UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended December 31, 2022

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

For the transition period from to

Commission file number 001-36348

PAYLOCITY HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**46-4066644**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1400 American Lane **Schaumburg, Illinois**	**60173**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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: 55,769,718 shares of Common Stock, $0.001 par value per share, as of January 27, 2023.

Paylocity Holding Corporation
Form 10-Q
For the Quarterly Period Ended December 31, 2022

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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, 2022	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 139,756	$ 120,053
Accounts receivable, net	15,754	24,540
Deferred contract costs	59,501	68,557
Prepaid expenses and other	28,896	30,175
Total current assets before funds held for clients	243,907	243,325
Funds held for clients	3,987,776	3,065,697
Total current assets	4,231,683	3,309,022
Capitalized internal-use software, net	61,985	71,083
Property and equipment, net	62,839	59,506
Operating lease right-of-use assets	49,210	46,604
Intangible assets, net	45,475	39,934
Goodwill	101,949	102,054
Long-term deferred contract costs	229,067	262,313
Long-term prepaid expenses and other	7,746	6,727
Deferred income tax assets	19,060	40,530
Total assets	$ 4,809,014	$ 3,937,773
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,374	$ 7,611
Accrued expenses	124,384	115,795
Total current liabilities before client fund obligations	132,758	123,406
Client fund obligations	3,987,776	3,065,697
Total current liabilities	4,120,534	3,189,103
Long-term operating lease liabilities	69,119	65,353
Other long-term liabilities	3,681	3,333
Deferred income tax liabilities	2,217	2,217
Total liabilities	$ 4,195,551	$ 3,260,006
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2022 and December 31, 2022	$ —	$ —
Common stock, $0.001 par value, 155,000 shares authorized at June 30, 2022 and December 31, 2022; 55,190 shares issued and outstanding at June 30, 2022 and 55,768 shares issued and outstanding at December 31, 2022	55	56
Additional paid-in capital	289,843	310,050
Retained earnings	325,868	371,820
Accumulated other comprehensive loss	(2,303)	(4,159)
Total stockholders' equity	$ 613,463	$ 677,767
Total liabilities and stockholders' equity	$ 4,809,014	$ 3,937,773

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Revenues:				
Recurring and other revenue	$ 195,041	$ 256,434	$ 375,865	$ 501,840
Interest income on funds held for clients	996	16,574	1,869	24,448
Total revenues	196,037	273,008	377,734	526,288
Cost of revenues	70,821	90,076	134,070	174,619
Gross profit	125,216	182,932	243,664	351,669
Operating expenses:				
Sales and marketing	52,219	75,694	102,104	146,757
Research and development	25,278	41,029	48,354	81,122
General and administrative	39,581	48,001	74,816	98,493
Total operating expenses	117,078	164,724	225,274	326,372
Operating income	8,138	18,208	18,390	25,297
Other expense	(372)	(5)	(489)	(168)
Income before income taxes	7,766	18,203	17,901	25,129
Income tax expense (benefit)	(2,087)	2,603	(22,884)	(20,823)
Net income	$ 9,853	$ 15,600	$ 40,785	$ 45,952
Other comprehensive income (loss), net of tax	(335)	516	(410)	(1,856)
Comprehensive income	$ 9,518	$ 16,116	$ 40,375	$ 44,096
Net income per share:				
Basic	$ 0.18	$ 0.28	$ 0.74	$ 0.83
Diluted	$ 0.17	$ 0.28	$ 0.72	$ 0.81
Weighted-average shares used in computing net income per share:				
Basic	55,067	55,721	54,938	55,587
Diluted	56,468	56,474	56,486	56,559

See accompanying notes to unaudited consolidated financial statements.

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

Three Months Ended December 31, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders’ Equity
	Shares	Amount				
Balances at September 30, 2021	55,019	$ 55	$ 201,504	$ 266,023	$ (9)	$ 467,573
Stock-based compensation	—	—	28,122	—	—	28,122
Stock options exercised	44	—	383	—	—	383
Issuance of common stock upon vesting of restricted stock units	12	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	53	—	7,216	—	—	7,216
Net settlement for taxes and/or exercise price related to equity awards	(23)	—	(6,119)	—	—	(6,119)
Unrealized losses on securities, net of tax	—	—	—	—	(335)	(335)
Net income	—	—	—	9,853	—	9,853
Balances at December 31, 2021	55,105	$ 55	$ 231,106	$ 275,876	$ (344)	$ 506,693

Three Months Ended December 31, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders’ Equity
	Shares	Amount				
Balances at September 30, 2022	55,664	56	259,245	356,220	(4,675)	$ 610,846
Stock-based compensation	—	—	47,653	—	—	47,653
Stock options exercised	7	—	109	—	—	109
Issuance of common stock upon vesting of restricted stock units	60	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	61	—	8,450	—	—	8,450
Net settlement for taxes and/or exercise price related to equity awards	(24)	—	(5,407)	—	—	(5,407)
Unrealized gains on securities, net of tax	—	—	—	—	516	516
Net income	—	—	—	15,600	—	15,600
Balances at December 31, 2022	55,768	$ 56	$ 310,050	$ 371,820	$ (4,159)	$ 677,767

Six Months Ended December 31, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders’ Equity
	Shares	Amount				
Balances at June 30, 2021	54,594	$ 55	$ 241,718	$ 235,091	$ 66	$ 476,930
Stock-based compensation	—	—	49,228	—	—	49,228
Stock options exercised	195	—	1,812	—	—	1,812
Issuance of common stock upon vesting of restricted stock units	536	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	53	—	7,216	—	—	7,216
Net settlement for taxes and/or exercise price related to equity awards	(273)	—	(68,868)	—	—	(68,868)
Unrealized losses on securities, net of tax	—	—	—	—	(410)	(410)
Net income	—	—	—	40,785	—	40,785
Balances at December 31, 2021	55,105	$ 55	$ 231,106	$ 275,876	$ (344)	$ 506,693

Six Months Ended December 31, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders’ Equity
	Shares	Amount				
Balances at June 30, 2022	55,190	$ 55	$ 289,843	$ 325,868	$ (2,303)	$ 613,463
Stock-based compensation	—	—	91,124	—	—	91,124
Stock options exercised	242	—	2,941	—	—	2,941
Issuance of common stock upon vesting of restricted stock units	609	1	(1)	—	—	—
Issuance of common stock upon employee stock purchase plan	61	—	8,450	—	—	8,450
Net settlement for taxes and/or exercise price related to equity awards	(334)	—	(82,307)	—	—	(82,307)
Unrealized losses on securities, net of tax	—	—	—	—	(1,856)	(1,856)
Net income	—	—	—	45,952	—	45,952
Balances at December 31, 2022	55,768	$ 56	$ 310,050	$ 371,820	$ (4,159)	$ 677,767

See accompanying notes to the unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended December 31,	
	2021	2022
Cash flows from operating activities:		
Net income	$ 40,785	$ 45,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	45,802	83,364
Depreciation and amortization expense	23,383	29,094
Deferred income tax benefit	(22,952)	(20,856)
Provision for credit losses	103	602
Net accretion of discounts and amortization of premiums on available-for-sale securities	221	(2,039)
Amortization of debt issuance costs	90	157
Other	247	1,253
Changes in operating assets and liabilities:		
Accounts receivable	(916)	(9,377)
Deferred contract costs	(26,786)	(40,638)
Prepaid expenses and other	(10,008)	616
Accounts payable	1,403	(392)
Accrued expenses and other	(24,514)	(8,979)
Net cash provided by operating activities	26,858	78,757
Cash flows from investing activities:		
Purchases of available-for-sale securities	(190,000)	(296,060)
Proceeds from sales and maturities of available-for-sale securities	60,391	190,253
Capitalized internal-use software costs	(17,966)	(19,740)
Purchases of property and equipment	(10,528)	(6,663)
Acquisitions of businesses, net of cash acquired	(60,234)	—
Other investing activities	—	29
Net cash used in investing activities	(218,337)	(132,181)
Cash flows from financing activities:		
Net change in client fund obligations	160,325	(922,079)
Proceeds from employee stock purchase plan	7,216	8,450
Taxes paid related to net share settlement of equity awards	(67,109)	(79,369)
Payment of debt issuance costs	(41)	(864)
Net cash provided by (used in) financing activities	100,391	(993,862)
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	(91,088)	(1,047,286)
Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period	1,945,881	3,793,453
Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period	$ 1,854,793	$ 2,746,167
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchases of property and equipment, accrued but not paid	$ 125	$ —
Liabilities assumed for acquisitions	$ 1,874	$ 117
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 126	$ 157
Refunds received for income taxes	$ (115)	$ (158)
Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	$ 84,104	$ 120,053
Funds held for clients' cash and cash equivalents	1,770,689	2,626,114
Total cash, cash equivalents and funds held for clients' cash and cash equivalents	$ 1,854,793	$ 2,746,167

See accompanying notes to unaudited consolidated financial statements.

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

(1) Organization and Description of Business

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

(2) Summary of Significant Accounting Policies

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

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

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

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

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the Company's financial position, results of operations, changes in stockholders' equity and cash flows. The results of operations for the three and six months ended December 31, 2022 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, 2022 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***

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

(3) Revenue

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

Disaggregation of revenue

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Recurring fees	$ 188,159	$ 247,522	$ 362,856	$ 484,341
Implementation services and other	6,882	8,912	13,009	17,499
Total revenues from contracts	$ 195,041	$ 256,434	$ 375,865	$ 501,840

Deferred revenue

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Balance at beginning of the period	$ 8,717	$ 14,195	$ 8,734	$ 12,233
Deferral of revenue	5,407	12,002	9,760	20,234
Revenue recognized	(4,783)	(6,460)	(9,153)	(12,730)
Balance at end of the period	$ 9,341	$ 19,737	$ 9,341	$ 19,737

Deferred revenue related to these nonrefundable upfront fees are recorded within Accrued expenses and Other long-term liabilities on the Unaudited Consolidated Balance Sheets. The Company expects to recognize these deferred revenue balances of $12,680 in fiscal 2023, $6,102 in fiscal 2024 and $955 in fiscal 2025 and thereafter.

Deferred contract costs

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

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

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

	Three Months Ended December 31, 2021			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 149,222	$ 14,929	$ (8,587)	$ 155,564
Costs to fulfill a contract	76,785	13,100	(3,770)	86,115
Total	$ 226,007	$ 28,029	$ (12,357)	$ 241,679

	Three Months Ended December 31, 2022			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 191,088	$ 20,310	$ (10,845)	$ 200,553
Costs to fulfill a contract	117,524	18,803	(6,010)	130,317
Total	$ 308,612	$ 39,113	$ (16,855)	$ 330,870

	Six Months Ended December 31, 2021			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 145,718	$ 26,666	$ (16,820)	$ 155,564
Costs to fulfill a contract	69,175	24,040	(7,100)	86,115
Total	$ 214,893	$ 50,706	$ (23,920)	$ 241,679

	Six Months Ended December 31, 2022			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 182,543	$ 39,222	$ (21,212)	$ 200,553
Costs to fulfill a contract	106,025	35,665	(11,373)	130,317
Total	$ 288,568	$ 74,887	$ (32,585)	$ 330,870

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 $53,940 as of December 31, 2022, 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

On January 18, 2022, the Company acquired all of the shares outstanding of Cloudsnap, Inc., ("Cloudsnap") through a merger for cash consideration of $50,002, which was paid upon closing. Cloudsnap is a provider of a flexible, low-code solution for integrating disparate business applications. This transaction enables the Company to deliver modern integrations and seamless data sharing between critical systems more efficiently and effectively, while helping to unify and automate business processes across clients' HR, finance, benefits, and other systems.

The allocation of the purchase price for Cloudsnap is as follows:

	January 18, 2022
Proprietary technology	$ 15,800
Goodwill	33,628
Other assets acquired	3,398
Liabilities assumed	(2,824)
Total purchase price	$ 50,002

The Company did not record any material purchase accounting adjustments for Cloudsnap during the six months ended December 31, 2022. The Company accounts for business combinations in accordance with ASC 805, Business Combinations. The Company applied the acquisition method of accounting and recorded the assets acquired and liabilities assumed at their respective estimated fair values as of the date of the acquisition with the excess consideration paid recorded as goodwill.

The results from this acquisition have been included in the Company’s consolidated financial statements since the closing of the acquisition and are not material to the Company. Pro forma information is not presented because the effects of the acquisition are not material to the Company’s consolidated financial statements. The goodwill related to this acquisition 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 this acquisition is not deductible for income tax purposes. Direct costs related to the acquisition were immaterial and were expensed as incurred as General and administrative.

(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, 2022	$ 841
Charged to expense	602
Write-offs	(130)
Balance at December 31, 2022	$ 1,313

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

	June 30, 2022	December 31, 2022
Capitalized internal-use software	$ 193,156	$ 216,774
Accumulated amortization	(131,171)	(145,691)
Capitalized internal-use software, net	$ 61,985	$ 71,083

Amortization of capitalized internal-use software costs is primarily included in Cost of revenues and amounted to $6,087 and $7,478 for the three months ended December 31, 2021 and 2022, respectively, and $12,215 and $14,520 for the six months ended December 31, 2021 and 2022, respectively.

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

	June 30, 2022	December 31, 2022
Office equipment	$ 4,365	$ 4,367
Computer equipment	55,495	54,065
Furniture and fixtures	12,791	12,790
Software	8,785	9,808
Leasehold improvements	47,521	47,723
Time clocks rented by clients	6,711	7,463
Total	135,668	136,216
Accumulated depreciation	(72,829)	(76,710)
Property and equipment, net	$ 62,839	$ 59,506

Depreciation expense amounted to $3,974 and $4,579 for the three months ended December 31, 2021 and 2022, respectively, and $7,816 and $9,033 for the six months ended December 31, 2021 and 2022, respectively.

The following table summarizes changes in goodwill during the six months ended December 31, 2022:

	December 31, 2022
Balance at June 30, 2022	$ 101,949
Measurement period adjustments	105
Balance at December 31, 2022	$ 102,054

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

The Company’s amortizable intangible assets and estimated useful lives were as follows:

	June 30, 2022	December 31, 2022	Weighted average useful life (years)
Proprietary technology	$ 43,129	$ 43,129	6.0
Client relationships	22,200	22,200	7.8
Non-solicitation agreements	1,600	1,600	3.1
Trade names	1,640	1,640	5.0
Total	68,569	68,569	
Accumulated amortization	(23,094)	(28,635)	
Intangible assets, net	$ 45,475	$ 39,934	

Amortization expense for acquired intangible assets was $2,000 and $2,770 for the three months ended December 31, 2021 and 2022, respectively, and $3,352 and $5,541 for the six months ended December 31, 2021 and 2022, respectively, and is included in Cost of revenues and General and administrative.

Future amortization expense for acquired intangible assets as of December 31, 2022 is as follows:

Remainder of fiscal 2023	$ 5,407
Fiscal 2024	9,943
Fiscal 2025	8,888
Fiscal 2026	7,269
Fiscal 2027	4,893
Thereafter	3,534
Total	$ 39,934

The components of accrued expenses were as follows:

	June 30, 2022	December 31, 2022
Accrued payroll and personnel costs	$ 84,897	$ 62,092
Operating lease liabilities	8,399	8,507
Deferred revenue	13,548	23,538
Other	17,540	21,658
Total accrued expenses	$ 124,384	$ 115,795

(6) Corporate Investments and Funds Held for Clients

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

	June 30, 2022			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 139,756	$ —	$ —	$ 139,756
Funds held for clients' cash and cash equivalents	3,653,699	—	(2)	3,653,697
Available-for-sale securities:				
Commercial paper	58,166	—	(126)	58,040
Corporate bonds	59,568	—	(1,715)	57,853
Asset-backed securities	9,843	2	(141)	9,704
Certificates of deposit	31,879	—	(43)	31,836
U.S. treasury securities	167,566	12	(591)	166,987
U.S government agency securities	8,000	—	(451)	7,549
Other	2,181	—	(71)	2,110
Total available-for-sale securities	337,203	14	(3,138)	334,079
Total investments	$ 4,130,658	$ 14	$ (3,140)	$ 4,127,532

Type of Issue	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 120,053	$ —	$ —	$ 120,053
Funds held for clients' cash and cash equivalents	2,626,112	3	(1)	2,626,114
Available-for-sale securities:				
Commercial paper	97,440	48	(65)	97,423
Corporate bonds	78,757	25	(2,005)	76,777
Asset-backed securities	27,984	17	(333)	27,668
Certificates of deposit	40,449	27	(14)	40,462
U.S. treasury securities	187,671	59	(2,480)	185,250
U.S government agency securities	8,000	—	(601)	7,399
Other	4,730	—	(126)	4,604
Total available-for-sale securities	445,031	176	(5,624)	439,583
Total investments	$ 3,191,196	$ 179	$ (5,625)	$ 3,185,750

All available-for-sale securities were included in Funds held for clients at June 30, 2022 and December 31, 2022

Cash and cash equivalents and funds held for clients' cash and cash equivalents included demand deposit accounts, money market funds, commercial paper and certificates of deposit at June 30, 2022 and December 31, 2022.

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

	June 30, 2022	December 31, 2022
Cash and cash equivalents	$ 139,756	$ 120,053
Funds held for clients	3,987,776	3,065,697
Total investments	$ 4,127,532	$ 3,185,750

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, 2022 and December 31, 2022 had fair market value as follows:

	June 30, 2022					
	Securities in an unrealized loss position for less than 12 months		Securities in an unrealized loss position for greater than 12 months		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Commercial paper	$ (126)	$ 53,756	$ —	$ —	$ (126)	$ 53,756
Corporate bonds	(1,715)	57,853	—	—	(1,715)	57,853
Asset-backed securities	(141)	7,354	—	—	(141)	7,354
Certificates of deposit	(43)	27,086	—	—	(43)	27,086
U.S. treasury securities	(591)	129,943	—	—	(591)	129,943
U.S. government agency securities	(451)	7,549	—	—	(451)	7,549
Other	(71)	2,110	—	—	(71)	2,110
Total available-for-sale securities	$ (3,138)	$ 285,651	$ —	$ —	$ (3,138)	$ 285,651

	December 31, 2022					
	Securities in an unrealized loss position for less than 12 months		Securities in an unrealized loss position for greater than 12 months		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Commercial paper	$ (65)	$ 29,451	$ —	$ —	$ (65)	$ 29,451
Corporate bonds	(758)	29,428	(1,247)	35,274	(2,005)	64,702
Asset-backed securities	(193)	15,405	(140)	3,379	(333)	18,784
Certificates of deposit	(14)	3,886	—	—	(14)	3,886
U.S. treasury securities	(2,382)	146,060	(98)	3,920	(2,480)	149,980
U.S. government agency securities	(36)	965	(565)	6,434	(601)	7,399
Other	(49)	2,871	(77)	1,732	(126)	4,603
Total available-for-sale securities	$ (3,497)	$ 228,066	$ (2,127)	$ 50,739	$ (5,624)	$ 278,805

The Company regularly reviews the composition of its portfolio to determine the existence of credit impairment. The Company did not recognize any credit impairment losses during the three or six months ended December 31, 2021 or 2022. All securities in the Company's portfolio held an A-1 rating or better as of December 31, 2022.

The Company did not make any material reclassification adjustments out of accumulated other comprehensive income for realized gains and losses on the sale of available-for-sale securities during the three or six months ended December 31, 2021 or 2022. There were no realized gains or losses on the sale of available-for-sale securities for the three or six months ended December 31, 2021 or 2022.

Expected maturities of available-for-sale securities at December 31, 2022 were as follows:

	Amortized cost	Fair value
One year or less	$ 259,823	$ 258,853
One year to two years	90,033	87,491
Two years to three years	93,175	91,459
Three years to five years	2,000	1,780
Total available-for-sale securities	$ 445,031	$ 439,583

(7) Fair Value Measurement

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

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

The Company measures certain cash and cash equivalents, 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, 2022 and December 31, 2022 based upon the short-term nature of these assets and liabilities.

Marketable securities, consisting of securities classified as available-for-sale as well as certain cash equivalents, are recorded at fair value on a recurring basis using Level 2 inputs obtained from an independent pricing service. Available-for-sale securities include commercial paper, corporate bonds, asset-backed securities, certificates of deposit, U.S. treasury securities, U.S. government agency and other securities. The independent pricing service utilizes a variety of inputs including benchmark yields, broker/dealer quoted prices, reported trades, issuer spreads as well as other available market data. The Company, on a sample basis, validates the pricing from the independent pricing service against another third-party pricing source for reasonableness. The Company has not adjusted any prices obtained by the independent pricing service, as it believes they are appropriately valued. There were no available-for-sale securities classified in Level 3 of the fair value hierarchy at June 30, 2022 or December 31, 2022.

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

	June 30, 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 139,756	$ 139,756	$ —	$ —
Funds held for clients' cash and cash equivalents	3,653,697	3,640,427	13,270	—
Available-for-sale securities:				
Commercial paper	58,040	—	58,040	—
Corporate bonds	57,853	—	57,853	—
Asset-backed securities	9,704	—	9,704	—
Certificates of deposit	31,836	—	31,836	—
U.S. treasury securities	166,987	—	166,987	—
U.S government agency securities	7,549	—	7,549	—
Other	2,110	—	2,110	—
Total available-for-sale securities	334,079	—	334,079	—
Total investments	$ 4,127,532	$ 3,780,183	$ 347,349	$ —

	December 31, 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 120,053	$ 120,053	$ —	$ —
Funds held for clients' cash and cash equivalents	2,626,114	2,607,468	18,646	—
Available-for-sale securities:				
Commercial paper	97,423	—	97,423	—
Corporate bonds	76,777	—	76,777	—
Asset-backed securities	27,668	—	27,668	—
Certificates of deposit	40,462	—	40,462	—
U.S. treasury securities	185,250	—	185,250	—
U.S government agency securities	7,399	—	7,399	—
Other	4,604	—	4,604	—
Total available-for-sale securities	439,583	—	439,583	—
Total investments	$ 3,185,750	$ 2,727,521	$ 458,229	$ —

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

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

(8) Debt

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

The proceeds of any borrowings are to be used to fund working capital, capital expenditures and general corporate purposes, including permitted acquisitions, permitted investments, permitted distributions and share repurchases. The Company may generally borrow, prepay and reborrow under the credit facility and terminate or reduce the lenders’ commitments at any time prior to revolving credit facility expiration without a premium or a penalty, other than customary “breakage” costs.

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

The Company is required to comply with certain customary affirmative and negative covenants, including a requirement to maintain a maximum net total leverage ratio of not greater than 4.00 to 1.00, (with a step up to 4.50 to 1.00 for the 4 consecutive fiscal quarters following a fiscal quarter in which certain permitted acquisitions are consummated), and a minimum interest coverage ratio of not less than 2.00 to 1.00. As of December 31, 2022, the Company was in compliance with all of the aforementioned covenants.

(9) Stock-Based Compensation

The Company maintains a 2008 Equity Incentive Plan (the “2008 Plan”) and a 2014 Equity Incentive Plan (the “2014 Plan”) pursuant to which the Company has reserved shares of its common stock for issuance to its employees, directors and non-employee third parties. The 2014 Plan serves as the successor to the 2008 Plan and permits the granting of restricted stock units and other equity incentives at the discretion of the compensation committee of the Company’s board of directors. No new awards have been or will be issued under the 2008 Plan since the effective date of the 2014 Plan. Outstanding awards under the 2008 Plan continue to be subject to the terms and conditions of the 2008 Plan. The number of shares of common stock reserved for issuance under the 2014 Plan may increase each calendar year, continuing through and including January 1, 2024. The number of shares added each year may be equal to the lesser of (a) four and five tenths percent (4.5%) of the number of shares of common stock of the Company issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Company’s board of directors.

As of December 31, 2022, the Company had 13,784 shares allocated to the plans, of which 1,841 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 2014 Plan grants or awards that are forfeited or net settled at exercise or release may be reissued to satisfy future issuances.

The following table summarizes changes in the number of shares available for grant under the Company's equity incentive plans during the six months ended December 31, 2022:

	Number of Shares
Available for grant at July 1, 2022	12,393
RSUs granted	(730)
MSUs granted	(81)
Shares withheld in settlement of taxes and/or exercise price	334
Forfeitures	95
Shares removed	(68)
Available for grant at December 31, 2022	11,943

Shares removed represents forfeitures of shares and shares withheld in settlement of taxes and/or payment of exercise price related to grants made under the 2008 Plan. As noted above, no new awards will be issued under the 2008 Plan.

Stock-based compensation expense related to restricted stock units ("RSUs"), market share units ("MSUs") and the Employee Stock Purchase Plan is included in the following line items in the accompanying unaudited consolidated statements of operations and comprehensive income:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Cost of revenues	$ 3,317	$ 5,232	$ 5,924	$ 9,273
Sales and marketing	5,716	10,795	10,875	20,354
Research and development	5,406	11,292	9,108	20,094
General and administrative	11,804	16,232	19,895	33,643
Total stock-based compensation expense	$ 26,243	$ 43,551	$ 45,802	$ 83,364

In addition, the Company capitalized $1,879 and $3,154 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended December 31, 2021 and 2022, respectively, and $3,426 and $6,096 during the six months ended December 31, 2021 and 2022, respectively.

There were no stock options granted during the six months ended December 31, 2022. The table below presents stock option activity during the six months ended December 31, 2022:

	Outstanding Options			
	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Option balance at July 1, 2022	548	$ 18.34	1.6	$ 85,515
Options exercised	(242)	$ 12.18		
Option balance at December 31, 2022	306	$ 23.21	1.6	$ 52,348
Options vested and exercisable at December 31, 2022	306	$ 23.21	1.6	$ 52,348

The total intrinsic value of options exercised was $11,759 and $1,484 during the three months ended December 31, 2021 and 2022, respectively, and $47,627 and $49,627 during the six months ended December 31, 2021 and 2022, respectively.

The Company grants RSUs under the 2014 Plan with terms determined at the discretion of the compensation committee of the Company's board of directors. RSUs generally vest over four years following the grant date and have time-based vesting conditions.

The following table represents restricted stock unit activity during the six months ended December 31, 2022:

	Units		Weighted average grant date fair value
RSU balance at July 1, 2022	1,327	$	168.44
RSUs granted	730	$	261.90
RSUs vested	(609)	$	148.90
RSUs forfeited	(92)	$	138.11
RSU balance at December 31, 2022	1,356	$	228.70

At December 31, 2022, there was $173,117 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted stock units granted. That cost is expected to be recognized over a weighted average period of 1.9 years.

The Company also grants MSUs under the 2014 Plan with terms determined at the discretion of the compensation committee of the Company's board of directors. The actual number of MSUs that will be eligible to vest is based on the achievement of a relative total shareholder return (“TSR”) target as compared to the TSR realized by each of the companies comprising the Russell 3000 Index over an approximately three-year period. The MSUs cliff-vest at the end of the TSR measurement period, and up to 200% of the target number of shares subject to each MSU are eligible to be earned.

The following table represents market share unit activity during the six months ended December 31, 2022:

	Units		Weighted average grant date fair value
MSU balance at July 1, 2022	101	$	263.83
MSUs granted	81	$	388.25
MSUs forfeited	(3)	$	355.60
MSU balance at December 31, 2022	179	$	318.97

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

	Six Months Ended December 31,	
	2021	2022
Valuation assumptions:		
Expected dividend yield	—%	—%
Expected volatility	47.4 - 47.5%	51.0 - 52.7%
Expected term (years)	2.92 - 3.04	2.75 - 3.04
Risk-free interest rate	0.43 - 0.47%	3.11 - 4.01%

At December 31, 2022, there was $32,898 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested MSUs. That cost is expected to be recognized over a period of 2.4 years.

(10) Litigation

On November 16, 2020, a potential class action complaint was filed against the Company with the Circuit Court of Cook County alleging that the Company violated the Illinois Biometric Information Privacy Act. The complaint seeks statutory damages, attorney’s fees and other costs. 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.

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

(11) Income Taxes

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

On August 16, 2022, the Inflation Reduction Act (the "IRA") was signed into law and contains a number of tax related provisions. The Company is in the process of evaluating the IRA but does not expect it to have a material impact on the Company's consolidated financial statements.

The Company’s effective tax rate was (26.9)% and 14.3% for the three months ended December 31, 2021 and 2022, respectively. The Company’s effective tax rate for the three months ended December 31, 2021 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation. The Company's effective tax rate for the three months ended December 31, 2022 was lower than the federal statutory rate of 21% primarily due to a decrease to the valuation allowance, partially offset by non-deductible stock-based compensation under Internal Revenue Code Section 162(m).

The Company's effective tax rate was (127.8)% and (82.9)% for the six months ended December 31, 2021 and 2022, respectively. The Company's effective tax rate for the six months ended December 31, 2021 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation and state and local income taxes, partially offset by an increase to the valuation allowance. The Company's effective tax rate for the six months ended December 31, 2022 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, state and local income taxes, and a decrease in the valuation allowance.

(12) Net Income Per Share

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. The Company’s potential common shares consist of the incremental common shares issuable upon the exercise of stock options, the release of restricted stock units and market share units as of the balance sheet date. The following table presents the calculation of basic and diluted net income per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Numerator:				
Net income	$ 9,853	$ 15,600	$ 40,785	$ 45,952
Denominator:				
Weighted-average shares used in computing net income per share:				
Basic	55,067	55,721	54,938	55,587
Weighted-average effect of potentially dilutive shares:				
Employee stock options, restricted stock units and market share units	1,401	753	1,548	972
Diluted	56,468	56,474	56,486	56,559
Net income per share:				
Basic	$ 0.18	$ 0.28	$ 0.74	$ 0.83
Diluted	$ 0.17	$ 0.28	$ 0.72	$ 0.81

The following table summarizes the outstanding restricted stock units and market share units as of December 31, 2021 and 2022 that were excluded from the diluted per share calculation for the periods presented because to include them would have been antidilutive:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Market share units	31	57	31	60
Restricted stock units	45	616	46	601
Total	76	673	77	661

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 impacts from the novel coronavirus disease (COVID-19) as discussed in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 filed with the SEC on August 5, 2022.

Overview

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

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

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

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

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

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

Key Metrics

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

Revenue Growth

Our recurring revenue model and high annual revenue retention rates provide significant visibility into our future operating results and cash flow from operations. This visibility enables us to better manage and invest in our business. Total revenues increased from $196.0 million for the three months ended December 31, 2021 to $273.0 million for the three months ended December 31, 2022, representing a 39% year-over-year increase. Total revenues increased from $377.7 million for the six months ended December 31, 2021 to $526.3 million for the six months ended December 31, 2022, representing a 39% year-over-year increase. The increase in year-over-year revenue growth was driven by the strong performance by our sales team and also increases in client workforce levels and growth in interest income on funds held for clients attributable to rising interest rates and higher average daily balances for funds held for clients due to new clients and increases in client workforce levels as compared to the prior fiscal year. Our revenue growth in future periods may be impacted by fluctuations in client employee counts, potential increases in client losses, a changing interest rate environment, uncertainties around market and economic conditions including inflation risk, among other factors.

Adjusted Gross Profit and Adjusted EBITDA

We disclose Adjusted Gross Profit and Adjusted EBITDA 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 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 or cash provided by operating activities, in each case as determined in accordance with GAAP. In addition, our definition of Adjusted Gross Profit and Adjusted EBITDA may be different than the definition utilized for similarly-titled measures used by other companies.

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

The table below sets forth our Adjusted Gross Profit and Adjusted EBITDA for the periods presented.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Adjusted Gross Profit	$ 134,666	$ 197,573	$ 262,781	$ 380,270
Adjusted EBITDA	46,615	77,352	92,739	143,975

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Reconciliation from Gross Profit to Adjusted Gross Profit				
Gross profit	$ 125,216	$ 182,932	$ 243,664	$ 351,669
Amortization of capitalized internal-use software costs	6,087	7,478	12,215	14,520
Amortization of certain acquired intangibles	—	1,853	—	3,707
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	3,327	5,310	6,854	10,355
Other items (1)	36	—	48	19
Adjusted Gross Profit	$ 134,666	$ 197,573	$ 262,781	$ 380,270

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Reconciliation from Net income to Adjusted EBITDA				
Net income	$ 9,853	$ 15,600	$ 40,785	$ 45,952
Interest expense	110	190	218	377
Income tax expense (benefit)	(2,087)	2,603	(22,884)	(20,823)
Depreciation and amortization expense	12,061	14,827	23,383	29,094
EBITDA	19,937	33,220	41,502	54,600
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	26,470	43,981	50,226	88,959
Other items (2)	208	151	1,011	416
Adjusted EBITDA	$ 46,615	$ 77,352	$ 92,739	$ 143,975

(1) Represents nonrecurring acquisition-related costs.
(2) Represents nonrecurring costs including acquisition-related costs and lease exit activity.

Basis of Presentation

Revenues

Recurring and other revenue

We derive the majority of our revenues from recurring fees attributable to our cloud-based HCM and payroll software solutions. Recurring fees for each client generally include a base fee in addition to a fee based on the number of client employees and the number of products a client uses. We also charge fees attributable to our preparation of W-2 documents and annual required filings on behalf of our clients. We charge implementation fees for professional services provided to implement our HCM and payroll solutions. Implementations of our payroll solutions typically require one to eight weeks, depending on the size and complexity of each client, at which point the new client's payroll is first processed using our solution. We implement additional HCM products as requested by clients and leverage the data within our payroll solution to accelerate our implementation processes. Our average client size has continued to be over 100 employees.

The number of client employees on our platform and the mix of products purchased by a client as well as the timing of services provided with respect to those client employees can vary each period. As such, the number of client employees on our system is not a good indicator of our financial results in any given period. Recurring and other revenue accounted for 99% and 94% of our total revenues for the three months ended December 31, 2021 and 2022, respectively, and 99% and 95% for the six months ended December 31, 2021 and 2022, respectively.

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

Interest Income on Funds Held for Clients

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

Cost of Revenues

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

We also capitalize a portion of our internal-use software costs, which are then primarily amortized as Cost of revenues. We amortized $6.1 million and $7.5 million of capitalized internal-use software costs during the three months ended December 31, 2021 and 2022, respectively, and $12.2 million and $14.5 million of capitalized internal-use software costs during the six months ended December 31, 2021 and 2022, respectively.

Operating Expenses

Sales and Marketing

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

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

Research and Development

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

We capitalize a portion of our development costs related to internal-use software. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for the three and six months ended December 31, 2021 and 2022.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Capitalized portion of research and development	$ 10,475	$ 11,868	$ 20,304	$ 23,618
Expensed portion of research and development	25,278	41,029	48,354	81,122
Total research and development	$ 35,753	$ 52,897	$ 68,658	$ 104,740

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. We expect our general and administrative expenses to continue to increase in absolute dollars as our company continues to grow.

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 December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	$ 195,041	$ 256,434	$ 375,865	$ 501,840
Interest income on funds held for clients	996	16,574	1,869	24,448
Total revenues	196,037	273,008	377,734	526,288
Cost of revenues	70,821	90,076	134,070	174,619
Gross profit	125,216	182,932	243,664	351,669
Operating expenses:				
Sales and marketing	52,219	75,694	102,104	146,757
Research and development	25,278	41,029	48,354	81,122
General and administrative	39,581	48,001	74,816	98,493
Total operating expenses	117,078	164,724	225,274	326,372
Operating income	8,138	18,208	18,390	25,297
Other expense	(372)	(5)	(489)	(168)
Income before income taxes	7,766	18,203	17,901	25,129
Income tax expense (benefit)	(2,087)	2,603	(22,884)	(20,823)
Net income	$ 9,853	$ 15,600	$ 40,785	$ 45,952

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2022	2021	2022
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	99 %	94 %	99 %	95 %
Interest income on funds held for clients	1 %	6 %	1 %	5 %
Total revenues	100 %	100 %	100 %	100 %
Cost of revenues	36 %	33 %	35 %	33 %
Gross profit	64 %	67 %	65 %	67 %
Operating expenses:				
Sales and marketing	27 %	28 %	27 %	28 %
Research and development	13 %	15 %	12 %	15 %
General and administrative	20 %	17 %	20 %	19 %
Total operating expenses	60 %	60 %	59 %	62 %
Operating income	4 %	7 %	6 %	5 %
Other expense	0 %	0 %	0 %	0 %
Income before income taxes	4 %	7 %	6 %	5 %
Income tax expense (benefit)	(1)%	1 %	(6)%	(4)%
Net income	5 %	6 %	12 %	9 %

Comparison of Three Months Ended December 31, 2021 and 2022

Revenues
($ in thousands)

	Three Months Ended December 31,		Change	
	2021	2022	$	%
Recurring and other revenue	$ 195,041	$ 256,434	$ 61,393	31 %
Percentage of total revenues	99 %	94 %		
Interest income on funds held for clients	$ 996	$ 16,574	$ 15,578	1,564 %
Percentage of total revenues	1 %	6 %		

Recurring and Other Revenue

Recurring and other revenue for the three months ended December 31, 2022 increased by $61.4 million, or 31%, to $256.4 million from $195.0 million for three months ended December 31, 2021. 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 and also increases in client workforce levels as compared to the prior fiscal year.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the three months ended December 31, 2022 increased by $15.6 million, or 1,564%, to $16.6 million from $1.0 million for the three months ended December 31, 2021. Interest income on funds held for clients increased primarily due to higher interest rates and higher average daily balances for funds held due to the addition of new clients to our client base and also increases in client workforce levels as compared to the prior fiscal year.

Cost of Revenues
($ in thousands)

	Three Months Ended December 31,		Change	
	2021	2022	$	%
Cost of revenues	$ 70,821	$ 90,076	$ 19,255	27 %
Percentage of total revenues	36 %	33 %		
Gross margin	64 %	67 %		

Cost of Revenues

Cost of revenues for the three months ended December 31, 2022 increased by $19.3 million, or 27%, to $90.1 million from $70.8 million for the three months ended December 31, 2021. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, $9.6 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients, $4.7 million in additional delivery and other processing costs, $1.9 million in additional stock-based compensation expense and $1.9 million in amortization of certain acquired intangible assets.

Operating Expenses
($ in thousands)

Sales and Marketing

	Three Months Ended December 31,		Change	
	2021	2022	$	%
Sales and marketing	$ 52,219	$ 75,694	$ 23,475	45 %
Percentage of total revenues	27 %	28 %		

Sales and marketing expenses for the three months ended December 31, 2022 increased by $23.5 million, or 45%, to $75.7 million from $52.2 million for the three months ended December 31, 2021. The increase in sales and marketing expense was primarily due to $14.5 million of additional employee-related costs, including those incurred to expand our sales team. The increase was also driven by $5.1 million of additional stock-based compensation costs associated with our equity incentive plan and $2.3 million in additional marketing lead generation costs.

Research and Development

	Three Months Ended December 31,		Change	
	2021	2022	$	%
Research and development	$ 25,278	$ 41,029	$ 15,751	62 %
Percentage of total revenues	13 %	15 %		

Research and development expenses for the three months ended December 31, 2022 increased by $15.8 million, or 62%, to $41.0 million from $25.3 million for the three months ended December 31, 2021. The increase in research and development expenses was primarily due to $10.5 million of additional employee-related costs related to additional development personnel and $5.9 million of additional stock-based compensation costs associated with our equity incentive plan, partially offset by $1.0 million in higher period-over-period capitalized internal-use software costs.

General and Administrative

	Three Months Ended December 31,		Change	
	2021	2022	$	%
General and administrative	$ 39,581	$ 48,001	$ 8,420	21 %
Percentage of total revenues	20 %	17 %		

General and administrative expenses for the three months ended December 31, 2022 increased by $8.4 million, or 21%, to $48.0 million from $39.6 million for the three months ended December 31, 2021. The increase in general and administrative expense was primarily due to $4.4 million of additional stock-based compensation costs associated with our equity incentive plan and $3.3 million in additional employee-related costs.

Other Expense

	Three Months Ended December 31,		Change	
	2021	2022	$	%
Other expense	$ (372)	$ (5)	$ 367	*
Percentage of total revenues	0 %	0 %		

***Not Meaningful**

Other expense did not materially change for the three months ended December 31, 2022 as compared to the three months ended December 31, 2021.

Income Taxes

Our effective tax rate was (26.9)% and 14.3% for the three months ended December 31, 2021 and 2022, respectively. Our effective tax rate for the three months ended December 31, 2021 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation. Our effective tax rate for the three months ended December 31, 2022 was lower than the federal statutory rate of 21% primarily due to a decrease to the valuation allowance, partially offset by non-deductible stock-based compensation under Internal Revenue Code Section 162(m).

Comparison of Six Months Ended December 31, 2021 and 2022

Revenues
($ in thousands)

	Six Months Ended December 31,		Change	
	2021	2022	$	%
Recurring and other revenue	$ 375,865	$ 501,840	$ 125,975	34 %
Percentage of total revenues	99 %	95 %		
Interest income on funds held for clients	$ 1,869	$ 24,448	$ 22,579	1,208 %
Percentage of total revenues	1 %	5 %		

Recurring and Other Revenue

Recurring and other revenue for the six months ended December 31, 2022 increased by $126.0 million, or 34%, to $501.8 million from $375.9 million for six months ended December 31, 2021. 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 and also increases in client workforce levels as compared to the prior fiscal year.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the six months ended December 31, 2022 increased by $22.6 million, or 1,208%, to $24.4 million from $1.9 million for the six months ended December 31, 2021. Interest income on funds held for clients increased primarily due to higher interest rates and higher average daily balances for funds held due to the addition of new clients to our client base and also increases in client workforce levels as compared to the prior fiscal year.

Cost of Revenues
($ in thousands)

	Six Months Ended December 31,		Change	
	2021	2022	$	%
Cost of revenues	$ 134,070	$ 174,619	$ 40,549	30 %
Percentage of total revenues	35 %	33 %		
Gross margin	65 %	67 %		

Cost of Revenues

Cost of revenues for the six months ended December 31, 2022 increased by $40.5 million, or 30%, to $174.6 million from $134.1 million for the six months ended December 31, 2021. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, $21.1 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients, $10.3 million in additional delivery and other processing costs, $3.7 million in amortization of certain acquired intangible assets and $3.3 million in additional stock-based compensation costs associated with our equity incentive plan.

Operating Expenses
($ in thousands)

Sales and Marketing

	Six Months Ended December 31,		Change	
	2021	2022	$	%
Sales and marketing	$ 102,104	$ 146,757	$ 44,653	44 %
Percentage of total revenues	27 %	28 %		

Sales and marketing expenses for the six months ended December 31, 2022 increased by $44.7 million, or 44%, to $146.8 million from $102.1 million for the six months ended December 31, 2021. The increase in sales and marketing expense was primarily due to $27.8 million of additional employee-related costs, including those incurred to expand our sales team. The increase was also driven by $9.5 million of additional stock-based compensation costs associated with our equity incentive plan and $4.8 million in additional marketing lead generation costs.

Research and Development

	Six Months Ended December 31,		Change	
	2021	2022	$	%
Research and development	$ 48,354	$ 81,122	$ 32,768	68 %
Percentage of total revenues	12 %	15 %		

Research and development expenses for the six months ended December 31, 2022 increased by $32.8 million, or 68%, to $81.1 million from $48.4 million for the six months ended December 31, 2021. The increase in research and development expenses was primarily due to $21.8 million of additional employee-related costs related to additional development personnel and $11.0 million of additional stock-based compensation costs associated with our equity incentive plan, partially offset by $1.4 million in higher period-over-period capitalized internal-use software costs.

General and Administrative

	Six Months Ended December 31,		Change	
	2021	2022	$	%
General and administrative	$ 74,816	$ 98,493	$ 23,677	32 %
Percentage of total revenues	20 %	19 %		

General and administrative expenses for the six months ended December 31, 2022 increased by $23.7 million, or 32%, to $98.5 million from $74.8 million for the six months ended December 31, 2021. The increase in general and administrative expense was primarily due to $13.7 million of additional stock-based compensation costs associated with our equity incentive plan and $8.4 million in additional employee-related costs.

Other Expense

	Six Months Ended December 31,		Change	
	2021	2022	$	%
Other expense	$ (489)	$ (168)	$ 321	*
Percentage of total revenues	0 %	0 %		

***Not Meaningful**

Other expense did not materially change for the six months ended December 31, 2022 as compared to the six months ended December 31, 2021.

Income Taxes

Our effective tax rate was (127.8)% and (82.9)% for the six months ended December 31, 2021 and 2022, respectively. Our effective tax rate for the six months ended December 31, 2021 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, state and local income taxes, partially offset by an increase in the valuation allowance. Our effective tax rate for the six months ended December 31, 2022 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, state and local income taxes, and a decrease in the valuation allowance.

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. 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. 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.

Critical Accounting Policies and Estimates

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

Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Our critical accounting policies and use of estimates are disclosed in our audited consolidated financial statements for the year ended June 30, 2022 included in our Annual Report on Form 10-K filed with the SEC on August 5, 2022.

Liquidity and Capital Resources

Our primary liquidity needs are related to the funding of general business requirements, including working capital requirements, research and development, and capital expenditures. As of December 31, 2022, our principal source of liquidity was $120.1 million of cash and cash equivalents. In August 2022, we amended the credit agreement entered in July 2019 to increase the borrowing capacity under our revolving credit facility to $550.0 million, which may be increased up to $825.0 million. No amounts were drawn on the revolving credit facility as of December 31, 2022. Refer to Note 8 of the Notes to the Unaudited Consolidated Financial Statements for additional detail on the amended credit agreement.

We may invest portions of our excess cash and cash equivalents in highly liquid, investment-grade marketable securities. These investments may consist of commercial paper, corporate debt issuances, asset-backed debt securities, certificates of deposit, U.S. treasury securities, U.S. government agency securities and other securities with credit quality ratings of A-1 or higher. As of December 31, 2022, we did not have any corporate investments.

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

Funds held for clients and client fund obligations will 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 eleven 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:

	Six Months Ended December 31,	
	2021	2022
Net cash provided by operating activities	$ 26,858	$ 78,757
Cash flows from investing activities:		
Purchases of available-for-sale securities	(190,000)	(296,060)
Proceeds from sales and maturities of available-for-sale securities	60,391	190,253
Capitalized internal-use software costs	(17,966)	(19,740)
Purchases of property and equipment	(10,528)	(6,663)
Acquisitions of businesses, net of cash acquired	(60,234)	—
Other investing activities	—	29
Net cash used in investing activities	(218,337)	(132,181)
Cash flows from financing activities:		
Net change in client fund obligations	160,325	(922,079)
Proceeds from employee stock purchase plan	7,216	8,450
Taxes paid related to net share settlement of equity awards	(67,109)	(79,369)
Payment of debt issuance costs	(41)	(864)
Net cash provided by (used in) financing activities	100,391	(993,862)
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	$ (91,088)	$ (1,047,286)

Operating Activities

Net cash provided by operating activities was $26.9 million and $78.8 million for the six months ended December 31, 2021 and 2022, respectively. The change in net cash provided by operating activities from the six months ended December 31, 2021 to the six months ended December 31, 2022 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 benefit, accompanied by net changes in operating assets and liabilities during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021.

Investing Activities

Net cash used in investing activities was $218.3 million and $132.2 million for the six months ended December 31, 2021 and 2022, 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 $129.9 million in additional proceeds from the sales and maturities of available-for-sale securities and a $60.2 million decrease in amounts paid for acquisitions, net of cash acquired, partially offset by $106.1 million in additional purchases of available-for-sale securities during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021.

Financing Activities

Net cash provided by (used in) financing activities was $100.4 million and $(993.9) million for the six months ended December 31, 2021 and 2022, respectively. The change in net cash provided by (used in) financing activities was primarily the result of a decrease in the change in client fund obligations of $1,082.4 million due to the timing of client funds collected and related remittance of those funds to client employees and taxing authorities during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021.

Contractual Obligations and Commitments

At December 31, 2022, our principal commitments consisted of $86.0 million in operating lease obligations, of which $10.9 million is due in the next twelve months. We also had $59.3 million in purchase obligations, of which $30.2 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 $10.5 million and $6.7 million for the six months ended December 31, 2021 and 2022, respectively, exclusive of capitalized internal-use software costs of $18.0 million and $19.7 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” on our Annual Report on Form 10-K filed with the SEC on August 5, 2022 for risks related to our business as well as risks related to the COVID-19 pandemic.

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

Interest Rate Risk

As of December 31, 2022, we had cash and cash equivalents of $120.1 million and funds held for clients of $3,065.7 million. We did not hold corporate investments on our balance sheet as of December 31, 2022. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts with various financial institutions. We invest portions of our excess cash and cash equivalents and funds held for clients in marketable securities including commercial paper, corporate debt issuances, asset-backed debt securities, certificates of deposit, U.S. government agency securities and other which were classified as available-for-sale securities as of December 31, 2022. 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 $4.1 million as of December 31, 2022. 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 $4.1 million as of December 31, 2022. 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 entered into a first amendment to our credit agreement that provides for a revolving credit facility (“credit facility”) in the aggregate amount of $550.0 million, which may be increased up to $825.0 million. Borrowings under the credit facility generally bear interest at a rate based upon the Term Secured Overnight Financing Rate (“SOFR”) plus the SOFR Adjustment or an adjusted base rate plus an applicable margin based on our then-applicable net total leverage ratio. As of December 31, 2022, there were no amounts drawn on the credit facility. To the extent that we draw additional amounts under the credit facility, we may be exposed to increased market risk from changes in the underlying index rates, which affects our interest expense.

Inflation Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2022, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become 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, 2022 filed with the SEC on August 5, 2022.

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

(a) Sales of Unregistered Securities

Not applicable.

(b) Use of Proceeds

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

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

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The information required by this Item is set forth in the Index to Exhibits immediately following this page.

INDEX TO EXHIBITS

Exhibit Nos.	Description
3.1	Second Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 of Paylocity Holding Corporation's Current Report on Form 8-K on December 3, 2021 (Registration No. 001-36348)).
3.2	Second 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 3, 2021 (File No. 001-36348)).
31.1*	Certification of Co-Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Co-Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Co-Chief Executive Officer.
32.2**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Co-Chief Executive Officer.
32.3**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

		PAYLOCITY HOLDING CORPORATION	
Date:	February 3, 2023	By:	/s/ Steven R. Beauchamp
		Name:	**Steven R. Beauchamp**
		Title:	**Co-Chief Executive Officer (Principal Executive Officer) and Director**
Date:	February 3, 2023	By:	/s/ Toby J. Williams
		Name:	**Toby J. Williams**
		Title:	**President, Co-Chief Executive Officer (Principal Executive Officer) and Director**
Date:	February 3, 2023	By:	/s/ Ryan Glenn
		Name:	**Ryan Glenn**
		Title:	**Chief Financial Officer and Treasurer (Principal Financial Officer)**

EXHIBIT 31.1

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

I, Steven R. Beauchamp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paylocity Holding Corporation (the “Company”);

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 fiscal quarter ended December 31, 2022 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: February 3, 2023

/s/ Steven R. Beauchamp

Name: **Steven R. Beauchamp**

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

EXHIBIT 31.2

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

I, Toby J. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paylocity Holding Corporation (the “Company”);

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 fiscal quarter ended December 31, 2022 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: February 3, 2023

/s/ Toby J. Williams

Name: **Toby J. Williams**

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

EXHIBIT 31.3

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 (the "Company");

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 fiscal quarter ended December 31, 2022 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: February 3, 2023

/s/ Ryan Glenn

Name: **Ryan Glenn**

Title: **Chief Financial Officer and Treasurer (Principal Financial Officer)**

Exhibit 32.1

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

The undersigned, the Co-Chief Executive Officer of Paylocity Holding Corporation (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2023

/s/ Steven R. Beauchamp

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

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

Exhibit 32.2

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

The undersigned, the Co-Chief Executive Officer of Paylocity Holding Corporation (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2023		/s/ Toby J. Williams
	Name:	**Toby J. Williams**
	Title:	**President, Co-Chief Executive Officer (Principal Executive Officer) and Director**

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

Exhibit 32.3

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

The undersigned, the Chief Financial Officer of Paylocity Holding Corporation (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2023		/s/ Ryan Glenn
	Name:	**Ryan Glenn**
	Title:	**Chief Financial Officer and Treasurer (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.