

**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 December 31, 2025

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: 53,876,692 shares of Common Stock, \$0.001 par value per share, as of January 30, 2026.

Paylocity Holding Corporation
Form 10-Q
For the Quarterly Period Ended December 31, 2025

TABLE OF CONTENTS

	Page
 PART I. FINANCIAL INFORMATION 	
ITEM 1. FINANCIAL STATEMENTS	
Unaudited Consolidated Balance Sheets	2
Unaudited Consolidated Statements of Operations and Comprehensive Income	3
Unaudited Consolidated Statement of Changes in Stockholders' Equity	4
Unaudited Consolidated Statements of Cash Flows	5
Notes to the Unaudited Consolidated Financial Statements	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	21
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	33
ITEM 4. CONTROLS AND PROCEDURES	34
 PART II. OTHER INFORMATION 	
ITEM 1. LEGAL PROCEEDINGS	35
ITEM 1A. RISK FACTORS	35
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	35
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	35
ITEM 4. MINE SAFETY DISCLOSURES	35
ITEM 5. OTHER INFORMATION	36
ITEM 6. EXHIBITS	37
SIGNATURES	38

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2025	December 31, 2025
Assets		
Current assets:		
Cash and cash equivalents	\$ 398,070	\$ 162,495
Accounts receivable, net	41,642	44,014
Deferred contract costs	117,177	124,651
Prepaid expenses and other	50,943	52,541
Total current assets before funds held for clients	607,832	383,701
Funds held for clients	2,704,137	5,510,227
Total current assets	3,311,969	5,893,928
Capitalized internal-use software, net	132,317	134,617
Property and equipment, net	54,210	54,379
Operating lease right-of-use assets	35,997	33,865
Intangible assets, net	92,671	82,235
Goodwill	343,100	343,158
Long-term deferred contract costs	393,671	409,005
Long-term prepaid expenses and other	7,739	7,401
Deferred income tax assets	17,754	14,196
Total assets	<u>\$ 4,389,428</u>	<u>\$ 6,972,784</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 17,347	\$ 7,299
Accrued expenses	193,081	171,573
Total current liabilities before client fund obligations	210,428	178,872
Client fund obligations	2,694,842	5,499,182
Total current liabilities	2,905,270	5,678,054
Long-term debt	162,500	81,250
Long-term operating lease liabilities	46,772	44,042
Other long-term liabilities	8,580	8,713
Deferred income tax liabilities	32,559	62,410
Total liabilities	<u>\$ 3,155,681</u>	<u>\$ 5,874,469</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2025 and December 31, 2025	\$ —	\$ —
Common stock, \$0.001 par value, 155,000 shares authorized at June 30, 2025 and December 31, 2025; 55,366 shares issued and outstanding at June 30, 2025 and 53,873 shares issued and outstanding at December 31, 2025	55	54
Additional paid-in capital	327,518	93,148
Retained earnings	900,583	998,771
Accumulated other comprehensive income	5,591	6,342
Total stockholders' equity	<u>\$ 1,233,747</u>	<u>\$ 1,098,315</u>
Total liabilities and stockholders' equity	<u>\$ 4,389,428</u>	<u>\$ 6,972,784</u>

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 December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Revenues:				
Recurring and other revenue	\$ 347,714	\$ 386,980	\$ 680,819	\$ 765,838
Interest income on funds held for clients	29,266	29,154	59,117	58,468
Total revenues	376,980	416,134	739,936	824,306
Cost of revenues	124,545	133,996	239,505	262,376
Gross profit	252,435	282,138	500,431	561,930
Operating expenses:				
Sales and marketing	93,133	98,078	181,564	194,446
Research and development	56,155	57,739	103,415	113,346
General and administrative	56,524	55,940	104,685	109,546
Total operating expenses	205,812	211,757	389,664	417,338
Operating income	46,623	70,381	110,767	144,592
Other income (expense)	193	(204)	4,935	498
Income before income taxes	46,816	70,177	115,702	145,090
Income tax expense	9,351	19,980	28,664	46,902
Net income	\$ 37,465	\$ 50,197	\$ 87,038	\$ 98,188
Other comprehensive income (loss), net of tax	(5,658)	72	1,153	751
Comprehensive income	\$ 31,807	\$ 50,269	\$ 88,191	\$ 98,939
Net income per share:				
Basic	\$ 0.67	\$ 0.93	\$ 1.56	\$ 1.80
Diluted	\$ 0.66	\$ 0.92	\$ 1.54	\$ 1.77
Weighted-average shares used in computing net income per share:				
Basic	55,826	54,086	55,733	54,550
Diluted	56,740	54,773	56,536	55,342

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31, 2024						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	
	Shares	Amount					
Balances at September 30, 2024	55,738	\$ 56	\$ 376,952	\$ 723,029	\$ 5,875	\$ 1,105,912	
Stock-based compensation	—	—	47,967	—	—	47,967	
Stock options exercised	53	—	1,870	—	—	1,870	
Issuance of common stock upon vesting of equity awards	150	—	—	—	—	—	
Issuance of common stock under employee stock purchase plan	72	—	10,561	—	—	10,561	
Net settlement for taxes and/or exercise price related to equity awards	(85)	—	(17,339)	—	—	(17,339)	
Repurchases of common shares	(44)	—	(8,638)	—	—	(8,638)	
Unrealized losses on securities, net of tax	—	—	—	—	(4,886)	(4,886)	
Other	—	—	—	—	(772)	(772)	
Net income	—	—	—	37,465	—	37,465	
Balances at December 31, 2024	55,884	\$ 56	\$ 411,373	\$ 760,494	\$ 217	\$ 1,172,140	
	Three Months Ended December 31, 2025						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	
	Shares	Amount					
Balances at September 30, 2025	54,376	\$ 54	\$ 148,581	\$ 948,574	\$ 6,270	\$ 1,103,479	
Stock-based compensation	—	—	45,642	—	—	45,642	
Issuance of common stock upon vesting of equity awards	178	—	—	—	—	—	
Issuance of common stock upon employee stock purchase plan	76	—	9,534	—	—	9,534	
Net settlement for taxes related to equity awards	(67)	—	(9,886)	—	—	(9,886)	
Repurchases of common shares	(690)	—	(100,723)	—	—	(100,723)	
Unrealized gains on securities, net of tax	—	—	—	—	105	105	
Foreign currency translation adjustments	—	—	—	—	(33)	(33)	
Net income	—	—	—	50,197	—	50,197	
Balances at December 31, 2025	53,873	\$ 54	\$ 93,148	\$ 998,771	\$ 6,342	\$ 1,098,315	
	Six Months Ended December 31, 2024						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	
	Shares	Amount					
Balances at June 30, 2024	55,514	\$ 56	\$ 360,488	\$ 673,456	\$ (936)	\$ 1,033,064	
Stock-based compensation	—	—	85,967	—	—	85,967	
Stock options exercised	167	—	4,692	—	—	4,692	
Issuance of common stock upon vesting of equity awards	423	—	—	—	—	—	
Issuance of common stock under employee stock purchase plan	72	—	10,561	—	—	10,561	
Net settlement for taxes and/or exercise price related to equity awards	(248)	—	(41,697)	—	—	(41,697)	
Repurchases of common shares	(44)	—	(8,638)	—	—	(8,638)	
Unrealized gains on securities, net of tax	—	—	—	—	1,925	1,925	
Other	—	—	—	—	(772)	(772)	
Net income	—	—	—	87,038	—	87,038	
Balances at December 31, 2024	55,884	\$ 56	\$ 411,373	\$ 760,494	\$ 217	\$ 1,172,140	
	Six Months Ended December 31, 2025						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	
	Shares	Amount					
Balances at June 30, 2025	55,366	\$ 55	\$ 327,518	\$ 900,583	\$ 5,591	\$ 1,233,747	
Stock-based compensation	—	—	87,143	—	—	87,143	
Issuance of common stock upon vesting of equity awards	451	—	—	—	—	—	
Issuance of common stock upon employee stock purchase plan	76	—	9,534	—	—	9,534	
Net settlement for taxes related to equity awards	(176)	—	(28,609)	—	—	(28,609)	
Repurchases of common shares	(1,844)	(1)	(302,438)	—	—	(302,439)	
Unrealized gains on securities, net of tax	—	—	—	—	838	838	
Foreign currency translation adjustments	—	—	—	—	(87)	(87)	
Net income	—	—	—	98,188	—	98,188	
Balances at December 31, 2025	53,873	\$ 54	\$ 93,148	\$ 998,771	\$ 6,342	\$ 1,098,315	

See accompanying notes to the unaudited consolidated financial statements.

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

	Six Months Ended December 31,	
	2024	2025
Cash flows from operating activities:		
Net income	\$ 87,038	\$ 98,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	77,206	80,090
Depreciation and amortization expense	47,212	55,256
Deferred income tax expense (benefit)	(126)	33,056
Provision for credit losses	617	939
Net accretion of discounts on available-for-sale securities	(1,277)	(818)
Other	577	550
Changes in operating assets and liabilities:		
Accounts receivable	(4,144)	(3,304)
Deferred contract costs	(25,861)	(22,445)
Prepaid expenses and other	(20,266)	(2,558)
Accounts payable	(4,327)	(10,059)
Accrued expenses and other	(10,993)	(25,440)
Net cash provided by operating activities	145,656	203,455
Cash flows from investing activities:		
Purchases of available-for-sale securities	(66,122)	(115,334)
Proceeds from sales and maturities of available-for-sale securities	80,018	126,413
Capitalized internal-use software costs	(29,597)	(31,400)
Purchases of property and equipment	(5,313)	(7,160)
Acquisitions of businesses, net of cash and funds held for clients acquired	(278,001)	—
Other investing activities	(1,951)	(7)
Net cash used in investing activities	(300,966)	(27,488)
Cash flows from financing activities:		
Net change in client fund obligations	545,384	2,804,340
Borrowings under credit facility	325,000	—
Repayment of credit facility	—	(81,250)
Repurchases of common shares	(8,395)	(300,000)
Proceeds from employee stock purchase plan	10,561	9,534
Taxes paid related to net share settlement of equity awards	(37,005)	(28,609)
Other financing activities	(20)	(339)
Net cash provided by financing activities	835,525	2,403,676
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	680,215	2,579,643
Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period	2,845,669	2,482,526
Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period	\$ 3,525,884	\$ 5,062,169
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchases of property and equipment and capitalized internal-use software, accrued but not paid	\$ 471	\$ 2,941
Liabilities assumed for acquisitions	\$ 55,730	\$ —
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 5,179	\$ 3,451
Cash paid for income taxes	\$ 45,968	\$ 15,330
Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	\$ 482,364	\$ 162,495
Funds held for clients' cash and cash equivalents	3,043,520	4,899,674
Total cash, cash equivalents and funds held for clients' cash and cash equivalents	\$ 3,525,884	\$ 5,062,169

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 HR, finance and IT 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 offers an intuitive, easy-to-use product suite that helps businesses automate and streamline HR, finance and IT processes, attract and retain talent, and build culture and connection with their employees.

(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 six months ended December 31, 2025 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, 2025 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 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. While adoption of this ASU is not expected to have a material effect on the Company's consolidated financial condition, results of operations or cash flows, it will result in expanded income tax disclosures beginning with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2026.

In November 2024, the FASB issued Accounting Standards Update 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses ("ASU 2024-03"). ASU 2024-03 requires the disclosure of additional information about specific expense categories in the notes to the financial statements. The incremental disclosures may be presented on a prospective or retrospective basis. This ASU is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating the impacts of this ASU on its consolidated financial statement disclosures including the method and timing of adoption.

In September 2025, the FASB issued Accounting Standards Update 2025-06, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software ("ASU 2025-06"). ASU 2025-06 removes all references to software development stages in existing guidance and, instead, requires the capitalization of software development costs when the Company's management has authorized and committed to funding a project and it is probable the project will be completed and the software will be used to perform its intended function. This ASU may be applied on a prospective, retrospective or on a modified transition basis based on project and capitalization status before the adoption date. This ASU is effective for all fiscal years beginning after December 15, 2027 and interim periods beginning within those annual reporting periods, with early adoption permitted as of the beginning of an annual reporting period. The Company is currently assessing the impact of this ASU on its consolidated financial statements and is evaluating the method and timing of adoption.

From time to time, new accounting pronouncements are issued by the FASB 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 substantially all of its revenue from contracts 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 mostly derived from cloud-based payroll and HCM software solutions which includes payroll processing and related services such as payroll reporting and tax filing services, time and labor services, time clock rentals, and HR-related software solutions, including employee management and benefits enrollment and administration, substantially all of which are delivered on a monthly basis. Substantially all of the Company's recurring fees are satisfied over time as services are provided. The performance obligations related to recurring services are generally satisfied monthly as services are provided, with fees charged and collected based on a per-employee-per-month fee. The Company has certain optional performance obligations that are satisfied at a point in time including the sales of time clocks and W-2 services. 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 December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Recurring fees	\$ 331,900	\$ 370,083	\$ 651,214	\$ 734,381
Implementation services and other	15,814	16,897	29,605	31,457
Total revenues from contracts	\$ 347,714	\$ 386,980	\$ 680,819	\$ 765,838

Deferred revenue

The timing of revenue recognition for recurring revenue is generally consistent with the timing of invoicing as they occur monthly as services are provided based on a per-employee-per-month fee. As such, the Company does not generally 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 December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Balance at beginning of the period	\$ 25,397	\$ 29,918	\$ 24,883	\$ 28,306
Deferral of revenue	13,878	14,368	25,152	26,779
Revenue recognized	(10,642)	(11,030)	(21,402)	(21,829)
Balance at end of the period	\$ 28,633	\$ 33,256	\$ 28,633	\$ 33,256

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 as follows: \$19,618 in fiscal 2026, \$10,965 in fiscal 2027 and \$2,673 in fiscal 2028 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 generally 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 December 31, 2024			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 255,023	\$ 19,122	\$ (14,979)	\$ 259,166
Costs to fulfill a contract	204,549	20,939	(11,583)	213,905
Total	\$ 459,572	\$ 40,061	\$ (26,562)	\$ 473,071

	Three Months Ended December 31, 2025			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 287,437	\$ 24,553	\$ (17,553)	\$ 294,437
Costs to fulfill a contract	234,031	19,270	(14,082)	239,219
Total	\$ 521,468	\$ 43,823	\$ (31,635)	\$ 533,656

	Six Months Ended December 31, 2024			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 250,136	\$ 38,534	\$ (29,504)	\$ 259,166
Costs to fulfill a contract	195,726	40,606	(22,427)	213,905
Total	\$ 445,862	\$ 79,140	\$ (51,931)	\$ 473,071

	Six Months Ended December 31, 2025			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	\$ 282,090	\$ 46,893	\$ (34,546)	\$ 294,437
Costs to fulfill a contract	228,758	38,140	(27,679)	239,219
Total	\$ 510,848	\$ 85,033	\$ (62,225)	\$ 533,656

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 \$166,139 as of December 31, 2025, 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 Combinations

The Company accounts for business combinations in accordance with ASC 805, Business Combinations. The Company recorded the acquisition disclosed below using the acquisition method of accounting and recognized assets and liabilities at their fair values as of the date of acquisitions, with the excess recorded to goodwill.

On October 1, 2024, the Company acquired all of the outstanding shares of Airbase Inc. ("Airbase") for cash consideration of \$320,205, net of cash acquired and preliminary purchase price adjustments, which was funded by borrowings under its credit facility. Refer to Note 8 for more information on the credit facility. Airbase is a modern finance and spend management software solution that combines bill pay/accounts payable automation, expense management, corporate cards and procurement capabilities. The acquisition was consummated to enable the Company to provide a comprehensive solution and modern client experience for managing payroll and non-payroll spend on a single integrated platform.

The allocation of the purchase price for Airbase was as follows, which reflects certain immaterial measurement period adjustments recorded before the measurement period closed on September 30, 2025:

Cash and cash equivalents	\$	41,250
Funds held for clients		42,354
Proprietary technology		75,200
Client relationships		3,800
Non-solicitation agreements		2,400
Trade names		2,100
Goodwill		234,295
Other assets acquired		15,786
Client fund obligations		(42,354)
Other liabilities assumed		(13,376)
Total	\$	<u>361,455</u>

The Company's fair value estimate of the acquired proprietary technology is based on a relief from royalty rate methodology which includes but is not limited to forecasted revenue growth rates, royalty rates, technology migration rates and required rate of return.

The results from this acquisition have been included in the Company's consolidated financial statements since the closing of the transaction. 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 and is not deductible for income tax purposes. Direct costs related to the acquisition were not material and were expensed as incurred as General and administrative expense in the Unaudited Consolidated Statements of Operations and Comprehensive Income. Pro forma financial information was immaterial for both the three and six months ended December 31, 2024.

(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, 2025	\$	2,837
Charged to expense		939
Write-offs		(884)
Balance at December 31, 2025	\$	<u>2,892</u>

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

	June 30, 2025	December 31, 2025
Capitalized internal-use software	\$ 400,122	\$ 437,390
Accumulated amortization	(267,805)	(302,773)
Capitalized internal-use software, net	\$ 132,317	\$ 134,617

Amortization of capitalized internal-use software costs is primarily included in Cost of revenues and amounted to \$14,833 and \$17,718 for the three months ended December 31, 2024 and 2025, respectively, and \$28,610 and \$34,968 for the six months ended December 31, 2024 and 2025, respectively.

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

	June 30, 2025	December 31, 2025
Office equipment	\$ 2,779	\$ 2,779
Computer equipment	67,372	68,337
Furniture and fixtures	13,317	14,112
Software	12,793	13,239
Leasehold improvements	50,747	52,758
Time clocks rented by clients	10,913	11,690
Total	157,921	162,915
Accumulated depreciation	(103,711)	(108,536)
Property and equipment, net	\$ 54,210	\$ 54,379

Depreciation expense amounted to \$5,149 and \$4,910 for the three months ended December 31, 2024 and 2025, respectively, and \$10,377 and \$9,852 for the six months ended December 31, 2024 and 2025, respectively.

The following table summarizes changes in goodwill during the six months ended December 31, 2025:

Balance at June 30, 2025	\$ 343,100
Measurement period adjustments	58
Balance at December 31, 2025	\$ 343,158

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, 2025	December 31, 2025	Weighted average useful life (years)
Proprietary technology	\$ 122,529	\$ 122,529	6.6
Client relationships	26,000	26,000	7.4
Non-solicitation agreements	4,000	4,000	3.7
Trade names	3,740	3,740	5.0
Total	156,269	156,269	
Accumulated amortization	(63,598)	(74,034)	
Intangible assets, net	\$ 92,671	\$ 82,235	

Amortization expense for acquired intangible assets was \$5,678 and \$5,175 for the three months ended December 31, 2024 and 2025, respectively, and \$8,225 and \$10,436 for the six months ended December 31, 2024 and 2025, respectively, and is included in Cost of revenues and General and administrative.

Future amortization expense for acquired intangible assets as of December 31, 2025 is as follows:

Remainder of fiscal 2026	\$ 10,196
Fiscal 2027	18,256
Fiscal 2028	16,391
Fiscal 2029	12,925
Fiscal 2030	11,038
Thereafter	13,429
Total	\$ 82,235

The components of accrued expenses were as follows:

	June 30, 2025	December 31, 2025
Accrued payroll and personnel costs	\$ 106,808	\$ 81,492
Operating lease liabilities	8,621	8,185
Deferred revenue	35,721	43,423
Other	41,931	38,473
Total accrued expenses	\$ 193,081	\$ 171,573

(6) Cash and Cash Equivalents and Funds Held for Clients

Cash and cash equivalents and Funds held for clients consisted of the following:

Type of Issue	June 30, 2025			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	\$ 398,070	\$ —	\$ —	\$ 398,070
Funds held for clients' cash and cash equivalents	2,084,456	—	—	2,084,456
Available-for-sale securities:				
Corporate bonds	372,171	6,497	(76)	378,592
Asset-backed securities	51,709	476	(7)	52,178
Certificates of deposit	61,681	9	(3)	61,687
U.S. treasury securities	84,889	402	(27)	85,264
Commercial paper	17,273	—	(1)	17,272
Other	24,378	310	—	24,688
Total available-for-sale securities	612,101	7,694	(114)	619,681
Total investments	\$ 3,094,627	\$ 7,694	\$ (114)	\$ 3,102,207

Type of Issue	December 31, 2025			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	\$ 162,495	\$ —	\$ —	\$ 162,495
Funds held for clients' cash and cash equivalents	4,899,672	2	—	4,899,674
Available-for-sale securities:				
Corporate bonds	427,850	7,293	(54)	435,089
Asset-backed securities	62,023	506	—	62,529
Certificates of deposit	22,010	6	—	22,016
U.S. treasury securities	48,792	502	—	49,294
Other	41,165	473	(13)	41,625
Total available-for-sale securities	601,840	8,780	(67)	610,553
Total investments	\$ 5,664,007	\$ 8,782	\$ (67)	\$ 5,672,722

All available-for-sale securities were included in Funds held for clients at June 30, 2025 and December 31, 2025.

Cash and cash equivalents and funds held for clients' cash and cash equivalents included demand deposit accounts, money market funds and commercial paper at June 30, 2025 and December 31, 2025.

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

	June 30, 2025	December 31, 2025
Cash and cash equivalents	\$ 398,070	\$ 162,495
Funds held for clients	2,704,137	5,510,227
Total investments	\$ 3,102,207	\$ 5,672,722

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, 2025 and December 31, 2025 had fair market value as follows:

	June 30, 2025					
	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
Corporate bonds	\$ (9)	\$ 10,002	\$ (67)	\$ 8,279	\$ (76)	\$ 18,281
Asset-backed securities	(4)	4,154	(3)	2,948	(7)	7,102
Certificates of deposit	(3)	19,468	—	—	(3)	19,468
U.S. treasury securities	(25)	37,581	(2)	998	(27)	38,579
Commercial paper	(1)	17,272	—	—	(1)	17,272
Total available-for-sale securities	\$ (42)	\$ 88,477	\$ (72)	\$ 12,225	\$ (114)	\$ 100,702

	December 31, 2025					
	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
Corporate bonds	\$ (24)	\$ 10,078	\$ (30)	\$ 1,929	\$ (54)	\$ 12,007
Other	(13)	6,625	—	—	(13)	6,625
Total available-for-sale securities	\$ (37)	\$ 16,703	\$ (30)	\$ 1,929	\$ (67)	\$ 18,632

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 six months ended December 31, 2024 or 2025. All securities in the Company's portfolio held an A-1 rating or better as of December 31, 2025.

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 six months ended December 31, 2024 or 2025. There were no realized gains or losses on the sale of available-for-sale securities for the three or six months ended December 31, 2024 or 2025.

Expected maturities of available-for-sale securities at December 31, 2025 were as follows:

	Amortized cost	Fair value
One year or less	\$ 138,581	\$ 139,185
One year to two years	80,269	80,974
Two years to three years	115,109	117,407
Three years to five years	257,266	262,096
Five years and thereafter	10,615	10,891
Total available-for-sale securities	<u>\$ 601,840</u>	<u>\$ 610,553</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 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 and borrowings on its credit facility using Level 2 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, 2025 and December 31, 2025 based upon the short-term nature of these assets and liabilities.

Marketable securities classified as available-for-sale are recorded at fair value on a recurring basis using Level 2 inputs obtained from an independent pricing service. Available-for-sale securities may include commercial paper, corporate bonds, asset-backed securities, certificates of deposit, U.S. treasury securities, 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, 2025 or December 31, 2025.

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

	June 30, 2025			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 398,070	\$ 398,070	\$ —	\$ —
Funds held for clients' cash and cash equivalents	2,084,456	2,084,456	—	—
Available-for-sale securities:				
Corporate bonds	378,592	—	378,592	—
Asset-backed securities	52,178	—	52,178	—
Certificates of deposit	61,687	—	61,687	—
U.S. treasury securities	85,264	—	85,264	—
Commercial paper	17,272	—	17,272	—
Other	24,688	—	24,688	—
Total available-for-sale securities	619,681	—	619,681	—
Total investments	\$ 3,102,207	\$ 2,482,526	\$ 619,681	\$ —

	December 31, 2025			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 162,495	\$ 162,495	\$ —	\$ —
Funds held for clients' cash and cash equivalents	4,899,674	4,895,880	3,794	—
Available-for-sale securities:				
Corporate bonds	435,089	—	435,089	—
Asset-backed securities	62,529	—	62,529	—
Certificates of deposit	22,016	—	22,016	—
U.S. treasury securities	49,294	—	49,294	—
Other	41,625	—	41,625	—
Total available-for-sale securities	610,553	—	610,553	—
Total investments	\$ 5,672,722	\$ 5,058,375	\$ 614,347	\$ —

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 using Level 3 inputs.

(8) Debt

The Company maintains 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. The credit agreement provides for a senior secured revolving credit facility ("credit facility") with borrowing capacity up 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 credit facility is scheduled to expire in August 2027, and any outstanding borrowings will mature and be payable upon expiration. During fiscal 2025, the Company borrowed \$325,000 to fund the acquisition of Airbase Inc. in October 2024, of which it repaid \$162,500 in the second half of fiscal 2025. The Company repaid an additional \$81,250 during the six months ended December 31, 2025. As a result, \$81,250 remained outstanding at December 31, 2025. Refer to Note 4 for further details on the Company's acquisition of Airbase Inc.

The proceeds of any borrowings are to be used to fund working capital, capital expenditures and general corporate purposes, including share repurchases and permitted acquisitions, investments, and distributions. 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 bear interest, at the Company's option, at a rate per annum determined by reference to either the Term Secured Overnight Financing Rate ("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 December 31, 2025, the Company was in compliance with all of the aforementioned covenants.

(9) Stock-Based Compensation

The Company maintained a 2014 Equity Incentive Plan (the "2014 Plan") and continues to maintain a 2023 Equity Incentive Plan (the "2023 Plan"), which was amended and restated in December 2025 to increase the number of shares available for issuance by 444 shares and remove certain share recycling provisions for stock options and stock appreciation rights. The 2023 Plan serves as the successor to the 2014 Plan and permits the granting of restricted stock units ("RSUs"), performance stock units ("PSUs"), market stock units ("MSUs") and other equity incentives at the discretion of the compensation committee of the Company's board of directors ("Committee"). No new awards have been nor 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 December 31, 2025, the Company had 1,544 shares available for future grant under the 2023 Plan, and 1,907 shares were subject to outstanding awards. Generally, the Company issues previously unissued shares for the vesting of awards; however, shares previously subject to 2023 Plan grants or awards that are forfeited or net settled at exercise or release may be reissued to satisfy future issuances.

Stock-based compensation expense related to RSUs, PSUs, MSUs and the Company's 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 December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Cost of revenues	\$ 5,750	\$ 5,072	\$ 10,246	\$ 9,239
Sales and marketing	10,457	9,866	19,798	18,658
Research and development	11,412	9,933	20,905	18,943
General and administrative	16,047	17,373	26,257	33,250
Total stock-based compensation expense	\$ 43,666	\$ 42,244	\$ 77,206	\$ 80,090

In addition, the Company capitalized \$3,623 and \$3,231 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended December 31, 2024 and 2025, respectively, and \$7,454 and \$6,147 for the six months ended December 31, 2024 and 2025, respectively.

The Company grants RSUs under the 2023 Plan with terms determined at the discretion of the Committee. RSUs are time-based awards that generally vest over four years following the grant date.

The following table represents RSU activity during the six months ended December 31, 2025:

	Units	Weighted average grant date fair value
RSU balance at July 1, 2025	1,361	\$ 187.32
RSUs granted	809	\$ 171.49
RSUs vested	(390)	\$ 205.48
RSUs forfeited	(89)	\$ 178.14
RSU balance at December 31, 2025	<u>1,691</u>	<u>\$ 176.04</u>

The Company also grants PSUs under the 2023 Plan with terms determined at the discretion of the Committee. The actual number of PSUs that will be eligible to vest is based on the achievement of Recurring and other revenue targets over a one year period with vesting taking place annually over three years. Up to 200% of the target number of shares subject to each PSU are eligible to be earned.

The following table represents PSU activity during the six months ended December 31, 2025:

	Units	Weighted average grant date fair value
PSU balance at July 1, 2025	55	\$ 155.95
PSUs granted	70	\$ 170.07
PSUs vested	(36)	\$ 155.95
PSU balance at December 31, 2025	<u>89</u>	<u>\$ 167.02</u>

The Company also grants MSUs under the 2023 Plan with terms determined at the discretion of the Committee. 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 approximately three years. The MSUs vest at the end of each 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 MSU activity during the six months ended December 31, 2025:

	Units	Weighted average grant date fair value
MSU balance at July 1, 2025	167	\$ 311.38
MSUs granted	31	\$ 224.22
MSUs vested	(25)	\$ 391.85
MSUs forfeited	(46)	\$ 391.85
MSU balance at December 31, 2025	<u>127</u>	<u>\$ 244.20</u>

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

	Six Months Ended December 31,	
	2024	2025
Valuation assumptions:		
Expected dividend yield	— %	— %
Expected volatility	44.4 %	37.7 %
Expected term (years)	3.04	3.04
Risk-free interest rate	3.86 %	3.70 %

At December 31, 2025, there was \$161,808 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested RSUs, PSUs 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 sought statutory damages, attorney's fees and other costs. On April 22, 2025, this matter was dismissed with prejudice. On May 21, 2025, the plaintiff filed a notice of appeal. The Company will continue to vigorously defend against this lawsuit on appeal.

In addition, 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 of these matters that are 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 20.0% and 28.5% for the three months ended December 31, 2024 and 2025, respectively. The Company's effective tax rate for the three months ended December 31, 2024 was lower than the federal statutory rate of 21% primarily due to the excess tax benefit from stock-based compensation. The Company's effective tax rate for the three months ended December 31, 2025 was higher than the federal statutory rate of 21% primarily due to stock-based compensation shortfalls realized and state and local income taxes.

The Company's effective tax rate was 24.8% and 32.3% for the six months ended December 31, 2024 and 2025, respectively. The Company's effective tax rate for the six months ended December 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 for the six months ended December 31, 2025 was higher than the federal statutory rate of 21% primarily due to stock-based compensation shortfalls realized, state and local income taxes and an increase to the valuation allowance as explained below.

On July 4, 2025, the "One Big Beautiful Bill Act" (the "Act") was enacted into law. The most significant provision applicable to the Company relates to accelerated tax deductions for qualified property and research expenditures. As a result of this provision, deferred tax assets and liabilities and income tax payables and receivables were impacted starting in fiscal 2026 and the Company expects cash tax benefits due to lower cash tax payments throughout fiscal 2026. Furthermore, the Company evaluated the impacts of the Act on certain state tax attributes and determined that a valuation allowance was needed to reflect the realizability of those assets based on current federal and state law as of December 31, 2025.

(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 RSUs, PSUs and MSUs as of the balance sheet date. The following table presents the calculation of basic and diluted net income per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Numerator:				
Net income	\$ 37,465	\$ 50,197	\$ 87,038	\$ 98,188
Denominator:				
Weighted-average shares used in computing net income per share:				
Basic	55,826	54,086	55,733	54,550
Weighted-average effect of potentially dilutive shares:				
Employee stock options, RSUs, PSUs and MSUs	914	687	803	792
Diluted	56,740	54,773	56,536	55,342
Net income per share:				
Basic	\$ 0.67	\$ 0.93	\$ 1.56	\$ 1.80
Diluted	\$ 0.66	\$ 0.92	\$ 1.54	\$ 1.77

The following table summarizes the outstanding restricted stock units, performance stock units and market stock units as of December 31, 2024 and 2025 that were excluded from the diluted per share calculation for the periods presented because to include them would have been antidilutive:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
RSUs	5	3	13	7
PSUs	—	37	—	—
MSUs	59	14	61	14
Total	64	54	74	21

(13) Segment Reporting

The Company determined that it operates as one reportable segment and derives revenues from customers by providing its HR, finance and IT software solutions. The Company's chief operating decision maker ("CODM") is its president and chief executive officer. The CODM utilizes consolidated net income and certain non-GAAP measures, including adjusted EBITDA, along with other information contained in the consolidated financial statements to assess the Company's performance and guide decisions on allocation of resources. The segment's total assets are reported on the consolidated balance sheet.

The following table presents the Company's revenue, significant expenses and other segment items as included in consolidated net income:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Revenue	\$ 376,980	\$ 416,134	\$ 739,936	\$ 824,306
Adjusted cost of revenue	(98,738)	(106,598)	(193,012)	(208,105)
Adjusted sales and marketing	(81,950)	(87,778)	(160,520)	(174,834)
Adjusted research and development	(43,404)	(47,392)	(80,232)	(92,526)
Adjusted general and administrative	(36,910)	(37,556)	(71,538)	(73,621)
Other income (expense)	193	(204)	4,935	498
Income tax expense	(9,351)	(19,980)	(28,664)	(46,902)
Other segment items	(69,355)	(66,429)	(123,867)	(130,628)
Net income	\$ 37,465	\$ 50,197	\$ 87,038	\$ 98,188

Other segment items primarily include amortization of capitalized internal-use software and acquired intangible assets and stock-based compensation expense.

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, 2025 filed with the SEC on August 6, 2025.

Overview

We are a leading cloud-based provider of HR, finance and IT software solutions that deliver a comprehensive platform for the modern workforce. Our platform offers an intuitive, easy-to-use product suite that helps businesses automate and streamline HR, finance and IT processes, attract and retain talent, and build culture and connection with their employees. We are expanding the spend management capabilities of our platform beyond expense management to include accounts payable automation, corporate cards, and procurement capabilities through the acquisition of Airbase Inc. in October 2024. This integrated platform will enable HR and finance leaders to manage all their spend, including payroll, on a single platform.

Effective management of human capital and business-related spend 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. Our sales and marketing expenses have increased 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 \$377.0 million for the three months ended December 31, 2024 to \$416.1 million for the three months ended December 31, 2025, representing a 10% year-over-year increase. Total revenues increased from \$739.9 million for the six months ended December 31, 2024 to \$824.3 million for the six months ended December 31, 2025, representing an 11% year-over-year increase. The increase in year-over-year revenue growth was driven by the strong performance by our sales team. 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 described below. We define Adjusted EBITDA as net income before interest expense, income tax expense, depreciation and amortization expense, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and other items as described below.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
(\$ in thousands)				
Reconciliation from Gross Profit to Adjusted Gross Profit				
Gross profit	\$ 252,435	\$ 282,138	\$ 500,431	\$ 561,930
Amortization of capitalized internal-use software costs	14,833	17,718	28,610	34,968
Amortization of certain acquired intangibles	4,749	4,519	6,813	9,120
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	6,007	5,294	10,930	9,841
Other items (1)	218	(133)	140	342
Adjusted Gross Profit	<u>\$ 278,242</u>	<u>\$ 309,536</u>	<u>\$ 546,924</u>	<u>\$ 616,201</u>

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
(\$ in thousands)				
Reconciliation from Net income to Adjusted EBITDA				
Net income	\$ 37,465	\$ 50,197	\$ 87,038	\$ 98,188
Interest expense	4,846	1,215	5,246	3,570
Income tax expense	9,351	19,980	28,664	46,902
Depreciation and amortization expense	25,660	27,803	47,212	55,256
EBITDA	77,322	99,195	168,160	203,916
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	44,910	43,184	80,570	83,108
Other items (2)	3,934	352	6,462	2,116
Adjusted EBITDA	\$ 126,166	\$ 142,731	\$ 255,192	\$ 289,140

- (1) Represents acquisition-related costs and severance cost adjustments related to certain roles that have been eliminated. We exclude one-off severance costs that we incur as part of the normal course of our business operations.
- (2) Represents acquisition and transaction-related costs and severance costs related to certain roles that have been eliminated. We exclude one-off severance costs that we incur as part of the normal course of our business operations.

Basis of Presentation

Revenues

Recurring and other revenue

We generate substantially all of our recurring and other revenue from ongoing subscriptions to our cloud-based software solutions, which are recurring in nature. 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 for 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 software 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 necessarily a good indicator of our financial results in any given period. Recurring and other revenue accounted for 92% and 93% of our total revenues for the three months ended December 31, 2024 and 2025, respectively, and 92% and 93% of our total revenues for the six months ended December 31, 2024 and 2025, 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 from clients in advance of performing payroll, payroll tax filing and spend management services on behalf of those clients. Until these funds are remitted to the respective payees, 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 consists primarily 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 generally 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 \$14.8 million and \$17.7 million of capitalized internal-use software costs during the three months ended December 31, 2024 and 2025, respectively, and \$28.6 million and \$35.0 million of capitalized internal-use software costs for the six months ended December 31, 2024 and 2025, 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 upon 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 generally 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 staff, 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 six months ended December 31, 2024 and 2025.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
(\$ in thousands)				
Capitalized portion of research and development	\$ 17,253	\$ 18,614	\$ 36,550	\$ 37,268
Expensed portion of research and development	56,155	57,739	103,415	113,346
Total research and development	\$ 73,408	\$ 76,353	\$ 139,965	\$ 150,614

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 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 December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
(\$ in thousands)				
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	\$ 347,714	\$ 386,980	\$ 680,819	\$ 765,838
Interest income on funds held for clients	29,266	29,154	59,117	58,468
Total revenues	376,980	416,134	739,936	824,306
Cost of revenues	124,545	133,996	239,505	262,376
Gross profit	252,435	282,138	500,431	561,930
Operating expenses:				
Sales and marketing	93,133	98,078	181,564	194,446
Research and development	56,155	57,739	103,415	113,346
General and administrative	56,524	55,940	104,685	109,546
Total operating expenses	205,812	211,757	389,664	417,338
Operating income	46,623	70,381	110,767	144,592
Other income (expense)	193	(204)	4,935	498
Income before income taxes	46,816	70,177	115,702	145,090
Income tax expense	9,351	19,980	28,664	46,902
Net income	\$ 37,465	\$ 50,197	\$ 87,038	\$ 98,188

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 December 31,		Six Months Ended December 31,	
	2024	2025	2024	2025
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	92 %	93 %	92 %	93 %
Interest income on funds held for clients	8 %	7 %	8 %	7 %
Total revenues	100 %	100 %	100 %	100 %
Cost of revenues	33 %	32 %	32 %	32 %
Gross profit	67 %	68 %	68 %	68 %
Operating expenses:				
Sales and marketing	25 %	24 %	25 %	23 %
Research and development	15 %	14 %	14 %	14 %
General and administrative	15 %	13 %	14 %	13 %
Total operating expenses	55 %	51 %	53 %	50 %
Operating income	12 %	17 %	15 %	18 %
Other income (expense)	0 %	0 %	1 %	0 %
Income before income taxes	12 %	17 %	16 %	18 %
Income tax expense	2 %	5 %	4 %	6 %
Net income	10 %	12 %	12 %	12 %

Comparison of Three Months Ended December 31, 2024 and 2025

Revenues

(\$ in thousands)

	Three Months Ended December 31,		Change	
	2024	2025	\$	%
Recurring and other revenue	\$ 347,714	\$ 386,980	\$ 39,266	11 %
Percentage of total revenues	92 %	93 %		
Interest income on funds held for clients	\$ 29,266	\$ 29,154	\$ (112)	0 %
Percentage of total revenues	8 %	7 %		

Recurring and Other Revenue

Recurring and other revenue for the three months ended December 31, 2025 increased by \$39.3 million, or 11%, to \$387.0 million from \$347.7 million for the three months ended December 31, 2024. 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 December 31, 2025 was flat as compared to the three months ended December 31, 2024. Interest income on funds held for clients decreased slightly as the negative impact from lower interest rates was mostly offset by positive impact from higher average daily balances of funds held for new and existing clients as compared to the prior fiscal year.

Cost of Revenues

(\$ in thousands)

	Three Months Ended December 31,		Change	
	2024	2025	\$	%
Cost of revenues	\$ 124,545	\$ 133,996	\$ 9,451	8 %
Percentage of total revenues	33 %	32 %		
Gross margin	67 %	68 %		

Cost of revenues for the three months ended December 31, 2025 increased by \$9.5 million, or 8%, to \$134.0 million from \$124.5 million for the three months ended December 31, 2024. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, \$5.9 million in additional employee-related costs, \$2.9 million in additional amortization of internal-use software and \$1.5 million in additional processing and delivery related costs. Gross margin increased from 67% for the three months ended December 31, 2024 to 68% for the three months ended December 31, 2025.

Operating Expenses

(\$ in thousands)

Sales and Marketing

	Three Months Ended December 31,		Change	
	2024	2025	\$	%
Sales and marketing	\$ 93,133	\$ 98,078	\$ 4,945	5 %
Percentage of total revenues	25 %	24 %		

Sales and marketing expenses for the three months ended December 31, 2025 increased by \$4.9 million, or 5%, to \$98.1 million from \$93.1 million for the three months ended December 31, 2024. The increase in sales and marketing expense was primarily due to \$4.9 million of additional employee-related costs, including those incurred to expand our sales team.

Research and Development

	Three Months Ended December 31,		Change	
	2024	2025	\$	%
Research and development	\$ 56,155	\$ 57,739	\$ 1,584	3 %
Percentage of total revenues	15 %	14 %		

Research and development expenses for the three months ended December 31, 2025 increased by \$1.6 million, or 3%, to \$57.7 million from \$56.2 million for the three months ended December 31, 2024. The increase in research and development expenses was primarily due to \$2.4 million of additional employee-related costs related to additional development personnel, net of capitalized internal-use software costs, partially offset by \$1.5 million in lower stock-based compensation expense.

General and Administrative

	Three Months Ended December 31,		Change	
	2024	2025	\$	%
General and administrative	\$ 56,524	\$ 55,940	\$ (584)	(1)%
Percentage of total revenues	15 %	13 %		

General and administrative expenses for the three months ended December 31, 2025 decreased by \$0.6 million, or 1%, to \$55.9 million from \$56.5 million for the three months ended December 31, 2024. General and administrative

expenses decreased primarily due to lower acquisition-related costs and other non-recurring items partially offset by an increase in stock-based compensation expense.

Other Income (Expense)

Other income (expense) for the three months ended December 31, 2025 decreased by \$0.4 million as compared to the three months ended December 31, 2024. The change in other income was primarily due to a \$3.9 million reduction in interest earned on our cash and cash equivalents from lower average balances, partially offset by a \$3.6 million decrease in interest expense related to less borrowings under our revolving credit facility.

Income Taxes

Our effective tax rate was 20.0% and 28.5% for the three months ended December 31, 2024 and 2025, respectively. Our effective tax rate for the three months ended December 31, 2024 was lower than the federal statutory rate of 21% primarily due to excess tax benefit from stock-based compensation. Our effective tax rate for the three months ended December 31, 2025 was higher than the federal statutory rate of 21% primarily due to stock-based compensation shortfalls realized and state and local income taxes.

Comparison of Six Months Ended December 31, 2024 and 2025

Revenues

(\$ in thousands)

	Six Months Ended December 31,		Change	
	2024	2025	\$	%
Recurring and other revenue	\$ 680,819	\$ 765,838	\$ 85,019	12 %
Percentage of total revenues	92 %	93 %		
Interest income on funds held for clients	\$ 59,117	\$ 58,468	\$ (649)	(1)%
Percentage of total revenues	8 %	7 %		

Recurring and Other Revenue

Recurring and other revenue for the six months ended December 31, 2025 increased by \$85.0 million, or 12%, to \$765.8 million from \$680.8 million for the six months ended December 31, 2024. 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 six months ended December 31, 2025 decreased by \$0.6 million, or 1%, to \$58.5 million from \$59.1 million for the six months ended December 31, 2024. Interest income on funds held for clients decreased slightly, as the negative impact from lower interest rates was mostly offset by positive impact from higher average daily balances of funds held for new and existing clients as compared to the prior fiscal year.

Cost of Revenues

(\$ in thousands)

	Six Months Ended December 31,		Change	
	2024	2025	\$	%
Cost of revenues	\$ 239,505	\$ 262,376	\$ 22,871	10 %
Percentage of total revenues	32 %	32 %		
Gross margin	68 %	68 %		

Cost of revenues for the six months ended December 31, 2025 increased by \$22.9 million, or 10%, to \$262.4 million from \$239.5 million for the six months ended December 31, 2024. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, \$12.3 million in additional employee-related costs, \$6.3 million in additional amortization of internal-use software, \$3.0 million in additional processing and delivery related costs and \$2.3

million in additional amortization of certain intangible assets. Gross margin remained consistent at 68% for both the six months ended December 31, 2024 and 2025.

Operating Expenses

(\$ in thousands)

Sales and Marketing

	Six Months Ended December 31,		Change	
	2024	2025	\$	%
Sales and marketing	\$ 181,564	\$ 194,446	\$ 12,882	7 %
Percentage of total revenues	25 %	23 %		

Sales and marketing expenses for the six months ended December 31, 2025 increased by \$12.9 million, or 7%, to \$194.4 million from \$181.6 million for the six months ended December 31, 2024. The increase in sales and marketing expense was primarily due to \$11.6 million of additional employee-related costs, including those incurred to expand our sales team.

Research and Development

	Six Months Ended December 31,		Change	
	2024	2025	\$	%
Research and development	\$ 103,415	\$ 113,346	\$ 9,931	10 %
Percentage of total revenues	14 %	14 %		

Research and development expenses for the six months ended December 31, 2025 increased by \$9.9 million, or 10%, to \$113.3 million from \$103.4 million for the six months ended December 31, 2024. The increase in research and development expenses was primarily due to \$10.1 million of additional employee-related costs related to additional development personnel, net of capitalized internal-use software costs, partially offset by \$2.0 million in lower stock-based compensation expense.

General and Administrative

	Six Months Ended December 31,		Change	
	2024	2025	\$	%
General and administrative	\$ 104,685	\$ 109,546	\$ 4,861	5 %
Percentage of total revenues	14 %	13 %		

General and administrative expenses for the six months ended December 31, 2025 increased by \$4.9 million, or 5%, to \$109.5 million from \$104.7 million for the six months ended December 31, 2024. General and administrative expenses increased primarily due to \$7.0 million in additional stock-based compensation expense largely driven by executive award forfeitures during the six months ended December 31, 2024 and \$3.6 million in additional employee-related costs during the six months ended December 31, 2025, partially offset by a decrease in acquisition-related costs and other non-recurring items.

Other Income (Expense)

Other income for the six months ended December 31, 2025 decreased by \$4.4 million as compared to the six months ended December 31, 2024. The change in other income was primarily due to \$5.9 million reduction in interest earned on our cash and cash equivalents from lower average balances, partially offset by a \$1.7 million decrease in interest expense related to less borrowings under our revolving credit facility.

Income Taxes

Our effective tax rate was 24.8% and 32.3% for the six months ended December 31, 2024 and 2025, respectively. Our effective tax rate for the six months ended December 31, 2024 was higher than the federal statutory rate of 21%

primarily due to state and local income taxes. Our effective tax rate for the six months ended December 31, 2025 was higher than the federal statutory rate of 21% primarily due to stock-based compensation shortfalls realized, state and local income taxes and an increase to the valuation allowance as explained below.

On July 4, 2025, the "One Big Beautiful Bill Act" (the "Act") was enacted into law. The most significant provision applicable to us relates to accelerated tax deductions for qualified property and research expenditures. As a result of this provision, deferred tax assets and liabilities and income tax payables and receivables were impacted starting in fiscal 2026 and we expect cash tax benefits due to lower cash tax payments throughout fiscal 2026. Furthermore, we evaluated the impacts of the Act on certain state tax attributes and determined that a valuation allowance was needed to reflect the realizability of those assets based on current federal and state law as of December 31, 2025.

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. There have been no material changes in our critical accounting policies and use of estimates from the information provided in Item 7 of our audited consolidated financial statements for the year ended June 30, 2025 included in our Annual Report on Form 10-K filed with the SEC on August 6, 2025.

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 December 31, 2025, our principal source of liquidity was \$162.5 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. During fiscal 2025, we borrowed \$325.0 million under this credit facility to fund the October 2024 acquisition of Airbase Inc. We had \$81.3 million in outstanding borrowings under this credit facility at December 31, 2025, as we repaid \$162.5 million in the second half of fiscal 2025 and an additional \$81.3 million during the first half of fiscal 2026. Refer to Notes 4 and 8 of the Notes to the Unaudited Consolidated Financial Statements for additional details on the Airbase acquisition and credit agreement, respectively.

In April 2024, our board of directors authorized the repurchase of up to \$500.0 million of our common stock (the "Repurchase Program"). In July 2025, our board of directors approved a \$500.0 million increase to the Repurchase Program. The extent to which we repurchase shares, the number and price of any shares repurchased and the timing of any repurchases depends on the market price of our common stock, trading volume, general market conditions and other corporate and economic considerations. During the six months ended December 31, 2025, we repurchased an aggregate of 1.8 million shares for approximately \$300.0 million at an average cost per share of \$162.66 under the Repurchase Program.

As of December 31, 2025, approximately \$400.4 million remains authorized for repurchases under the Repurchase Program.

We may invest portions of our excess cash and cash equivalents in highly liquid, investment-grade marketable securities. These investments may consist of commercial paper, corporate bonds, asset-backed securities, certificates of deposit, U.S. treasury securities, and other securities with credit quality ratings of A-1 or higher as well as in money market funds. As of December 31, 2025, 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 investments in our platform, data centers and general infrastructure, some of which may be significant. 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, share repurchases 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 remaining borrowing capacity under our credit facility to satisfy those needs.

Our payroll and spend management processing activities involve the movement of significant funds from accounts of clients to their employees, relevant taxing authorities and vendors. Funds held for clients and client fund obligations will vary substantially from period to period mostly as a result of the timing of payroll and payroll tax obligations due. Though we debit a client's account prior to any disbursement on its behalf, there is a delay between when our payments are due 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 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 HCM and payroll services via ACH transactions at the same time we debit the client's account for payroll and payroll 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:

	Six Months Ended December 31,	
	2024	2025
	(in thousands)	
Net cash provided by operating activities	\$ 145,656	\$ 203,455
Cash flows from investing activities:		
Purchases of available-for-sale securities	(66,122)	(115,334)
Proceeds from sales and maturities of available-for-sale securities	80,018	126,413
Capitalized internal-use software costs	(29,597)	(31,400)
Purchases of property and equipment	(5,313)	(7,160)
Acquisitions of businesses, net of cash and funds held for clients acquired	(278,001)	—
Other investing activities	(1,951)	(7)
Net cash used in investing activities	(300,966)	(27,488)
Cash flows from financing activities:		
Net change in client fund obligations	545,384	2,804,340
Borrowings under credit facility	325,000	—
Repayment of credit facility	—	(81,250)
Repurchases of common shares	(8,395)	(300,000)
Proceeds from employee stock purchase plan	10,561	9,534
Taxes paid related to net share settlement of equity awards	(37,005)	(28,609)
Other financing activities	(20)	(339)
Net cash provided by financing activities	835,525	2,403,676
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	\$ 680,215	\$ 2,579,643

Operating Activities

Net cash provided by operating activities was \$145.7 million and \$203.5 million for the six months ended December 31, 2024 and 2025, respectively. The change in net cash provided by operating activities from the six months ended December 31, 2024 to the six months ended December 31, 2025 was primarily driven by improved operating results after adjusting for non-cash items, including stock-based compensation expense, depreciation and amortization expense and deferred income tax expense (benefit) and lower income tax payments resulting from the provisions of the One Big Beautiful Bill Act, partially offset by changes in operating assets and liabilities over the same period.

Investing Activities

Net cash used in investing activities was \$301.0 million and \$27.5 million for the six months ended December 31, 2024 and 2025, 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 \$278.0 million paid for the acquisition of Airbase Inc., net of cash and funds held for clients acquired during the six months ended December 31, 2024. The change was also due to a \$46.4 million increase in proceeds from the sales and maturities of available-for-sale securities, partially offset by a \$49.2 million increase in purchases of available-for-sale securities during the six months ended December 31, 2025 as compared to the six months ended December 31, 2024.

Financing Activities

Net cash provided by financing activities was \$835.5 million and \$2,403.7 million for the six months ended December 31, 2024 and 2025, respectively. The change in net cash provided by financing activities was primarily due to the net change in client fund obligations of \$2,259.0 million due to the timing of client funds collected and related

remittance of those funds to client employees and taxing authorities. This was partially offset by \$325.0 million in borrowings under our credit facility during the six months ended December 31, 2024 and \$291.6 million in additional share repurchases and \$81.3 million repayment of amounts borrowed on our credit facility during the six months ended December 31, 2025.

Contractual Obligations and Commitments

At December 31, 2025, our principal commitments consisted of \$81.3 million in borrowings on our revolving credit facility, which is contractually not due in the next twelve months, and related interest payments, as well as \$60.5 million in operating lease obligations, of which \$10.5 million is due in the next twelve months. We also had \$143.2 million in purchase obligations, of which \$73.8 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 \$5.3 million and \$7.2 million for the six months ended December 31, 2024 and 2025, respectively, exclusive of capitalized internal-use software costs of \$29.6 million and \$31.4 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 6, 2025 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 December 31, 2025, we had cash and cash equivalents of \$162.5 million and funds held for clients of \$5,510.2 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 may invest portions of our excess cash and cash equivalents and funds held for clients in marketable securities including commercial paper, corporate bonds, asset-backed securities, certificates of deposit, U.S. treasury securities, and other securities, as well as in money market funds. 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 \$12.6 million as of December 31, 2025. 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 \$13.0 million as of

December 31, 2025. 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 December 31, 2025, we had \$81.3 million in borrowings outstanding under our credit facility. Because interest rates applicable to the credit facility are variable, we are exposed to market risk from changes in the underlying index rates, which affects our interest expense. A hypothetical change of 100 basis points in interest rates would not have had a significant impact on our results of operations.

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 Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2025, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer 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, 2025 filed with the SEC on August 6, 2025.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(a) Sales of Unregistered Securities**

Not applicable.

(b) Use of Proceeds

Not applicable.

(c) Purchases of Equity Securities

The following describes the Company’s purchases of its common stock during the three months ended December 31, 2025:

	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2025 - October 31, 2025	—	—	—	\$ 500,362,644
November 1, 2025 - November 30, 2025	690,309	\$ 144.86	690,309	\$ 400,362,721
December 1, 2025 - December 31, 2025	—	—	—	\$ 400,362,721
Total	<u>690,309</u>		<u>690,309</u>	

(1) The average price paid per share excludes excise taxes payable on shares repurchased.

(2) On April 30, 2024, our board of directors approved a share repurchase program (the “Repurchase Program”) under which we are authorized to purchase (in the aggregate) up to \$500 million of our issued and outstanding common stock at such times and prices that management deems to be appropriate. In July 2025, our board of directors approved a \$500 million increase to the Repurchase Program.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended December 31, 2025, the following directors and/or officers (as defined in Rule 16a-1(f)) adopted a “Rule 10b5-1 trading arrangement,” as defined in Item 408(a) of Regulation S-K intending to satisfy the affirmative defense conditions of Rule 10b5-1(c):

Name and Title	Total Shares of Common Stock to be Sold	Duration⁽¹⁾	Adoption Date	Expiration Date
Nicholas Rost				
Vice President Chief Accounting Officer and Treasurer	Up to 2,181 ⁽²⁾	February 24, 2026 - August 21, 2026	November 25, 2025	August 21, 2026
Steven I. Sarowitz				
Director	540,000 ⁽³⁾	March 18, 2026 - December 31, 2026	December 15, 2025	December 31, 2026

⁽¹⁾ The 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.

⁽²⁾ Includes shares subject to certain outstanding equity awards with time-based vesting conditions. Additionally, 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.

⁽³⁾ The number of shares that will be sold is determined, in part, based on pricing triggers outlined in the adopting person's trading arrangement.

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 December 31, 2025.

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)).
10.1	Amended and Restated 2023 Equity Incentive Plan (filed as Exhibit 10.1 of Paylocity Holding Corporation's Current Report on Form 8-K on December 5, 2025).
31.1*	Certification of 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 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 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 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 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 officer 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 officer 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: February 6, 2026

/s/ Toby J. Williams

Name:

Toby J. Williams

Title:

**President, 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 officer 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 officer 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: February 6, 2026

/s/ Ryan Glenn

Name:

Ryan Glenn

Title:

Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION OF 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 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 December 31, 2025 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: February 6, 2026

/s/ Toby J. Williams

Name:

Toby J. Williams

Title:

**President, 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 CHIEF FINANCIAL 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 Chief Financial 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 December 31, 2025 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: February 6, 2026

/s/ Ryan Glenn

Name:

Ryan Glenn

Title:

Chief Financial Officer (Principal Financial Officer)

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.