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

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**Form 10-Q**

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

For the quarterly period ended March 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

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**PAYLOCITY HOLDING CORPORATION**

(Exact name of registrant as specified in its charter)

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**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)

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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: 55,230,112 shares of Common Stock, \$0.001 par value per share, as of April 25, 2025.

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

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

|  | June 30,<br>2024 | March 31,<br>2025 |
|--|------------------|-------------------|
| <b>Assets</b>  |                  |                   |
| Current assets:  |                  |                   |
| Cash and cash equivalents  | \$ 401,811       | \$ 477,785        |
| Accounts receivable, net   | 32,997           | 43,629            |
| Deferred contract costs  | 97,859           | 111,839           |
| Prepaid expenses and other   | 39,765           | 40,232            |
| Total current assets before funds held for clients   | 572,432          | 673,485           |
| Funds held for clients   | 2,952,060        | 3,429,517         |
| Total current assets   | 3,524,492        | 4,103,002         |
| Capitalized internal-use software, net   | 116,412          | 129,472           |
| Property and equipment, net  | 60,640           | 53,928            |
| Operating lease right-of-use assets  | 33,792           | 37,627            |
| Intangible assets, net   | 28,291           | 97,939            |
| Goodwill   | 108,937          | 342,799           |
| Long-term deferred contract costs  | 348,003          | 378,456           |
| Long-term prepaid expenses and other   | 7,077            | 6,603             |
| Deferred income tax assets   | 17,816           | 18,140            |
| Total assets   | \$ 4,245,460     | \$ 5,167,966      |
| <b>Liabilities and Stockholders' Equity</b>  |                  |                   |
| Current liabilities:   |                  |                   |
| Accounts payable   | \$ 8,638         | \$ 8,719          |
| Accrued expenses   | 158,311          | 193,644           |
| Total current liabilities before client fund obligations   | 166,949          | 202,363           |
| Client fund obligations  | 2,950,411        | 3,422,621         |
| Total current liabilities  | 3,117,360        | 3,624,984         |
| Long-term debt   | —                | 243,750           |
| Long-term operating lease liabilities  | 46,814           | 49,030            |
| Other long-term liabilities  | 6,398            | 7,868             |
| Deferred income tax liabilities  | 41,824           | 33,599            |
| Total liabilities  | \$ 3,212,396     | \$ 3,959,231      |
| Stockholders' equity:  |                  |                   |
| Preferred stock, \$0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2024 and March 31, 2025   | \$ —             | \$ —              |
| Common stock, \$0.001 par value, 155,000 shares authorized at June 30, 2024 and March 31, 2025; 55,514 shares issued and outstanding at June 30, 2024 and 55,540 shares issued and outstanding at March 31, 2025 | 56               | 56                |
| Additional paid-in capital   | 360,488          | 352,993           |
| Retained earnings  | 673,456          | 851,977           |
| Accumulated other comprehensive income (loss)  | (936)            | 3,709             |
| Total stockholders' equity   | \$ 1,033,064     | \$ 1,208,735      |
| Total liabilities and stockholders' equity   | \$ 4,245,460     | \$ 5,167,966      |

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<br>March 31, |            | Nine Months Ended<br>March 31, |              |
|--|---------------------------------|------------|--------------------------------|--------------|
|  | 2024                            | 2025       | 2024                           | 2025         |
| <b>Revenues:</b>   |                                 |            |                                |              |
| Recurring and other revenue  | \$ 366,840                      | \$ 421,096 | \$ 956,941                     | \$ 1,101,915 |
| Interest income on funds held for clients                              | 34,441                          | 33,452     | 88,287                         | 92,569       |
| Total revenues   | 401,281                         | 454,548    | 1,045,228                      | 1,194,484    |
| Cost of revenues   | 115,983                         | 129,853    | 324,849                        | 369,358      |
| Gross profit   | 285,298                         | 324,695    | 720,379                        | 825,126      |
| <b>Operating expenses:</b>   |                                 |            |                                |              |
| Sales and marketing  | 86,760                          | 91,774     | 246,940                        | 273,338      |
| Research and development   | 43,386                          | 51,396     | 134,130                        | 154,811      |
| General and administrative   | 48,863                          | 54,495     | 142,125                        | 159,180      |
| Total operating expenses   | 179,009                         | 197,665    | 523,195                        | 587,329      |
| Operating income   | 106,289                         | 127,030    | 197,184                        | 237,797      |
| Other income (expense)   | 4,324                           | (468)      | 11,349                         | 4,467        |
| Income before income taxes   | 110,613                         | 126,562    | 208,533                        | 242,264      |
| Income tax expense   | 25,299                          | 35,079     | 50,586                         | 63,743       |
| Net income   | \$ 85,314                       | \$ 91,483  | \$ 157,947                     | \$ 178,521   |
| Other comprehensive income (loss), net of tax                          | (1,227)                         | 3,492      | 3,822                          | 4,645        |
| Comprehensive income   | \$ 84,087                       | \$ 94,975  | \$ 161,769                     | \$ 183,166   |
| <b>Net income per share:</b>   |                                 |            |                                |              |
| Basic  | \$ 1.51                         | \$ 1.64    | \$ 2.81                        | \$ 3.20      |
| Diluted  | \$ 1.50                         | \$ 1.61    | \$ 2.77                        | \$ 3.15      |
| <b>Weighted-average shares used in computing net income per share:</b> |                                 |            |                                |              |
| Basic  | 56,369                          | 55,810     | 56,216                         | 55,759       |
| Diluted  | 57,048                          | 56,780     | 56,975                         | 56,640       |

See accompanying notes to unaudited consolidated financial statements.

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

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

  

|   | Three Months Ended March 31, 2025 |              |                                  |                      |  |                                  |
|---|-----------------------------------|--------------|----------------------------------|----------------------|--|----------------------------------|
|   | Common Stock                      |              | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|   | Shares                            | Amount       |                                  |                      |  |                                  |
| <b>Balances at December 31, 2024</b>                                    | 55,884                            | \$ 56        | \$ 411,373                       | \$ 760,494           | \$ 217                                       | \$ 1,172,140                     |
| Stock-based compensation  | —                                 | —            | 38,713                           | —                    | —  | 38,713                           |
| Issuance of common stock upon vesting of equity awards                  | 141                               | —            | —                                | —                    | —  | —                                |
| Net settlement for taxes and/or exercise price related to equity awards | (57)                              | —            | (12,116)                         | —                    | —  | (12,116)                         |
| Repurchases of common shares  | (428)                             | —            | (84,977)                         | —                    | —  | (84,977)                         |
| Unrealized gains on securities, net of tax                              | —                                 | —            | —                                | —                    | 2,728  | 2,728                            |
| Other   | —                                 | —            | —                                | —                    | 764  | 764                              |
| Net income  | —                                 | —            | —                                | 91,483               | —  | 91,483                           |
| <b>Balances at March 31, 2025</b>                                       | <u>55,540</u>                     | <u>\$ 56</u> | <u>\$ 352,993</u>                | <u>\$ 851,977</u>    | <u>\$ 3,709</u>                              | <u>\$ 1,208,735</u>              |

  

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

  

|   | Nine Months Ended March 31, 2025 |              |                                  |                      |   |                                  |
|---|----------------------------------|--------------|----------------------------------|----------------------|---|----------------------------------|
|   | Common Stock                     |              | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity |
|   | Shares                           | Amount       |                                  |                      |   |                                  |
| <b>Balances at June 30, 2024</b>  | 55,514                           | \$ 56        | \$ 360,488                       | \$ 673,456           | \$ (936)  | \$ 1,033,064                     |
| Stock-based compensation  | —                                | —            | 124,680                          | —                    | —   | 124,680                          |
| Stock options exercised   | 167                              | —            | 4,692                            | —                    | —   | 4,692                            |
| Issuance of common stock upon vesting of equity awards                  | 564                              | —            | —                                | —                    | —   | —                                |
| Issuance of common stock upon employee stock purchase plan              | 72                               | —            | 10,561                           | —                    | —   | 10,561                           |
| Net settlement for taxes and/or exercise price related to equity awards | (305)                            | —            | (53,813)                         | —                    | —   | (53,813)                         |
| Repurchases of common shares  | (472)                            | —            | (93,615)                         | —                    | —   | (93,615)                         |
| Unrealized gains on securities, net of tax                              | —                                | —            | —                                | —                    | 4,653   | 4,653                            |
| Other   | —                                | —            | —                                | —                    | (8)   | (8)                              |
| Net income  | —                                | —            | —                                | 178,521              | —   | 178,521                          |
| <b>Balances at March 31, 2025</b>                                       | <u>55,540</u>                    | <u>\$ 56</u> | <u>\$ 352,993</u>                | <u>\$ 851,977</u>    | <u>\$ 3,709</u>                                     | <u>\$ 1,208,735</u>              |

See accompanying notes to the unaudited consolidated financial statements.

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

|  | Nine Months Ended<br>March 31, |              |
|--|--------------------------------|--------------|
|  | 2024                           | 2025         |
| <b>Cash flows from operating activities:</b>   |                                |              |
| Net income   | \$ 157,947                     | \$ 178,521   |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                |              |
| Stock-based compensation expense   | 117,165                        | 112,538      |
| Depreciation and amortization expense  | 55,779                         | 73,184       |
| Deferred income tax expense (benefit)  | 18,543                         | (1,680)      |
| Provision for credit losses  | 713                            | 875          |
| Net accretion of discounts on available-for-sale securities  | (3,688)                        | (1,639)      |
| Other  | (3,111)                        | 951          |
| Changes in operating assets and liabilities:   |                                |              |
| Accounts receivable  | (9,913)                        | (7,814)      |
| Deferred contract costs  | (50,807)                       | (42,559)     |
| Prepaid expenses and other   | (2,191)                        | 2,195        |
| Accounts payable   | (554)                          | (1,886)      |
| Accrued expenses and other   | 24,856                         | 18,971       |
| Net cash provided by operating activities  | 304,739                        | 331,657      |
| <b>Cash flows from investing activities:</b>   |                                |              |
| Purchases of available-for-sale securities   | (231,672)                      | (121,777)    |
| Proceeds from sales and maturities of available-for-sale securities  | 222,712                        | 122,969      |
| Capitalized internal-use software costs  | (44,501)                       | (45,563)     |
| Purchases of property and equipment  | (11,701)                       | (7,624)      |
| Acquisitions of businesses, net of cash and funds held for clients acquired  | (12,031)                       | (277,851)    |
| Other investing activities   | 783                            | 1,303        |
| Net cash used in investing activities  | (76,410)                       | (328,543)    |
| <b>Cash flows from financing activities:</b>   |                                |              |
| Net change in client fund obligations  | 964,082                        | 429,856      |
| Borrowings under credit facility   | —                              | 325,000      |
| Repayment of credit facility   | —                              | (81,250)     |
| Repurchases of common shares   | —                              | (91,080)     |
| Proceeds from employee stock purchase plan   | 9,534                          | 10,561       |
| Taxes paid related to net share settlement of equity awards  | (46,057)                       | (49,121)     |
| Other financing activities   | (35)                           | (400)        |
| Net cash provided by financing activities  | 927,524                        | 543,566      |
| Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents   | 1,155,853                      | 546,680      |
| Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period   | 2,421,312                      | 2,845,669    |
| Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period   | \$ 3,577,165                   | \$ 3,392,349 |
| <b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>  |                                |              |
| Purchases of property and equipment and capitalized internal-use software, accrued but not paid  | \$ 2,777                       | \$ 2,372     |
| Liabilities assumed for acquisitions   | \$ 378                         | \$ 55,730    |
| <b>Supplemental Disclosure of Cash Flow Information</b>  |                                |              |
| Cash paid for interest   | \$ 372                         | \$ 9,548     |
| Cash paid for income taxes   | \$ 34,659                      | \$ 63,963    |
| <b>Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets</b> |                                |              |
| Cash and cash equivalents  | \$ 492,695                     | \$ 477,785   |
| Funds held for clients' cash and cash equivalents  | 3,084,470                      | 2,914,564    |
| Total cash, cash equivalents and funds held for clients' cash and cash equivalents   | \$ 3,577,165                   | \$ 3,392,349 |

See accompanying notes to unaudited consolidated financial statements.

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

**(1) Organization and Description of Business**

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

**(2) Summary of Significant Accounting Policies**

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

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

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

**(b) Interim Unaudited Consolidated Financial Information**

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

**(c) Income Taxes**

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

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

**(d) Recently Issued Accounting Standards**

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 primarily requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker along with other incremental segment information. The ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted, and will be applied retrospectively to all prior periods presented in the financial statements. The Company will adopt this standard for the fiscal year ended June 30, 2025 and continues to evaluate the impact of this ASU on its consolidated financial statement disclosures.

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

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.

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<br>March 31, |            | Nine Months Ended<br>March 31, |              |
|-----------------------------------|---------------------------------|------------|--------------------------------|--------------|
|                                   | 2024                            | 2025       | 2024                           | 2025         |
| Recurring fees                    | \$ 352,025                      | \$ 404,879 | \$ 917,064                     | \$ 1,056,093 |
| Implementation services and other | 14,815                          | 16,217     | 39,877                         | 45,822       |
| Total revenues from contracts     | \$ 366,840                      | \$ 421,096 | \$ 956,941                     | \$ 1,101,915 |

### 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<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|------------------------------------|---------------------------------|-----------|--------------------------------|-----------|
|                                    | 2024                            | 2025      | 2024                           | 2025      |
| Balance at beginning of the period | \$ 26,245                       | \$ 28,633 | \$ 22,617                      | \$ 24,883 |
| Deferral of revenue                | 10,932                          | 12,168    | 33,164                         | 37,320    |
| Revenue recognized                 | (11,324)                        | (11,818)  | (29,928)                       | (33,220)  |
| Balance at end of the period       | \$ 25,853                       | \$ 28,983 | \$ 25,853                      | \$ 28,983 |

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: \$10,822 in fiscal 2025, \$14,763 in fiscal 2026 and \$3,398 in fiscal 2027 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 March 31, 2024 |                   |              |                |
|--------------------------------|-----------------------------------|-------------------|--------------|----------------|
|                                | Beginning Balance                 | Capitalized Costs | Amortization | Ending Balance |
| Costs to obtain a new contract | \$ 230,057                        | \$ 23,878         | \$ (13,408)  | \$ 240,527     |
| Costs to fulfill a contract    | 174,923                           | 19,806            | (9,413)      | 185,316        |
| Total                          | \$ 404,980                        | \$ 43,684         | \$ (22,821)  | \$ 425,843     |

|                                | Three Months Ended March 31, 2025 |                   |              |                |
|--------------------------------|-----------------------------------|-------------------|--------------|----------------|
|                                | Beginning Balance                 | Capitalized Costs | Amortization | Ending Balance |
| Costs to obtain a new contract | \$ 259,166                        | \$ 24,582         | \$ (15,587)  | \$ 268,161     |
| Costs to fulfill a contract    | 213,905                           | 20,559            | (12,330)     | 222,134        |
| Total                          | \$ 473,071                        | \$ 45,141         | \$ (27,917)  | \$ 490,295     |

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

  

|                                | Nine Months Ended March 31, 2025 |                   |                    |                   |
|--------------------------------|----------------------------------|-------------------|--------------------|-------------------|
|                                | Beginning Balance                | Capitalized Costs | Amortization       | Ending Balance    |
| Costs to obtain a new contract | \$ 250,136                       | \$ 63,116         | \$ (45,091)        | \$ 268,161        |
| Costs to fulfill a contract    | 195,726                          | 61,165            | (34,757)           | 222,134           |
| <b>Total</b>                   | <b>\$ 445,862</b>                | <b>\$ 124,281</b> | <b>\$ (79,848)</b> | <b>\$ 490,295</b> |

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 \$124,985 as of March 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 acquisitions 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 November 30, 2023, the Company acquired all of the outstanding shares of TraceHQ.com, Inc. ("Trace") through a merger of Trace with a subsidiary of the Company for cash consideration of \$12,086, subject to working capital and other customary purchase price adjustments. Trace offers a headcount planning solution that expands the Company's product functionality in this area. The allocation of the purchase price for Trace was approximately \$6,809 of goodwill, \$4,200 of proprietary technology, and other immaterial assets and liabilities which reflect certain immaterial measurement period adjustments recorded during the nine months ended March 31, 2025. Pro forma information is not presented for the Trace acquisition because the effects of the acquisition are not material to the Company's consolidated financial statements.

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 preliminary allocation of the purchase price for Airbase was as follows, which reflects certain immaterial measurement period adjustments recorded during the nine months ended March 31, 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                    |    | 233,936        |
| Other assets acquired       |    | 16,145         |
| Client fund obligations     |    | (42,354)       |
| Other liabilities assumed   |    | (13,376)       |
| Total                       | \$ | <u>361,455</u> |

The fair values of all assets acquired and liabilities assumed for Airbase are currently provisional and are subject to change over the measurement period as the Company continues to evaluate and analyze the estimates and assumptions used in the valuation. The measurement period will end no later than one year from the acquisition date.

The results from both of the above acquisitions have been included in the Company's consolidated financial statements since the closing of the respective transactions. The goodwill related to both of these transactions is primarily attributable to the assembled workforce and growth opportunities from the expansion and enhancement of the Company's product offerings. The goodwill associated with both of these acquisitions is not deductible for income tax purposes. Direct costs related to both of the acquisitions were not material and were expensed as incurred as General and administrative expense in the Unaudited Consolidated Statements of Operations and Comprehensive Income.

#### *Unaudited Pro Forma Financial Information*

The unaudited pro forma information below summarizes the combined results of the Company and Airbase as if the Company's acquisition of Airbase closed on July 1, 2023, but does not necessarily reflect the combined actual results of operations of the Company and Airbase that would have been achieved, nor is it necessarily indicative of future results of operations. The unaudited pro forma information reflects certain adjustments that were directly attributable to the acquisition of Airbase, including amortization of acquired intangible assets, interest expense incurred to fund the acquisition and acquisition related costs.

|            | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |              |
|------------|---------------------------------|------------|--------------------------------|--------------|
|            | 2024                            | 2025       | 2024                           | 2025         |
| Revenue    | \$ 406,371                      | \$ 454,548 | \$ 1,060,497                   | \$ 1,200,882 |
| Net income | \$ 73,815                       | \$ 93,216  | \$ 121,475                     | \$ 174,667   |

**(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, 2024     | \$ 2,375        |
| Charged to expense           | 875             |
| Write-offs                   | (881)           |
| Additions due to acquisition | 248             |
| Balance at March 31, 2025    | <u>\$ 2,617</u> |

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

|  | June 30,<br>2024  | March 31,<br>2025 |
|--|-------------------|-------------------|
| Capitalized internal-use software      | \$ 324,269        | \$ 381,187        |
| Accumulated amortization               | (207,857)         | (251,715)         |
| Capitalized internal-use software, net | <u>\$ 116,412</u> | <u>\$ 129,472</u> |

Amortization of capitalized internal-use software costs is primarily included in Cost of revenues and amounted to \$12,260 and \$15,248 for the three months ended March 31, 2024 and 2025, respectively, and \$32,471 and \$43,858 for the nine months ended March 31, 2024 and 2025, respectively.

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

|                               | June 30,<br>2024 | March 31,<br>2025 |
|-------------------------------|------------------|-------------------|
| Office equipment              | \$ 2,771         | \$ 2,774          |
| Computer equipment            | 63,138           | 64,959            |
| Furniture and fixtures        | 13,081           | 13,124            |
| Software                      | 13,102           | 12,496            |
| Leasehold improvements        | 49,392           | 50,218            |
| Time clocks rented by clients | 9,738            | 10,656            |
| Total                         | 151,222          | 154,227           |
| Accumulated depreciation      | (90,582)         | (100,299)         |
| Property and equipment, net   | <u>\$ 60,640</u> | <u>\$ 53,928</u>  |

Depreciation expense amounted to \$5,220 and \$5,097 for the three months ended March 31, 2024 and 2025, respectively, and \$15,449 and \$15,474 for the nine months ended March 31, 2024 and 2025, respectively.

The following table summarizes changes in goodwill during the nine months ended March 31, 2025:

|                                       |                   |
|---------------------------------------|-------------------|
| Balance at June 30, 2024              | \$ 108,937        |
| Additions attributable to acquisition | 233,936           |
| Measurement period adjustments        | (74)              |
| Balance at March 31, 2025             | <u>\$ 342,799</u> |

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

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

|                             | June 30,<br>2024 | March 31,<br>2025 | Weighted average<br>useful life (years) |
|-----------------------------|------------------|-------------------|---|
| Proprietary technology      | \$ 47,329        | \$ 122,529        | 6.6                                     |
| Client relationships        | 22,200           | 26,000            | 7.4                                     |
| Non-solicitation agreements | 1,600            | 4,000             | 3.7                                     |
| Trade names                 | 1,640            | 3,740             | 5.0                                     |
| Total                       | 72,769           | 156,269           |   |
| Accumulated amortization    | (44,478)         | (58,330)          |   |
| Intangible assets, net      | \$ 28,291        | \$ 97,939         |   |

Amortization expense for acquired intangible assets was \$2,798 and \$5,627 for the three months ended March 31, 2024 and 2025, respectively, and \$7,859 and \$13,852 for the nine months ended March 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 March 31, 2025 is as follows:

|                          |           |
|--------------------------|-----------|
| Remainder of fiscal 2025 | \$ 5,268  |
| Fiscal 2026              | 20,632    |
| Fiscal 2027              | 18,256    |
| Fiscal 2028              | 16,391    |
| Fiscal 2029              | 12,925    |
| Thereafter               | 24,467    |
| Total                    | \$ 97,939 |

The components of accrued expenses were as follows:

|                                     | June 30,<br>2024 | March 31,<br>2025 |
|-------------------------------------|------------------|-------------------|
| Accrued payroll and personnel costs | \$ 93,248        | \$ 104,035        |
| Operating lease liabilities         | 7,634            | 8,244             |
| Deferred revenue                    | 25,949           | 37,580            |
| Other                               | 31,481           | 43,785            |
| Total accrued expenses              | \$ 158,311       | \$ 193,644        |

**(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, 2024  |                        |                         |              |
|---|----------------|------------------------|-------------------------|--------------|
|   | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value   |
| Cash and cash equivalents                         | \$ 401,811     | \$ —                   | \$ —                    | \$ 401,811   |
| Funds held for clients' cash and cash equivalents | 2,443,858      | —                      | —                       | 2,443,858    |
| Available-for-sale securities:                    |                |                        |                         |              |
| Corporate bonds                                   | 314,728        | 1,094                  | (1,002)                 | 314,820      |
| Asset-backed securities                           | 40,653         | 147                    | (118)                   | 40,682       |
| U.S. treasury securities                          | 124,889        | 36                     | (973)                   | 123,952      |
| Other   | 28,875         | 84                     | (211)                   | 28,748       |
| Total available-for-sale securities               | 509,145        | 1,361                  | (2,304)                 | 508,202      |
| Total investments                                 | \$ 3,354,814   | \$ 1,361               | \$ (2,304)              | \$ 3,353,871 |

| Type of Issue                                     | March 31, 2025 |                        |                         |              |
|---|----------------|------------------------|-------------------------|--------------|
|   | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value   |
| Cash and cash equivalents                         | \$ 477,785     | \$ —                   | \$ —                    | \$ 477,785   |
| Funds held for clients' cash and cash equivalents | 2,914,564      | —                      | —                       | 2,914,564    |
| Available-for-sale securities:                    |                |                        |                         |              |
| Corporate bonds                                   | 354,714        | 4,844                  | (171)                   | 359,387      |
| Asset-backed securities                           | 43,129         | 422                    | (12)                    | 43,539       |
| Certificates of deposit                           | 23,709         | 6                      | (1)                     | 23,714       |
| U.S. treasury securities                          | 66,035         | 135                    | (29)                    | 66,141       |
| Other   | 22,005         | 178                    | (11)                    | 22,172       |
| Total available-for-sale securities               | 509,592        | 5,585                  | (224)                   | 514,953      |
| Total investments                                 | \$ 3,901,941   | \$ 5,585               | \$ (224)                | \$ 3,907,302 |

All available-for-sale securities were included in Funds held for clients at June 30, 2024 and March 31, 2025.

Cash and cash equivalents and funds held for clients' cash and cash equivalents included demand deposit accounts and money market funds at June 30, 2024 and March 31, 2025.

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

|                           | June 30,<br>2024 | March 31, 2025 |
|---------------------------|------------------|----------------|
| Cash and cash equivalents | \$ 401,811       | \$ 477,785     |
| Funds held for clients    | 2,952,060        | 3,429,517      |
| Total investments         | \$ 3,353,871     | \$ 3,907,302   |

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, 2024 and March 31, 2025 had fair market value as follows:

|                                     | June 30, 2024   |            |  |            |                         |            |
|-------------------------------------|---|------------|--|------------|-------------------------|------------|
|                                     | Securities in an unrealized loss position for less than 12 months |            | Securities in an unrealized loss position for greater than 12 months |            | Total                   |            |
|                                     | Gross unrealized losses   | Fair value | Gross unrealized losses  | Fair value | Gross unrealized losses | Fair value |
| Corporate bonds                     | \$ (488)  | \$ 105,957 | \$ (514)   | \$ 30,057  | \$ (1,002)              | \$ 136,014 |
| Asset-backed securities             | (1)   | 1,069      | (117)  | 8,335      | (118)                   | 9,404      |
| U.S. treasury securities            | (157)   | 44,712     | (816)  | 72,224     | (973)                   | 116,936    |
| Other                               | (12)  | 3,497      | (199)  | 10,525     | (211)                   | 14,022     |
| Total available-for-sale securities | \$ (658)  | \$ 155,235 | \$ (1,646)   | \$ 121,141 | \$ (2,304)              | \$ 276,376 |

|                                     | March 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                     | \$ (63)   | \$ 14,390  | \$ (108)   | \$ 14,106  | \$ (171)                | \$ 28,496  |
| Asset-backed securities             | —   | —          | (12)   | 5,288      | (12)                    | 5,288      |
| Certificates of deposit             | (1)   | 14,009     | —  | —          | (1)                     | 14,009     |
| U.S. treasury securities            | (6)   | 24,619     | (23)   | 23,973     | (29)                    | 48,592     |
| Other                               | —   | —          | (11)   | 2,988      | (11)                    | 2,988      |
| Total available-for-sale securities | \$ (70)   | \$ 53,018  | \$ (154)   | \$ 46,355  | \$ (224)                | \$ 99,373  |

The Company regularly reviews the composition of its portfolio to determine the existence of credit impairment. The Company did not recognize any credit impairment losses during the three or nine months ended March 31, 2024 or 2025. All securities in the Company's portfolio held an A-1 rating or better as of March 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 nine months ended March 31, 2024 or 2025. There were no realized gains or losses on the sale of available-for-sale securities for the three or nine months ended March 31, 2024 or 2025.

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

|                                     | Amortized cost | Fair value |
|-------------------------------------|----------------|------------|
| One year or less                    | \$ 156,802     | \$ 156,938 |
| One year to two years               | 60,351         | 61,139     |
| Two years to three years            | 52,484         | 53,160     |
| Three years to five years           | 228,045        | 231,755    |
| Five years and thereafter           | 11,910         | 11,961     |
| Total available-for-sale securities | \$ 509,592     | \$ 514,953 |

**(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. 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, 2024 and March 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, 2024 or March 31, 2025.

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

|   | June 30, 2024 |              |            |         |
|---|---------------|--------------|------------|---------|
|   | Total         | Level 1      | Level 2    | Level 3 |
| Cash and cash equivalents                         | \$ 401,811    | \$ 401,811   | \$ —       | \$ —    |
| Funds held for clients' cash and cash equivalents | 2,443,858     | 2,443,858    | —          | —       |
| Available-for-sale securities:                    |               |              |            |         |
| Corporate bonds                                   | 314,820       | —            | 314,820    | —       |
| Asset-backed securities                           | 40,682        | —            | 40,682     | —       |
| U.S. treasury securities                          | 123,952       | —            | 123,952    | —       |
| Other   | 28,748        | —            | 28,748     | —       |
| Total available-for-sale securities               | 508,202       | —            | 508,202    | —       |
| Total investments                                 | \$ 3,353,871  | \$ 2,845,669 | \$ 508,202 | \$ —    |

|   | March 31, 2025 |              |            |         |
|---|----------------|--------------|------------|---------|
|   | Total          | Level 1      | Level 2    | Level 3 |
| Cash and cash equivalents                         | \$ 477,785     | \$ 477,785   | \$ —       | \$ —    |
| Funds held for clients' cash and cash equivalents | 2,914,564      | 2,914,564    | —          | —       |
| Available-for-sale securities:                    |                |              |            |         |
| Corporate bonds                                   | 359,387        | —            | 359,387    | —       |
| Asset-backed securities                           | 43,539         | —            | 43,539     | —       |
| Certificates of deposit                           | 23,714         | —            | 23,714     | —       |
| U.S. treasury securities                          | 66,141         | —            | 66,141     | —       |
| Other   | 22,172         | —            | 22,172     | —       |
| Total available-for-sale securities               | 514,953        | —            | 514,953    | —       |
| Total investments                                 | \$ 3,907,302   | \$ 3,392,349 | \$ 514,953 | \$ —    |

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

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

### **(8) Debt**

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. The Company had no outstanding borrowings under the credit facility at June 30, 2024. During the nine months ended March 31, 2025, the Company borrowed \$325,000 to fund the acquisition of Airbase Inc. in October 2024, of which it repaid \$81,250 in March 2025. As a result, \$243,750 remained outstanding at March 31, 2025. Refer to Note 4 for further details on the Company's acquisition of Airbase Inc.

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 generally may 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 March 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"). The 2023 Plan serves as the successor to the 2014 Plan and permits the granting of market share units ("MSUs"), performance stock units ("PSUs"), restricted stock units ("RSUs") and other equity incentives at the discretion of the compensation committee of the Company's board of directors ("Committee"). No new awards have been or will be issued under the 2014 Plan since the effective date of the 2023 Plan. Outstanding awards under the 2014 Plan continue to be subject to the terms and conditions of the 2014 Plan.

As of March 31, 2025, the Company had 1,624 shares available for future grant under the 2023 Plan, and 1,744 shares were subject to outstanding options or awards. Generally, the Company issues previously unissued shares for the exercise of stock options or vesting of awards; however, shares previously subject to granted awards that are forfeited or net settled at exercise or release may be reissued under the 2023 Plan to satisfy future issuances.

Stock-based compensation expense related to RSUs, 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<br>March 31, |                  | Nine Months Ended<br>March 31, |                   |
|---|---------------------------------|------------------|--------------------------------|-------------------|
|   | 2024                            | 2025             | 2024                           | 2025              |
| Cost of revenues                              | \$ 4,527                        | \$ 4,418         | \$ 14,945                      | \$ 14,664         |
| Sales and marketing                           | 9,079                           | 8,133            | 28,347                         | 27,931            |
| Research and development                      | 7,427                           | 8,278            | 28,498                         | 29,183            |
| General and administrative                    | 13,919                          | 14,503           | 45,375                         | 40,760            |
| <b>Total stock-based compensation expense</b> | <b>\$ 34,952</b>                | <b>\$ 35,332</b> | <b>\$ 117,165</b>              | <b>\$ 112,538</b> |

In addition, the Company capitalized \$3,470 and \$3,101 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended March 31, 2024 and 2025, respectively, and \$11,435 and \$10,555 for the nine months ended March 31, 2024 and 2025, respectively.

There were no stock options granted during the nine months ended March 31, 2025. The table below presents stock option activity during the nine months ended March 31, 2025:

|                                  | Outstanding Options |                                    |   |                              |
|----------------------------------|---------------------|------------------------------------|---|------------------------------|
|                                  | Number of shares    | Weighted average<br>exercise price | Weighted average<br>remaining contractual<br>term (years) | Aggregate intrinsic<br>value |
| Option balance at July 1, 2024   | 167                 | \$ 28.13                           | 0.5   | \$ 17,301                    |
| Options exercised                | (167)               | \$ 28.13                           |   |                              |
| Option balance at March 31, 2025 | —                   | \$ —                               | 0.0   | \$ —                         |

The total intrinsic value of options exercised was \$13,476 during the three months ended March 31, 2024 and \$18,176 and \$22,819 for the nine months ended March 31, 2024 and 2025, respectively. There were no options exercised during the three months ended March 31, 2025.

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 nine months ended March 31, 2025:

|                               | Units | Weighted average<br>grant date fair value |
|-------------------------------|-------|---|
| RSU balance at July 1, 2024   | 1,290 | \$ 214.98                                 |
| RSUs granted                  | 912   | \$ 157.50                                 |
| RSUs vested                   | (548) | \$ 202.96                                 |
| RSUs forfeited                | (132) | \$ 202.53                                 |
| RSU balance at March 31, 2025 | 1,522 | \$ 188.03                                 |

The Company also grants PSUs under the 2023 Plan with terms determined at the discretion of the Committee. During the nine months ended March 31, 2025, the Company granted approximately 55 PSUs with a grant date fair value of \$155.95 per share, all which remained outstanding at March 31, 2025. 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 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 nine months ended March 31, 2025:

|                               | Units      | Weighted average<br>grant date fair value |
|-------------------------------|------------|---|
| MSU balance at July 1, 2024   | 197        | \$ 335.79                                 |
| MSUs granted                  | 28         | \$ 211.45                                 |
| MSUs vested                   | (16)       | \$ 361.87                                 |
| MSUs forfeited                | (42)       | \$ 339.60                                 |
| MSU balance at March 31, 2025 | <u>167</u> | <u>\$ 311.38</u>                          |

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

|                         | Nine Months Ended<br>March 31, |       |
|-------------------------|--------------------------------|-------|
|                         | 2024                           | 2025  |
| Valuation assumptions:  |                                |       |
| Expected dividend yield | —%                             | —%    |
| Expected volatility     | 44.5%                          | 44.4% |
| Expected term (years)   | 3.04                           | 3.04  |
| Risk-free interest rate | 4.58%                          | 3.86% |

At March 31, 2025, there was \$139,716 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 1.7 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. The plaintiff will have 30 days to file a notice of appeal, if they choose. The Company will monitor any further developments related to this matter.

On September 11, 2023, a second potential class action complaint was filed against the Company with the Circuit Court of Cook County that alleges violations of the Illinois Biometric Information Privacy Act that overlap with claims in the first action. The Company is unable to estimate any reasonably possible loss, or range of loss, with respect to this matter at this time. The Company intends to vigorously defend against this lawsuit.

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 22.9% and 27.7% for the three months ended March 31, 2024 and 2025, respectively. The Company's effective tax rate for both the three months ended March 31, 2024 and 2025 was higher than the federal statutory rate of 21% primarily due to an increase in non-deductible stock-based compensation under Internal Revenue Code Section 162(m) and state and local income taxes.

The Company's effective tax rate was 24.3% and 26.3% for the nine months ended March 31, 2024 and 2025, respectively. The Company's effective tax rate for both the nine months ended March 31, 2024 and 2025 was higher than the federal statutory rate of 21% primarily due to state and local income taxes.

**(12) Net Income Per Share**

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of stock options, the release of 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<br>March 31, |           | Nine Months Ended<br>March 31, |            |
|---|---------------------------------|-----------|--------------------------------|------------|
|   | 2024                            | 2025      | 2024                           | 2025       |
| Numerator:  |                                 |           |                                |            |
| Net income  | \$ 85,314                       | \$ 91,483 | \$ 157,947                     | \$ 178,521 |
| Denominator:  |                                 |           |                                |            |
| Weighted-average shares used in computing net income per share: |                                 |           |                                |            |
| Basic   | 56,369                          | 55,810    | 56,216                         | 55,759     |
| Weighted-average effect of potentially dilutive shares:         |                                 |           |                                |            |
| Employee stock options, RSUs and MSUs                           | 679                             | 970       | 759                            | 881        |
| Diluted   | 57,048                          | 56,780    | 56,975                         | 56,640     |
| Net income per share:   |                                 |           |                                |            |
| Basic   | \$ 1.51                         | \$ 1.64   | \$ 2.81                        | \$ 3.20    |
| Diluted   | \$ 1.50                         | \$ 1.61   | \$ 2.77                        | \$ 3.15    |

The following table summarizes the outstanding restricted stock units and market share units as of March 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<br>March 31, |      | Nine Months Ended<br>March 31, |      |
|-------|---------------------------------|------|--------------------------------|------|
|       | 2024                            | 2025 | 2024                           | 2025 |
| RSUs  | 4                               | —    | 9                              | 14   |
| MSUs  | 4                               | 40   | 19                             | 75   |
| Total | 8                               | 40   | 28                             | 89   |

## **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, 2024 filed with the SEC on August 2, 2024.*

### **Overview**

We are a leading cloud-based provider of human capital management, payroll and spend management software solutions that deliver a comprehensive platform for the modern workforce. Our platform offers an intuitive, easy-to-use product suite that helps businesses attract and retain talent, build culture and connection with their employees, and streamline and automate HR, payroll and spend management processes. We are expanding the spend management capabilities of our platform beyond expense management to include bill pay and 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 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 continue to invest across our entire organization as we 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 will 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 \$401.3 million for the three months ended March 31, 2024 to \$454.5 million for the three months ended March 31, 2025, representing a 13% year-over-year increase. Total revenues increased from \$1,045.2 million for the nine months ended March 31, 2024 to \$1,194.5 million for the nine months ended March 31, 2025, representing a 14% 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 (benefit), 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<br>March 31, |            | Nine Months Ended<br>March 31, |            |
|--|---------------------------------|------------|--------------------------------|------------|
|  | 2024                            | 2025       | 2024                           | 2025       |
|  | (in thousands)                  |            | (in thousands)                 |            |
| <b>Reconciliation from Gross Profit to Adjusted Gross Profit</b>   |                                 |            |                                |            |
| Gross profit   | \$ 285,298                      | \$ 324,695 | \$ 720,379                     | \$ 825,126 |
| Amortization of capitalized internal-use software costs  | 12,260                          | 15,248     | 32,471                         | 43,858     |
| Amortization of certain acquired intangibles   | 2,136                           | 4,749      | 5,843                          | 11,562     |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 4,953                           | 4,789      | 16,194                         | 15,719     |
| Other items (1)  | —                               | 641        | —                              | 781        |
| Adjusted Gross Profit  | \$ 304,647                      | \$ 350,122 | \$ 774,887                     | \$ 897,046 |

|  | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |            |
|--|---------------------------------|------------|--------------------------------|------------|
|  | 2024                            | 2025       | 2024                           | 2025       |
|  | (in thousands)                  |            | (in thousands)                 |            |
| <b>Reconciliation from Net income to Adjusted EBITDA</b>   |                                 |            |                                |            |
| Net income   | \$ 85,314                       | \$ 91,483  | \$ 157,947                     | \$ 178,521 |
| Interest expense   | 189                             | 4,436      | 568                            | 9,682      |
| Income tax expense   | 25,299                          | 35,079     | 50,586                         | 63,743     |
| Depreciation and amortization expense  | 20,278                          | 25,972     | 55,779                         | 73,184     |
| EBITDA   | 131,080                         | 156,970    | 264,880                        | 325,130    |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 36,709                          | 37,475     | 122,547                        | 118,045    |
| Other items (2)  | 112                             | 2,611      | (2,031)                        | 9,073      |
| Adjusted EBITDA  | \$ 167,901                      | \$ 197,056 | \$ 385,396                     | \$ 452,248 |

- (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 nonrecurring transaction-related costs, lease exit activity 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 HCM and payroll 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 HCM and payroll solutions.

The number of client employees on our platform and the mix of products purchased by a client as well as the timing of services provided with respect to those client employees can vary each period. As such, the number of client employees on our system is not necessarily a good indicator of our financial results in any given period. Recurring and other revenue accounted for 91% and 93% of our total revenues for the three months ended March 31, 2024 and 2025, respectively, and 92% of our total revenues for both the nine months ended March 31, 2024 and 2025.

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

#### Interest Income on Funds Held for Clients

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

### **Cost of Revenues**

Cost of revenues includes costs to provide our HCM and payroll solutions which primarily consists of employee-related expenses, including wages, stock-based compensation, bonuses and benefits, relating to the provision of ongoing client support and implementation activities, payroll tax filing, distribution of printed checks and other materials as well as delivery costs, computing costs, amortization of certain acquired intangibles and bank fees associated with client fund transfers. Costs related to recurring support are generally expensed as incurred. Implementation costs related to our proprietary products are capitalized and amortized over a period of 7 years. Our cost of revenues is expected to increase in absolute dollars for the foreseeable future as we increase our client base. However, we expect to realize cost efficiencies over the long term as our business scales, resulting in improved operating leverage and increased margins.

We also capitalize a portion of our internal-use software costs, which are then primarily amortized as Cost of revenues. We amortized \$12.3 million and \$15.2 million of capitalized internal-use software costs during the three months ended March 31, 2024 and 2025, respectively, and \$32.5 million and \$43.9 million of capitalized internal-use software costs for the nine months ended March 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, as well as marketing expenses and other related costs. Our sales personnel earn commissions and bonuses for attainment of certain performance criteria based on new sales throughout the fiscal year. We capitalize certain selling and commission costs related to new contracts or purchases of additional services by our existing clients and 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 teams, including wages, stock-based compensation, bonuses and benefits. Additional expenses include costs related to the development, maintenance, quality assurance and testing of new technologies and ongoing refinement of our existing solutions. Research and development expenses, other than internal-use software costs qualifying for capitalization, are expensed as incurred.

We capitalize a portion of our development costs related to internal-use software. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for the three and nine months ended March 31, 2024 and 2025.

|   | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |            |
|---|---------------------------------|-----------|--------------------------------|------------|
|   | 2024                            | 2025      | 2024                           | 2025       |
|   | (in thousands)                  |           | (in thousands)                 |            |
| Capitalized portion of research and development | \$ 19,660                       | \$ 20,368 | \$ 57,025                      | \$ 56,918  |
| Expensed portion of research and development    | 43,386                          | 51,396    | 134,130                        | 154,811    |
| Total research and development                  | \$ 63,046                       | \$ 71,764 | \$ 191,155                     | \$ 211,729 |

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 increase in absolute dollars as our company continues to grow, we expect to realize cost efficiencies as our business scales.

### Other Income (Expense)

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

### Results of Operations

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

|  | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |              |
|--|---------------------------------|------------|--------------------------------|--------------|
|  | 2024                            | 2025       | 2024                           | 2025         |
|  | (in thousands)                  |            | (in thousands)                 |              |
| <b>Consolidated Statements of Operations Data:</b> |                                 |            |                                |              |
| Revenues:  |                                 |            |                                |              |
| Recurring and other revenue                        | \$ 366,840                      | \$ 421,096 | \$ 956,941                     | \$ 1,101,915 |
| Interest income on funds held for clients          | 34,441                          | 33,452     | 88,287                         | 92,569       |
| Total revenues                                     | 401,281                         | 454,548    | 1,045,228                      | 1,194,484    |
| Cost of revenues                                   | 115,983                         | 129,853    | 324,849                        | 369,358      |
| Gross profit                                       | 285,298                         | 324,695    | 720,379                        | 825,126      |
| Operating expenses:                                |                                 |            |                                |              |
| Sales and marketing                                | 86,760                          | 91,774     | 246,940                        | 273,338      |
| Research and development                           | 43,386                          | 51,396     | 134,130                        | 154,811      |
| General and administrative                         | 48,863                          | 54,495     | 142,125                        | 159,180      |
| Total operating expenses                           | 179,009                         | 197,665    | 523,195                        | 587,329      |
| Operating income                                   | 106,289                         | 127,030    | 197,184                        | 237,797      |
| Other income (expense)                             | 4,324                           | (468)      | 11,349                         | 4,467        |
| Income before income taxes                         | 110,613                         | 126,562    | 208,533                        | 242,264      |
| Income tax expense                                 | 25,299                          | 35,079     | 50,586                         | 63,743       |
| Net income   | \$ 85,314                       | \$ 91,483  | \$ 157,947                     | \$ 178,521   |

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<br>March 31, |       | Nine Months Ended<br>March 31, |       |
|--|---------------------------------|-------|--------------------------------|-------|
|  | 2024                            | 2025  | 2024                           | 2025  |
| <b>Consolidated Statements of Operations Data:</b> |                                 |       |                                |       |
| Revenues:  |                                 |       |                                |       |
| Recurring and other revenue                        | 91 %                            | 93 %  | 92 %                           | 92 %  |
| Interest income on funds held for clients          | 9 %                             | 7 %   | 8 %                            | 8 %   |
| Total revenues                                     | 100 %                           | 100 % | 100 %                          | 100 % |
| Cost of revenues                                   | 29 %                            | 29 %  | 31 %                           | 31 %  |
| Gross profit                                       | 71 %                            | 71 %  | 69 %                           | 69 %  |
| Operating expenses:                                |                                 |       |                                |       |
| Sales and marketing                                | 22 %                            | 20 %  | 24 %                           | 23 %  |
| Research and development                           | 11 %                            | 11 %  | 13 %                           | 13 %  |
| General and administrative                         | 12 %                            | 12 %  | 13 %                           | 13 %  |
| Total operating expenses                           | 45 %                            | 43 %  | 50 %                           | 49 %  |
| Operating income                                   | 26 %                            | 28 %  | 19 %                           | 20 %  |
| Other income (expense)                             | 1 %                             | 0 %   | 1 %                            | — %   |
| Income before income taxes                         | 27 %                            | 28 %  | 20 %                           | 20 %  |
| Income tax expense                                 | 6 %                             | 8 %   | 5 %                            | 5 %   |
| Net income   | 21 %                            | 20 %  | 15 %                           | 15 %  |

### Comparison of Three Months Ended March 31, 2024 and 2025

#### Revenues

(\$ in thousands)

|   | Three Months Ended<br>March 31, |            | Change    |      |
|---|---------------------------------|------------|-----------|------|
|   | 2024                            | 2025       | \$        | %    |
| Recurring and other revenue               | \$ 366,840                      | \$ 421,096 | \$ 54,256 | 15 % |
| Percentage of total revenues              | 91 %                            | 93 %       |           |      |
| Interest income on funds held for clients | \$ 34,441                       | \$ 33,452  | \$ (989)  | (3)% |
| Percentage of total revenues              | 9 %                             | 7 %        |           |      |

#### Recurring and Other Revenue

Recurring and other revenue for the three months ended March 31, 2025 increased by \$54.3 million, or 15%, to \$421.1 million from \$366.8 million for the three months ended March 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 March 31, 2025 decreased by \$1.0 million, or 3%, to \$33.5 million from \$34.4 million for the three months ended March 31, 2024. Interest income on funds held for clients decreased primarily due to lower interest rates as compared to the prior fiscal year, partially offset by higher average daily balances of funds held for new and existing clients.

**Cost of Revenues**

(\$ in thousands)

|                              | Three Months Ended<br>March 31, |            | Change    |      |
|------------------------------|---------------------------------|------------|-----------|------|
|                              | 2024                            | 2025       | \$        | %    |
| Cost of revenues             | \$ 115,983                      | \$ 129,853 | \$ 13,870 | 12 % |
| Percentage of total revenues | 29 %                            | 29 %       |           |      |
| Gross margin                 | 71 %                            | 71 %       |           |      |

Cost of revenues for the three months ended March 31, 2025 increased by \$13.9 million, or 12%, to \$129.9 million from \$116.0 million for the three months ended March 31, 2024. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, \$5.6 million in additional employee-related costs, \$3.0 million in additional amortization of internal use software, \$2.9 million in additional processing and delivery related costs and \$2.6 million in additional amortization of certain intangible assets. Gross margin remained consistent at 71% for both the three months ended March 31, 2024 and 2025.

**Operating Expenses**

(\$ in thousands)

*Sales and Marketing*

|                              | Three Months Ended<br>March 31, |           | Change   |     |
|------------------------------|---------------------------------|-----------|----------|-----|
|                              | 2024                            | 2025      | \$       | %   |
| Sales and marketing          | \$ 86,760                       | \$ 91,774 | \$ 5,014 | 6 % |
| Percentage of total revenues | 22 %                            | 20 %      |          |     |

Sales and marketing expenses for the three months ended March 31, 2025 increased by \$5.0 million, or 6%, to \$91.8 million from \$86.8 million for the three months ended March 31, 2024. The increase in sales and marketing expense was primarily due to \$5.2 million of additional employee-related costs, including those incurred to expand our sales team.

*Research and Development*

|                              | Three Months Ended<br>March 31, |           | Change   |      |
|------------------------------|---------------------------------|-----------|----------|------|
|                              | 2024                            | 2025      | \$       | %    |
| Research and development     | \$ 43,386                       | \$ 51,396 | \$ 8,010 | 18 % |
| Percentage of total revenues | 11 %                            | 11 %      |          |      |

Research and development expenses for the three months ended March 31, 2025 increased by \$8.0 million, or 18%, to \$51.4 million from \$43.4 million for the three months ended March 31, 2024. The increase in research and development expenses was primarily due to \$5.9 million of additional employee-related costs related to additional development personnel, net of capitalized internal-use software costs.

*General and Administrative*

|                              | Three Months Ended<br>March 31, |           | Change   |      |
|------------------------------|---------------------------------|-----------|----------|------|
|                              | 2024                            | 2025      | \$       | %    |
| General and administrative   | \$ 48,863                       | \$ 54,495 | \$ 5,632 | 12 % |
| Percentage of total revenues | 12 %                            | 12 %      |          |      |

General and administrative expenses for the three months ended March 31, 2025 increased by \$5.6 million, or 12%, to \$54.5 million from \$48.9 million for the three months ended March 31, 2024. General and administrative expenses increased primarily due to \$3.2 million in additional employee-related costs during the three months ended March 31, 2025.

### Other Income (Expense)

Other income for the three months ended March 31, 2025 decreased by \$4.8 million as compared to the three months ended March 31, 2024. The change in other income was primarily due to \$4.3 million in additional interest expense related to borrowings under our revolving credit facility to fund the October 2024 acquisition of Airbase Inc.

### Income Taxes

Our effective tax rate was 22.9% and 27.7% for the three months ended March 31, 2024 and 2025, respectively. Our effective tax rate for both the three months ended March 31, 2024 and 2025 was higher than the federal statutory rate of 21% primarily due to an increase to non-deductible stock-based compensation under Internal Revenue Code Section 162(m) and state and local income taxes.

### Comparison of Nine Months Ended March 31, 2024 and 2025

#### Revenues

(\$ in thousands)

|   | Nine Months Ended<br>March 31, |              | Change     |      |
|---|--------------------------------|--------------|------------|------|
|   | 2024                           | 2025         | \$         | %    |
| Recurring and other revenue               | \$ 956,941                     | \$ 1,101,915 | \$ 144,974 | 15 % |
| Percentage of total revenues              | 92 %                           | 92 %         |            |      |
| Interest income on funds held for clients | \$ 88,287                      | \$ 92,569    | \$ 4,282   | 5 %  |
| Percentage of total revenues              | 8 %                            | 8 %          |            |      |

#### Recurring and Other Revenue

Recurring and other revenue for the nine months ended March 31, 2025 increased by \$145.0 million, or 15%, to \$1,101.9 million from \$956.9 million for the nine months ended March 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 nine months ended March 31, 2025 increased by \$4.3 million, or 5%, to \$92.6 million from \$88.3 million for the nine months ended March 31, 2024. Interest income on funds held for clients increased primarily due to higher average daily balances of funds held for new and existing clients as compared to the prior fiscal year partially offset by lower interest rates.

#### Cost of Revenues

(\$ in thousands)

|                              | Nine Months Ended<br>March 31, |            | Change    |      |
|------------------------------|--------------------------------|------------|-----------|------|
|                              | 2024                           | 2025       | \$        | %    |
| Cost of revenues             | \$ 324,849                     | \$ 369,358 | \$ 44,509 | 14 % |
| Percentage of total revenues | 31 %                           | 31 %       |           |      |
| Gross margin                 | 69 %                           | 69 %       |           |      |

Cost of revenues for the nine months ended March 31, 2025 increased by \$44.5 million, or 14%, to \$369.4 million from \$324.8 million for the nine months ended March 31, 2024. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, \$18.3 million in additional employee-related costs, \$11.4 million in additional amortization of internal use software, \$9.9 million in additional processing and delivery related costs and \$5.7

million in additional amortization of certain intangible assets. Gross margin remained consistent at 69% for both the nine months ended March 31, 2024 and 2025.

### Operating Expenses

(\$ in thousands)

#### Sales and Marketing

|                              | Nine Months Ended<br>March 31, |            | Change    |      |
|------------------------------|--------------------------------|------------|-----------|------|
|                              | 2024                           | 2025       | \$        | %    |
| Sales and marketing          | \$ 246,940                     | \$ 273,338 | \$ 26,398 | 11 % |
| Percentage of total revenues | 24 %                           | 23 %       |           |      |

Sales and marketing expenses for the nine months ended March 31, 2025 increased by \$26.4 million, or 11%, to \$273.3 million from \$246.9 million for the nine months ended March 31, 2024. The increase in sales and marketing expense was primarily due to \$25.4 million of additional employee-related costs, including those incurred to expand our sales team.

#### Research and Development

|                              | Nine Months Ended<br>March 31, |            | Change    |      |
|------------------------------|--------------------------------|------------|-----------|------|
|                              | 2024                           | 2025       | \$        | %    |
| Research and development     | \$ 134,130                     | \$ 154,811 | \$ 20,681 | 15 % |
| Percentage of total revenues | 13 %                           | 13 %       |           |      |

Research and development expenses for the nine months ended March 31, 2025 increased by \$20.7 million, or 15%, to \$154.8 million from \$134.1 million for the nine months ended March 31, 2024. The increase in research and development expenses was primarily due to \$17.4 million of additional employee-related costs related to additional development personnel, net of capitalized internal-use software costs.

#### General and Administrative

|                              | Nine Months Ended<br>March 31, |            | Change    |      |
|------------------------------|--------------------------------|------------|-----------|------|
|                              | 2024                           | 2025       | \$        | %    |
| General and administrative   | \$ 142,125                     | \$ 159,180 | \$ 17,055 | 12 % |
| Percentage of total revenues | 13 %                           | 13 %       |           |      |

General and administrative expenses for the nine months ended March 31, 2025 increased by \$17.1 million, or 12%, to \$159.2 million from \$142.1 million for the nine months ended March 31, 2024. General and administrative expenses increased primarily due to \$10.3 million in additional employee-related costs during the nine months ended March 31, 2025 and a \$4.3 million gain related to lease exit activity during the nine months ended March 31, 2024, partially offset by a \$4.6 million reduction in stock-based compensation expense mostly attributable to executive award forfeitures.

#### Other Income (Expense)

Other income for the nine months ended March 31, 2025 decreased by \$6.9 million as compared to the nine months ended March 31, 2024. The change in other income was primarily due to \$9.3 million in additional interest expense related to borrowings under our revolving credit facility to fund the October 2024 acquisition of Airbase Inc., partially offset by a \$2.7 million increase in interest income earned on our cash and cash equivalents as a result of higher average daily balances of those corporate cash and cash equivalents.

#### Income Taxes

Our effective tax rate was 24.3% and 26.3% for the nine months ended March 31, 2024 and 2025, respectively. Our effective tax rate for the nine months ended March 31, 2024 and 2025 was higher than the federal statutory rate of 21% primarily due to state and local income taxes.

## Quarterly Trends and Seasonality

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

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

## Critical Accounting Policies and Estimates

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

Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. 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, 2024 included in our Annual Report on Form 10-K filed with the SEC on August 2, 2024.

## Liquidity and Capital Resources

Our primary liquidity needs are related to the funding of general business requirements, including working capital requirements, research and development, and capital expenditures. As of March 31, 2025, our principal source of liquidity was \$477.8 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. In September 2024, we borrowed \$325.0 million under this credit facility to fund the acquisition of Airbase Inc. in October 2024. We had \$243.8 million in outstanding borrowings under this credit facility at March 31, 2025, as we repaid \$81.3 million in March 2025. 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"). 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 nine months ended March 31, 2025, we repurchased an aggregate of 472 thousand shares for approximately \$93.6 million at an average cost per share of \$198.11 under the Repurchase Program. As of March 31, 2025, approximately \$256.4 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 March 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.

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

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

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

|  | Nine Months Ended<br>March 31, |            |
|--|--------------------------------|------------|
|  | 2024                           | 2025       |
| Net cash provided by operating activities  | \$ 304,739                     | \$ 331,657 |
| Cash flows from investing activities:  |                                |            |
| Purchases of available-for-sale securities   | (231,672)                      | (121,777)  |
| Proceeds from sales and maturities of available-for-sale securities                        | 222,712                        | 122,969    |
| Capitalized internal-use software costs  | (44,501)                       | (45,563)   |
| Purchases of property and equipment  | (11,701)                       | (7,624)    |
| Acquisitions of businesses, net of cash and funds held for clients acquired                | (12,031)                       | (277,851)  |
| Other investing activities   | 783                            | 1,303      |
| Net cash used in investing activities  | (76,410)                       | (328,543)  |
| Cash flows from financing activities:  |                                |            |
| Net change in client fund obligations  | 964,082                        | 429,856    |
| Borrowings under credit facility   | —                              | 325,000    |
| Repayment of credit facility   | —                              | (81,250)   |
| Repurchases of common shares   | —                              | (91,080)   |
| Proceeds from employee stock purchase plan   | 9,534                          | 10,561     |
| Taxes paid related to net share settlement of equity awards                                | (46,057)                       | (49,121)   |
| Other financing activities   | (35)                           | (400)      |
| Net cash provided by financing activities  | 927,524                        | 543,566    |
| Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents | \$ 1,155,853                   | \$ 546,680 |

### ***Operating Activities***

Net cash provided by operating activities was \$304.7 million and \$331.7 million for the nine months ended March 31, 2024 and 2025, respectively. The change in net cash provided by operating activities from the nine months ended March 31, 2024 to the nine months ended March 31, 2025 was primarily due to improved operating results after adjusting for non-cash items including stock-based compensation expense, depreciation and amortization expense and deferred

income tax expense (benefit) and other, accompanied by changes in operating assets and liabilities during the nine months ended March 31, 2025 as compared to the nine months ended March 31, 2024.

### ***Investing Activities***

Net cash used in investing activities was \$76.4 million and \$328.5 million for the nine months ended March 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 \$265.8 million in additional amounts paid for acquisitions, net of cash and funds held for clients acquired, and a \$99.7 million decrease in proceeds from the sales and maturities of available-for-sale securities, partially offset by a \$109.9 million decrease in purchases of available-for-sale securities during the nine months ended March 31, 2025 as compared to the nine months ended March 31, 2024.

### ***Financing Activities***

Net cash provided by financing activities was \$927.5 million and \$543.6 million for the nine months ended March 31, 2024 and 2025, respectively. The change in net cash provided by financing activities was primarily due to a decrease in the net change in client fund obligations of \$534.2 million due to the timing of client funds collected and related remittance of those funds to client employees and taxing authorities, \$91.1 million in share repurchases, and \$81.3 million repayment of amounts borrowed on our credit facility, partially offset by \$325.0 million in borrowings under our credit facility during the nine months ended March 31, 2025 as compared to the nine months ended March 31, 2024.

### ***Contractual Obligations and Commitments***

At March 31, 2025, our principal commitments consisted of \$243.8 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 \$67.3 million in operating lease obligations, of which \$10.9 million is due in the next twelve months. We also had \$79.5 million in purchase obligations, of which \$47.4 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 \$11.7 million and \$7.6 million for the nine months ended March 31, 2024 and 2025, respectively, exclusive of capitalized internal-use software costs of \$44.5 million and \$45.6 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 2, 2024 for risks related to our business.

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

#### **Interest Rate Risk**

As of March 31, 2025, we had cash and cash equivalents of \$477.8 million and funds held for clients of \$3,429.5 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 \$11.1 million as of March 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 \$11.1 million as of March 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 March 31, 2025, we had \$243.8 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 March 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, 2024 filed with the SEC on August 2, 2024.

**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 common stock during the three months ended March 31, 2025:

|                                      | <b>Total Number of Shares<br/>Purchased</b> | <b>Average Price Paid per<br/>Share (1)</b> | <b>Total Number of Shares<br/>Purchased as Part of<br/>Publicly Announced<br/>Plans or Programs (2)</b> | <b>Approximate Dollar<br/>Value of Shares that May<br/>Yet Be Purchased Under<br/>the Plans or Programs (2)</b> |
|--------------------------------------|---|---|---|---|
| January 1, 2025 - January 31, 2025   | —   | —   | —   | —   |
| February 1, 2025 - February 28, 2025 | 155,435                                     | \$ 209.08                                   | 155,435   | \$ 308,863,707  |
| March 1, 2025 - March 31, 2025       | 273,278                                     | \$ 191.91                                   | 273,278   | \$ 256,420,098  |
| Total                                | <u>428,713</u>                              |   | <u>428,713</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.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

During the three months ended March 31, 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 of Rule 10b5-1(c):

| <b>Name and Title</b>                           | <b>Total Shares of Common Stock to be Sold</b> | <b>Duration<sup>1</sup></b>       | <b>Adoption Date</b> | <b>Expiration Date</b> |
|---|--|-----------------------------------|----------------------|------------------------|
| Andrew Cappotelli                               |  |                                   |                      |                        |
| Senior Vice President Operations                | Up to 5,427 <sup>2</sup>                       | June 23, 2025 - September 5, 2025 | February 25, 2025    | September 5, 2025      |
| Toby Williams                                   |  |                                   |                      |                        |
| President, Chief Executive Officer and Director | 16,000 <sup>3</sup>                            | August 15, 2025 - March 13, 2026  | February 21, 2025    | March 13, 2026         |

<sup>1</sup> 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.

<sup>2</sup> Includes shares subject to certain outstanding equity awards with time- and/or performance-based vesting conditions. For shares subject to performance-based vesting conditions, the number of shares included in the table above assumes the target achievement of the performance-based conditions. Additionally, for both time- and performance-based vesting awards, 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.

<sup>3</sup> The number of shares to 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 March 31, 2025.

**Item 6. Exhibits**

| <b>Exhibit Nos.</b>    | <b>Description</b>  |
|------------------------|---|
| <a href="#">3.1</a>    | <a href="#">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)).</a>            |
| <a href="#">3.2</a>    | <a href="#">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)).</a> |
| <a href="#">31.1*</a>  | <a href="#">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.</a>                         |
| <a href="#">31.2*</a>  | <a href="#">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.</a>                         |
| <a href="#">32.1**</a> | <a href="#">Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.</a>  |
| <a href="#">32.2**</a> | <a href="#">Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.</a>  |
| 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).   |

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\* 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2025

/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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2025

/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 Co-Chief Executive Officer of Paylocity Holding Corporation (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 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: May 2, 2025

/s/ Toby J. Williams

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**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 March 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: May 2, 2025

/s/ Ryan Glenn

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**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.