048	56,560	56,975

See accompanying notes to unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Statement of Changes in Stockholders' Equity
(in thousands)

	Three Months Ended March 31, 2023					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2022	55,768	56	310,050	371,820	(4,159)	\$ 677,767
Stock-based compensation	—	—	36,249	—	—	36,249
Stock options exercised	11	—	188	—	—	188
Issuance of common stock upon vesting of restricted stock units	55	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(24)	—	(4,993)	—	—	(4,993)
Unrealized gains on securities, net of tax	—	—	—	—	1,919	1,919
Net income	—	—	—	57,616	—	57,616
Balances at March 31, 2023	55,810	\$ 56	\$ 341,494	\$ 429,436	\$ (2,240)	\$ 768,746

	Three Months Ended March 31, 2024					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2023	56,313	56	446,860	539,323	534	\$ 986,773
Stock-based compensation	—	—	39,221	—	—	39,221
Stock options exercised	90	—	1,549	—	—	1,549
Issuance of common stock upon vesting of restricted stock units	96	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(72)	—	(12,216)	—	—	(12,216)
Unrealized losses on securities, net of tax	—	—	—	—	(1,227)	(1,227)
Net income	—	—	—	85,314	—	85,314
Balances at March 31, 2024	56,427	\$ 56	\$ 475,414	\$ 624,637	\$ (693)	\$ 1,099,414

	Nine Months Ended March 31, 2023					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances at June 30, 2022	55,190	\$ 55	\$ 289,843	\$ 325,868	\$ (2,303)	\$ 613,463
Stock-based compensation	—	—	127,373	—	—	127,373
Stock options exercised	253	—	3,129	—	—	3,129
Issuance of common stock upon vesting of restricted stock units	664	1	(1)	—	—	—
Issuance of common stock under employee stock purchase plan	61	—	8,450	—	—	8,450
Net settlement for taxes and/or exercise price related to equity awards	(358)	—	(87,300)	—	—	(87,300)
Unrealized gains on securities, net of tax	—	—	—	—	63	63
Net income	—	—	—	103,568	—	103,568
Balances at March 31, 2023	55,810	\$ 56	\$ 341,494	\$ 429,436	\$ (2,240)	\$ 768,746

	Nine Months Ended March 31, 2024					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances at June 30, 2023	55,912	\$ 56	\$ 380,632	\$ 466,690	\$ (4,515)	\$ 842,863
Stock-based compensation	—	—	131,305	—	—	131,305
Stock options exercised	118	—	2,033	—	—	2,033
Issuance of common stock upon vesting of equity awards	585	—	—	—	—	—
Issuance of common stock upon employee stock purchase plan	73	—	9,534	—	—	9,534
Net settlement for taxes and/or exercise price related to equity awards	(261)	—	(48,090)	—	—	(48,090)
Unrealized gains on securities, net of tax	—	—	—	—	3,822	3,822
Net income	—	—	—	157,947	—	157,947
Balances at March 31, 2024	56,427	\$ 56	\$ 475,414	\$ 624,637	\$ (693)	\$ 1,099,414

See accompanying notes to the unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended March 31,	
	2023	2024
Cash flows from operating activities:		
Net income	\$ 103,568	\$ 157,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	116,002	117,165
Depreciation and amortization expense	44,481	55,779
Deferred income tax expense	1,308	18,543
Provision for credit losses	864	713
Net accretion of discounts on available-for-sale securities	(3,602)	(3,688)
Other	1,567	(3,111)
Changes in operating assets and liabilities:		
Accounts receivable	(12,548)	(9,913)
Deferred contract costs	(62,929)	(50,807)
Prepaid expenses and other	2,031	(2,191)
Accounts payable	10	(554)
Accrued expenses and other	15,355	24,856
Net cash provided by operating activities	206,107	304,739
Cash flows from investing activities:		
Purchases of available-for-sale securities	(557,403)	(231,672)
Proceeds from sales and maturities of available-for-sale securities	298,113	222,712
Capitalized internal-use software costs	(30,726)	(44,501)
Purchases of property and equipment	(8,769)	(11,701)
Acquisitions of businesses, net of cash acquired	—	(12,031)
Other investing activities	33	783
Net cash used in investing activities	(298,752)	(76,410)
Cash flows from financing activities:		
Net change in client fund obligations	(785,361)	964,082
Proceeds from employee stock purchase plan	8,450	9,534
Taxes paid related to net share settlement of equity awards	(84,174)	(46,057)
Other financing activities	(873)	(35)
Net cash provided by (used in) financing activities	(861,958)	927,524
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	(954,603)	1,155,853
Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period	3,793,453	2,421,312
Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period	\$ 2,838,850	\$ 3,577,165
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchases of property and equipment and capitalized internal-use software, accrued but not paid	\$ 3,115	\$ 2,777
Liabilities assumed for acquisitions	\$ 117	\$ 378
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 282	\$ 372
Cash paid for income taxes	\$ 573	\$ 34,659
Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	\$ 233,692	\$ 492,695
Funds held for clients' cash and cash equivalents	2,605,158	3,084,470
Total cash, cash equivalents and funds held for clients' cash and cash equivalents	\$ 2,838,850	\$ 3,577,165

See accompanying notes to unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Notes to the Unaudited Consolidated Financial Statements
(all amounts in thousands, except per share data)

(1) Organization and Description of Business

Paylocity Holding Corporation (the “Company”) is a cloud-based provider of human capital management and payroll software solutions that deliver a comprehensive platform for the modern workforce. Services are provided in a Software-as-a-Service (“SaaS”) delivery model. The Company’s comprehensive product suite delivers a unified platform that helps businesses attract and retain talent, build culture and connection with their employees, and streamline and automate HR and payroll processes.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation, Consolidation and Use of Estimates

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. Accounting estimates used in the preparation of these consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes.

(b) Interim Unaudited Consolidated Financial Information

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the Company’s financial position, results of operations, changes in stockholders’ equity and cash flows. The results of operations for the three and nine months ended March 31, 2024 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended June 30, 2023 included in the Company’s Annual Report on Form 10-K.

(c) Income Taxes

Income taxes are accounted for in accordance with ASC 740, Income Taxes, using the asset and liability method. The Company’s provision for income taxes is based on the annual effective rate method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net-recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

(d) *Recently Issued Accounting Standards*

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 primarily requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker along with other incremental segment information. The ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted, and will be applied retrospectively to all prior periods presented in the financial statements. The Company is currently assessing the impact of this ASU to its consolidated financial statements and related disclosures and is evaluating the timing of adoption.

In December 2023, the FASB issued Accounting Standards Update 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosure ("ASU 2023-09"). ASU 2023-09 mostly requires, on an annual basis, disclosure of specific categories in an entity's effective tax rate reconciliation and income taxes paid disaggregated by jurisdiction. The incremental disclosures may be presented on a prospective or retrospective basis. The ASU is effective for fiscal years beginning after December 15, 2024 with early adoption permitted. The Company is currently assessing the impact of this ASU to its consolidated financial statements and related disclosures and is evaluating the method and timing of adoption.

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard-setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of other recently issued standards that are not yet effective will not have a material impact on the Company's consolidated financial statements upon adoption.

(3) **Revenue**

The Company derives its revenue from contracts predominantly from recurring service fees. While the majority of its agreements are generally cancellable by the client on 60 days' notice or less, the Company also offers term agreements to its clients, which are generally two years in length. Recurring fees are derived from payroll, timekeeping, and HR-related cloud-based computing services. The majority of the Company's recurring fees are satisfied over time as services are provided. The performance obligations related to payroll services are satisfied upon the processing of the client's payroll with the fee charged and collected based on a per employee per payroll frequency fee. The performance obligations related to time and attendance services and HR related services are satisfied over time each month with the fee charged and collected based on a per employee per month fee. For subscription-based fees which can include payroll, time and attendance, and other HCM related services, the Company recognizes the applicable recurring fees over time each month with the fee charged and collected based on a per employee per month fee. Implementation services and other consist mainly of nonrefundable implementation fees, which involve setting the client up in, and loading data into, the Company's cloud-based modules. These implementation activities are considered set-up activities. The Company has determined that the nonrefundable upfront fees provide certain clients with a material right to renew the contract.

Disaggregation of revenue

The following table disaggregates total revenues from contracts by Recurring fees and Implementation services and other, which the Company believes depicts the nature, amount and timing of its revenue:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Recurring fees	\$ 302,595	\$ 352,025	\$ 786,936	\$ 917,064
Implementation services and other	11,575	14,815	29,074	39,877
Total revenues from contracts	\$ 314,170	\$ 366,840	\$ 816,010	\$ 956,941

Deferred revenue

The timing of revenue recognition for recurring revenue is consistent with the timing of invoicing as they occur simultaneously based on the client payroll processing period or by month. As such, the Company does not recognize contract assets or liabilities related to recurring revenue.

The Company defers and amortizes nonrefundable upfront fees related to implementation services generally over a period up to 24 months based on the type of contract. The following table summarizes the changes in deferred revenue (i.e., contract liability) related to these nonrefundable upfront fees as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Balance at beginning of the period	\$ 19,737	\$ 26,245	\$ 12,233	\$ 22,617
Deferral of revenue	10,211	10,932	30,445	33,164
Revenue recognized	(8,589)	(11,324)	(21,319)	(29,928)
Balance at end of the period	<u>\$ 21,359</u>	<u>\$ 25,853</u>	<u>\$ 21,359</u>	<u>\$ 25,853</u>

Deferred revenue related to these nonrefundable upfront fees are recorded within Accrued expenses and Other long-term liabilities on the Unaudited Consolidated Balance Sheets. The Company expects to recognize these deferred revenue balances of \$10,442 in fiscal 2024, \$13,048 in fiscal 2025 and \$2,363 in fiscal 2026 and thereafter.

Deferred contract costs

The Company defers certain selling and commission costs that meet the capitalization criteria under ASC 340-40. The Company also capitalizes certain costs to fulfill a contract related to its proprietary products if they are identifiable, generate or enhance resources used to satisfy future performance obligations and are expected to be recovered under ASC 340-40. Implementation fees are treated as nonrefundable upfront fees and the related implementation costs are required to be capitalized and amortized over the expected period of benefit, which is the period in which the Company expects to recover the costs and enhance its ability to satisfy future performance obligations.

The Company utilizes the portfolio approach to account for both the cost of obtaining a contract and the cost of fulfilling a contract. These capitalized costs are amortized over the expected period of benefit, which has been determined to be over 7 years based on the Company's average client life and other qualitative factors, including rate of technological changes. The Company does not incur any additional costs to obtain or fulfill contracts upon renewal. The Company recognizes additional selling and commission costs and fulfillment costs when an existing client purchases additional services. These additional costs only relate to the additional services purchased and do not relate to the renewal of previous services.

The following tables present the deferred contract costs and the related amortization expense for these deferred contract costs:

	Three Months Ended March 31, 2023			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 200,553	\$ 22,105	\$ (11,477)	\$ 211,181
Costs to fulfill a contract	130,317	19,085	(6,699)	142,703
Total	\$ 330,870	\$ 41,190	\$ (18,176)	\$ 353,884

	Three Months Ended March 31, 2024			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 230,057	\$ 23,878	\$ (13,408)	\$ 240,527
Costs to fulfill a contract	174,923	19,806	(9,413)	185,316
Total	\$ 404,980	\$ 43,684	\$ (22,821)	\$ 425,843

	Nine Months Ended March 31, 2023			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 182,543	\$ 61,327	\$ (32,689)	\$ 211,181
Costs to fulfill a contract	106,025	54,750	(18,072)	142,703
Total	\$ 288,568	\$ 116,077	\$ (50,761)	\$ 353,884

	Nine Months Ended March 31, 2024			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 218,965	\$ 60,214	\$ (38,652)	\$ 240,527
Costs to fulfill a contract	153,366	58,066	(26,116)	185,316
Total	\$ 372,331	\$ 118,280	\$ (64,768)	\$ 425,843

Deferred contract costs are recorded within Deferred contract costs and Long-term deferred contract costs on the Unaudited Consolidated Balance Sheets. Amortization of deferred contract costs is primarily recorded in Cost of revenues and Sales and marketing in the Unaudited Consolidated Statements of Operations and Comprehensive Income.

Remaining Performance Obligations

The balance of the Company's remaining performance obligations related to minimum monthly fees on its term-based contracts was approximately \$74,270 as of March 31, 2024, which will be generally recognized over the next 24 months. This balance excludes the value of unsatisfied performance obligations for contracts that have an original expected duration of one year or less and contracts for which the variable consideration is allocated entirely to wholly unsatisfied performance obligations.

(4) Business Combination

On November 30, 2023, the Company acquired all of the outstanding shares of TraceHQ.com, Inc. ("Trace") through a merger of Trace with a subsidiary of the Company for cash consideration of \$12,086, subject to working capital and other customary purchase price adjustments. Trace offers a headcount planning solution that expands the Company's product functionality in this area. The preliminary allocation of the purchase price for Trace was approximately \$6,473 of goodwill, \$4,200 of proprietary technology and other immaterial assets and liabilities which reflects certain immaterial measurement period adjustments recorded during the three months ended March 31, 2024. The Company accounted for this transaction as a business combination and recorded the assets acquired and liabilities assumed at their respective estimated fair values as of the date of the acquisition with the excess consideration paid recorded as goodwill. The fair values of the assets acquired and liabilities assumed are currently provisional and are subject to change over the measurement period as the Company continues to evaluate and analyze the estimates and assumptions used in the valuation. The measurement period will end no later than one year from the acquisition date.

The results from this acquisition have been included in the Company's consolidated financial statements since the closing of the transaction and are not material to the Company. Pro forma information is not presented because the effects of the acquisition are not material to the Company's consolidated financial statements. The goodwill related to this transaction is primarily attributable to the assembled workforce and growth opportunities from the expansion and enhancement of the Company's product offerings. The goodwill associated with the Trace acquisition is not deductible for income tax purposes. Direct costs related to the acquisition were immaterial and were expensed as incurred as General and administrative expense in the Unaudited Consolidated Statements of Operations and Comprehensive Income.

(5) Balance Sheet Information

The following tables provide details of selected consolidated balance sheet items:

Activity in the allowance for credit losses related to accounts receivable was as follows:

Balance at June 30, 2023	\$	1,620
Charged to expense		713
Write-offs		(525)
Balance at March 31, 2024	\$	<u>1,808</u>

Capitalized internal-use software and accumulated amortization were as follows:

	June 30, 2023	March 31, 2024
Capitalized internal-use software	\$ 248,738	\$ 305,763
Accumulated amortization	(162,611)	(195,082)
Capitalized internal-use software, net	<u>\$ 86,127</u>	<u>\$ 110,681</u>

Amortization of capitalized internal-use software costs is primarily included in Cost of revenues and amounted to \$7,984 and \$12,260 for the three months ended March 31, 2023 and 2024, respectively, and \$22,504 and \$32,471 for the nine months ended March 31, 2023 and 2024, respectively.

The major classes of property and equipment, net were as follows:

	June 30, 2023	March 31, 2024
Office equipment	\$ 2,508	\$ 2,792
Computer equipment	58,670	61,624
Furniture and fixtures	12,958	12,986
Software	11,127	12,812
Leasehold improvements	48,159	48,872
Time clocks rented by clients	8,533	9,526
Total	<u>141,955</u>	<u>148,612</u>
Accumulated depreciation	(77,886)	(87,839)
Property and equipment, net	<u>\$ 64,069</u>	<u>\$ 60,773</u>

Depreciation expense amounted to \$4,633 and \$5,220 for the three months ended March 31, 2023 and 2024, respectively, and \$13,666 and \$15,449 for the nine months ended March 31, 2023 and 2024, respectively.

The following table summarizes changes in goodwill during the nine months ended March 31, 2024:

	March 31, 2024
Balance at June 30, 2023	\$ 102,054
Addition attributable to acquisition	6,473
Balance at March 31, 2024	<u>\$ 108,527</u>

Refer to Note 4 for further details on current year acquisition activity.

The Company's amortizable intangible assets and estimated useful lives are as follows:

	June 30, 2023	March 31, 2024	Weighted average useful life (years)
Proprietary technology	\$ 43,129	\$ 47,329	5.9
Client relationships	22,200	22,200	7.8
Non-solicitation agreements	1,600	1,600	3.1
Trade names	1,640	1,640	5.0
Total	<u>68,569</u>	<u>72,769</u>	
Accumulated amortization	(34,042)	(41,901)	
Intangible assets, net	<u>\$ 34,527</u>	<u>\$ 30,868</u>	

Amortization expense for acquired intangible assets was \$2,770 and \$2,798 for the three months ended March 31, 2023 and 2024, respectively, and \$8,311 and \$7,859 for the nine months ended March 31, 2023 and 2024, respectively, and is included in Cost of revenues and General and administrative.

Future amortization expense for acquired intangible assets as of March 31, 2024 is as follows:

Remainder of fiscal 2024	\$ 2,577
Fiscal 2025	9,728
Fiscal 2026	8,109
Fiscal 2027	5,733
Fiscal 2028	3,869
Thereafter	852
Total	<u>\$ 30,868</u>

The components of accrued expenses were as follows:

	June 30, 2023	March 31, 2024
Accrued payroll and personnel costs	\$ 85,019	\$ 95,787
Operating lease liabilities	7,800	8,021
Deferred revenue	24,539	27,544
Other	25,929	39,223
Total accrued expenses	<u>\$ 143,287</u>	<u>\$ 170,575</u>

(6) Corporate Investments and Funds Held for Clients

Corporate investments and funds held for clients consisted of the following:

Type of Issue	June 30, 2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	\$ 288,767	\$ —	\$ —	\$ 288,767
Funds held for clients' cash and cash equivalents	2,132,545	—	—	2,132,545
Available-for-sale securities:				
Commercial paper	110,003	12	(138)	109,877
Corporate bonds	112,262	18	(1,867)	110,413
Asset-backed securities	30,061	10	(337)	29,734
Certificates of deposit	68,247	5	(93)	68,159
U.S. treasury securities	158,839	—	(2,839)	156,000
U.S government agency securities	8,000	—	(513)	7,487
Other	7,329	—	(129)	7,200
Total available-for-sale securities	494,741	45	(5,916)	488,870
Total investments	\$ 2,916,053	\$ 45	\$ (5,916)	\$ 2,910,182

Type of Issue	March 31, 2024			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	\$ 492,695	\$ —	\$ —	\$ 492,695
Funds held for clients' cash and cash equivalents	3,084,470	—	—	3,084,470
Available-for-sale securities:				
Commercial paper	14,343	—	(4)	14,339
Corporate bonds	256,027	1,557	(895)	256,689
Asset-backed securities	38,300	185	(149)	38,336
Certificates of deposit	13,420	11	—	13,431
U.S. treasury securities	164,478	60	(1,232)	163,306
U.S government agency securities	8,000	—	(271)	7,729
Other	12,820	119	(41)	12,898
Total available-for-sale securities	507,388	1,932	(2,592)	506,728
Total investments	\$ 4,084,553	\$ 1,932	\$ (2,592)	\$ 4,083,893

All available-for-sale securities were included in Funds held for clients at June 30, 2023 and March 31, 2024.

Cash and cash equivalents and funds held for clients' cash and cash equivalents included demand deposit accounts and money market funds at June 30, 2023 and March 31, 2024.

Classification of investments on the Unaudited Consolidated Balance Sheets was as follows:

	June 30, 2023	March 31, 2024
Cash and cash equivalents	\$ 288,767	\$ 492,695
Funds held for clients	2,621,415	3,591,198
Total investments	\$ 2,910,182	\$ 4,083,893

Available-for-sale securities that had been in an unrealized loss position for a period of less and greater than 12 months as of June 30, 2023 and March 31, 2024 had fair market value as follows:

	June 30, 2023					
	Securities in an unrealized loss position for less than 12 months		Securities in an unrealized loss position for greater than 12 months		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Commercial paper	\$ (138)	\$ 96,665	\$ —	\$ —	\$ (138)	\$ 96,665
Corporate bonds	(695)	71,089	(1,172)	32,807	(1,867)	103,896
Asset-backed securities	(233)	23,313	(104)	2,038	(337)	25,351
Certificates of deposit	(93)	52,254	—	—	(93)	52,254
U.S. treasury securities	(1,075)	95,388	(1,764)	60,612	(2,839)	156,000
U.S. government agency securities	—	—	(513)	7,487	(513)	7,487
Other	(71)	5,326	(58)	1,874	(129)	7,200
Total available-for-sale securities	<u>\$ (2,305)</u>	<u>\$ 344,035</u>	<u>\$ (3,611)</u>	<u>\$ 104,818</u>	<u>\$ (5,916)</u>	<u>\$ 448,853</u>

	March 31, 2024					
	Securities in an unrealized loss position for less than 12 months		Securities in an unrealized loss position for greater than 12 months		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Commercial paper	\$ (4)	\$ 14,339	\$ —	\$ —	\$ (4)	\$ 14,339
Corporate bonds	(339)	77,014	(556)	25,194	(895)	102,208
Asset-backed securities	(2)	3,877	(147)	8,102	(149)	11,979
U.S. treasury securities	(506)	88,119	(726)	68,205	(1,232)	156,324
U.S. government agency securities	—	—	(271)	7,729	(271)	7,729
Other	(9)	2,785	(32)	3,614	(41)	6,399
Total available-for-sale securities	<u>\$ (860)</u>	<u>\$ 186,134</u>	<u>\$ (1,732)</u>	<u>\$ 112,844</u>	<u>\$ (2,592)</u>	<u>\$ 298,978</u>

The Company regularly reviews the composition of its portfolio to determine the existence of credit impairment. The Company did not recognize any credit impairment losses during the three or nine months ended March 31, 2023 or 2024. All securities in the Company's portfolio held an A-1 rating or better as of March 31, 2024.

The Company did not make any material reclassification adjustments out of accumulated other comprehensive income for realized gains and losses on the sale of available-for-sale securities during the three or nine months ended March 31, 2023 or 2024. There were no realized gains or losses on the sale of available-for-sale securities for the three or nine months ended March 31, 2023 or 2024.

Expected maturities of available-for-sale securities at March 31, 2024 were as follows:

	Amortized cost	Fair value
One year or less	\$ 195,435	\$ 194,520
One year to two years	130,594	129,364
Two years to three years	57,927	58,282
Three years to five years	123,432	124,562
Total available-for-sale securities	<u>\$ 507,388</u>	<u>\$ 506,728</u>

(7) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1—Quoted prices in active markets for identical assets and liabilities.
- Level 2—Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company measures certain cash and cash equivalents, funds held for clients' cash and cash equivalents, accounts receivable, accounts payable and client fund obligations at fair value on a recurring basis using Level 1 inputs. The Company considers the recorded value of these financial assets and liabilities to approximate the fair value of the respective assets and liabilities at June 30, 2023 and March 31, 2024 based upon the short-term nature of these assets and liabilities.

Marketable securities, consisting of securities classified as available-for-sale as well as certain cash equivalents, are recorded at fair value on a recurring basis using Level 2 inputs obtained from an independent pricing service. Available-for-sale securities include commercial paper, corporate bonds, asset-backed securities, certificates of deposit, U.S. treasury securities, U.S. government agency and other securities. The independent pricing service utilizes a variety of inputs including benchmark yields, broker/dealer quoted prices, reported trades, issuer spreads as well as other available market data. The Company, on a sample basis, validates the pricing from the independent pricing service against another third-party pricing source for reasonableness. The Company has not adjusted any prices obtained by the independent pricing service, as it believes they are appropriately valued. There were no available-for-sale securities classified in Level 3 of the fair value hierarchy at June 30, 2023 or March 31, 2024.

The fair value level for the Company's cash and cash equivalents and available-for-sale securities was as follows:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 288,767	\$ 288,767	\$ —	\$ —
Funds held for clients' cash and cash equivalents	2,132,545	2,132,545	—	—
Available-for-sale securities:				
Commercial paper	109,877	—	109,877	—
Corporate bonds	110,413	—	110,413	—
Asset-backed securities	29,734	—	29,734	—
Certificates of deposit	68,159	—	68,159	—
U.S. treasury securities	156,000	—	156,000	—
U.S government agency securities	7,487	—	7,487	—
Other	7,200	—	7,200	—
Total available-for-sale securities	488,870	—	488,870	—
Total investments	\$ 2,910,182	\$ 2,421,312	\$ 488,870	\$ —

	March 31, 2024			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 492,695	\$ 492,695	\$ —	\$ —
Funds held for clients' cash and cash equivalents	3,084,470	3,084,470	—	—
Available-for-sale securities:				
Commercial paper	14,339	—	14,339	—
Corporate bonds	256,689	—	256,689	—
Asset-backed securities	38,336	—	38,336	—
Certificates of deposit	13,431	—	13,431	—
U.S. treasury securities	163,306	—	163,306	—
U.S government agency securities	7,729	—	7,729	—
Other	12,898	—	12,898	—
Total available-for-sale securities	506,728	—	506,728	—
Total investments	\$ 4,083,893	\$ 3,577,165	\$ 506,728	\$ —

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The Company records assets acquired and liabilities assumed in business combinations at fair value. Refer to Note 4 for further details on the fair value measurements of certain assets and liabilities recorded at fair value on a non-recurring basis.

(8) Debt

In July 2019, the Company entered into a revolving credit agreement with PNC Bank, National Association, and other lenders, which is secured by substantially all of the Company's assets, subject to certain restrictions. In August 2022, the Company entered into a first amendment to the aforementioned credit agreement to increase the borrowing capacity of our revolving credit facility ("credit facility") to \$550,000, which may be increased up to \$825,000, subject to obtaining additional lender commitments and certain approvals and satisfying other requirements. The amended credit agreement extends the maturity date of the credit facility to August 2027 and replaces the interest rate based on London Interbank Offered Rate with an interest rate based on secured overnight financing rate ("SOFR"). The Company had no borrowings at June 30, 2023 or March 31, 2024.

The proceeds of any borrowings are to be used to fund working capital, capital expenditures and general corporate purposes, including permitted acquisitions, permitted investments, permitted distributions and share repurchases. The Company may generally borrow, prepay and reborrow under the credit facility and terminate or reduce the lenders'

commitments at any time prior to revolving credit facility expiration without a premium or a penalty, other than customary “breakage” costs.

Any borrowings under the credit facility will generally bear interest, at the Company’s option, at a rate per annum determined by reference to either the Term SOFR rate plus the SOFR Adjustment or an adjusted base rate, in each case plus an applicable margin ranging from 0.875% to 1.500% and 0.0% to 0.500%, respectively, based on the then-applicable net total leverage ratio. Additionally, the Company is required to pay certain commitment, letter of credit fronting and letter of credit participation fees on available and/or undrawn portions of the credit facility.

The Company is required to comply with certain customary affirmative and negative covenants, including a requirement to maintain a maximum net total leverage ratio of not greater than 4.00 to 1.00, (with a step up to 4.50 to 1.00 for the 4 consecutive fiscal quarters following a fiscal quarter in which certain permitted acquisitions are consummated), and a minimum interest coverage ratio of not less than 2.00 to 1.00. As of March 31, 2024, the Company was in compliance with all of the aforementioned covenants.

(9) Stock-Based Compensation

In November 2023, the Company’s stockholders approved the 2023 Equity Incentive Plan (the “2023 Plan”). The 2023 Plan serves as the successor to the 2014 Equity Incentive Plan (the “2014 Plan”) and permits the granting of restricted stock units (“RSUs”), market share units (“MSUs”) and other equity incentives at the discretion of the compensation committee of the Company’s board of directors. No new awards have been or will be issued under the 2014 Plan since the effective date of the 2023 Plan. Outstanding awards under the 2014 Plan continue to be subject to the terms and conditions of the 2014 Plan.

As of March 31, 2024, the Company had 2,090 shares available for future grant under the 2023 Plan, and 1,766 shares were subject to outstanding options or awards. Generally, the Company issues previously unissued shares for the exercise of stock options or vesting of awards; however, shares previously subject to granted awards that are forfeited or net settled at exercise or release may be reissued under the 2023 Plan to satisfy future issuances.

Stock-based compensation expense related to RSUs, MSUs and the Employee Stock Purchase Plan is included in the following line items in the accompanying unaudited consolidated statements of operations and comprehensive income:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Cost of revenues	\$ 4,187	\$ 4,527	\$ 13,460	\$ 14,945
Sales and marketing	8,789	9,079	29,143	28,347
Research and development	8,665	7,427	28,759	28,498
General and administrative	10,997	13,919	44,640	45,375
Total stock-based compensation expense	\$ 32,638	\$ 34,952	\$ 116,002	\$ 117,165

In addition, the Company capitalized \$2,888 and \$3,470 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended March 31, 2023 and 2024, respectively, and \$8,984 and \$11,435 for the nine months ended March 31, 2023 and 2024, respectively.

There were no stock options granted during the nine months ended March 31, 2024. The table below presents stock option activity during the nine months ended March 31, 2024:

	Outstanding Options			
	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Option balance at July 1, 2023	288	\$ 23.63	1.2	\$ 46,129
Options exercised	(118)	\$ 17.24		
Option balance at March 31, 2024	170	\$ 28.09	0.7	\$ 24,268
Options vested and exercisable at March 31, 2024	170	\$ 28.09	0.7	\$ 24,268

The total intrinsic value of options exercised was \$2,011 and \$13,476 during the three months ended March 31, 2023 and 2024, respectively, and \$51,638 and \$18,176 for the nine months ended March 31, 2023 and 2024, respectively.

The Company grants RSUs under its equity incentive plan with terms determined at the discretion of the compensation committee of the Company's board of directors. RSUs generally vest over four years following the grant date and have time-based vesting conditions.

The following table represents restricted stock unit activity during the nine months ended March 31, 2024:

	Units	Weighted average grant date fair value
RSU balance at July 1, 2023	1,242	\$ 225.30
RSUs granted	781	\$ 192.77
RSUs vested	(525)	\$ 197.44
RSUs forfeited	(99)	\$ 212.77
RSU balance at March 31, 2024	<u>1,399</u>	<u>\$ 218.49</u>

The Company also grants MSUs under its equity incentive plan with terms determined at the discretion of the compensation committee of the Company's board of directors. The actual number of MSUs that will be eligible to vest is based on the achievement of a relative total shareholder return ("TSR") target as compared to the TSR realized by each of the companies comprising the Russell 3000 Index over an approximately three-year period. The MSUs cliff-vest at the end of the TSR measurement period, and up to 200% of the target number of shares subject to each MSU are eligible to be earned.

The following table represents market share unit activity during the nine months ended March 31, 2024:

	Units	Weighted average grant date fair value
MSU balance at July 1, 2023	171	\$ 320.38
MSUs granted	86	\$ 256.66
MSUs vested	(60)	\$ 178.04
MSU balance at March 31, 2024	<u>197</u>	<u>\$ 335.79</u>

The Company estimated the grant date fair value of the MSUs using a Monte Carlo simulation model that included the following assumptions:

	Nine Months Ended March 31,	
	2023	2024
Valuation assumptions:		
Expected dividend yield	—%	—%
Expected volatility	51.0% - 52.7%	44.5%
Expected term (years)	2.75 - 3.04	3.04
Risk-free interest rate	3.11% - 4.01%	4.58%

At March 31, 2024, there was \$161,800 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested RSUs and MSUs. That cost is expected to be recognized over a weighted average period of 1.8 years.

(10) Litigation

On November 16, 2020, a potential class action complaint was filed against the Company with the Circuit Court of Cook County alleging that the Company violated the Illinois Biometric Information Privacy Act. The complaint seeks

statutory damages, attorney's fees and other costs. On September 11, 2023, a second potential class action complaint was filed against the Company with the Circuit Court of Cook County that alleges violations of the Illinois Biometric Information Privacy Act that overlap with claims in the first action. The Company is unable to estimate any reasonably possible loss, or range of loss, with respect to these matters at this time. The Company intends to vigorously defend against these lawsuits.

From time to time, the Company is subject to litigation arising in the ordinary course of business. Many of these matters are covered in whole or in part by insurance. In the opinion of the Company's management, the ultimate disposition of any matters currently outstanding or threatened will not have a material adverse effect on the Company's financial position, results of operations, or liquidity. However, these matters are subject to inherent uncertainties and could materially impact the Company's financial position, results of operations, or liquidity based on the final disposition of these matters.

(11) Income Taxes

The Company's quarterly provision for income taxes is based on the annual effective rate method. The Company's quarterly provision for income taxes also includes the tax impact of certain unusual or infrequently occurring items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, and other discrete items in the interim period in which they occur.

The Company's effective tax rate was 29.3% and 22.9% for the three months ended March 31, 2023 and 2024, respectively. The Company's effective tax rate for the three months ended March 31, 2023 was higher than the federal statutory rate of 21% primarily due to an increase to non-deductible stock-based compensation under Internal Revenue Code Section 162(m) and state and local income taxes. The Company's effective tax rate for the three months ended March 31, 2024 was higher than the federal statutory rate of 21% primarily due to state and local income taxes.

The Company's effective tax rate was 2.9% and 24.3% for the nine months ended March 31, 2023 and 2024, respectively. The Company's effective tax rate for the nine months ended March 31, 2023 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, research and development tax credits, and a decrease in the valuation allowance. The Company's effective tax rate for the nine months ended March 31, 2024 was higher than the federal statutory rate of 21% primarily due to state and local income taxes.

(12) Net Income Per Share

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of stock options,

the release of restricted stock units and market share units as of the balance sheet date. The following table presents the calculation of basic and diluted net income per share:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Numerator:				
Net income	\$ 57,616	\$ 85,314	\$ 103,568	\$ 157,947
Denominator:				
Weighted-average shares used in computing net income per share:				
Basic	55,788	56,369	55,653	56,216
Weighted-average effect of potentially dilutive shares:				
Employee stock options, restricted stock units and market share units	767	679	907	759
Diluted	56,555	57,048	56,560	56,975
Net income per share:				
Basic	\$ 1.03	\$ 1.51	\$ 1.86	\$ 2.81
Diluted	\$ 1.02	\$ 1.50	\$ 1.83	\$ 2.77

The following table summarizes the outstanding restricted stock units and market share units as of March 31, 2023 and 2024 that were excluded from the diluted per share calculation for the periods presented because to include them would have been antidilutive:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Market share units	26	4	28	19
Restricted stock units	19	4	560	9
Total	45	8	588	28

(13) Subsequent Events

On April 30, 2024, the Company's Board of Directors approved a share repurchase program (the "Repurchase Program") under which the Company is authorized to purchase (in the aggregate) up to \$500,000 of its issued and outstanding common stock. Under the Repurchase Program, shares may be repurchased from time-to-time in open market transactions at prevailing market prices, privately negotiated transactions or by other means, including the use of Rule 10b5-1 trading plans entered into by the Company. The actual timing, number and value of shares repurchased under the Repurchase Program will depend on the market price of its common stock, trading volume, general market conditions and other corporate and economic considerations. The Repurchase Program does not obligate the Company to repurchase any specific number of shares and may be modified, suspended or terminated at any time.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The statements included herein that are not based solely on historical facts are “forward looking statements.” Such forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. Our actual results could differ materially from those anticipated by us in these forward-looking statements as a result of various factors, including items discussed below and under Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 filed with the SEC on August 4, 2023.

Overview

We are a leading cloud-based provider of human capital management, or HCM, and payroll software solutions that deliver a comprehensive platform for the modern workforce. Our HCM and payroll platform offers an intuitive, easy-to-use product suite that helps businesses attract and retain talent, build culture and connection with their employees, and streamline and automate HR and payroll processes.

Effective management of human capital is a core function in all organizations and requires a significant commitment of resources. Our cloud-based software solutions, combined with our unified database architecture, are highly flexible and configurable and feature a modern, intuitive user experience. Our platform offers automated data integration with hundreds of third-party partner systems, such as 401(k), benefits and insurance provider systems. We plan to continue to invest in research and development efforts that will allow us to offer a broader selection of products to new and existing clients focused on experiences that solve our clients’ challenges.

We believe there is a significant opportunity to grow our business by increasing our number of clients and we intend to invest in our business to achieve this purpose. We market and sell our solutions through our direct sales force. We have increased our sales and marketing expenses as we have added sales representatives and related sales and marketing personnel. We intend to continue to grow our sales and marketing organization across new and existing geographic territories. In addition to growing our number of clients, we intend to grow our revenue over the long term by increasing the number of solutions that clients purchase from us. To do so, we must continue to enhance and grow the number of solutions we offer to advance our platform.

We also believe that delivering a positive service experience is an essential element of our ability to sell our solutions and retain our clients. We supplement our comprehensive software solutions with an integrated implementation and client service organization, all of which are designed to meet the needs of our clients and sales prospects. We expect to continue to invest in and grow our implementation and client service organization as our client base grows.

We will continue to invest across our entire organization as we continue to grow our business over the long term. These investments include increasing the number of personnel across all functional areas, along with improving our solutions and infrastructure to support our growth. The timing and amount of these investments vary based on the rate at which we add new clients and personnel and scale our application development and other activities. Many of these investments will occur in advance of experiencing any direct benefit from them, which will make it difficult to determine if we are effectively allocating our resources. We expect these investments to increase our costs on an absolute basis, but as we grow our number of clients and our related revenues, we anticipate that we will gain economies of scale and increased operating leverage. As a result, we expect our gross and operating margins will improve over the long term.

Paylocity Holding Corporation is a Delaware corporation, which was formed in November 2013. Our business operations are conducted by our wholly owned subsidiaries.

Key Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Revenue Growth

Our recurring revenue model and high annual revenue retention rates provide significant visibility into our future operating results and cash flow from operations. This visibility enables us to better manage and invest in our business. Total revenues increased from \$339.9 million for the three months ended March 31, 2023 to \$401.3 million for the three months ended March 31, 2024, representing a 18% year-over-year increase. Total revenues increased from \$866.1 million for the nine months ended March 31, 2023 to \$1,045.2 million for the nine months ended March 31, 2024, representing a 21% year-over-year increase. The increase in year-over-year revenue growth was driven by the strong performance by our sales team and growth in interest income on funds held for clients attributable to rising interest rates and higher average daily balances for funds held for clients due to the addition of new clients as compared to the prior fiscal year.

Uncertainties around market and economic conditions may impact revenue growth, which we have recently experienced and may continue to experience, through fluctuations in client employee counts, elongated sales cycles, client losses, and a changing interest rate environment, among other factors.

Adjusted Gross Profit and Adjusted EBITDA

We disclose Adjusted Gross Profit and Adjusted EBITDA, which are non-GAAP measures, because we use them to evaluate our performance, and we believe Adjusted Gross Profit and Adjusted EBITDA assist in the comparison of our performance across reporting periods by excluding certain items that we do not believe are indicative of our core operating performance. We believe these metrics are commonly used in the financial community, and we present them to enhance investors' understanding of our operating performance and cash flows.

Adjusted Gross Profit and Adjusted EBITDA are not measurements of financial performance under generally accepted accounting principles in the United States ("GAAP"), and you should not consider Adjusted Gross Profit as an alternative to gross profit or Adjusted EBITDA as an alternative to net income, in each case as determined in accordance with GAAP. In addition, our definition of Adjusted Gross Profit and Adjusted EBITDA may be different than the definition utilized for similarly-titled measures used by other companies.

We define Adjusted Gross Profit as gross profit before amortization of capitalized internal-use software costs, amortization of certain acquired intangibles, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises, and other items as defined below. We define Adjusted EBITDA as net income before interest expense, income tax expense (benefit), depreciation and amortization expense, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and other items as defined below.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
	(in thousands)		(in thousands)	
Reconciliation from Gross Profit to Adjusted Gross Profit				
Gross profit	\$ 244,143	\$ 285,298	\$ 595,812	\$ 720,379
Amortization of capitalized internal-use software costs	7,984	12,260	22,504	32,471
Amortization of certain acquired intangibles	1,854	2,136	5,561	5,843
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	4,341	4,953	14,696	16,194
Other items (1)	—	—	19	—
Adjusted Gross Profit	\$ 258,322	\$ 304,647	\$ 638,592	\$ 774,887

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
	(in thousands)		(in thousands)	
Reconciliation from Net income to Adjusted EBITDA				
Net income	\$ 57,616	\$ 85,314	\$ 103,568	\$ 157,947
Interest expense	187	189	564	568
Income tax expense	23,900	25,299	3,077	50,586
Depreciation and amortization expense	15,387	20,278	44,481	55,779
EBITDA	97,090	131,080	151,690	264,880
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	33,533	36,709	122,492	122,547
Other items (2)	30	112	446	(2,031)
Adjusted EBITDA	\$ 130,653	\$ 167,901	\$ 274,628	\$ 385,396

(1) Represents acquisition-related costs.

(2) Represents acquisition and other nonrecurring transaction-related costs and lease exit activity.

Basis of Presentation

Revenues

Recurring and other revenue

We derive the majority of our revenues from recurring fees attributable to our cloud-based HCM and payroll software solutions. Recurring fees for each client generally include a base fee in addition to a fee based on the number of client employees and the number of products a client uses. We also charge fees attributable to our preparation of W-2 documents and annual required filings on behalf of our clients. We charge implementation fees for professional services provided to implement our HCM and payroll solutions.

The number of client employees on our platform and the mix of products purchased by a client as well as the timing of services provided with respect to those client employees can vary each period. As such, the number of client employees on our system is not a good indicator of our financial results in any given period. Recurring and other revenue accounted for 92% and 91% of our total revenues for the three months ended March 31, 2023 and 2024, respectively, and 94% and 92% of our total revenues for the nine months ended March 31, 2023 and 2024, respectively.

While the majority of our agreements with clients are generally cancellable by the client on 60 days' notice or less, we also have term agreements, which are generally two years in length. Our agreements do not include general rights of return and do not provide clients with the right to take possession of the software supporting the services being provided. We recognize recurring fees in the period in which services are provided and the related performance obligations have been satisfied. We defer implementation fees related to our proprietary products over a period generally up to 24 months.

Interest Income on Funds Held for Clients

We earn interest income on funds held for clients. We collect funds for employee payroll payments and related taxes in advance of remittance to employees and taxing authorities. Prior to remittance to employees and taxing authorities, we earn interest on these funds through demand deposit accounts with financial institutions with which we have automated clearing house, or ACH, arrangements. We also earn interest by investing a portion of funds held for clients in highly liquid, investment-grade marketable securities.

Cost of Revenues

Cost of revenues includes costs to provide our HCM and payroll solutions which primarily consists of employee-related expenses, including wages, stock-based compensation, bonuses and benefits, relating to the provision of ongoing client support and implementation activities, payroll tax filing, distribution of printed checks and other materials as well as

delivery costs, computing costs, amortization of certain acquired intangibles and bank fees associated with client fund transfers. Costs related to recurring support are generally expensed as incurred. Implementation costs related to our proprietary products are capitalized and amortized over a period of 7 years. Our cost of revenues is expected to increase in absolute dollars for the foreseeable future as we increase our client base. However, we expect to realize cost efficiencies over the long term as our business scales, resulting in improved operating leverage and increased margins.

We also capitalize a portion of our internal-use software costs, which are then primarily amortized as Cost of revenues. We amortized \$8.0 million and \$12.3 million of capitalized internal-use software costs during the three months ended March 31, 2023 and 2024, respectively, and \$22.5 million and \$32.5 million of capitalized internal-use software costs for the nine months ended March 31, 2023 and 2024, respectively.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of employee-related expenses for our direct sales and marketing staff, including wages, commissions, stock-based compensation, bonuses, benefits, marketing expenses and other related costs. Our sales personnel earn commissions and bonuses for attainment of certain performance criteria based on new sales throughout the fiscal year. We capitalize certain selling and commission costs related to new contracts or purchases of additional services by our existing clients and amortize them over a period of 7 years.

We will seek to grow our number of clients for the foreseeable future, and therefore our sales and marketing expense is expected to continue to increase in absolute dollars as we grow our sales organization and expand our marketing activities.

Research and Development

Research and development expenses consist primarily of employee-related expenses for our research and development and product management teams, including wages, stock-based compensation, bonuses and benefits. Additional expenses include costs related to the development, maintenance, quality assurance and testing of new technologies and ongoing refinement of our existing solutions. Research and development expenses, other than internal-use software costs qualifying for capitalization, are expensed as incurred.

We capitalize a portion of our development costs related to internal-use software. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for the three and nine months ended March 31, 2023 and 2024.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
	(in thousands)		(in thousands)	
Capitalized portion of research and development	\$ 15,275	\$ 19,660	\$ 38,893	\$ 57,025
Expensed portion of research and development	42,323	43,386	123,445	134,130
Total research and development	\$ 57,598	\$ 63,046	\$ 162,338	\$ 191,155

We expect to grow our research and development efforts as we continue to broaden our product offerings and extend our technological leadership by investing in the development of new technologies and introducing them to new and existing clients. We expect research and development expenses to continue to increase in absolute dollars but to vary as a percentage of total revenue on a period-to-period basis.

General and Administrative

General and administrative expenses consist primarily of employee-related costs, including wages, stock-based compensation, bonuses and benefits for our finance and accounting, legal, information systems, human resources and other administrative departments. Additional expenses include consulting and professional fees, occupancy costs, insurance and other corporate expenses. While we expect our general and administrative expenses to continue to increase in absolute dollars as our company continues to grow, we expect to realize cost efficiencies as our business scales.

Other Income (Expense)

Other income (expense) generally consists of interest income related to interest earned on our cash and cash equivalents, net of losses on disposals of property and equipment and interest expense related to our revolving credit facility.

Results of Operations

The following table sets forth our statements of operations data for each of the periods indicated.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	\$ 314,170	\$ 366,840	\$ 816,010	\$ 956,941
Interest income on funds held for clients	25,687	34,441	50,135	88,287
Total revenues	339,857	401,281	866,145	1,045,228
Cost of revenues	95,714	115,983	270,333	324,849
Gross profit	244,143	285,298	595,812	720,379
Operating expenses:				
Sales and marketing	74,064	86,760	220,821	246,940
Research and development	42,323	43,386	123,445	134,130
General and administrative	47,379	48,863	145,872	142,125
Total operating expenses	163,766	179,009	490,138	523,195
Operating income	80,377	106,289	105,674	197,184
Other income	1,139	4,324	971	11,349
Income before income taxes	81,516	110,613	106,645	208,533
Income tax expense	23,900	25,299	3,077	50,586
Net income	\$ 57,616	\$ 85,314	\$ 103,568	\$ 157,947

The following table sets forth our statements of operations data as a percentage of total revenues for each of the periods indicated.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2023	2024	2023	2024
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	92 %	91 %	94 %	92 %
Interest income on funds held for clients	8 %	9 %	6 %	8 %
Total revenues	100 %	100 %	100 %	100 %
Cost of revenues	28 %	29 %	31 %	31 %
Gross profit	72 %	71 %	69 %	69 %
Operating expenses:				
Sales and marketing	22 %	22 %	26 %	24 %
Research and development	12 %	11 %	14 %	13 %
General and administrative	14 %	12 %	17 %	13 %
Total operating expenses	48 %	45 %	57 %	50 %
Operating income	24 %	26 %	12 %	19 %
Other income	0 %	1 %	0 %	1 %
Income before income taxes	24 %	27 %	12 %	20 %
Income tax expense	7 %	6 %	— %	5 %
Net income	17 %	21 %	12 %	15 %

Comparison of Three Months Ended March 31, 2023 and 2024

Revenues

(\$ in thousands)

	Three Months Ended March 31,		Change	
	2023	2024	\$	%
Recurring and other revenue	\$ 314,170	\$ 366,840	\$ 52,670	17 %
Percentage of total revenues	92 %	91 %		
Interest income on funds held for clients	\$ 25,687	\$ 34,441	\$ 8,754	34 %
Percentage of total revenues	8 %	9 %		

Recurring and Other Revenue

Recurring and other revenue for the three months ended March 31, 2024 increased by \$52.7 million, or 17%, to \$366.8 million from \$314.2 million for the three months ended March 31, 2023. Recurring and other revenue increased primarily as a result of incremental revenues from new and existing clients due to the strong performance by our sales team.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the three months ended March 31, 2024 increased by \$8.8 million, or 34%, to \$34.4 million from \$25.7 million for the three months ended March 31, 2023. Interest income on funds held for clients increased primarily due to higher interest rates and higher average daily balances for funds held due to the addition of new clients to our client base as compared to the prior fiscal year.

Cost of Revenues

(\$ in thousands)

	Three Months Ended March 31,		Change	
	2023	2024	\$	%
Cost of revenues	\$ 95,714	\$ 115,983	\$ 20,269	21 %
Percentage of total revenues	28 %	29 %		
Gross margin	72 %	71 %		

Cost of revenues for the three months ended March 31, 2024 increased by \$20.3 million, or 21%, to \$116.0 million from \$95.7 million for the three months ended March 31, 2023. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, \$11.1 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients, \$4.3 million in additional processing and delivery related costs and \$4.3 million in additional amortization of internal use software. Gross margin decreased from 72% for the three months ended March 31, 2023 to 71% for the three months ended March 31, 2024.

Operating Expenses

(\$ in thousands)

Sales and Marketing

	Three Months Ended March 31,		Change	
	2023	2024	\$	%
Sales and marketing	\$ 74,064	\$ 86,760	\$ 12,696	17 %
Percentage of total revenues	22 %	22 %		

Sales and marketing expenses for the three months ended March 31, 2024 increased by \$12.7 million, or 17%, to \$86.8 million from \$74.1 million for the three months ended March 31, 2023. The increase in sales and marketing expense was primarily due to \$9.2 million of additional employee-related costs, including those incurred to expand our sales team.

Research and Development

	Three Months Ended March 31,		Change	
	2023	2024	\$	%
Research and development	\$ 42,323	\$ 43,386	\$ 1,063	3 %
Percentage of total revenues	12 %	11 %		

Research and development expenses for the three months ended March 31, 2024 increased by \$1.1 million, or 3%, to \$43.4 million from \$42.3 million for the three months ended March 31, 2023. The increase in research and development expenses was primarily due to \$6.9 million of additional employee-related costs related to additional development personnel, partially offset by \$3.9 million in higher period-over-period capitalized internal-use software costs.

General and Administrative

	Three Months Ended March 31,		Change	
	2023	2024	\$	%
General and administrative	\$ 47,379	\$ 48,863	\$ 1,484	3 %
Percentage of total revenues	14 %	12 %		

General and administrative expenses for the three months ended March 31, 2024 increased by \$1.5 million, or 3%, to \$48.9 million from \$47.4 million for the three months ended March 31, 2023. General and administrative expenses increased primarily due to \$2.9 million of additional stock-based compensation expense, partially offset by \$1.5 million in lower occupancy costs.

Other Income (Expense)

Other income for the three months ended March 31, 2024 increased by \$3.2 million as compared to the three months ended March 31, 2023. The change in other income was primarily due to higher interest income earned on our cash and cash equivalents as a result of higher interest rates and higher average daily balances of those corporate cash and cash equivalents.

Income Taxes

Our effective tax rate was 29.3% and 22.9% for the three months ended March 31, 2023 and 2024, respectively. Our effective tax rate for the three months ended March 31, 2023 was higher than the federal statutory rate of 21% primarily due to an increase to non-deductible stock-based compensation under Internal Revenue Code Section 162(m) and state and local income taxes. Our effective tax rate for the three months ended March 31, 2024 was higher than the federal statutory rate of 21% primarily due to state and local income taxes.

Comparison of Nine Months Ended March 31, 2023 and 2024

Revenues

(\$ in thousands)

	Nine Months Ended March 31,		Change	
	2023	2024	\$	%
Recurring and other revenue	\$ 816,010	\$ 956,941	\$ 140,931	17 %
Percentage of total revenues	94 %	92 %		
Interest income on funds held for clients	\$ 50,135	\$ 88,287	\$ 38,152	76 %
Percentage of total revenues	6 %	8 %		

Recurring and Other Revenue

Recurring and other revenue for the nine months ended March 31, 2024 increased by \$140.9 million, or 17%, to \$956.9 million from \$816.0 million for the nine months ended March 31, 2023. Recurring and other revenue increased primarily as a result of incremental revenues from new and existing clients due to the strong performance by our sales team.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the nine months ended March 31, 2024 increased by \$38.2 million, or 76%, to \$88.3 million from \$50.1 million for the nine months ended March 31, 2023. Interest income on funds held for clients increased primarily due to higher interest rates and higher average daily balances for funds held due to the addition of new clients to our client base as compared to the prior fiscal year.

Cost of Revenues

(\$ in thousands)

	Nine Months Ended March 31,		Change	
	2023	2024	\$	%
Cost of revenues	\$ 270,333	\$ 324,849	\$ 54,516	20 %
Percentage of total revenues	31 %	31 %		
Gross margin	69 %	69 %		

Cost of revenues for the nine months ended March 31, 2024 increased by \$54.5 million, or 20%, to \$324.8 million from \$270.3 million for the nine months ended March 31, 2023. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, \$32.8 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients, \$10.1 million in additional processing and delivery

related costs and \$10.0 million in additional amortization of internal use software. Gross margin was 69% for both the nine months ended March 31, 2023 and 2024.

Operating Expenses

(\$ in thousands)

Sales and Marketing

	Nine Months Ended March 31,		Change	
	2023	2024	\$	%
Sales and marketing	\$ 220,821	\$ 246,940	\$ 26,119	12 %
Percentage of total revenues	26 %	24 %		

Sales and marketing expenses for the nine months ended March 31, 2024 increased by \$26.1 million, or 12%, to \$246.9 million from \$220.8 million for the nine months ended March 31, 2023. The increase in sales and marketing expense was primarily due to \$19.9 million of additional employee-related costs, including those incurred to expand our sales team.

Research and Development

	Nine Months Ended March 31,		Change	
	2023	2024	\$	%
Research and development	\$ 123,445	\$ 134,130	\$ 10,685	9 %
Percentage of total revenues	14 %	13 %		

Research and development expenses for the nine months ended March 31, 2024 increased by \$10.7 million, or 9%, to \$134.1 million from \$123.4 million for the nine months ended March 31, 2023. The increase in research and development expenses was primarily due to \$24.0 million of additional employee-related costs related to additional development personnel, partially offset by \$14.6 million in higher period-over-period capitalized internal-use software costs.

General and Administrative

	Nine Months Ended March 31,		Change	
	2023	2024	\$	%
General and administrative	\$ 145,872	\$ 142,125	\$ (3,747)	(3)%
Percentage of total revenues	17 %	13 %		

General and administrative expenses for the nine months ended March 31, 2024 decreased by \$3.7 million, or 3%, to \$142.1 million from \$145.9 million for the nine months ended March 31, 2023. General and administrative expenses decreased primarily due to a \$4.3 million gain related to lease exit activity during the nine months ended March 31, 2024. Excluding the gain on lease exit activity, general and administrative expenses remained relatively flat year over year as we continue to focus on achieving cost efficiencies as our business scales.

Other Income (Expense)

Other income for the nine months ended March 31, 2024 increased by \$10.4 million as compared to the nine months ended March 31, 2023. The change in other income was primarily due to higher interest income earned on our cash and cash equivalents as a result of higher interest rates and higher average daily balances of those corporate cash and cash equivalents.

Income Taxes

Our effective tax rate was 2.9% and 24.3% for the nine months ended March 31, 2023 and 2024, respectively. Our effective tax rate for the nine months ended March 31, 2023 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, research and development tax credits, and a decrease in

the valuation allowance. Our effective tax rate for the nine months ended March 31, 2024 was higher than the federal statutory rate of 21% primarily due to state and local income taxes.

Quarterly Trends and Seasonality

Our overall operating results fluctuate from quarter to quarter as a result of a variety of factors, some of which are outside of our control. Our historical results should not be considered a reliable indicator of our future results of operations.

We experience fluctuations in revenues and related costs on a seasonal basis, which are primarily seen in our fiscal third quarter, which ends on March 31 of each year. Specifically, our recurring revenue is positively impacted in our fiscal third quarter as a result of our preparation of W-2 documents for our clients' employees in advance of tax filing requirements. Our interest income earned on funds held for clients is also positively impacted during our fiscal third quarter as a result of our increased collection of funds held for clients. Certain payroll taxes are primarily collected during our fiscal third quarter and subsequently remitted. The seasonal fluctuations in revenues also positively impact gross profits during our fiscal third quarter. Our historical results for our fiscal third quarter should not be considered a reliable indicator of our future results of operations.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions and, to the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Our critical accounting policies and use of estimates are disclosed in our audited consolidated financial statements for the year ended June 30, 2023 included in our Annual Report on Form 10-K filed with the SEC on August 4, 2023.

Liquidity and Capital Resources

Our primary liquidity needs are related to the funding of general business requirements, including working capital requirements, research and development, and capital expenditures. As of March 31, 2024, our principal source of liquidity was \$492.7 million of cash and cash equivalents. We maintain a credit agreement that provides for a \$550.0 million revolving credit facility, which may be increased up to \$825.0 million. No amounts were drawn on the revolving credit facility as of March 31, 2024. Refer to Note 8 of the Notes to the Unaudited Consolidated Financial Statements for additional detail on the credit agreement.

We may invest portions of our excess cash and cash equivalents in highly liquid, investment-grade marketable securities. These investments may consist of money market funds, commercial paper, corporate debt issuances, asset-backed debt securities, certificates of deposit, U.S. treasury securities, U.S. government agency securities and other securities with credit quality ratings of A-1 or higher. As of March 31, 2024, we did not have any corporate investments classified as available-for-sale securities.

In order to grow our business, we intend to increase our personnel and related expenses and to make significant investments in our platform, data centers and general infrastructure. The timing and amount of these investments will vary based on our financial condition, the rate at which we add new clients and new personnel and the scale of our module development, data centers and other activities. Many of these investments will occur in advance of experiencing any direct benefit from them, which could negatively impact our liquidity and cash flows during any particular period and may make it difficult to determine if we are effectively allocating our resources. However, we expect to fund our operations, capital expenditures, acquisitions and other investments principally with cash flows from operations, and to the extent that our liquidity needs exceed our cash from operations, we would look to our cash on hand or utilize the borrowing capacity under our credit facility to satisfy those needs.

Funds held for clients and client fund obligations vary substantially from period to period as a result of the timing of payroll and tax obligations due. Our payroll processing activities involve the movement of significant funds from accounts of employers to employees and relevant taxing authorities. Though we debit a client's account prior to any disbursement on its behalf, there is a delay between our payment of amounts due to employees and taxing and other regulatory authorities and when the incoming funds from the client to cover these amounts payable actually clear into our operating accounts. We currently have agreements with various major U.S. banks to execute ACH and wire transfers to support our client payroll and tax services. We believe we have sufficient capacity under these ACH arrangements to handle all transaction volumes for the foreseeable future. We primarily collect fees for our services via ACH transactions at the same time we debit the client's account for payroll and tax obligations and thus are able to reduce collectability and accounts receivable risks.

We believe our current cash and cash equivalents, future cash flow from operations, and access to our credit facility will be sufficient to meet our ongoing working capital, capital expenditure and other liquidity requirements for at least the next 12 months, and thereafter, for the foreseeable future.

The following table sets forth data regarding cash flows for the periods indicated:

	Nine Months Ended March 31,	
	2023	2024
Net cash provided by operating activities	\$ 206,107	\$ 304,739
Cash flows from investing activities:		
Purchases of available-for-sale securities	(557,403)	(231,672)
Proceeds from sales and maturities of available-for-sale securities	298,113	222,712
Capitalized internal-use software costs	(30,726)	(44,501)
Purchases of property and equipment	(8,769)	(11,701)
Acquisitions of businesses, net of cash acquired	—	(12,031)
Other investing activities	33	783
Net cash used in investing activities	(298,752)	(76,410)
Cash flows from financing activities:		
Net change in client fund obligations	(785,361)	964,082
Proceeds from employee stock purchase plan	8,450	9,534
Taxes paid related to net share settlement of equity awards	(84,174)	(46,057)
Other financing activities	(873)	(35)
Net cash provided by (used in) financing activities	(861,958)	927,524
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	\$ (954,603)	\$ 1,155,853

Operating Activities

Net cash provided by operating activities was \$206.1 million and \$304.7 million for the nine months ended March 31, 2023 and 2024, respectively. The change in net cash provided by operating activities from the nine months ended March 31, 2023 to the nine months ended March 31, 2024 was primarily due to improved operating results after adjusting for non-cash items including stock-based compensation expense, depreciation and amortization expense and deferred income tax expense during the nine months ended March 31, 2024 as compared to the nine months ended March 31, 2023.

Investing Activities

Net cash used in investing activities was \$298.8 million and \$76.4 million for the nine months ended March 31, 2023 and 2024, respectively. The net cash used in investing activities is significantly impacted by the timing of purchases and sales and maturities of investments as we invest portions of funds held for clients in highly liquid, investment-grade marketable securities. The amount of funds held for clients invested will vary based on timing of client funds collected and payments due to client employees and taxing and other regulatory authorities.

The change in net cash used in investing activities was primarily due to a \$325.7 million decrease in purchases of available-for-sale securities, partially offset by \$75.4 million less proceeds from the sales and maturities of available-for-

sale securities, \$12.0 million in additional amounts paid for acquisitions, net of cash acquired and \$13.8 million in additional capitalized internal-use software costs during the nine months ended March 31, 2024 as compared to the nine months ended March 31, 2023.

Financing Activities

Net cash provided by (used in) financing activities was \$(862.0) million and \$927.5 million for the nine months ended March 31, 2023 and 2024, respectively. The change in net cash provided by (used in) financing activities was primarily the result of an increase in the net change in client fund obligations of \$1,749.4 million due to the timing of client funds collected and related remittance of those funds to client employees and taxing authorities during the nine months ended March 31, 2024 as compared to the nine months ended March 31, 2023.

Contractual Obligations and Commitments

At March 31, 2024, our principal commitments consisted of \$67.2 million in operating lease obligations, of which \$10.3 million is due in the next twelve months. We also had \$56.0 million in purchase obligations, of which \$36.9 million is due in the next twelve months.

Capital Expenditures

We expect to continue to invest in capital spending as we continue to grow our business and expand and enhance our operating facilities, data centers and technical infrastructure. Future capital requirements will depend on many factors, including our rate of sales growth. In the event that our sales growth or other factors do not meet our expectations, we may eliminate or curtail capital projects in order to mitigate the impact on our use of cash. Capital expenditures were \$8.8 million and \$11.7 million for the nine months ended March 31, 2023 and 2024, respectively, exclusive of capitalized internal-use software costs of \$30.7 million and \$44.5 million for the same periods, respectively.

New Accounting Pronouncements

Refer to Note 2 of the Notes to the Unaudited Consolidated Financial Statements for a discussion of recently issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have operations primarily in the United States and are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and certain other exposures including risks relating to changes in the general economic conditions in the United States. Refer to “Part I. Item 1A. Risk Factors” of our Annual Report on Form 10-K filed with the SEC on August 4, 2023 for risks related to our business.

We have not used, nor do we intend to use, derivatives to mitigate the impact of interest rate or other exposure or for trading or speculative purposes.

Interest Rate Risk

As of March 31, 2024, we had cash and cash equivalents of \$492.7 million and funds held for clients of \$3,591.2 million. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts with various financial institutions. We invest portions of our excess cash and cash equivalents and funds held for clients in marketable securities including money market funds, commercial paper, corporate debt issuances, asset-backed debt securities, certificates of deposit, U.S. treasury securities, U.S. government agency securities and other. Our investment policy is focused on generating higher yields from these investments while preserving liquidity and capital. However, as a result of our investing activities, we are exposed to changes in interest rates that may materially affect our financial statements.

In a falling rate environment, a decline in interest rates would decrease our interest income earned on both cash and cash equivalents and funds held for clients. An increase in the overall interest rate environment may cause the market value of our investments in fixed rate available-for-sale securities to decline. If we are forced to sell some or all of these securities at lower market values, we may incur investment losses. However, because we classify all marketable securities as available-for-sale, no gains or losses are recognized due to changes in interest rates until such securities are sold or decreases in fair value are deemed due to expected credit losses. We have not recorded any credit impairment losses on our portfolio to date.

Based upon a sensitivity model that measures market value changes caused by interest rate fluctuations, an immediate 100-basis point increase in interest rates would have resulted in a decrease in the market value of our available-for-sale securities by \$8.7 million as of March 31, 2024. An immediate 100-basis point decrease in interest rates would have resulted in an increase in the market value of our available-for-sale securities by \$8.7 million as of March 31, 2024. Fluctuations in the value of our available-for-sale securities caused by changes in interest rates are recorded in other comprehensive income and are only realized if we sell the underlying securities.

Additionally, as described in Note 8 of the Notes to the Unaudited Consolidated Financial Statements, we maintain a credit agreement that provides for a revolving credit facility (“credit facility”) in the aggregate amount of \$550.0 million, which may be increased up to \$825.0 million. Borrowings under the credit facility generally bear interest at a rate based upon the Term Secured Overnight Financing Rate (“SOFR”) plus the SOFR Adjustment or an adjusted base rate plus an applicable margin based on our then-applicable net total leverage ratio. As of March 31, 2024, there were no amounts drawn on the credit facility. To the extent that we draw additional amounts under the credit facility, we may be exposed to increased market risk from changes in the underlying index rates, which affects our interest expense.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the three-month period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

From time to time, we are involved in litigation related to claims arising from the ordinary course of our business. We believe that there are no claims or actions pending or threatened against us, the ultimate disposition of which would have a material adverse effect on us.

Item 1A. Risk Factors

There have been no material changes in our risk factors disclosed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 filed with the SEC on August 4, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

Not applicable.

(b) Use of Proceeds

On March 24, 2014, we completed our initial public offering or IPO, of 8,101,750 shares of common stock, at a price of \$17.00 per share, before underwriting discounts and commissions. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-193661), which was declared effective by the SEC on March 18, 2014. With the proceeds of the IPO, we repaid amounts outstanding under a note issued by us to Commerce Bank & Trust Company on March 9, 2011, which totaled \$1.1 million, paid \$9.4 million for the purchase of substantially all of the assets of BFKMS Inc. and paid \$9.5 million for the purchase of substantially all of the assets of Synergy Payroll, LLC.

On December 17, 2014, we completed a follow-on offering of 4,960,000 shares of common stock at a price of \$26.25 per share, before underwriting discounts and commissions. The offer and sale of all of the shares in the follow-on offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-200448) which was declared effective by the SEC on December 11, 2014. There have been no material changes in the planned use of proceeds from the follow-on as described in the final prospectus filed with the SEC pursuant to Rule 424(b) on December 12, 2014.

(c) Purchases of Equity Securities

Not applicable.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended March 31, 2024, the following directors and/or officers adopted a “Rule 10b5-1 trading arrangement,” as defined in Item 408(a) of Regulation S-K intending to satisfy the affirmative defense of Rule 10b5-1(c):

Name and Title	Total Shares of Common Stock to be Sold (1)	Duration (2)	Adoption Date	Expiration Date
Nicholas Rost Vice President and Chief Accounting Officer	Up to 1,856 (3)	June 17, 2024 - December 1, 2024	March 13, 2024	December 1, 2024
Joshua Scutt Senior Vice President of Sales	Up to 3,691 (3)	June 12, 2024 - March 13, 2025	March 13, 2024	March 13, 2025
Toby J. Williams President, Co-Chief Executive Officer and Director	16,000	August 14, 2024 - March 14, 2025	February 20, 2024	March 14, 2025

- (1) The volume of sales is determined, in part, based on pricing triggers outlined in each adopting person's trading arrangement.
- (2) Each trading arrangement permits transactions through and including the earlier to occur of (a) the completion of all sales or (b) the expiration date listed in the table.
- (3) Includes shares subject to certain outstanding equity awards with time-based vesting conditions. The actual number of shares that may be sold will be net of the number of shares withheld by the Company to satisfy tax withholding obligations arising from the vesting of such awards, which is not determinable at this time.

No directors or officers terminated a Rule 10b5-1 trading arrangement or entered into or terminated a “non-Rule 10b5-1 trading arrangement” as defined in Item 408(a) of Regulation S-K during the three months ended March 31, 2024.

Item 6. Exhibits

Exhibit Nos.	Description
3.1	Third Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 of Paylocity Holding Corporation's Current Report on Form 8-K on December 4, 2023 (File No. 001-36348)).
3.2	Third Amended and Restated Bylaws of Paylocity Holding Corporation (filed as Exhibit 3.2 of Paylocity Holding Corporation's Current Report on Form 8-K on December 4, 2023 (File No. 001-36348)).
31.1*	Certification of Co-Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Co-Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Co-Chief Executive Officer.
32.2**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Co-Chief Executive Officer.
32.3**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith

** Furnished herewith

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven R. Beauchamp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paylocity Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2024

/s/ Steven R. Beauchamp

Name: Steven R. Beauchamp
Title: Co-Chief Executive Officer (Principal Executive Officer) and Director

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Toby J. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paylocity Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2024

/s/ Toby J. Williams

Name: Toby J. Williams

**Title: President, Co-Chief Executive Officer (Principal Executive Officer)
and Director**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Ryan Glenn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paylocity Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2024

/s/ Ryan Glenn

Name:

Ryan Glenn

Title:

Chief Financial Officer and Treasurer (Principal Financial Officer)

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Co-Chief Executive Officer of Paylocity Holding Corporation (the “Company”), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2024

/s/ Steven R. Beauchamp

Name:

Steven R. Beauchamp

Title:

**Co-Chief Executive Officer (Principal Executive Officer) and
Director**

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Co-Chief Executive Officer of Paylocity Holding Corporation (the “Company”), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2024

/s/ Toby J. Williams

Name:

Toby J. Williams

Title:

**President, Co-Chief Executive Officer (Principal Executive Officer)
and Director**

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

